ANNUAL REPORT 2016

# The next phase of growth

NESTE

# Content



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Neste's 2016 was a year of exploring the renewable future. Here's our inspiring year in a nutshell!

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# Year 2016 in brief

Investments EUR **422** million

**287** safe days

Comparable operating profit EUR **983** million

Leverage ratio **15.4%**

Neste's renewable diesel reduced **6.7** million tons in greenhouse gas emissions

Our dividend proposal for 2016 is **1.30€** per share

The proportion of waste and residues in the renewable raw materials nearly **80%**

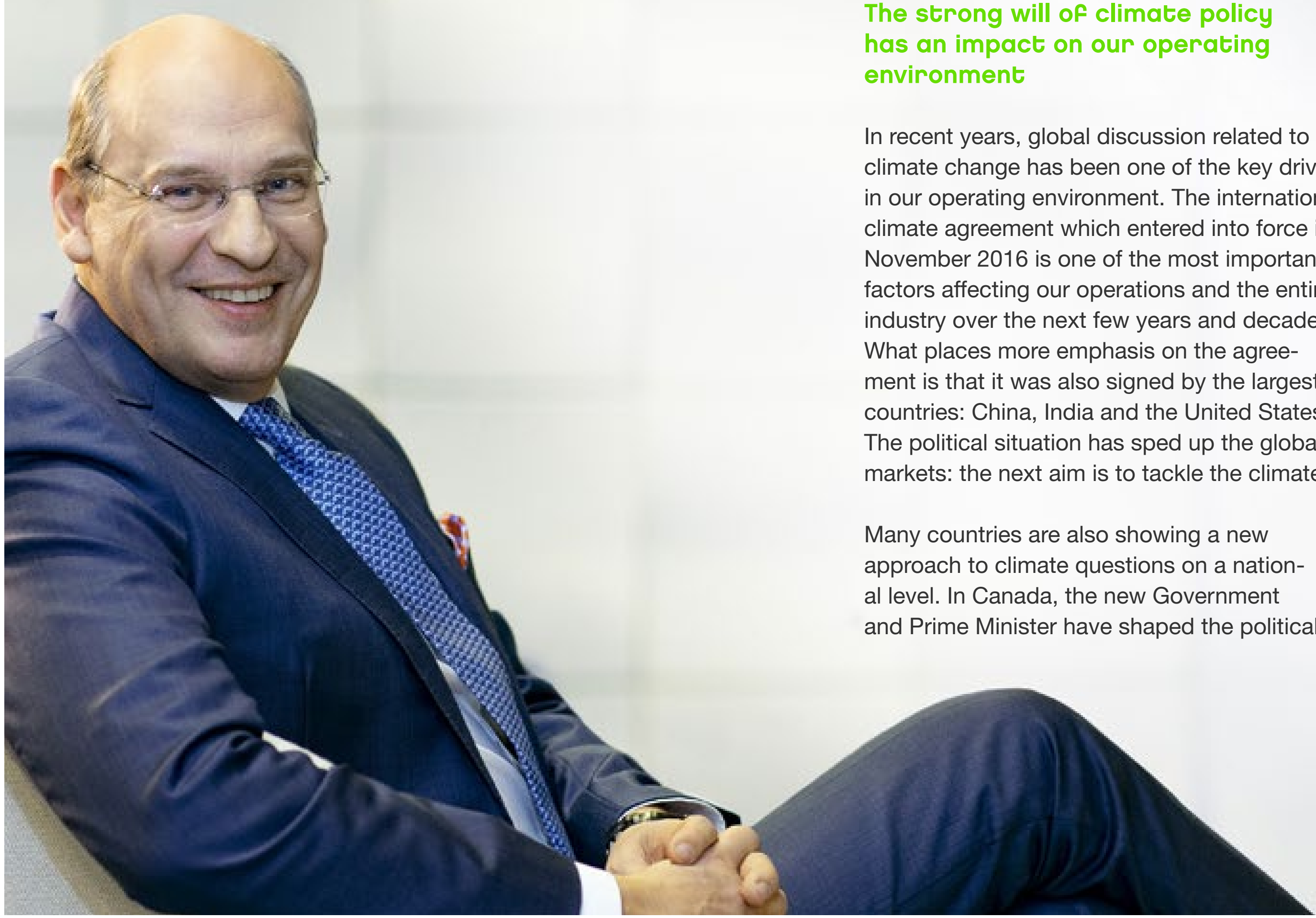
Over **1,000** stations in the Baltic Sea region

Revenue EUR **11,689** million

Return on average capital employed after tax **16.9%** (ROACE)

In 2016, we built sustainable solutions for the needs of transport, businesses, and consumers and helped our customers to reduce their carbon footprints with our high-quality, low-emission renewable products, and high-grade oil products.

We are heading towards our next stage of growth, where our renewable products will play a key role. Already today, we are the world's largest producer of renewable diesel refined from waste and residues. We are also committed to developing significant business from outside road traffic renewable product markets by 2020.



# We will continue to grow

### The strong will of climate policy has an impact on our operating environment

In recent years, global discussion related to climate change has been one of the key drivers in our operating environment. The international climate agreement which entered into force in November 2016 is one of the most important factors affecting our operations and the entire industry over the next few years and decades. What places more emphasis on the agreement is that it was also signed by the largest countries: China, India and the United States. The political situation has sped up the global markets: the next aim is to tackle the climate.

Many countries are also showing a new approach to climate questions on a national level. In Canada, the new Government and Prime Minister have shaped the political atmosphere, and they are showing interest in our views to reduce climate emissions. In California, we have helped cities, counties and companies to reach their climate goals. Also elsewhere, cities are mobilizing to reduce emissions.

In Europe, the renewable energy directive paves the way for growing the share of renewable energy to 20% of all energy consumption by 2020. In addition, the proposal for a new renewable energy directive for 2021–2030 is ambitious and its target is to raise the share of renewables to 27% by 2030. Norway has set ambitious targets

**"Companies do not succeed without having a greater vision. For us, it's a cleaner future."**

## The share of 100% renewable diesel is expected to grow to 25% of total renewable diesel sales volumes in 2017.


for the biocontent of traffic fuels, and Sweden aims to discontinue the use of fossil fuels altogether. In Finland, biofuels play a central role in the new energy and climate strategy reaching to 2030.

In the short-term, our operating environment is affected by the UK's withdrawal from the EU and the aftermath of the US presidential election. We are actively engaged in political decision-making concerning us and our industry in Europe, but also globally.

### We help our customers to combat climate change and to promote sustainable development

We have successfully implemented our two-pronged strategy: we want to be the leading provider of low-carbon solutions in the Baltic Sea markets and to grow globally in renewables. The best indication of our success is that, in 2015, we reached the best results in our history, which we were able to exceed in 2016. This is a great accomplishment from our personnel, but also from our customers who have helped us reach these excellent results.

We have developed a low-sulfur marine fuel and have gained the Baltic region's significant shipping companies as our customers. In Finland, we are revamping the Neste K station network to be even more customer-oriented and we have responded to our customers' wishes by launching Neste MY Renewable Diesel made totally from waste and residues. We are also looking for growth from new business areas and markets, and developing renewable plastics and solvents together with our customers.

The sale of 100% renewable diesel has grown steadily in Europe and North America, as it is an effective solution to reducing greenhouse gas and other emissions in the present motor vehicle pool. This year, we expect 100% renewable diesel to grow its share to 25% of total renewable diesel sales volumes.

We are now closer to our customers and their needs on all fronts. We are not selling a product alone – we are selling a full package which includes services that produce added value.

### Way Forward and safety lead the way

I am more than happy that our Way Forward way of working has become a natural part of the Neste way of doing business. We utilize the expertise of different parts of our Group in customer relationships, and we are also working with our partners to increase our expertise.

Safety is a key part of our new Way Forward approach. We are moving forward systematically and I believe that we will produce excellent results and be global leaders in terms of safety.

I am very satisfied with our employees. They are an essential force in the development of our operating methods and very committed to their work. I believe this is affected by our company's straightforward

## To celebrate Finland's centenary, we donated

EUR
**1.5**
million

## to four Finnish universities.

and inspiring vision and our ability to make a change. Our employees know that they are doing work with a purpose. This is also reflected in the recruitment of new employees.

### Responsibility has a central role in our strategy and operations

Companies do not succeed without having a bigger vision. For us it's a cleaner future. We are very committed to the UN's Sustainable Development Goals. I believe that they give international companies, Neste included, a framework we can use to even better guide our operations to support sustainable development. We want to be involved in producing added value for people, the economy and the environment.

For the eleventh time, Neste made it into the Global 100 list of the world's most responsible companies. We improved our position from 39th to 23rd and we were rated the best company in the oil and gas sector. We have been on the list continuously for longer than any other energy company in the world.

### Our expertise helps us to develop new products and services

Neste has a legion of experts at its service. The personnel's expertise and commitment to common goals create a strong foundation for Neste's success. We are grateful to Finland and its educational system for being able to recruit such skillful employees. To celebrate Finland's centenary, we donated EUR 1.5 million to four Finnish universities. With this donation, we want to do our part in ensuring that we can keep on finding qualified and diverse know-how in Finland for our future competitiveness and new innovation.

### We will be bold and experimental in 2017

We will continue to focus on our strategic objectives. We will make sustainable growth possible by offering solutions not only for traffic, but also for the chemical and plastics industries. It is important to secure the company's cash flow and profit, and to take care of the underlying factors, such as the availability of our plants and the fulfillment of our safety goals. Securing the availability of renewable raw materials is essential for the success of our strategy.

I encourage all Neste employees to take responsibility for your development. We need to adopt and learn new things, new technologies and new operating methods. Not all experiments pay off, but we can learn and get new perspectives from them. In this way, we can keep on developing and become a closely knit team which leads our company forward. We do not go with the flow, we lead it. This also benefits our customers and shareholders.

**Matti Lievonen**
President & CEO

# 01 Strategy



Our vision is to create responsible choices every day. We are defined by what we do and the legacy we leave behind. We offer alternative solutions that will make the world a better place to live in.

Read more »

We have two strategic targets: we want to be the champion in the Baltic Sea area and seek growth in the global renewable markets.

Read more »

# Vision and megatrends

**Our vision is to create innovative low-carbon solutions. We are defined by what we do and the legacy we leave behind for future generations. We offer alternative solutions that will make the world a better place to live in.**

**Vision**

**Creating responsible choices every day**

The best way to predict the future is to create it. We do not settle for adapting our operations to changing market conditions – we shape the change. Neste is creating a more environmentally sound future.

**Megatrends**

- Demand for energy is increasing
- Climate change must be addressed
- People want to consume in a sustainable manner
- Smart technologies become more common
- Digitalization enables a lot

Megatrends are global changes that always offer new business opportunities.

# Strategic targets

## Strategic targets



### Baltic Sea Champion

| Focus areas | Indicators |
| --- | --- |
| Our customers are the key to our success | Measured by Net Promoter Score methodology. Target: improving trend in 6 month cycles |
| We will significantly improve our reliability and safety | The utilization rate is 97.5% by 2020<br><br>Our safety score is in the highest quartile compared to other European refineries by 2020 (347 days per year without safety incidents) |
| We will boost the competitiveness of our refinery operations by renewing | Yearly additional margin above USD 5.5 per barrel |

### Global Renewable Growth

| Focus areas | Indicators |
| --- | --- |
| Renewable products in road traffic | Neste's renewable diesel brand is introduced to the European markets and its growth continues in California |
| Renewable products outside of road traffic | The proportion of our sales outside of road traffic increases to 20% by 2020<br><br>The first sample batch of renewable plastics will be produced in 2017 |
| We will expand the sourcing of our waste and residue raw materials | The waste and residue raw material base is extended by making investments throughout our value chain and attracting new partners |
| We will increase our production capacity | The production capacity road map will be announced during 2017 |

Strategic target 1

## Baltic Sea Champion

We are helping to combat climate change by becoming the leading provider of low-carbon solutions in the Baltic Sea markets.

| Our focus areas | Achievements in 2016 | Next steps |
|---|---|---|
| **Our customers are the key to our success** | • We offered a unique range of high-quality fuel solutions that combine both fossil and renewable fuels to enable our customers to reduce their greenhouse gas emissions. Thanks to our fuel solutions, our customers around the world were able to reduce their greenhouse gas emissions by 6.7 million tons in 2016.<br>• We invested in improving our customer satisfaction monitoring process and expanded the process to cover all our customer segments in the Baltic Sea markets.<br>• We improved our digital services. In the Baltic countries, we enabled cardless refueling for our heavy traffic customers.<br>• At the start of 2017, we launched our renewable diesel made 100% from waste and residues for Finnish motorists under the brand name Neste MY Renewable Diesel.<br>• We expanded the distribution of our Neste Pro Diesel to the Baltic countries and began distributing low-sulfur marine fuel in Sweden. | • We will continue to develop our selection and solutions to answer the changing requirements of our customers and bio-legislation.<br>• We will continue to develop our digital services to further improve our customer experience.<br>• We will continue our efforts to improve our supply capacity and minimize quality nonconformances. |
| **We will significantly improve our reliability and safety** | • Our total recordable incident frequency (TRIF) was 2.8.<br>• We conducted a risk assessment and created an action plan aiming to systematically improve process safety.<br>• We implemented a reliability development program for two production lines, focusing for example on preventive maintenance of critical equipment and competence development. | • Our TRIF target for 2017 is 2.1. The long-term goal is to have zero accidents.<br>• We plan to implement a safety improvement program focusing, among other things, on contractor and process management. We will also continue to concentrate on safety management. |
| **We will boost the competitiveness of our refinery operations by renewing** | • Our strategic investment program as well as the merger of our Naantali and Porvoo refineries into a single refinery unit continued. The investment program aims to improve the competitiveness of our refinery operations, product portfolio, and flexibility in raw materials.<br>• A joint project between Neste, Veolia and Borealis to arrange power plant operations and build a new power plant in Kilpilahti, Porvoo, was confirmed.<br>• Our additional margin was USD 5.5 per barrel. | • We will complete the merger of our Finnish refineries in 2017.<br>• We will continue to improve our flexibility in raw materials.<br>• We will continue to develop our energy efficiency. |

Strategic target 2

# Global Renewable Growth

We continue to grow in a profitable manner in the renewables markets, and we keep ahead of our competitors.

| Our focus areas | Achievements in 2016 | Next steps |
|---|---|---|
| **Renewable products in road traffic** | • We expanded our renewable diesel markets to cover U.S. cities and counties such as San Diego and Sacramento.<br>• The new European standard for paraffinic diesel, EN 15940, boosted the sale of our renewable diesel in Europe. | • We will continue to develop our main market segments and expansion to new customer segments.<br>• We will improve our brand visibility in renewable solutions. |
| **Renewable products outside of road traffic** | • We partnered with IKEA to produce renewable, bio-based plastics. Our joint goal is to expand the cooperation to other new technologies and solutions.<br>• Oslo Airport became the first airport in the world to offer Neste's renewable aviation fuel.<br>• Avantherm started using Neste's renewable isoalkane for its renewable products for transferring heat and cold. | • We will continue to develop our business model for bio-based plastics and extending our discussions with potential customers.<br>• We will continue to develop our renewable solvents business together with our customers and partners.<br>• We will continue to develop new renewable fuel solutions for the aviation industry together with our customers and partners. The objective is that Neste's renewable aviation fuel will be available at selected airports in Europe and the U.S. by 2021.<br>• We aim to increase the proportion of our renewable solutions outside of road traffic to 20% of the total sales volume by 2020. |
| **We will expand our waste and residue raw materials sourcing** | • In 2016, waste and residues accounted for nearly 80% of our renewable raw material usage. | • We will continue to expand our renewable raw material base to lower-grade waste and residues.<br>• We will continue our commercial operations worldwide and cooperate with selected partners throughout our value chain.<br>• We will invest in our capability to also process lower-grade raw materials. |
| **We will increase our production capacity** | • The annual production capacity of our renewable products increased by 8% to 2.6 million tons.<br>• The utilization rate of our renewable product refineries was 88%. | • We are looking for new options to increase our production capacity by implementing a program with the aim of maintaining our leading market position in growing markets worldwide. |

# Business areas in brief

## Neste has three business areas

### Oil Products

offers low-carbon solutions that are based on high-quality oil products and related services.

Main market areas are the Baltic Sea area and rest of Europe and North America.

Capacity **15** million tons per year.

### Renewable Products

offers renewable diesel, renewable aviation fuels, renewable solvents and raw materials for bioplastics.

Main market areas are Europe and North America.

Capacity **2.6** million tons per year.

### Oil Retail*

is a notable marketing organization for the company's extensive range of services and high-quality products.

797 stations in Finland, 71 in the St. Petersburg region in Northwest Russia, and 195 stations in the Baltic countries (Estonia, Latvia and Lithuania).

In total **1,063** stations.

* Oil Retail business area will be called Marketing & Services from 7 February 2017 onwards.

## Business areas in figures

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenue** | | | |
| Oil Products | 7,395 | 7,467 | 11,285 |
| Renewable Products | 2,690 | 2,372 | 2,269 |
| Oil Retail | 3,552 | 3,748 | 4,294 |
| **Comparable operating profit** | | | |
| Oil Products | 453 | 439 | 285 |
| Renewable Products | 469 | 402 | 239 |
| Oil Retail | 90 | 84 | 68 |
| **IFRS operating profit** | | | |
| Oil Products | 563 | 389 | -110 |
| Renewable Products | 518 | 233 | 207 |
| Oil Retail | 89 | 79 | 68 |
| **Net assets** | | | |
| Oil Products | 2,424 | 2,320 | 2,160 |
| Renewable Products | 1,811 | 1,884 | 1,923 |
| Oil Retail | 196 | 184 | 201 |
| **Comparable return on net assets (RONA)** | | | |
| Oil Products | 18.7 | 18.2 | 12.4 |
| Renewable Products | 25.9 | 21.8 | 13.3 |
| Oil Retail | 47.5 | 41.2 | 27.6 |
| **Capital expenditure** | | | |
| Oil Products | 249 | 453 | 276 |
| Renewable Products | 104 | 28 | 113 |
| Oil Retail | 31 | 37 | 19 |

## Oil Products

**Customers:**
Oil companies and companies marketing oil, lubricants, and fuel products.

**Strengths:**
- Extensive selection of high-quality products, including products combining fossil and renewable products
- Advanced refineries
- Flexibility in raw materials
- Flexible and reliable customer solutions

**Main demand factors:**
- Economic growth is increasing the global demand for oil products
- Stricter oil product quality requirements
- Increasing demand for solutions containing both fossil and renewable fuels

**Market position:**
Leading position in the Baltic Sea wholesale markets and strong global operator in Group III base oils.

**Main competitors:**
Advanced refineries in Northwest Europe, Russia, and in the Middle East.

## Renewable Products

**Customers:**
Oil companies, retailers, wholesale customers such as professional transportation and municipalities, chemical industry producers, and major brands.

**Strengths:**
- High-quality renewable products designed for present-day engines, distribution systems, and processes
- Reliable production technology enables flexible use of raw materials
- Global customer base and supply chain

**Main demand factors:**
- Climate change and reduction of emissions
- Increasing requirements to use renewable energies, particularly in Europe and the U.S.
- Energy security and reduction of dependency on crude oil
- Pioneering brands that want to provide consumers with more sustainable and renewable solutions

**Market position:**
Neste is the world's largest producer of renewable diesel. Its share of the world's total renewable diesel production capacity is 60%. Our renewable diesel helped to reduce greenhouse gas emissions by 6.7 million tons in 2016.

**Main competitors:**
Other renewable diesel producers in the U.S. and Europe as well as producers of conventional biodiesel.

## Oil Retail*

**Customers:**
Consumers, professional transportation, customers in the aviation, shipping, industrial and agricultural sectors, municipalities, heating customers, and distributors.

**Strengths:**
- Best customer experience
- High-quality products and services
- Strong brand
- Extensive station network
- Customer solutions that create additional value

**Main demand factors:**
- Developments in traffic and transport volumes
- Motorists' growing expectations for service

**Market position:**
Leading market position in Finland. Among the leading operators in Estonia, Latvia, Lithuania, and the St. Petersburg region in Northwest Russia.

**Main competitors:**
Other large retailers in Finland, the Baltic countries, and Northwest Russia.

* Oil Retail business area will be called Marketing & Services from 7 February 2017 onwards.

# Key events 2016

15 January
**Renewable diesel used at the Super Bowl City fan village**

22 January
**Neste's renewable aviation fuel offered at Oslo Airport**

15 April
**Distibution of Neste Pro Diesel expanded to Latvia**

22 April
**Neste's Pre-order the Future project gained millions of viewers**

5–6 August
**Neste's renewable diesel set the pace for Weekend Festival**

11 August
**The County of Sacramento chose Neste's renewable diesel**

6 September
**Neste and IKEA partnered to deliver renewable, bio-based plastics**

28 October
**The City of San Diego switched to Neste's renewable diesel**

2 November
**EUR 1.5 million to universities in Finland**

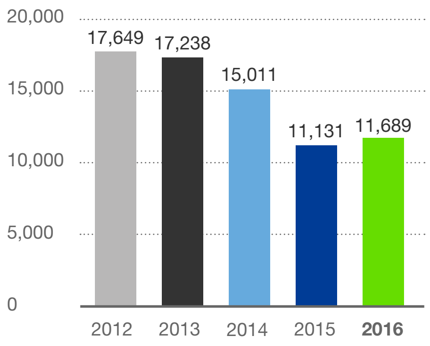
10 November
**Neste arranged an open dialogue with stakeholders**

24 November
**Distribution of low-sulfur marine fuel in Sweden announced**

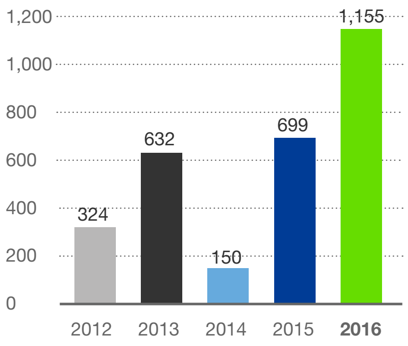
9 December
**Renewable diesel for charity from waste ham fat**

# Key figures 2016

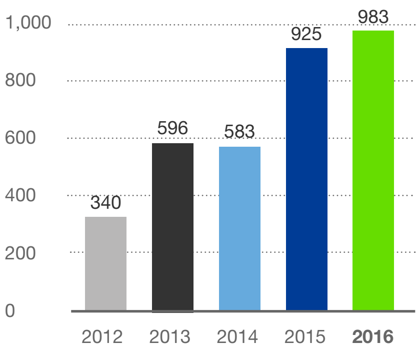
## Revenue, EUR million



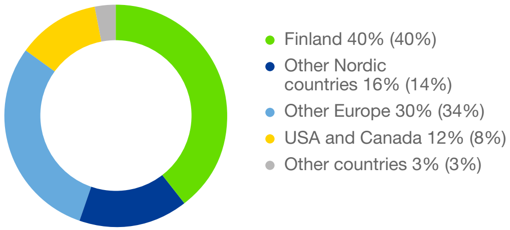

## Operating profit, EUR million



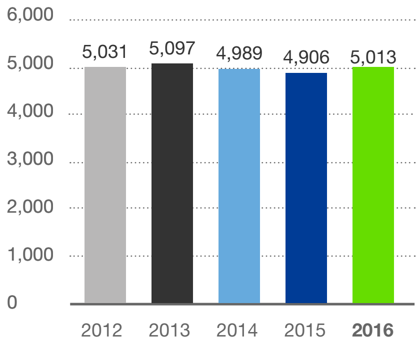

## Comparable operating profit, EUR million



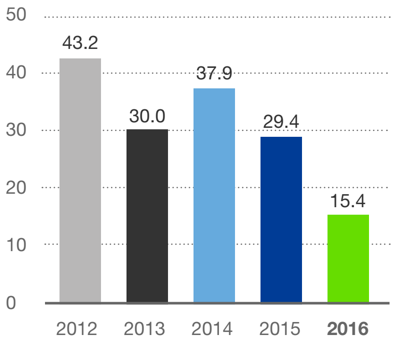

## Sales by region from in-house production, %



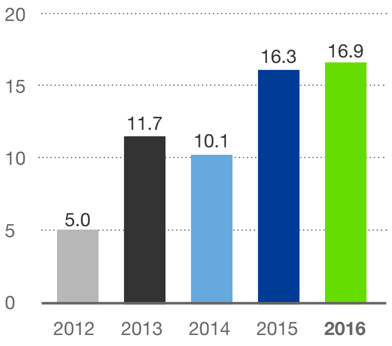

## Personnel (average)



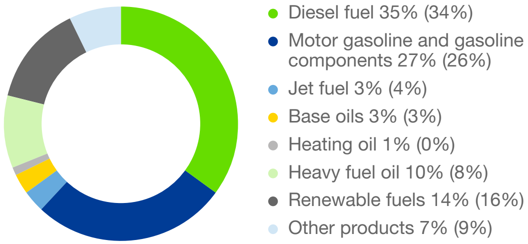

## Leverage ratio, %




## Return on average capital employed after tax (ROACE), %




## Sales by product from in-house production, %

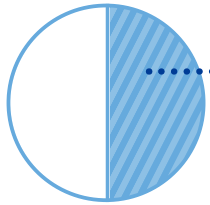


| | 2016 | 2015 | Change, % |
|---|---|---|---|
| **Income statement** | | | |
| Revenue, MEUR | 11,689 | 11,131 | 5% |
| Operating profit, MEUR | 1,155 | 699 | 65% |
| Comparable operating profit, MEUR | 983 | 925 | 6% |
| Profit before income taxes, MEUR | 1,075 | 634 | 70% |
| EBITDA, MEUR | 1,521 | 1,057 | 44% |
| Comparable EBITDA, MEUR | 1,349 | 1,284 | 5% |
| Comparable net profit, MEUR | 793 | 726 | 9% |
| **Profitability** | | | |
| Return on equity (ROE), % | 28.1 | 19.7 | 43% |
| Return on capital employed, pre-tax (ROCE), % | 22.6 | 14.7 | 54% |
| Return on average capital employed, after tax (ROACE), % | 16.9 | 16.3 | 4% |
| **Financing and financial position** | | | |
| Total equity, MEUR | 3,755 | 3,104 | 21% |
| Interest-bearing net debt, MEUR | 683 | 1,291 | -47% |
| Capital employed, MEUR | 5,226 | 4,991 | 5% |
| Equity-to-assets ratio, % | 50.6 | 46.1 | 10% |
| Leverage ratio, % | 15.4 | 29.4 | -48% |
| Net cash generated from operating activities, MEUR | 1,193 | 743 | 61% |
| **Share-related indicators** | | | |
| Earnings per share (EPS), EUR | 3.67 | 2.18 | 68% |
| Comparable earnings per share | 3.10 | 2.84 | 9% |
| Equity per share, EUR | 14.60 | 12.06 | 21% |
| Dividend per share, EUR | 1.30 [1] | 1.00 | 30% |
| Dividend payout ratio, % | 35.4 [1] | 45.8 | -23% |
| Dividend per comparable earnings per share, % | 41.9 [1] | 35.2 | 19% |
| Price/earnings ratio (P/E) | 9.94 | 12.66 | -21% |
| Share price at the end of the period, EUR | 36.50 | 27.63 | 32% |
| Average share price, EUR | 32.25 | 23.54 | 37% |
| Highest share price, EUR | 40.78 | 27.70 | 47% |
| Lowest share price, EUR | 25.42 | 19.91 | 28% |
| Market capitalization at the end of the period, MEUR | 9,359 | 7,084 | 32% |
| **Other indicators** | | | |
| Cash-out investments, EUR million | 407 | 505 | -19% |
| Average number of personnel | 5,013 | 4,906 | 2% |
| Research and development expenditure, MEUR | 41 | 41 | 0% |
| Total refining margin, USD/bbl | 10.38 | 11.79 | -12% |
| Total Recordable Injury Frequency per million hours worked (TRIF) | 2.8 | 3.3 | -15% |

[1] Board of Directors' proposal to the Annual General Meeting

## Financial targets

**A leverage ratio of**



**25–50%**

**ROACE of at least**

**15%**

annually over the long-term

Our **dividend policy** is to distribute **at least**

**40%**

of our comparable net profit as dividend

# Information for investors

Neste shares are traded on Nasdaq Helsinki under the trading code NESTE. The company had 64,794 (69,242) shareholders as of the end of 2016.

## Annual General meeting

Neste Corporation's Annual General Meeting will be held on Wednesday, 5 April 2017 at 1 pm EET at Messukeskus at Messuaukio 1, Helsinki. Registration and the distribution of voting papers will begin at 12 am. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4 pm on 30 March 2017 at the latest by the following steps:

**Registration for the AGM:**

- visiting www.neste.com/investors and following the instructions given there, or
- phoning +358 (0)20 770 6862 (Monday–Friday, 9.00 am–4.00 pm EET), or
- faxing +358 (0)10 458 5440, or
- writing to Neste Corporation, Annual General Meeting, POB 95, FI-00095 Neste.

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4 pm on 30 March 2017 at the latest.

Dividend payment in 2017:

- 24 March 2017: AGM record date
- 7 April 2017: Dividend payment record date
- 18 April 2017: Dividend payable

The Board of Directors will propose to the AGM that a dividend of EUR 1.30 per share shall be paid for the financial year ending 31 December 2016.

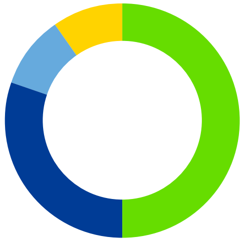
## Interim reports in 2017

Neste Corporation will publish financial reports in 2017 as follows:

- Interim Report January–March 2017: 27 April 2017
- Half Year Financial Report January–June 2017: 3 August 2017
- Interim Report January–September 2017: 26 October 2017

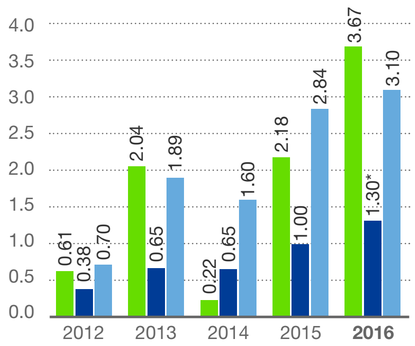
Interim Reports are published in Finnish and English and can be downloaded at www.neste.com/investors.

## Shareholder structure, %



- The Finnish State 50.1% (50.1%)
- International institutions 30.3% (25.0%)
- Finnish institutions 10.1% (13.8%)
- Finnish households 9.6% (11.1%)

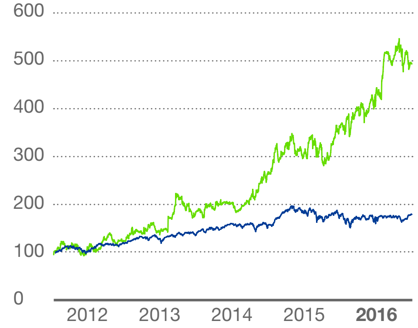
## Earnings per share and dividend per share, EUR




- Earnings per share
- Dividend per share
- Comparable earnings per share

* 2016: Board's proposal to the Annual General Meeting

## Shareholders' total return, indexed




- Total revenue from Neste share (index)
- STOXX Nordic Return (index)

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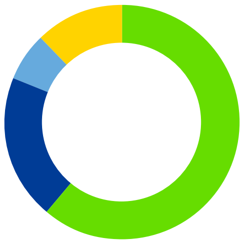
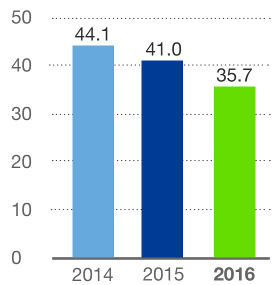
## Neste share's trading volumes in 2016, %



- Nasdaq Helsinki 61.2% (62.5%)
- Chi-X Europe 20.0% (24.5%)
- BATS Europe 6.6% (5.2%)
- Turquoise 12.2% (7.8%)

## Neste's share performance 2012–2016, EUR


## Total shareholder return, %



# 02 Sustainability



**Transparency:**
We were the world's first major palm oil using company to publish a complete list of our crude palm oil suppliers on our website.

**Climate Change:**
We helped our customers around the world to cut their climate emissions by 6.7 million tons, equaling annual emissions of 2.4 million passenger cars.

**Human Rights:**
We launched a comprehensive program on human and labor rights, and published our Human Rights Principle.

# Sustainability highlights

With our renewable fuels we reduced greenhouse gas emissions by the annual emissions of

**2.4 million** passenger cars.

## Our most significant climate contribution

has to do with cutting global climate emissions:

| | |
|---|---|
| 7 Mt | Target **2017** |
| 6.7 Mt | **2016** |
| 6.4 Mt | 2015 |
| 5.6 Mt | 2014 |
| 4.8 Mt | 2013 |

## Record-high share of waste and residues


Our refineries are technically capable of utilizing 100% waste and residues to produce renewable products.

## The crude palm oil we use was

**100%** certified and fully traceable.

**287** Safe Days in 2016

**25** Safe Days more than in 2015

## We were included in

- **the Dow Jones** Sustainability Indices
- **the CDP** Climate and Forest lists among the leading performers
- **the Global 100** list in 2017 for the 11th time.

## During 2009–2016 we improved our energy efficiency by

**855 GWh.**

# Managing sustainability

**"External parties continue to have higher expectations for companies' sustainability. We have seen this trend particularly among investors and analysts. When evaluating the companies' sustainability, risk assessments are supplemented with more comprehensive impact and value development assessments. Furthermore, the legislation requires more comprehensive sustainability reporting from companies in 2017.**

**In 2016, we engaged in extensive international dialogue with our stakeholders to gather their expectations. It is vital for us to continue to understand these expectations. The results of the dialogue show that we are focused on the right things. This is a good starting point for the year 2017.**

**Sustainability is an integral part of our everyday business. In this report, we discuss particularly those activities that are related to climate and resource efficiency, sustainable supply chain, and sustainability in our operations. For more information about our sustainability work, please visit our website www.neste.com/sustainability."**

**Simo Honkanen,**
**SVP, Sustainability and Public Affairs**

**We seek sustainable growth by offering sustainably-produced solutions that mitigate climate change to the needs of customers and society.**

### International conventions and commitments underlie Neste's sustainability work

The international climate agreement signed in Paris in December 2015 is the most essential factor guiding our industry in the coming years and decades. The UN Sustainable Development Goals ratified in September 2015, on the other hand, provide international companies, including us, with a comprehensive framework guiding sustainability work. Besides the above-mentioned international agreements and legislation, also the expectations and views of our key stakeholders, and the special requirements of different markets guide our sustainability work.

The identification, measurement, and follow-up of the overall impact of our operations will be a particular target for development in 2017. We aim to understand our impact on environment, society, and our stakeholders more extensively than in the past. As a company, we are moving from a footprint mindset to the handprint mindset.

## Sustainability and business: not one without the other

As an international forerunner in its industry, Neste recognizes its responsibility as a provider of renewable solutions, and as a driver of circular economy.

We are building the low-carbon economy and society in cooperation with our customers and partners in several continents, also by combining the means of different industries. We help our customers to replace crude oil based products and raw materials completely with renewables.

In accordance with our value proposition, we produce fossil fuels as resource-efficiently as possible. In the production of renewable fuels, we only use sustainably produced raw materials, of which already 78% consists of waste and residues.

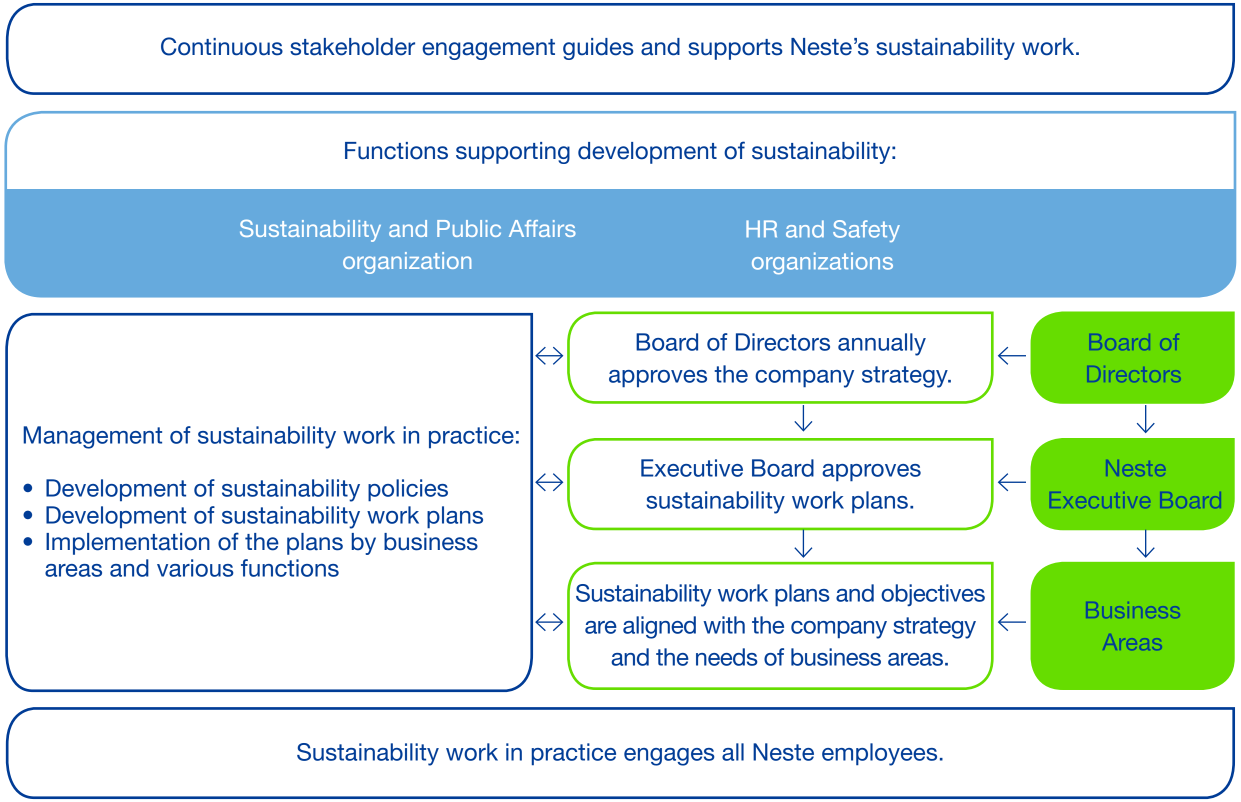
## Organization of sustainability work

The Board of Directors approves policies covering sustainability, and monitors how Neste performs in terms of sustainability. Neste Executive Board is responsible for outlining the company's strategic approach to sustainability and monitoring how sustainability is reflected in the business unit and support function operations.

Sustainability work is the enabler of our business strategy, and sustainability goals are an integral part of the business area objectives. For example, the development of Neste's safety management and practices, as well as increasing the use of waste and residues in the production of renewable products are topical strategic focus areas that require sharing of competence and cooperation across organizational boundaries.

The SVP, Sustainability and Public Affairs, and SVP, HR & Safety, who are both members of the Executive Board, carry the main responsibility for the day-to-day management of the company's sustainability work. Matters related to sustainability are reviewed regularly at the meetings of the Board of Directors and Neste Executive Board, as well as the management teams of the business areas and refineries, the organizations responsible for practical sustainability work.

## Sustainability Management at Neste



## Our key sustainability principles:

- Code of Conduct
- Sustainability Policy
- Sustainability Principles for Biofuels
- HR Policy
- No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock
- Human Rights Commitment
- Human Rights Principle (new)
- Supplier Code of Conduct (new)

Neste's sustainability guidelines, policies and principles apply to the company as a whole.

Neste's Supplier Code of Conduct was ratified in December 2015. It includes all of the sustainability principles required of our suppliers of goods, services and raw materials, and their implementation has continued throughout the year 2016.

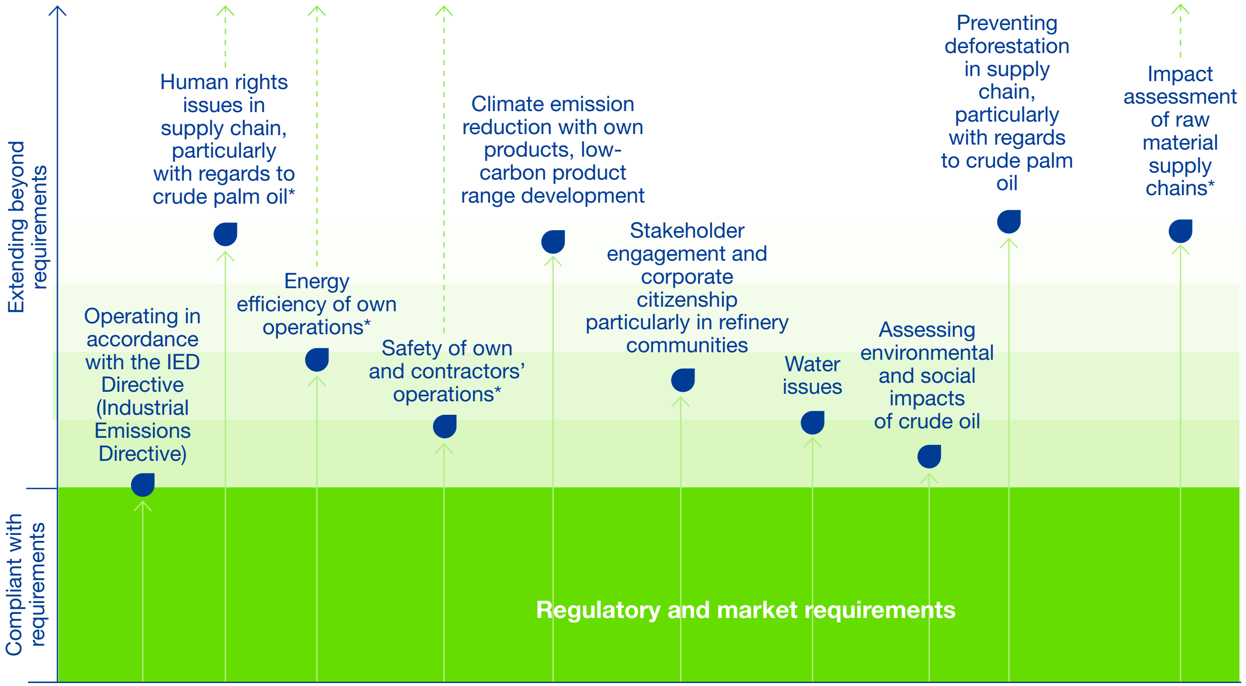
We conducted an assessment of Neste's impact on human rights with the nonprofit organization BSR (Business for Social Responsibility). Based on the assessment, we prepared our Human Rights Principle, which Neste Executive Board approved in December 2016.

### Integrated management system

Our operations are guided by business area-specific certified management systems, which correspond to the requirements of the environmental, health and safety, and quality standards issued by ISO and OHSAS. Internal and external audits, conducted by an independent operator, are used to assess the effectiveness of the systems.

All of our refineries and the company-managed security stockpiles have been certified in accordance with the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 standards. All of our renewable diesel refineries have ISCC (International Sustainability and Carbon Certification) and RSPO (Roundtable on Sustainable Palm Oil) certificates, and they have been approved by the U.S. Environmental Protection Agency (EPA).

## The extent and criteria of Neste's sustainability work extend beyond regulatory and market requirements in many areas.




The extent and criteria of Neste's sustainability work

* In the future, development in this area will extend even further beyond regulatory requirements.

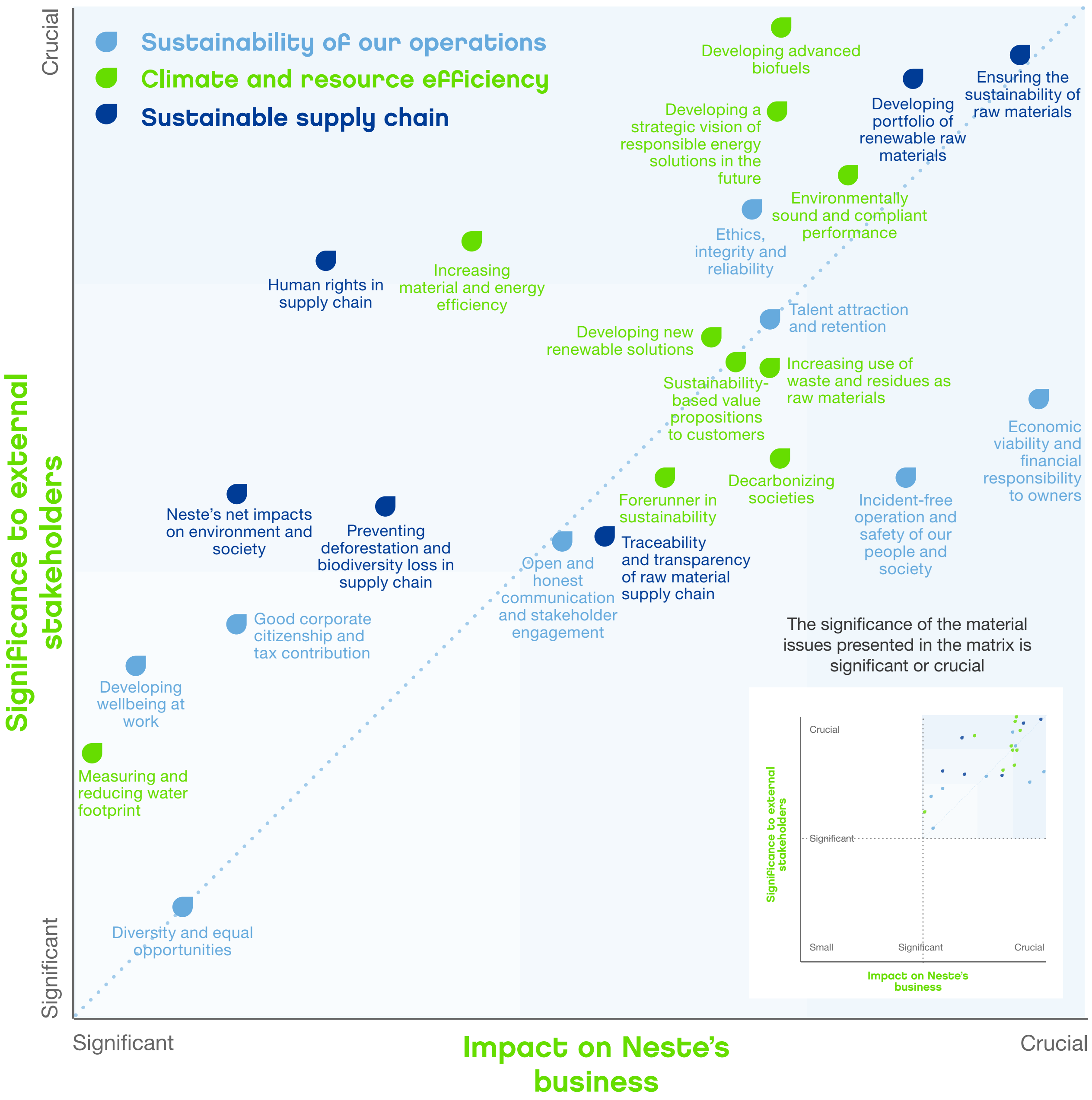
# Materiality assessment

Our materiality matrix describes our key sustainability topics. The matrix is based on a materiality assessment conducted once every two years with [our key stake-holders](). The [most recent one was conducted in fall 2016](). The next assessment will be conducted in 2018.

Conducting the materiality assessment with our stake-holders is one of the examples of our commitment to the principles of AA1000APS (2008) standard, consisting of inclusivity, materiality, and responsiveness.

The content of sustainability reporting has been specified in accordance with the GRI G4 Sustainability Reporting Guidelines. Our Sustainability Report emphasizes the topics determined as the most essential in the materiality assessment.

Of the 24 topics identified and considered the most important by stakeholders in the materiality assessment, ten are related to climate and resource efficiency, eight to the sustainability of our operations and six to the sustainability of our supply chains. These three key sustainability areas make up the frame of our sustainability reporting in 2016, similarly to 2015.



# Stakeholder collaboration

Understanding the views and expectations of our stakeholders plays a crucial role in the success of our company and the acceptability of our operations. Thus, we aim for continuous, active, and open dialogue with our stakeholders. We regularly review our stakeholders' views of our operations, organize events and meetings, and take part in seminars and events significant for our industry and business operations.

Stakeholder cooperation covers all our operations, and it is part of our daily work and management. This work is primarily managed by VPs for public affairs and sustainability, communications and brand marketing, and investor relations. Themes linked to stakeholder collaboration are discussed by the Sustainability and Public Affairs steering group, among others. The company's business functions are responsible for cooperation with customers.

In 2016, measures aiming to build a low-carbon society were emphasized in our stakeholder collaboration. We prioritized cooperation with customers, legislators, the authorities and decision-makers, as well as NGOs, local communities, and our raw material suppliers.

## Social advocacy

Our social advocacy and lobbying are based on providing high-quality information and solid expertise to decision-makers and varying interest groups to support their decision making. In accordance with the company's Code of Conduct, we do not provide financial support for political activities. Neste has registered with the EU's Transparency Register.

We aim to ensure that our renewable solutions receive equal treatment in our key markets and that they can be used as effectively as possible to combat climate change.

Our advocacy work focused on renewable fuels in Finland and the other Nordic countries, the European Union, and the United States. We are active in a number of organizations and joint projects.

## European Commission draft directive recognizes the significance of advanced biofuels

We have engaged in long-term dialogue with EU decision-makers and officials on the central role of high quality biofuels in promoting low-carbon traffic. During 2016, we discussed the definition of advanced biofuels.

In November, the European Commission published a proposal for the Renewable Energy Directive for 2021–2030. We are satisfied that the Commission recognized the significance of advanced biofuels in its proposed directive and is creating Europe-wide political guidelines, targets, and obligations for biofuels also for the period extending beyond 2020.

As the processing of the directive continues in the European Union and Parliament, we will continue close dialogue with the representatives of the Member States

**In 2016, measures aiming to build a low-carbon society were emphasized in our stakeholder collaboration.**

and Members of the European Parliament to expand the definition of advanced biofuels.

### Neste is satisfied with Finland's energy and climate strategy

We have highlighted the benefits and cost efficiency of the adoption of renewable fuels from the point of view of national economies. For example, before the Finnish parliamentary elections of 2015, we engaged in active dialogue on the subject with those responsible for energy and climate in political parties.

Finland has recognized the significance of biofuels in enabling low-carbon traffic during the next 15 years. We consider Finland's target to increase the proportion of renewable fuels in traffic to 30% by 2030 justified.

### Implementation of the ILUC Directive on indirect land use changes is proceeding in the EU

In its plenary session in April 2015, the European Parliament approved the Directive aiming to mitigate any indirect land use changes due to the production of biofuels (the ILUC Directive). We have monitored the implementation of the Directive in the EU Member States.

### There is faith in biofuels also in the U.S.

Neste is a member of the U.S. Advanced Biofuels Association (ABFA), and has been the chair of the association since summer 2016. Our membership provides us with an opportunity to monitor the preparation of decisions by the U.S. Environmental Protection Agency, and express our opinions with other industry players.

In November 2016, the EPA published its final decision on the renewable fuel volumes for 2017. The decision sets higher requirement for renewable fuel volumes than previously proposed, and increases the biomass-based diesel volume for 2018. The EPA's decision facilitates growth for all types of biofuels, and proves that there is faith in biofuels in decarbonizing transport in the United States.

During the year under review, several Californian cities adopted Neste's renewable diesel either fully or partly, allowing them to reduce their carbon footprint and cut local emissions from traffic quickly and cost-effectively.

## Towards lower-carbon aviation

The aviation industry has set an objective of carbon--neutral growth from 2020 onwards, and halving its carbon dioxide emissions by 2050 compared to 2005. Neste supports the achievement of the aviation industry's biofuel targets and carbon-neutral growth of aviation by providing the industry with solutions that can be adopted immediately.

The European Commission's proposal on the Renewable Energy Directive would make it possible to meet the biofuel blending mandate with renewable solutions also in aviation and marine traffic.

Neste is involved in an expert role in the operations of the ASTM International, a U.S. body responsible for standardizing aviation fuels. The use of our renewable jet fuel became possible already in 2011 when the ASTM approved the aviation use of renewable fuel made from hydrotreated esters and fatty acids.

In 2016, Neste participated in a fuel standard change program lead by Boeing. This ASTM's fuel standard change would enable the aviation sector to use a wider variety of renewable aviation fuels commercially. We believe that the new standard will significantly increase the availability of renewable aviation fuel. We expect to be able to offer also this type of aviation fuel to the market within the next few years.

Neste is taking part in the European aviation industry's European Advanced Biofuels Flightpath project. The European Commission, Airbus, leading European air-lines, and biofuel producers launched a project in 2011, to promote the production, distribution, storage, and use of sustainably produced aviation biofuels certified for commercial use. New chairs were appointed for the project in 2016, and one of the two new chairpersons is from Neste.

## Cooperation with customers clarifies common targets

We are expanding our business beyond traffic fuels by developing solutions to industries that value sustainable, low-carbon products. With our renewable solutions, companies offering plastics or chemicals, for example, can replace crude oil-based products and reduce the carbon footprint of their operations.

Companies in different industries differ in which strengths or sustainability aspects of our solutions and supply chain they consider the most important. Identifying and understanding these matters requires close interaction among our customers' and Neste's product development, supply chain management, life cycle analyses, and sustainability experts. By offering our extensive expertise to our customers, we also learn ourselves.

## Local cooperation to promote sustainability

Neste engages in diverse and close cooperation to prevent deforestation and promote social sustainability in its palm oil procurement in Southeast Asia, in particular. Our partners include oil palm farmers, local communities, NGOs, and expert organizations. We aim to reduce the risks in our operating environment, and ensure our license to operate by taking part in several multi-stakeholder projects.

## Actively present at refinery locations

In our refinery locations in Finland, we continued close and diverse interaction and cooperation with local residents, companies, organizations, and decision-makers. We organized regular visits for various groups, and communicated about the operations of our refineries and any incidents. We continued close cooperation with the local authorities. We maintained our ability to act effectively in emergencies and other unconventional situations through regular drills with the rescue authorities and police.

With regard to the company's biggest refinery, the Porvoo refinery, our key communication channel is the joint website of the companies operating in Kilpilahti: www.kilpilahti.fi, where you can also find Naapurisanomat, a newsletter aimed at the neighbors of the refinery, and distributed to almost 2,000 households. Published three times a year, Naapurisanomat offers environmental monitoring data and discusses significant future investments. The corresponding publications of the Naantali refinery, part of the integrated Finnish refinery, are available on our website.

The Rotterdam and Singapore refineries are located in industrial areas remote from residential areas. In these locations, our stakeholder interaction is focused on cooperation with companies. In Rotterdam, we are a member of Deltalinqs, an organization of companies operating in the vicinity of the port, aiming to reinforce Rotterdam's competitiveness and sustainable growth, as well as the social acceptability of the port and related industrial operations.

# Neste's sustainability reporting 2016


## Content of reporting and assurance

The 2016 Sustainability Report was prepared in accordance with the GRI (Global Reporting Initiative) G4 guidelines where applicable. The economic, social and environmental indicators of the Finnish report have been verified by an independent third party PricewaterhouseCoopers Oy. A congruence check has been conducted for the English version's numerical sustainability information.

In our report, we have aimed to focus on the subjects that are the most essential based on our materiality assessment conducted in fall 2016. Due to the nature of our business, safety questions are also important to us, as is the equal and fair treatment of our employees.

Neste is committed to complying with the UN Global Compact principles, and our report includes the information corresponding to the reporting requirements of the Global Compact initiative. The reported indicators and the global compact principles are listed in connection with the GRI Index.

We have begun preparations for reporting in accordance with the GRI Sustainability Reporting Standards (GRI Standards), as well as the EU Directive on disclosure of non-financial and diversity information, and the changes made in the Finnish Accounting Act. The reporting obligation pursuant to the new law will apply to the financial year 2017. With our report, we also meet the requirements of several international indices.

We published our 2015 Annual Report and the Sustainability Report included in it on 7 March 2016 in PDF format on our website.

## Reporting principles and guidelines

Our financial reporting complies with the international IFRS accounting standards, and governance-related reporting complies with the legislation on listed companies and the Finnish Corporate Governance Code. The disclosure of environmental costs and liabilities is based on the Finnish Accounting Act. The reported financial indicators are based on audited information. The general guideline issued by the Accounting Board on the preparation of review by the Board of Directors is followed in calculating the personnel-related figures. Calculations related to safety-related accident frequency rates comply with the calculation principles of Concawe (The oil companies' European association for environment, health and safety in refining and distribution).

Changes to information disclosed in previous years or calculation principles are disclosed in connection with the indicators in question. The definitions, calculation principles, and formulas of reported indicators are presented separately under "Principles for calculating the key indicators".

## Scope of the report

Similarly to the Annual Report, the reporting period of the Sustainability Report is the financial year, January 1–December 31, 2016. The safety and environmental reporting for 2016 covers the refineries in Finland and abroad in which the company has a holding of over 50%. In addition to them, safety and environmental reporting covers the company's terminals, offices, and country-specific retail companies.

The company does not report environmental information on sites in which the company only has part of the premises of an office building in its use. Such sites include the company's offices in Houston, Oulu, Toronto, and Vilnius. The reporting of safety information also covers service providers and contractors. Otherwise, reporting covers all of the operations of Neste Corporation and the operations of companies in which Neste has a holding of over 50%.

## Reporting systems

Neste collects environmental and safety information with the HSEQ reporting tool that supports Neste's monthly and annual reporting. Personnel-related indicators are available from the HR systems. The company also has other reporting tools for collecting information required for sustainability reporting.

# Climate and resource efficiency

The objectives and measures of Neste's climate work are based on international agreements pivotal to our industry. The most important of them is the Paris agreement signed in December 2015 that entered into force in November 2016, in accordance with which the increase in the global average temperature must be kept below 2 °C. Reducing emissions of greenhouse gases, such as carbon dioxide and methane, plays a key role in reaching this objective. In our own supply chain, we have aimed at reducing both.

Traffic is among the biggest sources of greenhouse gas emissions; therefore, our key contribution to global climate work is related to developing, producing, and offering renewable fuel solutions for transport and aviation. We also offer renewable solutions to the companies in chemical and plastics industries.

Among the world's leading companies, we were chosen to the CDP's Climate A List. The A List recognizes the companies that have most effectively tackled climate change, and adapted to it.

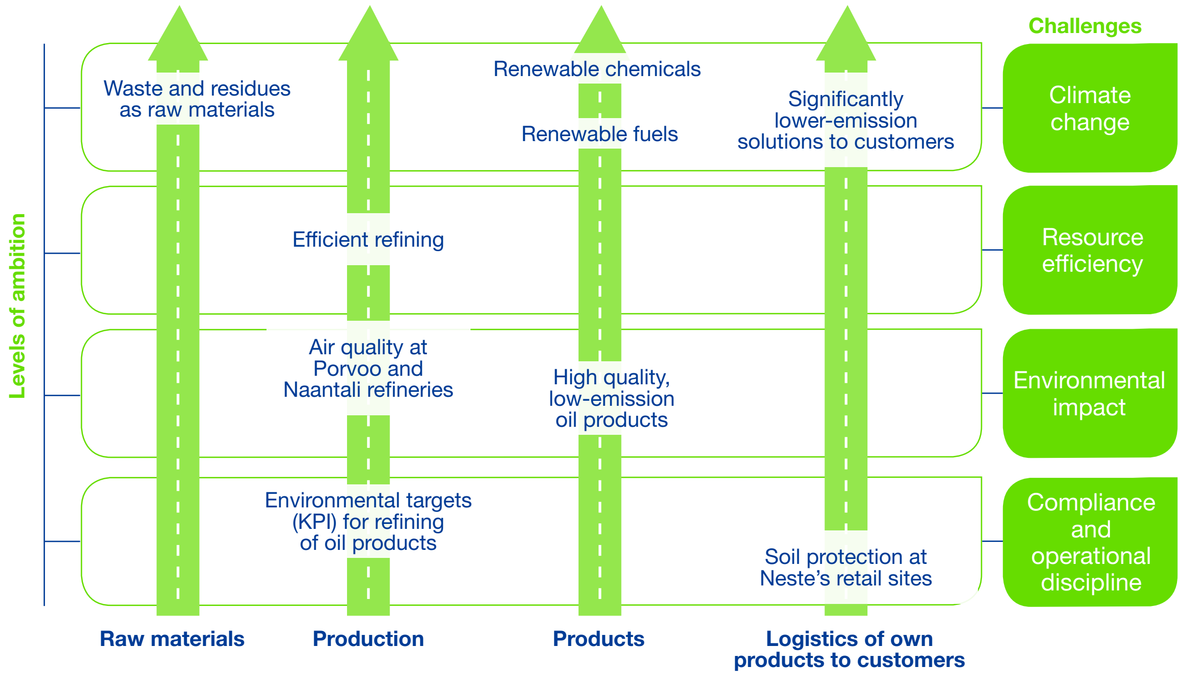
## Fine-tuning our environmental roadmap

We are reducing climate emissions and the impact of our operations in all areas, from the procurement of raw materials to the transport of our products and their sale to customers.

We have depicted the focus areas of our environmental work in the accompanying roadmap. During 2017, we will develop our environmental roadmap by setting increasingly clear and measurable objectives for all areas: raw materials, production, products, and product distribution.

The clarification of the objectives is supported by our cooperation project with a multidisciplinary group of students of industrial ecology from Delft University of Technology in the Netherlands commenced in 2016. In January 2017, the group completed a report on the environmental impacts of renewable fuel production plants similar to our refineries in Rotterdam and Singapore, and the possibilities to mitigate them.

### Neste's environmental roadmap – examples of progress areas



## Reducing our customers' climate emissions is at the core of our climate work

Our most important role from the point of view of climate and environment is associated with offering renewable fuels and other renewable solutions to our customers. The climate benefits from the renewable products we refine clearly exceed the emissions from our production of crude oil based products.

### Leading provider of low-carbon fuel solutions for road traffic and aviation

In 2016, our premium-quality renewable fuels helped our customers reduce their greenhouse gas emissions – and simultaneously global climate emissions – by 6.7 million tons. This equals the annual emissions of 2.4 passenger cars.

Our new greenhouse gas reduction objective is to reach 7 million tons in 2017. Increasing the share of waste and residues in production plays a key role in pursuing this objective.

### Up to 90% lower emissions through utilization of waste and residues

By using [fuel produced from waste and residues](), one can [reduce its carbon footprint by up to 90%]() compared to conventional crude oil based diesel. The proportion of waste and residues used as raw materials for our renewable products increased to 78% in 2016. This makes us the world's largest producer of renewable diesel made from waste and residues. We have achieved this by seeking increasingly lower-grade animal fats and food industry waste and residues for use as raw materials, as well as exploring completely new potential raw materials.

Neste has collected fat from slaughter and gutting waste from a number of sources globally in the meat and fish processing industries for several years. Other significant sources on a global scale are processing wastes and residues of vegetable oil refining, as well as used cooking oil from the food industry and restaurants.

In addition to other wastes and residues from vegetable oil refining, we started utilizing palm effluent sludge skimmed from the wastewater ponds of palm oil mills, particularly the oil separated from it, in the production of renewable fuels. Oil from palm effluent sludge has previously been used in energy production, and the production of low-quality soap.

Utilizing the organic compounds generated in the production of palm oil, such as palm effluent sludge, reduces methane emissions from the palm oil mill, which have previously been reduced by recovering the methane gas generated by the mill. In 2016, nearly 35% of the crude palm oil we sourced came from mills with methane capture or measures to prevent its formation. Removing organic matter from wastewater also prevents the eutrophication of soil and water systems in the vicinity of the mill.

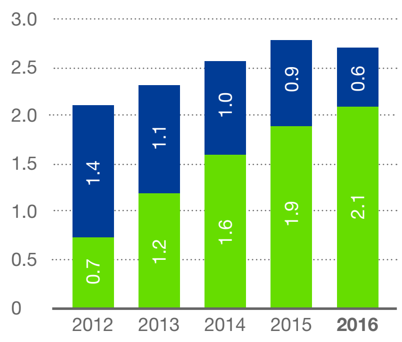
All the crude palm oil that we use has been fully traceable to the oil palm plantations since 2007, and 100% certified since 2013.

### We promote carbon-neutral growth in aviation

Neste is committed to promoting carbon-neutral growth in aviation from 2020 onwards. We aim at playing a significant role in the growing renewable jet fuel market.

**With our renewable fuels, we reduced greenhouse gas emissions by the amount equalling annual emissions of 2.4 million passenger cars.**

### Use of renewable raw materials, million tons




- Waste and residues (e.g. animal fat from food industry waste, vegetable oil processing waste and residues)
- Vegetable oils (e.g. crude palm oil)

Renewable jet fuel refined by Neste has been available at Oslo Gardemoen Airport since January 2016. The fuel was refined at our Porvoo refinery as part of the EU-funded ITAKA project. Its use reduces greenhouse gas emissions by 47% over the life cycle of the product (fossil fuel comparator according to RES 2009/28/EY).

### Low-carbon solutions for the chemical and plastics industries

Our goal is to have 20% of our renewable product sales volume come from non-traffic solutions by 2020. In order to achieve this objective, we are developing low-carbon solutions together with our partners to replace crude oil based products in the chemical and plastics industries, in particular.

- We announced a strategic partnership with the furniture manufacturer IKEA on the manufacture of plastics and other polymer materials.
- Avantherm started using Neste's renewable isoalkane in its next-generation products for transferring heat and cold.
- We made preparations to start the production of renewable propane during the first half of 2017 in the world's first Bio-LPG unit built at our Rotterdam refinery. Neste's renewable propane's carbon footprint is considerably smaller than that of conventional propane.

Replacing crude oil based products and raw materials with our renewables with better quality and performance enables our customers to reduce the carbon footprint of their own operations and products.

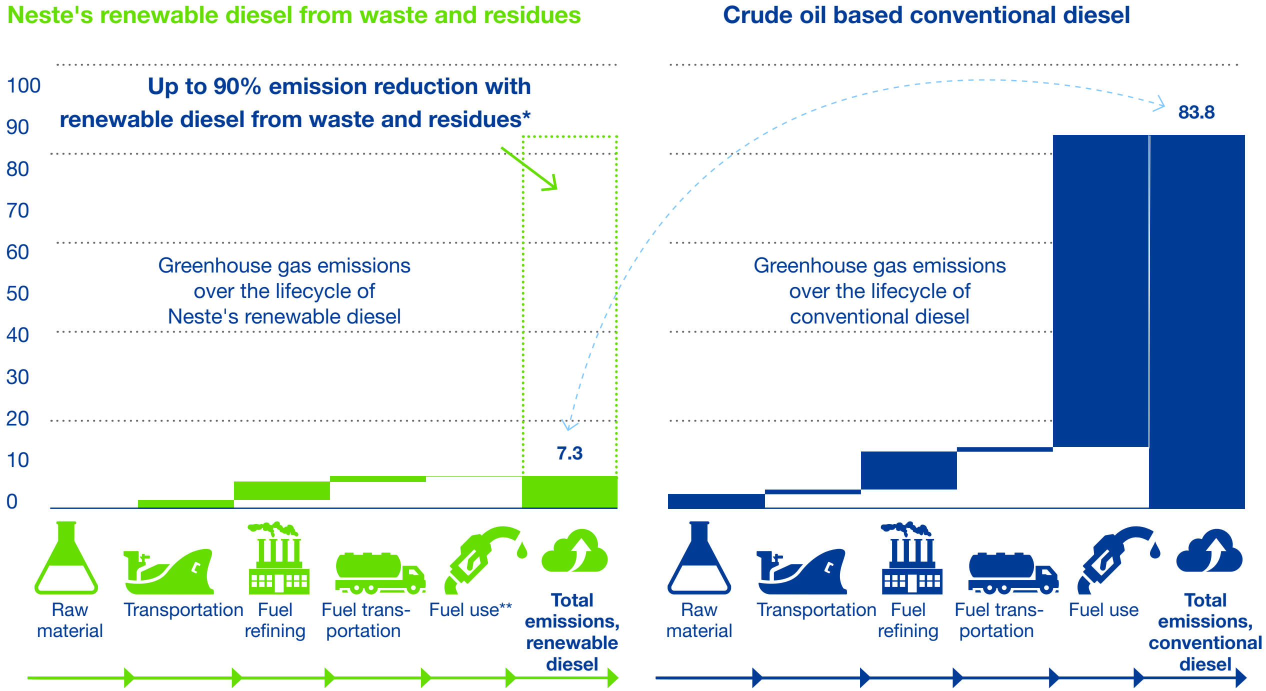
### Climate impact over the lifecycle of our products

The most essential climate impact of Neste's products is related to emissions of greenhouse gases, especially carbon dioxide ($CO_2$). Greenhouse gas emissions are generated throughout the different phases of the life cycle of the products.

Crude oil based products and products made from renewable raw materials differ both in the total amounts of emissions caused throughout the life cycle, and in how the emissions are distributed between the different phases of the life cycle.

The benefit of renewable traffic fuels is gained in the use of the fuel. Carbon emissions from the use of renewable diesel amount to zero, as the raw material has absorbed the same amount of $CO_2$ as is released upon combustion. In particular, when produced from waste and residues, Neste's renewable diesel can reduce greenhouse gas emissions by up to 90% compared to conventional diesel.

### Greenhouse gas emissions ($gCO_2$ eq/MJ) over the life cycle of fuels




* Calculation method complies with the EU Renewable Energy Directive (RES 2009/28/EY).

** Carbon emissions from the use of renewable diesel amount to zero, as the raw material has absorbed the same amount of carbon dioxide as is released upon combustion.

## The use of Neste's renewable fuels reduced global greenhouse gas emissions annually more than what Neste's refineries and logistics emitted.

## Climate and environmental work continued and resource efficiency improved in refining

### We prepared for new BAT requirements

The European Union's BAT (Best Available Technique) requirements for oil refineries became effective in 2014, and operators were given four years to make the changes required by the new regulations. We submitted BAT permit applications concerning the Porvoo and Naantali refineries to the authorities during the first half of 2016. The decision concerning the Porvoo refinery was received in December 2016, and the decision on Naantali is expected in spring 2017. The new environmental permit application for the Porvoo power plant was also submitted in 2016, and the draft of the permit was received in November.

### Resource and material-efficient refining operations that promote the circular economy

Neste's refining processes generate gases containing carbon dioxide ($CO_2$). The recovery plant built at Neste's renewable product refinery in Singapore was completed in late 2015, and it was started up in March 2016. $CO_2$ recovery increases the resource efficiency of the refinery, and reduces the carbon footprint of renewable products over their life cycle. We estimate that we will deliver an annual average of 40,000 metric tons of $CO_2$-containing gas to the plant operated by a partner.

The refining process of crude oil based products at our Porvoo refinery also generates $CO_2$, some of which is recovered and sold to the local gas company. In our refining process, crude oil is fully utilized, and practically no waste is generated.

### Neste develops a method to prevent formation of methane

case

Neste participates in a project in Malaysia aimed at developing methods to prevent methane formation in palm oil production.

Read more >>

### The new power plant at Kilpilahti decreases emissions and utilizes by-products from refining processes

Neste is involved in a joint venture to build a new [combined heat and power plant complex in Kilpilahti in Porvoo, Finland]. The new power plant will generate energy more securely and efficiently – and considerably more cleanly – for the companies in the Kilpilahti area, of which Neste's refinery and Borealis Polymers' petrochemical power plants are the most significant. The new power plant will be commissioned during 2018.

The power plant is a good example of the close cooperation between the companies in the Kilpilahti area, as well as resource efficiency and the circular economy, since more than 80% of the raw-materials that will be used in the new power plant (e.g. asphaltene) are side streams from the refinery and petrochemical processes.

### Our energy efficiency is improving

Neste's energy use management is based on the company's energy efficiency principle, defining the goals for energy efficiency activities. The aim is to improve the energy efficiency of our operations and reduce greenhouse gas emissions in a cost-effective manner. The company's biggest energy consumers are its production units.

Neste exceeded its energy savings target 660 GWh for 2009–2016 by reaching the level of 855 GWh savings in Finland. This equals the annual energy consumption of 46,000 electrically heated single family homes. During 2017–2025 we aim at saving 500 GWh more.

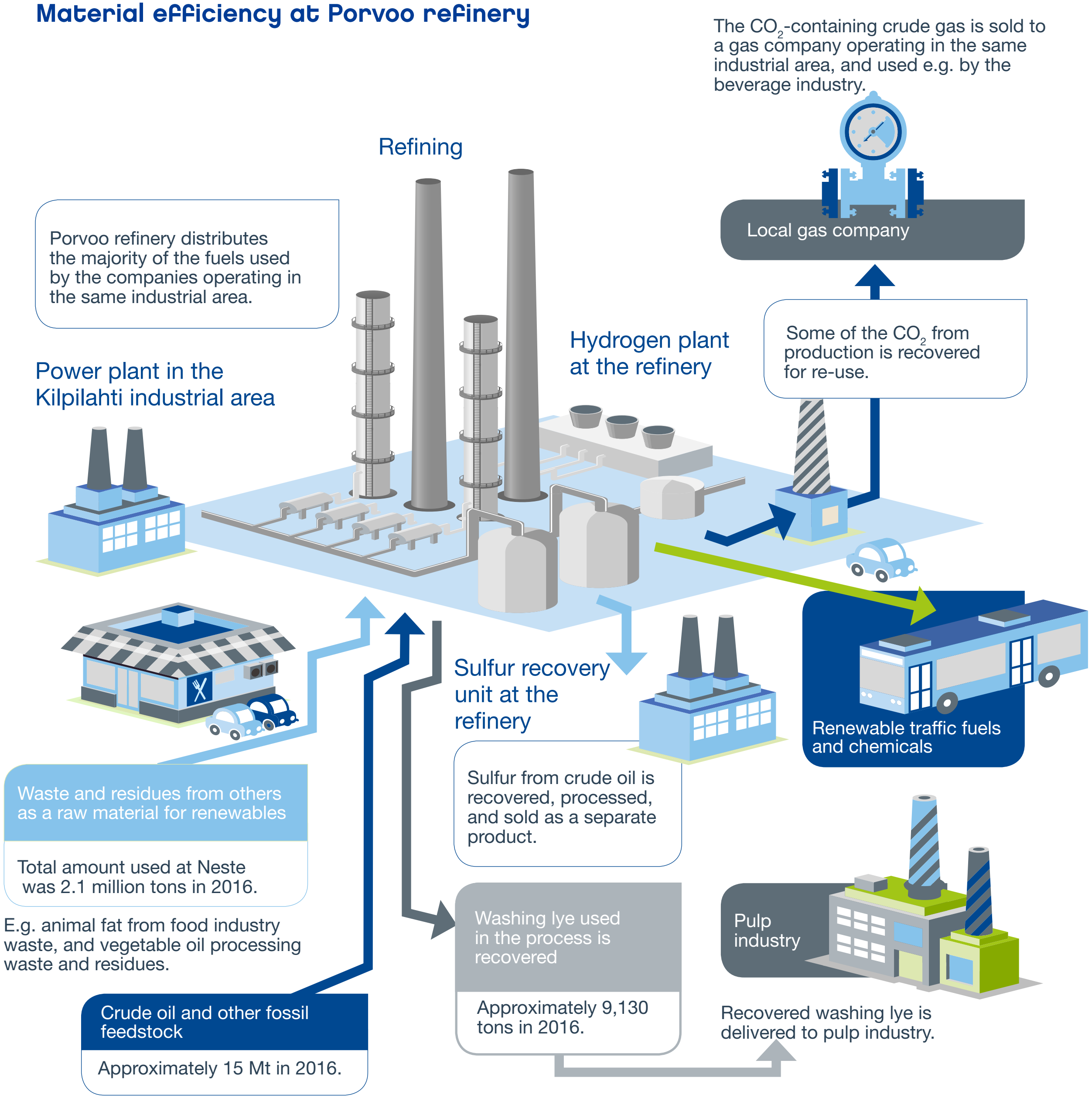
Our Singapore and Rotterdam refineries have their own energy efficiency programs based on local national energy efficiency programs and legislation. Energy intensity is monitored by metrics tailored for each function separately to depict the efficiency of operations in the best way.

### Investments improve also energy efficiency

Regular maintenance turnarounds involve replacing and servicing equipment at the refineries. New systems usually offer better efficiency and energy efficiency than the systems being replaced.

An oxygen enrichment investment was made at the sulfur recovery plants of the Porvoo refinery in 2016, resulting in annual energy savings of approximately 27 GWh. In the coming years, the energy efficiency of refineries will be improved through several measures requiring significant investments, an example of which is the solvent deasphalting unit (SDA) to be built in Porvoo, which will also improve resource efficiency and enhance the circular economy in the Kilpilahti area once complete. The decision to build the SDA unit was made in 2015, and it is due for completion in 2017.

## Material efficiency at Porvoo refinery



### Neste taking part in Höylä

Neste is a party to the energy efficiency agreement for the distribution of liquid heating fuels in Finland, signed in October 2016. The aim is that in terms of delivery volumes, at least 80% of the distribution activity of liquid heating fuels in Finland is part of the agreement.

### Monitoring air quality continued

During 2016, air quality monitoring was carried out at our refineries in Finland in accordance with the environmental permit conditions. Neste has three automatic air quality measurement stations in Porvoo. The air quality measurement data they generate is part of national data that the Finnish Meteorological Institute verifies and publishes on its air quality portal (ilmanlaatu.fi). At Naantali refinery, air quality monitoring is implemented in cooperation with the operators and the measurement network of the Turku region.

Air quality is typically good at Porvoo and Naantali refineries; below all of the guideline and threshold values set by Finland and the EU by a very healthy margin during the normal operation of the plants. In the vicinity of our refineries, outdoor air concentrations of sulfur dioxide are typically 10–20% and nitrogen dioxide concentrations from industry 20–30% of the threshold values. In most situations, air quality meets the WHO recommendations, which are clearly stricter than the requirements of Finnish and EU legislation. In this respect, air quality in the immediate vicinity of Neste's refineries in Finland is better than in many densely populated areas in Europe, where there are usually also more sources of industrial emissions.

At the Naantali refinery, there was an unusual case of sulfur dioxide emission at the beginning of 2016. This increased the annual emissions volume by 400 tons. Air quality measurements showed that this long-lasting incident elevated the sulfur dioxide concentrations in the area, but not to the level of danger to human health.

Environmental noise measurements were performed in accordance with the provisions of the permit in 2016. The research report will be completed in 2017; preliminary results indicate that the environmental permit limits were not exceeded.

Neste conducts regular measurements to monitor the developments in the state of the environment surrounding its refineries. This provides the company with long-term perspective of the development trend, as well as indication of the impact of the company's operations.

### Controlling fugitive VOC emissions

An external expert carried out an extensive measurement campaign regarding emissions of volatile organic compounds (VOC) emissions at the Naantali refinery in spring 2016 using advanced differential absorption lidar (DIAL) technology. The new optical gas imaging (OGI) camera technology was tested at the Porvoo refinery in the fall to detect VOC leaks. The results of these test campaigns will be analyzed during 2017, and the decision on the use of the OGI measurement technology at the refineries and the need for additional advanced DIAL measurements will be made based on the results.

## The Finnish Innovation Fund Sitra included Neste in its "Most interesting in circular economy" list based on our proven ability to develop new business and innovations resource-efficiently through the use of waste and residues.

### Monitoring the state of the surrounding environment at the refineries provides a long-term perspective

case

In addition to monitoring the air quality, Neste monitors the development of sea conditions at the Porvoo refinery, and conducts regular forest ecosystem bio-indicator studies.

Read more »

## Climate and resource efficiency

| Targets in 2016 | Achievements in 2016 | Long-term targets |
|---|---|---|
| We will continue the energy efficiency measures in a systematic manner to enhance our energy consumption. | • We reached our target in the Finnish energy-intensive industry's energy efficiency program for 2009–2016 by improving our energy efficiency by 855 GWh compared to 2008.<br>• Our energy consumption amounted to 12.9 TWh. | • We will enhance our energy consumption by 500 GWh by 2025. |
| We will maintain the ability to exclusively use waste and residue raw materials in the production of Neste's renewable products and materials produced from it. | • We increased the proportion of waste and residue raw materials to 78% in the refining of our renewable products.<br>• We continued research and development into new, increasingly lower-grade waste and residue raw materials, and started, for example, using palm effluent sludge separated from wastewaters of palm oil mills. | • We will continue research and development into new, increasingly lower-grade waste and residue raw materials.<br>• We will offer renewable products made from waste and residue raw materials also outside the fuel sector, so that they will meet the special sustainability requirements of all of our customers.<br>• We will investigate the utilization of plastic waste as raw material in refining. |
| We aim to produce a sufficient amount of Neste's renewable products to reduce greenhouse gas emissions by 7 Mt in 2017. | • Our customers reduced greenhouse gas emissions by a total of 6.7 Mt by using Neste's renewable diesel. | • With the use of our renewable products, greenhouse gas emissions will be reduced by 9 Mt in the future. |
| We will define measurable goals to demonstrate sustainability and to reduce the environmental impact of our conventional oil refining operations. | • We defined a KPI for the refining operations of conventional oil products (Porvoo and Naantali refineries) taking various aspects of environmental performance (e.g. permits, leaks, incidents, and complaints) into account.<br>• An environmental impact assessment was conducted of the refining operations of renewable products in cooperation with Delft University. | • We will meet the environmental target set for the refining operations of conventional oil products; and will develop the target further.<br>• We will further reduce the environmental impact of the refining operations of our renewable products. |

Achieved Partly achieved Not achieved

## Cooperation to build a low-carbon society

case

New areas of cooperation in 2016 included the Finnish Innovation Fund Sitra's Smart & Clean Foundation, as well as VTT Technical Research Centre of Finland's Carbon Handprint development project, within which we play an active role.

Read more >>

# Sustainable supply chain

Our supply chain is managed in accordance with our sustainability principles and guidelines, our Human Rights Commitment and the Supplier Code of Conduct. They are described in more detail on page 23 and on our website.

## From Human Rights Commitment to Principle

In December 2015, Neste published its Human Rights Commitment, where we reaffirmed our commitment to respecting human rights in all aspects of our business. The Commitment launched a multi-stage process with the aim of meeting our due diligence obligation in line with the UN Guiding Principles on Business and Human Rights.

In 2016, we carried out a company-wide human rights impact assessment that focused on defining Neste's most significant potential human rights risks and impacts together with actions to prevent negative effects.

According to the results of the assessment, significant risks are related, above all, to the sourcing of renewable raw materials and to upholding the rights of migrant workers in particular. The occupational safety and health issues in our supply chain and our own operations were also highlighted during the assessment.

In the human rights impact assessment, we partnered with BSR (Business for Social Responsibility). Their experts interviewed the company's management as well as experts from all parts of the organization. The assessment covered the entire company and Neste's stakeholders.

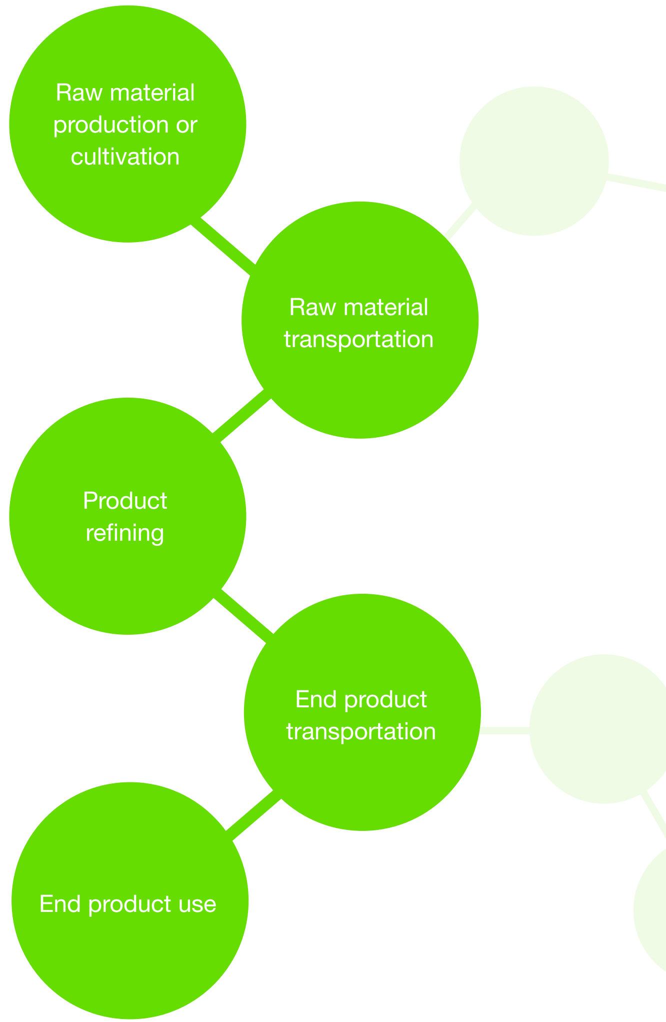
On the basis of the assessment, we started to draw up Neste Human Rights Principle by engaging our employees. The aim of this process was not only to draft the principles, but also to increase employees' awareness of human rights related to our business and the obligations of the company.

The Neste Executive Board approved the main principles related to human rights in December, after which they were published on the company's website. The development of the Principle continued in early 2017. The implementation of the Human Rights Principle in the Neste business areas and supply chain will continue in 2017.

In the beginning of 2017, we published Neste's Human Rights Roadmap on our website to crystallize our main activities related to human and labor rights in 2015–2016. This material also introduces our ongoing projects.

## Continuing social responsibility cooperation projects in our supply chain

In 2015, we conducted a study focusing on social and labor issues in the palm oil supply chain in Malaysia. Many of the observations were related to foreign migrant workers who make up the majority of the workforce in the oil palm plantations. In 2016, we continued the work by launching a study of working conditions in plantations in Indonesia and the impact of workers on communities beyond the plantations. The results and conclusions of the study, as well as a plan of follow-up measures will be presented to palm oil suppliers and other key stakeholders in a seminar that will be held in spring 2017.



We are making preparations for a multi-year, multi-stakeholder collaboration project, “A Fair Employment Initiative,” and inviting palm oil users and producers, NGOs, as well as authorities to participate in the project. The purpose of the project, to be carried out between 2017 and 2019, is to promote fair employment of palm oil industry workers in Malaysia.

Neste supports a UNICEF multi-stakeholder project studying the upholding of children's, women's and families' rights in palm oil production. The three-year project will end in 2017. In addition, Neste is a member of the human rights working group of the Roundtable on Sustainable Palm Oil (RSPO), with the mission of promoting human rights in the supply chain.

### Developing the supplier evaluation system

For several years already, we have conducted comprehensive preliminary due diligence studies of all potential renewable raw material suppliers, which also include sustainability surveys.

As our raw material portfolio has extended to cover more than ten different renewable raw materials, we updated the questions in the survey to correspond to our current raw material base. The renewed Sustainability Due Diligence System also reflects the evolution of the way we look at human rights.

After a content update, the system will be built in digital form. In December 2016, we issued an open invitation to our stakeholders to participate in a development project focusing on the digitalization of the system launched in late January 2017.

## Ways to ensure sustainability in supply chain

Who?

Supplier selection → We only buy from suppliers that meet our sustainability criteria.

Where?

Traceability → We know the exact location of production sites and plantations.

Which principles do we follow?

Contract → We ensure that our suppliers are committed to our sustainability criteria.

How?

Certification and audit → We ensure that all renewable raw materials we buy are produced sustainably and that production does not cause deforestation or jeopardize biodiversity, for example.

### Towards an even more transparent supply chain

In April 2016, Neste was the first major crude palm oil using company to publish on its website a list of all its palm oil suppliers. The list includes all palm oil suppliers, mills and plantations from which Neste sourced crude palm oil in 2015. By making the list public, we wanted to meet our commitment to transparency and maintain our frontrunner position. We encourage other palm oil users to follow our example. We will publish an updated list with 2016 data in 2017.

In April 2016, we suspended all raw material purchasing from IOI Group after the Roundtable on Sustainable Palm Oil (RSPO) suspended its certification for the palm oil supplied by IOI. The irregularities related to IOI’s activities indicated a failure to meet RSPO’s standards as well as potential shortcomings in following Neste’s Sustainability Policy and No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock. RSPO restarted IOI Group’s certification in August 2016. We have not restarted raw material purchases from IOI.

### Work to prevent deforestation continues

Neste sources crude palm oil only from suppliers committed to certification and sustainability principles. We purchase certified crude palm oil directly from the producers. All the palm oil we use has been 100% certified since 2013, and fully traceable since 2007.

Our aim is that even farmers who do not produce raw materials for us but are associated with our raw material producers would follow Neste’s No-Deforestation guidelines and practices, introduced in 2013. These complement the legal requirements for biofuels, which are rather comprehensive in themselves.

By the end of 2015, all our major palm oil suppliers had committed themselves to No-Deforestation guidelines in their third-party sourcing. We have followed the progress of their implementation process.

We continued developing sustainability in the palm oil supply chain with our new partner, the Consortium of Resource Experts (CORE). This association of Daemeter, Proforest, and the Rainforest Alliance supports us in our continuous work to develop the transparency of our raw material supply chains.

We assessed the environmental risks of our company's palm oil sourcing chain and prepared an action plan for preventing and minimizing those risks. The implementation of the action plan began in the beginning of 2017.

We are working on improving the transparency of the supply chain of the palm fatty acid distillate (PFAD) that we use. PFAD consists of degraded fats, free fatty acids, that are removed as processing residue to produce edible palm oil for the food industry.

### Forest protection as part of raw material R&D

We are involved in continuous research and development to expand the range of renewable raw materials that we use. Our research topics include algae oil, forest residues, and waste plastic, among others. When studying new raw materials, our first task is to ensure that they meet Neste's sustainability criteria. After that, we examine the technical suitability of the raw material for our refineries.

To ensure the sustainability and acceptability of forest residues as a raw material for renewable fuels, in 2016, we conducted a study on the forest biodiversity impact of procurement of forest harvesting residue from Nordic forests. At the same time, we also studied how the cultivation of oil palms affects the biodiversity of forests. According to the study, the use of branches and crowns from certified forests does not threaten the biodiversity of forests if stumps are left in the forests. Similarly, palm oil sourcing does not harm biodiversity if plantations are established in accordance with the certification criteria and valuable natural areas are conserved.

Neste was awarded "Leadership" status for its management of deforestation risks with a grade of A- in the CDP Forests program. Neste continues to be the only energy sector company transparently reporting its forest footprint as part of the globally renowned CDP Forests program.

### Cooperation projects with smallholders protect rainforests

As part of our deforestation risk management and the creation of social value in the palm oil supply chain, we have, for several years, aimed to grow the proportion of smallholder volumes in our sourcing operations.

The number of smallholders in our crude palm oil supply chain decreased compared to the previous year due to the reduction of our company's crude palm oil use. In 2016, our supply chain included over 33,000 Indonesian smallholders organized into cooperatives.

We have committed ourselves to cooperation projects aiming at supporting smallholders in the development of their sustainability expertise and the adoption of sustainable practices. Through developing the sustainability and traceability of the smallholders' production, we aim at enabling certification of their production, which is a prerequisite for Neste's raw material sourcing from the smallholders. Starting raw material sourcing would provide the smallholders a financial incentive to commit to certification and ongoing compliance with sustainable practices.

- We decided to participate in a project coordinated by the Malaysian organization Wild Asia involving smallholders producing palm oil in Malaysia.
- In Indonesia, we launched similar cooperation in a smallholder project coordinated by GAR (Golden Agri Resources), SPKS (Indonesian Palm Smallholders Union), and WRI (World Resources Institute).
- Last year, a project involving smallholders that was prepared with IDH, a Dutch organization promoting sustainability in supply chains, was suspended due to challenges that emerged in the assessment phase. We are reassessing the project and studying the possibility to involve a larger number of stakeholders.

## Neste was awarded "Leadership" status for its management of deforestation risks in the CDP Forests program.

## Sustainability requirements for crude oil production have tightened in Russia

In recent years, we have invested in the development and refining of renewable products made from bio-based raw materials. We continue to use also crude oil as the raw material for our conventional oil products. Most of the crude oil is sourced from Russia, but some comes also from Norway, Kazakhstan, and Denmark. We use over ten million tons of Russian crude oil on average per year, accounting for approximately 6% of the Russian crude oil consumed in Europe.

The majority of the crude oil that we use is delivered to the company's refineries from the Primorsk oil terminal, where the oil comes from oil fields across Russia via a pipeline network.

We purchase crude oil from carefully selected partners – oil producers, brokers, and large oil companies – both as individual batches and through long-term agreements. All the potential crude oil suppliers undergo a two-phase assessment that includes a financial review and a security review. In addition to crude oil transported by ship, we also purchase smaller batches of crude oils and gas condensates delivered by rail, in which case the origin of the product is known by the company in more detail, and the quality is not blended with others in the same way as in the pipeline.

Majority of the crude oil we source comes from approximately 15 suppliers, mainly large Russian listed companies with obligations rooted in local legislation to report on their operations. Some of the shareholders of these Russian companies are Western, globally operating oil companies with key interests in ensuring the compliance and sustainability of the Russian companies' operations.

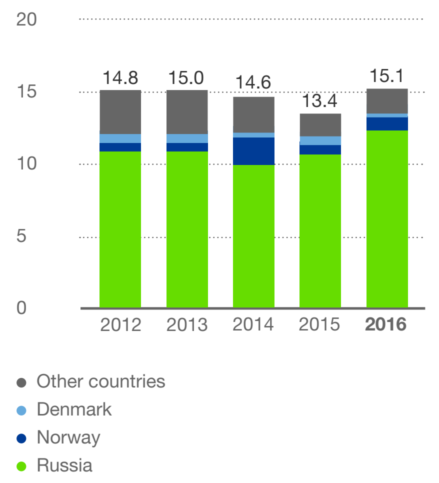
Neste is purely a buyer of crude oil; we do not own shares in any company producing crude oil, nor are we engaged in oil exploration or drilling. Additionally, we do not purchase crude oil from arctic sea areas or conflict areas.

In 2013, we put together a summary of the Russian crude oil suppliers' environmental and social performance based on the data from public environmental and sustainability reporting. We explored, for example, data on greenhouse gas emissions and uncontrolled discharges into the environment. In 2016, we continued updating our summary based on the latest available data.

Russian authorities have tightened the legislation on oil companies in recent years. Guided by the stricter requirements, Russian oil companies have decreased the flaring of excess gases generated in their production. The impact can already be seen in significantly lower greenhouse gas emissions.

**Neste is purely a buyer of crude oil; we do not own shares in any company producing crude oil, nor are we engaged in oil exploration or drilling.**

### Crude oil and fossil feedstock sources by region, million tons




Based on the data we have explored, Russian companies have invested in the prevention of accidents and preventive repair and replacement measures. This includes the replacement of the rolling stock employed in train transportation. Companies are continuing their work in this area.

With respect to crude oil sourcing, we aim at closer dialogue with our crude oil suppliers. We are also surveying information about what Russian authorities are doing to develop the sustainability of crude oil production, and the general atmosphere related to sustainability, especially the development of environmental and social issues. Dialogue with the key parties enables the sharing of ideas and expertise, and provides us with information for risk management and decision-making.

## Sustainable supply chain

| Targets in 2016 | Achievements in 2016 | Long-term targets |
|---|---|---|
| • We will ensure the continued traceability of our renewable raw materials also in the future. | • All the renewable raw materials we used were traceable back to their origin as required by the legislation.<br>• We published a list of all our crude palm oil suppliers on our website.<br>• We launched cooperation to improve the transparency of waste and residue supply chains. | • All cultivated raw materials we use will be traceable back to their cultivation site and sustainably produced.<br>• We will gradually improve the transparency of our waste and residue supply chains as the traceability of the main products (from food and feed industries) gets into shape.<br>• We work actively to in ensure that the current traceability and sustainability requirements for biofuels will be implemented as soon as possible in all uses of crop-based materials. |
| • We will develop the methods and requirements of our supplier assessment. | • We began to implement the Supplier Code of Conduct.<br>• We updated the Supplier Due Diligence System for renewable raw material suppliers, and launched a project to digitalize it. | • Everyone supplying raw materials or services to us will meet the Neste Supplier Code of Conduct or similar requirements.<br>• We will have an extensive due diligence system for renewable raw material suppliers, helping us also to measure the sustainability performance of our contractors. |
| • We will draw up and implement an action plan on human rights and labor rights.<br>• We will implement a Group-wide human rights impact assessment. | • We launched a Group-wide operational program on human and labor rights. In this framework, we completed a number of measures, including a human rights impact assessment.<br>• Human Rights Principle was approved by Neste Executive Board. | • Human rights are respected in our supply chain, and methods are in place for identifying violations and remedying them. |
| • We will support the certification of smallholders and increase their proportion in our crude palm oil sourcing. | • The number of smallholders supplying us decreased due to a drop in our total consumption of palm oil.<br>• At the end of the year, we agreed to launch two new smallholder projects. | • We will actively promote sustainable cultivation practices and increase the proportion of smallholders in our crude palm oil procurement. |
| • We will continue using only certified and fully traceable crude palm oil. | • The crude palm oil we used continued to be 100% certified and traceable. | • We will continue using only certified and traceable crude palm oil also in the future. |

Achieved Partly achieved Not achieved

# Sustainability of our operations

At Neste, personnel and safety issues are developed and managed as a single entity. These sustainability areas are the responsibility of the SVP, HR & Safety, who is a member of Neste Executive Board.

## Personnel

Neste's HR management is based on the company's strategy and business objectives. Launched in 2013, the Way Forward way of working has become part of daily operations. The underlying idea is to develop the operating culture and management from line manager focused work towards a self leadership direction. At the same time, we are strengthening the feedback practices based on continuous dialogue.

### Focus areas and projects

In 2016, the Way Forward focus areas included good performance leadership, taking personal responsibility, giving feedback, and development of the safety culture and safety management. Alongside these, we have promoted our strategic spearhead projects:

- Developing sales and commercial expertise
- Developing production capabilities
- Managing new growth, i.e. developing expertise relating to the company's growth strategy
- Developing project management.

### Business result as an indicator of success

The company's business result is also an indicator of the success of HR practices. Good leadership and supervisory work provide the prerequisites for the company's success, in addition to which they build the employer image, which in turn attracts skilled applicants and young talent. Personnel studies and surveys indicate the employees' commitment, wellbeing, and quality of line manager work.

### The areas of the Way Forward way of working:


### Employee surveys offer valuable information for leadership support

case

Read more about our employee surveys and their results >>

We also evaluate the success of HR practices and line manager work based on personnel turnover and development, such as internal job rotation. Our other indicators include:

- Employer image measurements
- Number of training days and average feedback score
- Effectiveness of completed eLearning courses
- Sick leaves
- Total number of employees and employee costs

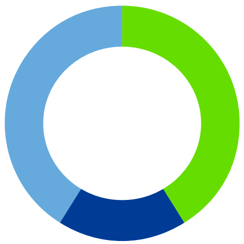
## Our performance leadership will be reformed

We have developed leadership competencies in the long term. We emphasize the individual's responsibility for his own development, motivation, and performance management. Leaders' role is to be mentors and facilitators. The employer is responsible for employees having functional and safe working conditions.

We are reforming the performance and daily leadership of the entire organization. We are moving from a one-off annual performance review practice towards more continuous support for performance. In our new operating culture, giving and receiving feedback is an interactive, up-to-date, and continuous function. The initiative is moved from line managers to employees. We emphasize daily discussions and support of employees in questions relating to working. The goals are updated based on need, not on the calendar.

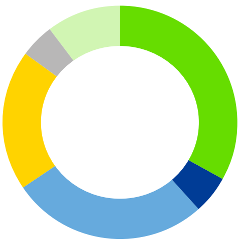
A dialogue-based management culture broadly serves the needs of the personnel. They want to receive and

### Personnel by personnel group as of 31 December 2016, %



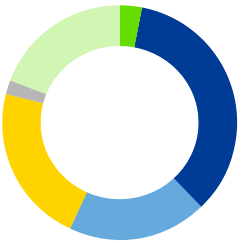
- Management and upper white-collar 41.2% (38.3%)
- White-collar 17.8% (19.4%)
- Blue-collar 41.0% (42.3%)

### Personnel by segment as of 31 December 2016, %



- Oil Products 33.1% (33.6%)
- Renewable Products 5.4% (5.5%)
- Oil Retail 27.2% (27.6%)
- Neste Jacobs 19.5% (19.1%)
- Research and Technology 4.6% (4.5%)
- Other common functions 10.1% (9.7%)

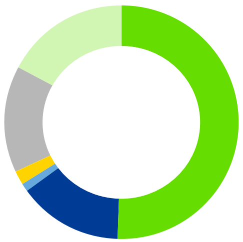
### Educational level of employees as of 31 December 2016, %



- Compulsory education 3.1% (3.9%)
- Vocational degree or high school 34.8% (37.7%)
- Bachelor's degree or equivalent 19.3% (18.8%)
- Master's degree or equivalent 21.9% (20.8%)
- Doctorate/licenciate 2.0% (1.9%)
- Other or information not available 19.0% (17.1%)

Information covers 79.9% of the employees, not employees in Russia.

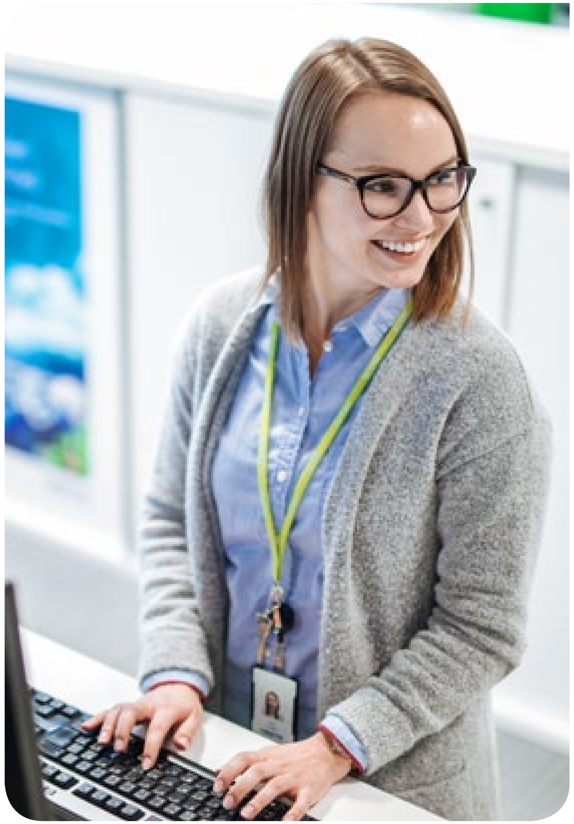
### Educational backround of employees as of 31 December 2016, %



- Technical or natural sciences 50.8% (52.2%)
- Commercial and law 14.2% (13.8%)
- Social sciences and humanities 1.3% (1.1%)
- Logistics or transport 2.0% (2.0%)
- General education and others 14.6% (15.8%)
- Information not available 17.1% (15.1%)

Information covers 79.9% of the employees, not employees in Russia.

## Good leadership work is a prerequisite for the company's success.



give feedback on a regular basis, and actively influence the workplace.

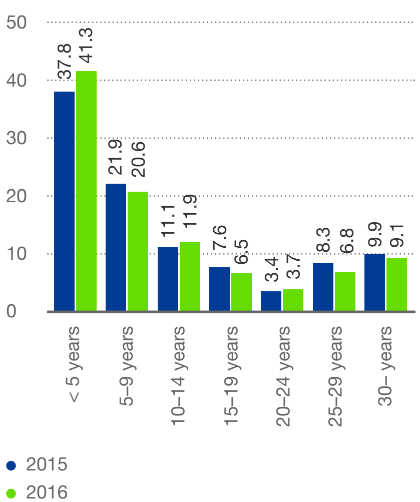
The Way Forward way of working has introduced changes also to safety leadership and practices, as well as influencing the workplace. For example, team and employees, not only line managers, will be responsible for implementing the action plans arising from employee surveys.

### Competence development

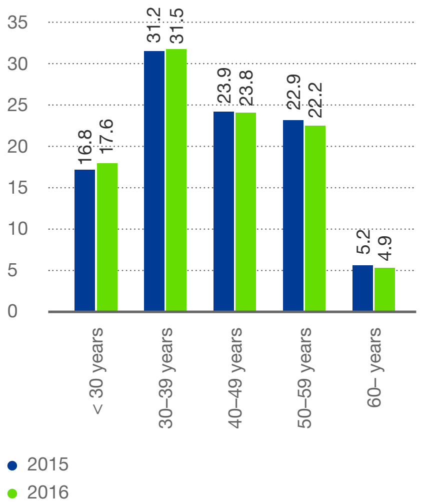
The content and methods of competence development will be adjusted in accordance with the new flexible way of working, applying it to the needs of different roles. Alongside conventional classroom studies, we will utilize information briefings, eLearning, and hands-on learning.

In 2016, experts in people development actively developed a new safety training program. Line manager received focused training in the new performance leadership methods and utilization of the Hugo HR system. According to feedback, this system deployed by Neste during 2015 and 2016 has made managerial work easier by combining management-related matters and clarifying the areas of HR management to line managers and employees alike. The system supports

### Length of employment of employees as of 31 December 2016, %




### Breakdown by age as of 31 December 2016, %



the reform of performance leadership and employees taking responsibility for their own performance and development.

A total of 130 key employees working in different roles from all the company's business areas and common functions took part in the NEXWave training. This program was carried out in cooperation with Aalto EE from fall 2015 to March 2016. The training, focusing on change management and value creation in the Group together with customers, supports the implementation of Neste's strategy.

## Open and fair rewarding

We reward our personnel for good performance and believe that fair rewarding supports excellent performance. We apply and comply with the local employment legislation and any collective agreements specifying minimum wages and separate compensation, such as overtime compensation, among other things, in all the countries in which we operate. We comply with the State of Finland's in-principle decision on shareholder policy issued in summer 2016, according to which remuneration must be fair so that in addition to the management, also employees are rewarded for the company's success, either via personnel funds or otherwise.

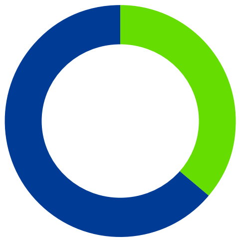
Setting goals, preparing pay raises, and performance bonus calculation have been made as part of the new HR system. The system facilitates supervisory work and increases the transparency of the rewarding processes. Thanks to our good business performance, we paid record-high performance bonuses to the entire personnel in spring 2016.

In 2015, we prepared the Global Induction program covering the entire personnel. The company's global remuneration guidelines have also been attached to it. The program was piloted in 2016, and it was published in early 2017.

## New equality plan

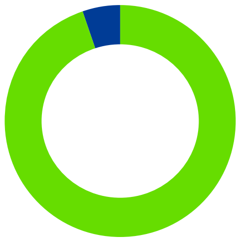
Finnish equality legislation was reformed in 2015. We have included the non-discrimination plan required by the legislation in our equality plan, which was reviewed by the corporate cooperation body in December 2016. Neste promotes equality by, e.g., ensuring that we have non-discriminatory procedures in recruitment, task distribution, access to training and remuneration. The implementation of the equality plan will be monitored by the company's equality and non-discrimination working group.

### Gender ratio as of 31 December 2016, %



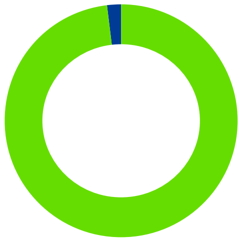
- Women 36.2% (35.1%)
- Men 63.8% (64.9%)

### Type of employment contract as of 31 December 2016, %



- Permanent 94.8% (95.6%)
- Temporary 5.2% (4.4%)

### Type of employment according to working hours as of 31 December 2016, %



- Full-time 98.2% (96.7%)
- Part-time 1.8% (3.3%)

## Safety management

In accordance with our safety vision and the Way Forward way of working, our aim is to work safely and professionally everywhere at all times. Safe behavior is a central part of our high level of competence and professional identity. Safe operation is also part of good business and risk management.

Our safety work aims at guaranteeing safety within our entire value chain, from procurement of raw materials to the safety of final products. We fulfill the promise with systematic long-term work, proactive assessment of risks and identification of targets for development. Reaching the objective requires open dialogue and cooperation with the different parties of our value chain, and our partners sharing the same safety vision with us.

Safety management is part of our business management, and it is an integral part of daily supervisory work. Safe working practices and processes support the company in implementing its strategy. Our company is responsible for the safety of everyone working for us, securing the company's property and our environment. Moreover, our safety work is guided by legislation, regulations, and the expectations of our stakeholders, such as investors.

### Towards zero

In accordance with our vision, our long-term aim is to have zero accidents and safety incidents. We set the annual objectives based on the principle of continuous development also for occupational safety and process safety. In these matters, we benchmark ourselves against other European oil companies, and use the resulting data in setting objectives and the continuous development of our operations.

The 2016 targets for occupational safety (TRIF, or rate of accidents requiring medical treatment per million hours worked, including contractors) and process safety (PSER, or rate of process safety events per million hours worked) were 2.1.

We did not reach the set goals in 2016. However, TRIF concerning contractors was the best in Neste's history, 4.2. Contractor safety will remain one of our focus areas.


### Life-saving rules

Our most significant process safety challenges took place at our refineries in Finland. We took several measures to correct the situation, and these are discussed in more detail in connection with the 2016 focus areas.

We measure our safety performance also with the illustrative Safe Days indicator, indicating the number of days on which we or the contractors and partners working with us had no accidents, process safety events, fire incidents, traffic accidents or environmental deviations.

## Focus areas in 2016

We developed our operations both with the Group-wide Way Forward to Safety program and local measures. The focus areas of the Way Forward to Safety were updating Neste's HSE standards, development and implementation of contractor safety, management of process safety risks and joint safety training, and preparing the teams' safety promises. We will continue our Way Forward to Safety work in 2017 with the same focus areas.

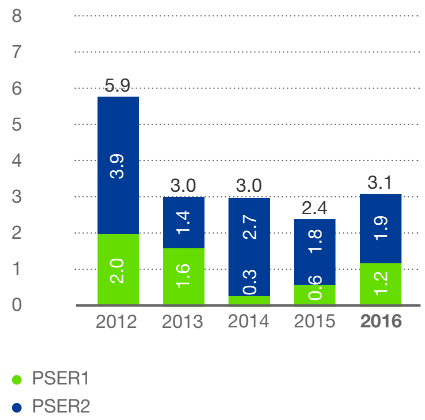
Local focus areas included the safety of the turnaround of the Rotterdam refinery, and the safety of construction projects in Porvoo, Naantali, and Rotterdam. These projects were implemented without severe safety incidents.

A lot of effort was devoted to improving process safety. At the Finnish refineries, we focused on improving incident investigation, enhancing the process risk management model and managing equipment in deficient condition. At the Singapore refinery, we developed incident management, risk awareness, and reacting to minor deviations. At the Rotterdam refinery, we implemented several changes improving process safety during the turnaround, such as valve and pipework material changes.

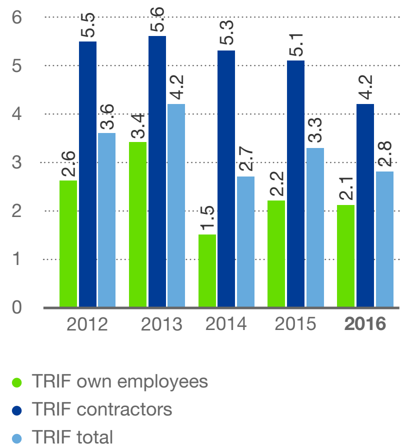
## Product safety

The safe production and processing of oil products and renewable products is supported with REACH registrations and their updates. During the year under

## Process safety event rate




## Total recordable injury frequency




**We act safely and professionally always, everywhere**

- Towards zero injuries and incidents.
- We want to go home after a safe working day.

**Our "I Act Safe" principles:**

- I lead by example.
- I take responsibility and do things right.
- Rules are my tools.
- I care when I intervene.

review, we updated the REACH exposure scenarios required for instructions on the safe use of products, and ensured compliance with them in connection with workplace surveys. We also assisted our customers in using and scaling the scenarios.

We organized chemical management training to our personnel from the Finnish, Geneva, Singapore, Rotterdam, Baltic, and U.S. locations. In 2017, we will provide training in matters relating to REACH.

It is the statutory duty of companies to maintain information about the chemicals they process and submit it to the authorities. In 2017, Neste will take an active part in the national KemiDigi project in Finland, aiming to create a portal for chemical information submitted to the authorities.

We performed several safety assessments of new feedstocks. We also applied for various approvals for their use in new markets. We are closely monitoring the reform of the U.S. chemical legislation.

We will actively take part in the standardization of bio-based products, aiming for sustainable operation, and ensuring the safe use of the products in industry and by consumers.

## Safety of transportation is guaranteed in cooperation with partners

case

Transportation of raw materials and chemicals Neste uses in the refining, as well as the transportation of its refined products, is handled by external partners.

**Read more about our cooperation to ensure safety of transportation »**

## Safety commitments by teams change safety culture

case

"Way Forward to Safety" is a long-term safety development program which engages all Neste employees, including the top management.

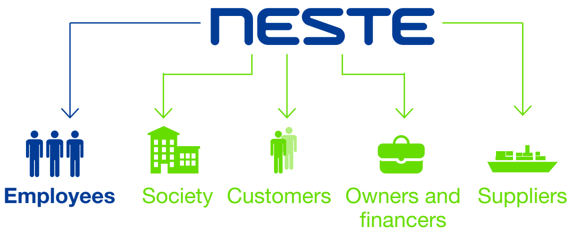
**Read more »**

## Sustainability of our operations

| Targets in 2016 | Achievements in 2016 | Long-term targets |
|---|---|---|
| TRIF 2.1 (frequency of injuries requiring medical treatment per million hours worked, including contractors). | TRIF 2.8 | Zero accidents. |
| PSER 2.1 (rate of process safety events per million hours worked). | PSER 3.1 | Zero safety deviations. |
| Safe Days 292 | Safe Days 287 | All days are safe. |
| A minimum of 30,700 preventive safety measures by the end of 2016. | Preventive safety measures: 31,800 | We will maintain the level reached and focus on developing the quality and effectiveness of the measures. |

Achieved Partly achieved Not achieved

# Creating economic value for stakeholders



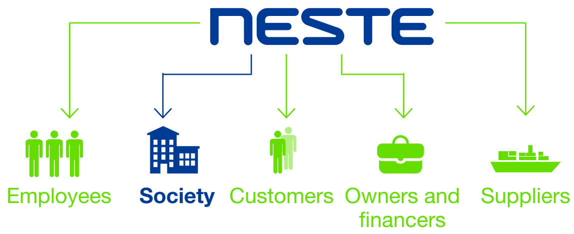

## Employees

| Direct impact (EUR million) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries and remuneration | 266 | 271 | 267 |
| Other personnel expenses | 79 | 76* | 69* |
| Training costs | 4.1 | 3.4 | 3.1 |
| Income tax paid by the personnel in Finland | 67.6 | 72.9 | 64.1 |
| Company's payments to pension funds | 56 | 51 | 53 |
| Company's payments to the personnel fund | 4 | 6 | 3 |

* Revised to correspond to the 2016 reporting.

### Indirect impact

- Salaries we pay contribute to our operating countries' consumer expenditure and national GDP.
- Taxes paid by our employees contribute to maintaining the prosperity of society.
- Our employee development initiatives, such as job rotation and training programs, increase their expertise and enhance their competitiveness in the labor market.




## Society

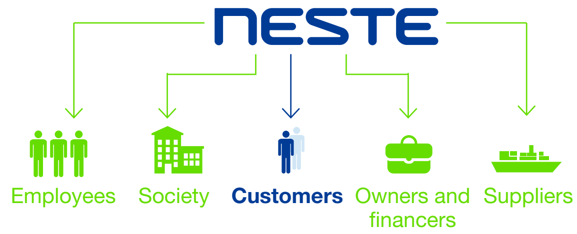
| Direct impact (EUR million) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Corporate income tax | 152 | 55 | 21 |
| Excise taxes | 2,289 | 2,061 | 1,942 |
| Environmental tax | 9 | 21 | 22 |
| Charity work and sponsorship | 1 | 1 | 1 |
| Company's one-time donation to Finnish universities | 1.5* | N/A | N/A |

* Donation to be paid in full during 2016 and 2017.

### Indirect impact

- We support social development and the services societies provide through the taxes we pay and the employment we provide either directly or indirectly through our partners in all the countries we operate.
- Our donation to Finnish universities helps support the educational system in Finland and the future of Finland's youth.

**Neste's tax footprint report is published on our website >>**

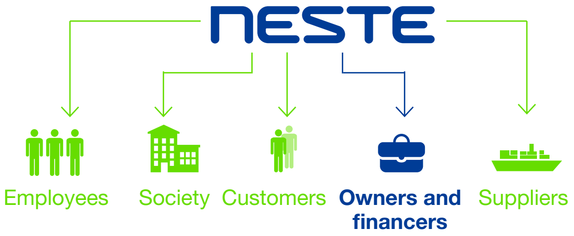



## Customers

| Direct impact (EUR million) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net sales | 11,689 | 11,131 | 15,011 |

### Indirect impact

- With the renewable products and services we provided, our customers were able to reduce greenhouse gas emissions by 6.7 Mt.
- By distributing and using our renewable products, our customers are able to meet the blending mandates of biofuels, combat climate change, and reduce particulate emissions affecting local air quality and the related negative health effects. Replacing crude oil based products and raw materials with renewables can also contribute to increasing their brand value.



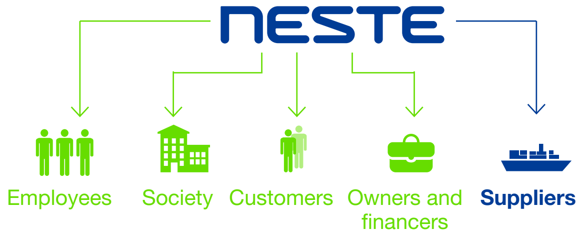

## Owners and financiers

| Direct impact (EUR million) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Dividends | 332* | 256 | 166 |
| Interest and financial expenses | 67 | 84 | 75 |

* Board proposal to AGM.

### Indirect impact

- Shareholders benefit through possible increases in the value of the shares they hold and the dividends they receive.
- Dividends paid for the shares owned by the state of Finland help maintain society's services.




## Suppliers

| Direct impact (EUR million) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Cash-out investments | 407 | 505 | 272 |
| Purchases of refinery feedstocks | 8,921 | 9,016 | 13,319 |
| Others (e.g. goods and services) | 983 | 842 | 938 |

### Indirect impact

- Our cooperation to develop our suppliers' operations improves their competitiveness and provides them with new business opportunities.
- Thanks to the stable income Neste provides, suppliers can offer employment and procure products and services.
- Joint sustainability programs to prevent deforestation and secure human and labor rights maintain and increase the suppliers' competitiveness, and support the wellbeing of their employees and the surrounding communities.

**All our sustainability work is aimed at creating large-scale social value.**

# Key figures

## Climate and resource efficiency

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Emission limits and overruns: Deviations from environmental permits | 8 | 6 | 8 | 7 |
| **Emissions into the air, tons** | | | | |
| – Direct $CO_2$ emissions (Scope 1) | 2,601,100* | 2,932,500 | 3,166,700 | 3,556,200 |
| – Indirect $CO_2$ emissions (Scope 2, location-based) | 747,200* | 452,300 | 418,900 | 444,500 |
| – Indirect $CO_2$ emissions (Scope 2, market-based)** | 832,300 | | | |
| – Other indirect GHG emissions (Scope 3) | | | | |
| – goods and services purchased | 4,500,000 | 4,300,000 | 4,900,000 | 4,600,000 |
| – end use of products sold | 40,500,000 | 37,600,000 | 43,700,000 | 40,700,000 |
| – final disposal of products sold | 1,800,000 | 400,000 | 400,000 | 600,000 |
| – transport and distribution | 270,000 | 270,000 | N/A | N/A |
| – VOC | 4,120 | 3,760 | 3,700 | 4,500 |
| – $NO_x$ | 1,900* | 2,300 | 3,000 | 8,100 |
| – $SO_2$ | 5,900* | 7,800 | 6,800 | 8,100 |
| – Particulate matter | 170* | 180 | 220 | 400 |
| **Energy use** | | | | |
| – Total energy consumption, TWh | 12.9 | 10.2 | 12.7 | 14.1*** |
| – Fuels and natural gas, % | 77.6 | 86.5 | 91.5 | 91.4 |
| – Purchased electricity, % | 10.1* | 7.9 | 6.1 | 6.4 |
| – Purchased heat, % | 12.3* | 5.6 | 2.4 | 2.2 |
| – Energy efficiency, energy saving measures GWh** | 134 | | | |
| **Water, m³/v** | | | | |
| – Water intake | 9,142,000 | 8,378,000 | 8,626,000 | 8,391,000 |
| – Total water withdrawal by source** | | | | |
| – surface water | 8,002,000 | | | |
| – ground water | 6,000 | | | |
| – municipal water supplies | 1,134,000 | | | |
| – other | N/A | | | |
| – Wastewater | 9,433,000 | 9,068,000 | 8,396,000 | 9,141,000 |
| **Emissions into water** | | | | |
| – emissions of oil into water, tons | 1.4 | 1.6 | 1.4 | 1.4 |
| – chemical oxygen demand, tons | 410 | 398 | 392 | 497 |
| – emissions of nitrogen into water, tons | 73 | 62 | 52**** | 49 |
| – emissions of phosphorus into water, tons | 3.0 | 2.4 | 1.9 | 1.4 |
| **Waste, tons** | | | | |
| – Ordinary waste for disposal | 5,800 | 3,600**** | 12,100 | 11,900 |
| – Waste for reuse | 49,800 | 56,000**** | 33,800 | 33,100 |
| – Hazardous waste for disposal | 49,500 | 20,800 | 24,200 | 18,900 |
| Number and magnitude of significant releases | 0 | 1 pc/1m³ | 0 | 1 pc/30 m³ |
| Carbon dioxide recovered, tons | 134,500 | 115,000 | 131,000 | 156,500 |
| Washing lye sold, tons | 9,130 | 7,380 | 8,600 | 9,500 |
| **Use of raw materials** | | | | |
| Use of renewable raw materials, million tons | 2.7 | 2.8 | 2.6 | 2.3 |
| Use of waste and residue raw materials in refining, million tons | 2.1 | 1.9 | 1.6 | 1.2 |
| Use of certified crude palm oil | 100% (516 kt) | 100% | 100% | 100% |
| GHG reduction achieved with Neste's renewable diesel compared to crude oil based diesel, million tons | 6.7 | 6.4 | 5.6 | 4.8 |
| GHG emission reduction with Neste's renewable diesel compared to crude oil based diesel | 40–90% | 40–90% | 40–90% | 40–90% |

## Sustainable supply chain

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| The number of all renewable raw material suppliers | 48 | 43 | 38 | 45 |
| The number of CPO smallholders | 33,223 | 53,249 | 40,000 | 54,000 |
| The number of CPO suppliers | 5 | 7 | 6 | 8 |
| The number of plantations | 156 | 165 | 212 | 212 |
| The number of CPO mills | 50 | 51 | 57 | 65 |
| The number of Due Diligence and their "results" | Altogether 49<br>Passed 34<br>Ongoing 11<br>Failed 4 | Altogether 35<br>Passed 30<br>Ongoing 5<br>Failed 0 | - | - |

* Change in the ownership of the power plant in Porvoo in March 2016.
** Reported for the first time in 2016.
*** Neste Shipping included in total consumption of the years 2013.
**** Revised.

# GRI Index and UN Global Compact

COMMUNICATION ON PROGRESS

| | GRI Content Index | Reporting | Global Compact Principles |
|---|---|---|---|
| General Standard Disclosures | | | |
| STRATEGY AND ANALYSIS | | | |
| G4-1 | CEO's Review | p. 4–6 CEO's review | |
| Organizational Profile | | | |
| G4-3 | The name of the organization | p. 17–18 Information for investors | |
| G4-4 | The primary brands, products, and services | p. 12–13 Business areas in brief | |
| G4-5 | Report the location of the organization's headquarters | Espoo | |
| G4-6 | The number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report | Finland, Belgium, Canada, Estonia, Latvia, Lithuania, the Netherlands, Russia, Singapore, Sweden, Switzerland, the United States | |
| G4-7 | The nature of ownership and legal form | p. 17–18 Information for investors | |
| G4-8 | The markets served | p. 12–13 Business areas in brief | |
| G4-9 | The scale of the organization | p. 15–16 Key figures 2016 | |
| G4-10 | Total number of personnel and workforce by employment type, region and gender | p. 15–16 Key figures 2016<br>p. 42, 44 Personnel | 6 |
| G4-11 | Percentage of total employees covered by collective bargaining agreements | 3,453 persons, 69% | 3 |
| G4-12 | Describe the organization's supply chain | p. 36 Sustainable supply chain | |
| G4-13 | Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain | No changes during the reporting period. | |
| G4-14 | Report whether and how the precautionary approach or principle is addressed by the organization | p. 21–23 Managing sustainability<br>Disclosure on Management Approach for Material Aspects:<br>Materiality assessment<br>p. 80–84 Risk management<br>Risk Management | |

| | GRI Content Index | Reporting | Global Compact Principles |
|---|---|---|---|
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | p. 23 Sustainability policies and principles<br>Certificates<br>Involvement in organizations and joint projects | 7 |
| G4-16 | Memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization holds a position on the governance body, participates in projects or committees, provides substantive funding beyond routine membership dues, and views membership as strategic | Involvement in organizations and joint projects | |
| Identified Material Aspects and Boundaries | | | |
| G4-17 | List all entities included in the organization's consolidated financial statements or equivalent documents | p. 28 Neste's sustainability reporting 2016<br>p. 56 Principles for calculating the key indicators<br>Financial Statements 2016 | |
| G4-18 | The process for defining the report content and the Aspect Boundaries | p. 24 Materiality assessment<br>Materiality assessment | |
| G4-19 | List of all the material Aspects identified in the process for defining report content | p. 24 Materiality assessment<br>Materiality assessment | |
| G4-20 | For each material Aspect, report the Aspect Boundary within the organization | Materiality assessment | |
| G4-21 | For each material Aspect, report the Aspect Boundary outside the organization | Materiality assessment | |
| G4-22 | The effect of any restatements of information provided in previous reports, and the reasons for such restatements | No major changes during the reporting period. Possible changes in the previously disclosed key figures are disclosed in connection with the figure in question.<br>p. 28 Neste's sustainability reporting 2016<br>p. 56 Principles for calculating the key indicators | |

| | GRI Content Index | Reporting | Global Compact Principles |
|---|---|---|---|
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries | No major changes during the reporting period.<br>p. 28 Neste's sustainability reporting 2016<br>p. 56 Principles for calculating the key indicators<br>Materiality assessment | |
| **Stakeholder Engagement** | | | |
| G4-24 | A list of stakeholder groups engaged by the organization | Stakeholder collaboration | |
| G4-25 | The basis for identification and selection of stakeholders with whom to engage | Stakeholder collaboration | |
| G4-26 | The organization's approach to stake-holder engagement | p. 24 Materiality assessment<br>p. 25–27 Stakeholder collaboration | |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting | p. 25–27 Stakeholder collaboration<br>p. 23 The extent and criteria of Neste's sustainability work<br>p. 24 Materiality assessment | |
| **Report Profile** | | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided | p. 28 Neste's sustainability reporting 2016 | |
| G4-29 | Date of most recent previous report | p. 28 Neste's sustainability reporting 2016 | |
| G4-30 | Reporting cycle (such as annual, biennial) | p. 28 Neste's sustainability reporting 2016 | |
| G4-31 | The contact point for questions regard-ing the report or its contents | Sustainability, Safety, and Environ-ment contacts | |
| G4-32 | GRI Content | p. 28 Neste's sustainability reporting 2016<br>p. 51–55 GRI index and UN Global Compact | |
| G4-33 | The organization's policy and current practice with regard to seeking exter-nal assurance for the report | p. 57–58 Independent Practi-tioner's Assurance Report | |
| **Governance** | | | |
| G4-34 | The governance structure of the organization, including committees of the highest governance body | p. 60–64 Corporate Governance Statement 2016<br>p. 68–69 Board Committees<br>p. 73–75 Neste Executive Man-agement Board | |

| | GRI Content Index | Reporting | Global Compact Principles |
|---|---|---|---|
| **Ethics and Integrity** | | | |
| G4-56 | The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics | Our values<br>Way Forward | 10 |
| **Specific Standard Disclosures** | | | |
| G4-DMA | Disclosure on Management Approach | Disclosure on Management Approach for Material Aspects: Materiality assessment | |
| **ECONOMIC** | | | |
| **Material Aspect: Economic Performance** | | | |
| G4-EC1 | Direct economic value generated and distributed | p. 48–49 Creating economic value to stakeholders<br>p. 15–16 Key figures 2016 | |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations | Financial Statements 2016, Employee benefit obligations | |
| G4-EC4 | Financial assistance received from government | Financial Statements 2016, Other income | |
| **Material Aspect: Indirect Economic Impacts** | | | |
| G4-EC8 | Significant indirect economic impacts, including the extent of impacts | p. 48–49 Creating economic value to stakeholders | |
| | Neste's indicator: Tax footprint | Tax strategy<br>Tax footprint | |
| **ENVIRONMENTAL** | | | |
| **Material Aspect: Energy** | | | |
| G4-EN3 | Energy consumption within the organization | p. 35 Climate and resource efficiency<br>p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 7, 8, 9 |
| G4-EN6 | Reduction of energy consumption | p. 33 Our energy efficiency is improving<br>p. 35 Climate and resource efficiency<br>p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 8, 9 |
| **Material Aspect: Water** | | | |
| G4-EN8 | Total water withdrawal by source | p. 50 Key figures | 7, 8 |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Emissions** | | | |
| G4-EN15 | Direct $CO_2$ emissions (scope 1) | p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 7, 8 |
| G4-EN16 | Indirect CO2 emissions (scope 2) | p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 7, 8 |
| G4-EN17 | Other indirect greenhouse gas (GHG) emissions (scope 3) | p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 7, 8 |
| G4-EN19 | Reduction of greenhouse gas (GHG) emissions | p. 30–33 Climate and resource efficiency<br>p. 35 Climate and resource efficiency<br>p. 50 Key figures | 8, 9 |
| G4-EN20 | Emissions of ozone-depleting substances (ODS) | Ozone-depleting substances have been removed from production and extinction systems in 1990s. | 7, 8 |
| G4-EN21 | $NO_x$, $SO_x$ and other significant air emissions | p. 34 Monitoring air quality continued<br>p. 50 Key figures | 7, 8 |
| | Neste's indicator: Environmental emissions and permits, sanctions for non-compliance with environmental regulations | p. 50 Key figures | |
| | Neste's indicator: Greenhouse gases recovered | p. 50 Key figures | |
| **Material Aspect: Effluents and Waste** | | | |
| G4-EN22 | Total water discharge by quality and destination | p. 50 Key figures<br>p. 56 Principles for calculating the key indicators | 8 |
| G4-EN23 | Total weight of waste by type and disposal method | p. 50 Key figures | 8 |
| G4-EN24 | Total number and volume of significant spills | p. 50 Key figures | 8 |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Products and Services** | | | |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | p. 29–35 Climate and resource efficiency<br>p. 37–40 Sustainable supply chain<br>p. 50 Key figures<br>For more information:<br>Naapurisanomat, Naantali (only in Finnish)<br>Kilpilahti, Ympäristön tilan seuranta, Porvoo (only in Finnish)<br>No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock | 7, 8, 9 |
| | Neste's indicator: Use of renewable raw materials | p. 29–35 Climate and resource efficiency<br>p. 37 Sustainable supply chain | 8, 9 |
| **Material Aspect: Compliance** | | | |
| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | No such cases during reporting period. | 8 |
| **Total number and volume of significant spills** | | | |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 100%<br>p. 36–37 Sustainable supply chain<br>Supplier requirements | 8 |
| **SOCIAL** | | | |
| **SUB-CATEGORY: Labor Practices and Decent Work** | | | |
| **Material Aspect: Employment** | | | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover by age group, gender and region | Leaving rate of permanent employees 11.2%. Hiring rate of permanent employees 10.1%. The total turnover rate is increased by the personnel of the service stations in Russia covering most of the company personnel in Russia. Personnel figure in Finland does not cover the personnel in service stations.<br>p. 43 Sustainability of our operations | 6 |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Labor/Management Relations** | | | |
| G4-LA4 | Minimum notice periods regarding operational changes, including whether these are specified in collective agreements | Neste follows local legislation. | 3 |
| **Material Aspect: Occupational Health and Safety** | | | |
| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | Sick leave percentage 2.5%.<br>p. 46–47 Safety management | |
| | Neste's indicator: Preventive safety measures | p. 45–47 Safety management | |
| **Material Aspect: Training and Education** | | | |
| G4-LA10 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Total number of participants in Neste learning and development programs 244. Training costs 4.1 M€.<br>p. 43–44 Competence development<br>p. 48 Creating economic value to stakeholders | |
| **Material Aspect: Diversity and Equal Opportunity** | | | |
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | p. 42–44 Sustainability of our operations<br>p. 63, 65–67, 70–72 Corporate Governance Statement 2016 | 6 |
| **Material Aspect: Equal Remuneration for Women And Men** | | | |
| G4-LA13 | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation | Women's mean basic salary in relation to men's by salary and employee category in Finland 91%–121%.<br>p. 44 Open and fair rewarding | 6 |
| **Material Aspect: Supplier Assessment for Labor Practices** | | | |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria | 100%<br>p. 36–37 Sustainable supply chain<br>Supplier requirements | |
| **SUB-CATEGORY: Human Rights** | | | |
| **Material Aspect: Non-Discrimination** | | | |
| G4-HR3 | Total number of incidents of discrimination and corrective actions taken | No reported discrimination cases during reporting period.<br>p. 44 New equality plan<br>Equality and diversity | 3 |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Freedom of Association and Collective Bargaining** | | | |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | p. 36–40 Sustainable supply chain<br>Neste Supplier Code of Conduct<br>Human rights – commitment beyond company boundaries<br>Neste's work on ensuring human rights in its palm oil supply chain<br>Neste focuses on its own extensive social responsibility development program<br>Working conditions at the IOI Group's oil palm estates in Malaysia: a follow-up study | |
| **Material Aspect: Child Labor** | | | |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor | p. 36–40 Sustainable supply chain<br>Neste Supplier Code of Conduct<br>Human rights – commitment beyond company boundaries<br>Neste's work on ensuring human rights in its palm oil supply chain | 5 |
| **Material Aspect: Forced or Compulsory Labor** | | | |
| G4-HR6 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor | p. 36–40 Sustainable supply chain<br>Neste Supplier Code of Conduct<br>Human rights – commitment beyond company boundaries<br>Neste's work on ensuring human rights in its palm oil supply chain | 4 |
| **Material Aspect: Assessment** | | | |
| G4-HR9 | Total number and percentage of operations that have been subject to human rights reviews or impact assessments | 100% of Neste's operations have been subject to Human Rights Impact Assessment (HRIA). Partial HRIA (that is focused on Social and Labor impacts) has also been conducted in Malaysia and Indonesia covering our palm oil supply chain.<br>p. 36–37 Sustainable supply chain | 1 |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Supplier Human Rights Assessment** | | | |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | 100%<br>p. 36–37 Sustainable supply chain<br>Supplier requirements | 2 |
| **SUB-CATEGORY: Society** | | | |
| **Material Aspect: Public Policy** | | | |
| G4-SO6 | Total value of political contributions by country and recipient/beneficiary | Neste does not make political contributions. | 10 |
| **Material Aspect: Anti-Competitive Behavior** | | | |
| G4-SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes | No such cases during the reporting period. | |
| **Material Aspect: Compliance** | | | |
| G4-SO8 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | No such cases during the reporting period. | |
| **SUB-CATEGORY: Product Responsibility** | | | |
| **Material Aspect: Customer Health and Safety** | | | |
| G4-PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes | No such cases during the reporting period. | |
| **Material Aspect: Product and Service Labeling** | | | |
| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes | No such cases during the reporting period. | |
| **Material Aspect: Marketing Communications** | | | |
| G4-PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes | No such cases during the reporting period. | |

| GRI Content Index | | Reporting | Global Compact Principles |
|---|---|---|---|
| **Material Aspect: Compliance** | | | |
| G4-PR9 | Monetary value of significant fines for non-compliance concerning the provision and use of products and services | No such cases during the reporting period. | |
| | Neste's indicator: Crude oil and fossil feedstock sources by region | p. 39 Sustainable supply chain | |
| | Neste's indicator: Share of the certified crude palm oil | p. 50 Key figures | |
| | Neste's indicator: Number of suppliers of the renewable raw materials | p. 50 Key figures | |
| | Neste's indicator: Total number of CPO smallholders supplying Neste | p. 50 Key figures | |
| | Neste's indicator: Number of CPO suppliers | p. 50 Key figures | |
| | Neste's indicator: Number of oil palm plantations | p. 50 Key figures | |
| | Neste's indicator: Number of mills supplying CPO to Neste | p. 50 Key figures | |
| | Neste's indicator: The number of Due Diligence and their results | p. 50 Key figures | |

# Principles for calculating the key indicators

**The Group-level performance indicators include the parent company and companies where the parent company holds more than 50% of shares. The associate companies are not included in the calculations**

## Environment

**Energy:** The energy consumption figures cover Neste's refineries, terminals, offices, the company's own station business and time-chartered ships. The figures are based on the data provided by these units.

**Water withdrawal:** The water withdrawal volumes are based on the company's own measurements or on invoicing.

**Waste water discharges:** Neste reports the waste water volumes, chemical oxygen consumption, as well as the oil, nitrogen, and phosphorus releases. The figures are calculated on the basis of refinery or terminal-specific data based on sampling or continuous metering. The figures do not include the loading values of waste water treated in municipal or other external wastewater treatment plants.

**Greenhouse gas emissions (GHG):** For the Scope 1 emissions, the emission factors compliant with the fuel classification published by Statistics Finland were used in addition to Neste's in-house laboratory measurement data. The factors compliant with the GHG protocol were used as the emission factors for bought-in electricity and heat. The calculation of Scope 3 emissions is based on sales and supply data. Information available from public sources (e.g. Renewable Energy Directive) and Neste's accredited in-house calculation data have been used as the emission factors. Scope 3 calculation is based on the principles of the GHG protocol (Corporate standard).

## Safety

**Total recordable injury frequency (TRIF):** Accidents at work resulting in absence from work, disability, or medical treatment are included in the accident frequency figures. The formula for calculating accident frequency (number of accidents at work per million working hours): total number of accidents at work × 1,000,000 / hours worked. The calculation includes in-house personnel, contractors and service providers working at Neste's sites.

**Safe Day:** A day without a TRI accident, process safety events, fire or ignition, breach of environmental permit, or traffic accident.

**Hours worked:** The hours worked by the whole personnel and the service providers during the period under review. When recording the working hours of service providers, an estimate (e.g. accounting hours) can be used if the accurate number of hours is not known.

**Workplace accidents:** Accidents that occur at work/ while performing work duties.

**TRI (Total Recordable Injuries):** All recorded accidents at work: the number of accidents at work resulting in absence from work, disability or medical treatment. In 2016, injury frequencies are reported for the first time separately for own employees (TRIF own employees) and for contractors (TRIF contractors).

**PSE1 (Process Safety Event):** An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE1 classification. Possible consequences:
1. Workplace accident leading to absence (LWI, RWI) or fatality.
2. Fires or explosions with direct expenses (excluding loss of production) higher than EUR 25,000.
3. Evacuation or taking cover indoors.
4. A leak exceeding the reporting threshold during a certain period, threshold according to Concawe (European Oil Company Organisation for Environment, Health and Safety).
5. A pressure relief device (PRD) discharge with above mentioned consequences.

**PSE2 (Process Safety Event):** An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE2 classification. Possible consequences:
1. Workplace accident requiring medical treatment (MTC).
2. Fires or explosions with direct expenses (excluding loss of production) higher than EUR 2,500.
3. A leak exceeding the reporting threshold during a certain period, threshold according to Concawe
4. A pressure relief device (PRD) discharge with above mentioned consequences.

**HSEQ (Health, Safety, Environment, Quality):** Health, safety, environment and quality.

## Personnel

**Reporting of personnel numbers:** The personnel numbers are calculated as numbers of employees, and include, as a rule, all personnel with active contracts of employment or employees on leave. Hourly paid employees are not included as their numbers of working hours vary greatly, and their number in proportion to other employees is very small. Unless otherwise specified, the personnel numbers are reported as at December 31.

**Number of permanent employees leaving the company:** The number of employees leaving a permanent contract of employment from Jan 1 to Dec 31 / the number of permanent employees on Dec 31 (including all reasons for ending the employment).

**Number of permanent employees joining the company:** The number of employees entering a permanent contract of employment from Jan 1 to Dec 31 / the number of permanent employees on Dec 31.

**Training costs:** The training costs include external training-related costs, such as the fees of external trainers, and the participation fees for external training events, but not, for example, the salaries of participants or the company's own trainers.

# Independent Practitioner's Assurance Report

**(Translation from the Finnish original)**

**To the Management of Neste Corporation**

We have been engaged by the Management of Neste Corporation (hereinafter also the Company) to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period 1 January 2016 to 31 December 2016, disclosed in the "Sustainability" section of Neste Corporation's Annual Report 2016 (hereinafter Sustainability information).

Furthermore, the assurance engagement has covered Neste Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

## Management's responsibility

The Management of Neste Corporation is responsible for preparing the Sustainability information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative where applicable. The Management of Neste Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the Sustainability information that is free from material misstatement, whether due to fraud or error. The Management of Neste Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles (inclusivity, materiality and responsiveness) as set out in the AccountAbility's AA1000 AccountAbility Principles Standard 2008

## Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies international standard on quality control ISQC1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Sustainability information and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Neste Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Sustainability information is free from material misstatement.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, the AA1000AS (2008) requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Neste Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the Sustainability information is not reliable, in all material respects, based on the Reporting criteria.
In a limited assurance engagement the evidence-gath-

ering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability information, and about the Company's adherence to the AA1000 AccountAbility Principles. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability information and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles.

Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability topics as well as assessing the Sustainability reporting based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Finland.
- Interviewing employees responsible for collecting and reporting the information presented in the Sustainability information at the Group level and at the site.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

## Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Neste Corporation's Sustainability information for the reporting period ended 31 December 2016 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

Furthermore nothing has come to our attention that causes us to believe that Neste Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

When reading our assurance report, the inherent limitations of accuracy and completeness of sustainability information should be taken into consideration.

## Observations and recommendations

Based on the procedures we have performed and the evidence we have obtained, we provide the following observations and recommendations in relation to Neste Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- **Regarding Inclusivity:** Neste Corporation has processes in place for continuous stakeholder inclusivity and engagement. During the reporting year the Company has conducted a survey to map stakeholder expectations and update material sustainability aspects. We recommend that the Company further develops stakeholder dialogue in different market areas.

- **Regarding Materiality:** Neste Corporation has a systematic process in place to assess and define the materiality of sustainability topics. The Company has updated its materiality assessment, based on a stakeholder survey. We recommend that the Company continues to focus its materiality assessment to most material topics from the viewpoint of business continuity and business development.

- **Regarding Responsiveness:** Neste Corporation has extensively mapped stakeholder expectations through a survey as well as other forms of stakeholder engagement. We recommend that the Company takes into account changes in stakeholders and their expectations towards the Company considering changes in its business and market areas.

Helsinki, 6 March 2017

**PricewaterhouseCoopers Oy**

**Sirpa Juutinen**
Partner
Sustainability & Climate Change

AA1000
Licensed Assurance Provider
000-29

# 03 Governance



Neste observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of association, and the Finnish 2015 Corporate Governance Code.

**Read more >>**

Neste considers risk management as an integral part of daily management processes and good corporate governance.

**Read more >>**

# Corporate Governance Statement 2016

This Corporate Governance Statement has been prepared pursuant to the 2015 Corporate Governance Code and Chapter 7, Section 7 of the Securities Markets Act, and Section 7 of the Ministry of Finance's Decree on the Regular Duty of Disclosure of an Issuer of a Security. The Corporate Governance Statement is issued separately from the Review by the Board of Directors and can be consulted online at www.neste.com/Investors.

## Regulatory framework

Neste observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2015 Corporate Governance Code. The Corporate Governance Code can be found at www.cgfinland.fi. Neste also complies with the rules of Nasdaq Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

Neste's Audit Committee has reviewed the Corporate Governance Statement, and the Company's Auditor, PricewaterhouseCoopers Oy, has monitored that it has been issued and that the description of the main features of the internal control and risk management related to the financial reporting process included in the statement matches the Financial Statements.

Neste issues consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act, as well as the appropriate Financial Supervisory Authority standards, and Nasdaq Helsinki Ltd.'s rules. The Review by the Board of Directors and the Parent Company's Financial Statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board.

## Governance bodies

The control and management of Neste is split between the Annual General Meeting of Shareholders (AGM), the

### Neste's Governance Bodies


* Oil Retail business area will be called Marketing & Services from 7 February 2017 onwards.

Board of Directors, and the President & Chief Executive Officer. Ultimate decision-making authority lies with shareholders at the AGM. The latter appoints the members of the Board of Directors and the Company Audit Firm. The Board of Directors is responsible for Neste's strategy and overseeing and monitoring the Company's business. The Board of Directors appoints the President & CEO. The President & CEO, assisted by the Neste Executive Board (NEB), is responsible for managing the Company's business and implementing its strategic and operational targets.

Neste's headquarters are located in Espoo, Finland.

## Annual General Meeting

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

Shareholders at the Annual General Meeting take decisions on matters including:

- the approval of the Financial Statements
- the distribution of profit for the year detailed in the Balance Sheet
- discharging the members of the Board of Directors and the President & CEO from liability, and
- the election and remuneration of the Chair, the Vice Chair and the members of the Board of Directors and the Audit Firm.

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

Under the Articles of Association, an invitation to the Annual General Meeting shall be delivered to shareholders by publishing it on the Company's website www.neste.com no earlier than two months, and no later than three weeks prior to a meeting, but at least nine days before the record date set for the meeting under the terms of the Companies Act. In addition, the Company shall publish details on the date and location of the meeting, together with the address of the Company's website, in one or more newspapers within the same period of time. Neste is not aware of any shareholders' agreements regarding the Company's shares.

### 2016

The 2016 AGM was held in Helsinki on Wednesday, 30 March and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2015, and discharged the Board of Directors, and the President and CEO from liability for 2015. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2015, sanctioning payment of a dividend of EUR 1.00 per share. This was paid to all shareholders included in the register of shareholders maintained by Euroclear Finland on the record date set for payment of the dividend, which was 1 April 2016. The payment was made on 8 April 2016. The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Company Audit Firm.

## Shareholders' Nomination Board

Following the proposal by the Board of Directors, the 2013 AGM decided to establish a permanent Shareholders' Nomination Board to be responsible for drafting and presenting proposals covering the remuneration and number of members of the Company's Board of Directors and for presenting candidates as potential Chair, Vice Chair and members at the Board to the AGM and to an Extraordinary General Meeting of Shareholders when needed. The Shareholders' Nomination Board shall also be responsible for identifying successors for existing Board members.

The Shareholders' Nomination Board shall consist of four (4) members, three of which shall be appointed by the Company's three largest shareholders, who shall appoint one member each. The Chair of the Company's Board of Directors shall serve as the fourth member.

The Company's largest shareholders entitled to elect members to the Shareholders' Nomination Board shall be annually determined on the basis of the registered holdings in the Company's list of shareholders held by Euroclear Finland Ltd. as of the first weekday in September in the year concerned. The Chair of the Company's Board of Directors shall request each of the three largest shareholders established on this basis to nominate one member to the Shareholders' Nomination Board. In the event that a shareholder does not wish to exercise his or her right to appoint a representative, the right shall pass to the next-largest shareholder who would not otherwise be entitled to appoint a member.

The Chair of the Board of Directors shall convene the first meeting of the Shareholders' Nomination Board, which will be responsible for electing a Chair from among its members; the Shareholders' Nomination Board's Chair shall be responsible for convening subsequent meetings. When the Shareholders' Nomination Board has been selected, the Company will issue a release to this effect.

The Shareholders' Nomination Board shall serve until further notice, unless the AGM decides otherwise. Its members shall be elected annually and their term of office shall end when new members are elected to replace them.

The Shareholders' Nomination Board shall forward its proposals for the AGM to the Company's Board of Directors annually by 31 January, prior to the holding of the AGM. Proposals intended for a possible Extraordinary General Meeting shall be forwarded to the Company's Board of Directors in time for them to be included in the invitation to the meeting sent out to shareholders.

## Composition of the Shareholders' Nomination Board prior to the 2017 AGM

On 2 September 2016, the following members were appointed to Neste's Shareholders' Nomination Board: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department (Chair); Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Liisa Hyssälä, Director General of the Social Insurance Institution, Kela; and Jorma Eloranta, the Chair of Neste's Board of Directors. Due to the retirement of Liisa Hyssälä, the new Director General of Kela, Elli Aaltonen, replaced her as a member of the Shareholders' Nomination Board as of 1 January 2017.

The Shareholders' Nomination Board convened 4 times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 27 January 2017.

## Activities

The Shareholders' Nomination Board drafts proposals for the next AGM on the following:

- the number of members of the Board of Directors,
- the Chair, the Vice Chair and the members of the Board of Directors, and
- the remuneration to be paid to the Chair, the Vice Chair, and the members of the Board of Directors.

The nomination process of the Shareholders' Nomination Board, its composition and activities are detailed in its Charter.

## Shareholders' Nomination Board members:

**Eero Heliövaara**
M.Sc. (Econ.), M.Sc. (Eng.). Chair of the Shareholders' Nomination Board.
Born in 1956.
Director General of the Ownership Steering Department, Prime Minister's Office. Member of the Boards of Foundation for the Finnish Cancer Institute, HLD Healthy Life Devices Oy, and Finnish Foundation for Share Promotion. Chair of the Shareholders' Nomination Boards of Neste, Finnair, and Fortum.

* Holdings in Neste Corporation on 31 December 2016: 0 shares.
** State of Finland: 128,458,247 shares.

**Jorma Eloranta**
M.Sc. (Tech.), D.Sc. (Tech.) h.c. Member of the Shareholders' Nomination Board.
Born in 1951.
Non-executive Director. Chair of the Boards of Neste, Suominen and Uponor. Chair of the Board and President of Pienelo Ltd. Vice Chair of the Board of the Finnish Fair Foundation and Stora Enso. Member of the Board of Cargotec. Chair of the Personnel and Remuneration Committees of Neste, Suominen and Uponor. Member of the Remuneration Committee of Stora Enso. Member of the Nomination and Compensation Committee of Cargotec. Member of the Shareholders' Nomination Boards of Neste, Stora Enso and Suominen. Expert member of the Shareholders' Nomination Board of Uponor.

* Holdings in Neste Corporation on 31 December 2016: 12,985 shares.

**Liisa Hyssälä**
M.Pol.Sc., Dr. (dentistry). Member of the Shareholders' Nomination Board 1 September – 31 December 2016.
Born in 1948.
Director General of the Social Insurance Institution of Finland, Kela. Member of the Nomination Boards of Fortum and Neste. Member of the Boards of Palta ry and the University of Oulu.

* Holdings in Neste Corporation on 31 December 2016: 0 shares.
** The Social Insurance Institution of Finland, Kela: 2,648,424 shares.

**Elli Aaltonen**
M.A., D.S.Sc. Member of the Shareholders' Nomination Board as of 1 January 2017.
Born in 1953.
Director General of the Social Insurance Institution of Finland, Kela. Member of the Nomination Board of Neste. Member of the Board and the Advisory Board of the University of Eastern Finland. Member of the Advisory Board of HAUS, Finnish Institute of Public Management. Chair of International Council on Social Welfare ICSW in Finland.

* Holdings in Neste Corporation on 31 December 2016: 0 shares.
** The Social Insurance Institution of Finland, Kela: 2,648,424 shares.

**Timo Ritakallio**
Ph.D. (Tech). M.Sc. (Laws), MBA. Member of the Shareholders' Nomination Board.
Born in 1962.
President and CEO of Ilmarinen Mutual Pension Insurance Company. Member of the Nomination Boards of Elisa, Fortum, Kemira, Neste, Orion, Outokumpu, Technopolis, Tikkurila and Tieto.

* Holdings in Neste Corporation on 31 December 2016: 0 shares.
** Ilmarinen Mutual Pension Insurance Company: 4,820,849 shares.

Holdings in Neste Corporation on 31 December 2016:
* Own holdings and controlled entities.
** Shareholder's holdings represented by the member of the Shareholders' Nomination Board.

### Members of the Shareholders' Nomination Board, attendance at meetings in 2016

| | Attendance |
|---|---|
| **Eero Heliövaara** | 4/4 |
| **Jorma Eloranta** | 4/4 |
| **Liisa Hyssälä** | 1/3 |
| **Mikko Mursula** | 1/1 |
| **Timo Ritakallio** | 3/3 |
| **Reima Rytsölä** | 1/1 |

In addition, the meeting on 27 January 2017 which accepted the proposals for the 2017 AGM was attended by all members of the Shareholders' Nomination Board: Eero Heliövaara, Elli Aaltonen, Jorma Eloranta, and Timo Ritakallio.

## Composition of the Shareholders' Nomination Board prior to the 2016 AGM

The Shareholders' Nomination Board responsible for preparing the 2016 AGM comprised Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department (Chair); Mikko Mursula, Chief Investment Officer of Ilmarinen Mutual Pension Insurance Company; Reima Rytsölä, Chief Investment Officer of Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste's Board of Directors.

The Shareholders' Nomination Board convened 4 times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 25 January 2016.

## Board of Directors

In accordance with Neste's Articles of Association, the Board of Directors has between five and eight members, which are elected at the AGM for a period of office that extends to the following AGM.

### Diversity of the Board of Directors

In planning the composition of a skilled, competent, experienced and effective Board of Directors from the viewpoint of diversity, the Shareholders' Nomination Board also follows these diversity principles defined by the company.

A cooperative and functional Board of Directors requires diversity for it to be able to respond to the requirements set out in Neste's business and strategic objectives and to support and challenge the company's operational management in a proactive and constructive manner. Significant factors concerning the composition of the Board of Directors include a variety of competences that complement the other members of the Board, education and experience in different professional and industrial fields and in business operations and management existing in different development phases, as well as the personal qualities of each member, all of which add diversity to the Board of Directors. The diversity of the Board of Directors is also supported by experience in industrial fields and markets that are strategically significant for Neste, experience and abilities in technologies and the international operating environment, and a diverse age and gender distribution so that both genders are always adequately represented in the Board of Directors. In considering the composition of the Board of Directors, it is important to pay attention to Neste's current and evolving needs, and to ensure that the Board of Directors, as a whole, enables the current and future business development of Neste, which diversity also supports.

Neste's 2016 Board of Directors was composed of seven members, all of whom hold a university-level degree, and one of whom has a doctorate. All of these degrees are from different fields, with technical fields being in the majority. Each member of the Board of Directors has international work experience in different types of positions, and has worked or is working in the Board of Directors or management of listed or unlisted companies. Two members have worked in managerial positions at major international oil companies. The Board of Directors is also diverse in terms of cultural backgrounds: its members come from three different countries and speak four different native languages. Women comprise 43% of all members of the Board of Directors, which meets the objective set out in the decision-in-principle issued by the Finnish Government on 17 February 2015. With regard to age, the members of the Board of Directors are divided evenly between 50 and 68 years of age. The duration of the terms of office of the Board members is also divided evenly: three members have been on the Board of Directors for more than five years, while four members have been on the Board of Directors for less than four years.

### Activities of the Board of Directors

The Board shall have at least 8 regular meetings annually, all scheduled in advance, with extraordinary meetings when necessary. Extraordinary meetings, if requested by a Board member or the President & CEO, shall be convened by the Chair, or, if the Chair is prevented from attending, by the Vice Chair, or if deemed necessary by the Chair. The Board constitutes a quorum if more than half of its members are present. The Board is responsible for preparing an operating plan for itself for its period of office between Annual General Meetings, to include a timetable of meetings and the most important matters to be addressed at each meeting. The Board evaluates its performance annually to determine whether it is functioning effectively after the end of each financial year.

### Duties of the Board of Directors

The Board's responsibilities and duties are defined in detail in the board-approved Charter.

A member of the Board of Directors may not take part in decision-making in matters regarding (i) agreements between such member and any entity within the Neste Group, (ii) agreements between any entity within the Neste Group and third parties where such member has a material interest in the matter which may conflict with the interest of Neste or any other entity within the Neste Group, and (iii) agreements between any entity within the Neste Group and a legal entity which such member may represent, either individually or together with any other person; provided, however, that this point (iii) does not apply where the party contracting with Neste is a company within the Neste Group. The term 'agreement' as used here includes litigation or other legal proceedings arising from or relating to such agreements.

### 2016

The 2016 AGM confirmed the membership of the Board of Directors as being comprised of seven members. Mr. Jorma Eloranta, Ms. Maija-Liisa Friman, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber, Ms. Kirsi Sormunen, and Mr. Marco Wirén were elected to sit until the conclusion of the next AGM. Mr. Eloranta was elected as Chair and Ms. Friman as Vice Chair.

The Board convened 10 times in 2016. The attendance rate at the meetings was 100%. The Board focused on monitoring the company's financial performance and status, engaged in discussions with management on developing the business strategy and approved their base strategic approach, oversaw strategy execution and evaluated the changes in the long-term operational environment and their impact on the company's business operations. The Board paid attention to the development of safety whilst monitoring the measures taken to improve production unit availability and to develop operating methods. The Board also monitored the increasing flexibility in the renewable product raw material base, with a specific eye on the use of waste and residue feedstock solutions. The Board also monitored the development of the business in various renewable product solutions, such as renewable aviation fuels and bio-based chemicals, for which the company founded the Emerging Businesses business unit. In addition, the Board paid attention to improving risk control and took care of its other tasks in accordance with its agenda.

Details on the independent status of members, their role in committee work, and their attendance at meetings can be found in the following table.

## Board of Directors, 31 December 2016

| | Position | Born | Education | Main Occupation | Independent of the company | Independent of major shareholders | Personnel and Remuneration Committee | Audit Committee | Attendance at meetings: Board | Attendance at meetings: Committees |
|---|---|---|---|---|---|---|---|---|---|---|
| **Jorma Eloranta** | Chair | 1951 | M.Sc. (Tech.) D.Sc. (Tech.) h.c | Non-Executive Director | • | • | • | | 10/10 | 6/6 |
| **Maija-Liisa Friman** | Vice Chair | 1952 | M.Sc. (Chem. Eng.) | Non-Executive Director | • | • | • | • | 10/10 | 2/2*, 5/5** |
| **Laura Raitio** | Member | 1962 | Lic.Tech. | CEO of Diacor Medical Services | • | • | • | • | 10/10 | 5/5*, 1/1** |
| **Jean-Baptiste Renard** | Member | 1961 | M.Sc. (Eng.) | Non-Executive Director | • | • | • | | 10/10 | 6/6 |
| **Willem Schoeber** | Member | 1948 | Dr. (Tech.) | Non-Executive Director | • | • | | • | 10/10 | 7/7 |
| **Kirsi Sormunen** | Member | 1957 | M.Sc. (Econom.) | Non-Executive Director | • | • | | • | 10/10 | 7/7 |
| **Marco Wirén** | Member | 1966 | M.Sc. (Econom.) | Executive Vice President and CFO of Wärtsilä | • | • | | • | 10/10 | 7/7 |

* Audit Committee: Maija-Liisa Friman until 30 March 2016. Laura Raitio as of 1 April 2016.
** Personnel and Remuneration Committee: Laura Raitio until 30 March 2016. Maija-Liisa Friman as of 1 April 2016.

The shareholdings of the members of the Board of Directors are presented next to their CVs. The remuneration paid to the members of the Board of Directors are detailed in the Remuneration Statement.

# Members of the Board of Directors

## Jorma Eloranta

M.Sc. (Tech.)
D.Sc. (Tech.) h.c.
Born in 1951
Chair of the Board
Member of the Board since 2011
Independent member

President and CEO of Metso Corporation 2004–2011. President and CEO of Kvaerner Masa-Yards Inc. 2001–2003. President and CEO of Patria Industries Group 1997–2000. Deputy Chief Executive of Finvest Group and Jaakko Pöyry Group 1996. President of Finvest Ltd 1985–1995. Chair of the Boards of Suominen Corporation and Uponor Corporation. Chair of the Board and President of Pienelo Ltd. Vice Chair of the Boards of the Finnish Fair Foundation and Stora Enso. Member of the Board of Cargotec. Chair of the Personnel and Remuneration Committees of Neste, Suominen and Uponor. Member of the Remuneration Committee of Stora Enso. Member of the Nomination and Compensation Committee of Cargotec. Member of the Shareholders' Nomination Boards of Neste, Stora Enso and Suominen. Expert member of the Shareholders' Nomination Board of Uponor.

* Holdings in Neste Corporation on 31.12.2016: 12,985 shares

## Maija-Liisa Friman

M.Sc. (Chem. Eng.)
Born in 1952
Vice Chair of the Board
Member of the Board since 2010
Independent member

President and CEO of Aspocomp Group Plc 2004–2007. Managing Director of Vattenfall 2000–2004 and Managing Director of Gyproc 1993–2000. Chair of the Board of Helsinki Deaconess Institute Foundation. Member of the Boards of SCA, Finnair, LKAB and Securities Market Association. Chair of the Audit Committee of Finnair. Partner of Boardman. Member of Neste's Personnel and Remuneration Committee.

* Holdings in Neste Corporation on 31.12.2016: 6,000 shares

## Laura Raitio

M.Sc. (Chem. Eng.), Lic.Tech. (forest products technology)
Born in 1962
Member of the Board since 2011
Independent member

CEO of Diacor Medical Services 2014–. Executive Vice President, Building and Energy 2009–2014 and Member of the Executive Management Team 2006–2014, Ahlstrom. Ahlstrom's Senior Vice President, Marketing (sales network, human resources, communications and marketing) 2006–2008. Ahlstrom's Vice President and General Manager for Wallpaper & Poster, Pre-impregnated Decor, Abrasive Base in Osnabrück, Germany 2002–2005. Managing Director of Ahlstrom Kauttua 2001–2002. Several managerial positions within Ahlstrom's specialty paper business since 1990. Member of the Boards of Boardman and Suominen. Member of Neste's Audit Committee.

* Holdings in Neste Corporation on 31.12.2016: 1,500 shares

## Jean-Baptiste Renard

M.Sc. (Eng) and an engineering diploma in petroleum economics from the French Petroleum Institute (IFP)
Born in 1961
Member of the Board since 2014
Independent member

Founder and CEO, 2PR Consulting, independent energy expert and consultant. Several positions at BP 1986–2010; Regional Group Vice President for Europe and Southern Africa BP Plc 2006–2010, Group Vice President, Business Marketing and New Markets, and member of Downstream Executive Committee BP Plc 2003–2006. Non-Executive Director of Masana Petroleum Solutions (South-Africa); Non-Executive Director of IFP Training (France); Non-Executive Director of CLH (Spain); pro bono consulting for social entrepreneurs. Supervisory Board Member of Entreprendre&+. Advisory Board Member of IFP School; Member of Neste's Personnel and Remuneration Committee.

* Holdings in Neste Corporation on 31.12.2016: 7,650 shares

## Willem Schoeber

Dr. (Chem. Eng.)
Born in 1948
Member of the Board since 2013
Independent member

Independent business consultant. Formerly Chair of the Boards of Directors of EWE Turkey Holding AŞ, Bursagaz AŞ and Kayserigaz AŞ 2010–2015. Member of the Management Board of EWE AG, responsible for power generation and international business (Turkey and Poland) 2010–2013. Chair of the Management Board at swb AG (Germany), 2007–2011. Several positions at Royal Dutch Shell Group's companies 1977–2007, in particular in oil refining. Presently Member of the Supervisory Board of Gasunie N.V. (The Netherlands) since 2013 and Member of the Board of Directors of Societatea Energetica "Electrica" S.A. (Romania) since 2016. Member of Neste's Audit Committee.

* Holdings in Neste Corporation on 31.12.2016: 2,000 shares

## Kirsi Sormunen

M.Sc. (Econ.)
Born in 1957
Member of the Board since 2013
Independent member

Vice President, Corporate Responsibility at Nokia until December 2013. Vice President, Head of Sustainability 2009–2012, Vice President, Head of Environmental Affairs 2004–2009 and Vice President, Strategy Development at Nokia 2003–2004. Also served as Senior Vice President of Finance, Control & Planning for Nokia Americas at Nokia Inc., Irving, Texas 1999–2003, Senior Vice President of Finance & Control at Nokia Telecommunications 1995–1999, and Vice President & Group Treasurer, Head of Global Treasury activities at Nokia Group 1993–1995. Several positions within Nokia Group's Treasury functions since 1982. Member of the Board of DNA and member of the Board of Directors of Sitra, The Finnish Innovation Fund. Member of the Board of Directors of Unicef, Finland. Member of Neste's Audit Committee.

* Holdings in Neste Corporation on 31.12.2016: 0 shares

## Marco Wirén

M.Sc. (Econ.)
Born in 1966
Member of the Board since 2015
Independent member

Executive Vice President and Chief Financial Officer of Wärtsilä since 2013. SSAB, Executive Vice President and CFO 2008–2013; SSAB, Vice President Business control 2007–2008; Eltel Networks, CFO and VP Business Development 2002–2007; NCC, VP Business Development and Group Controller 1995–2001. Chair of Neste's Audit Committee.

* Holdings in Neste Corporation on 31.12.2016: 1,000 shares

Board of Directors CVs on Neste.com >>

* Holdings in Neste Corporation on 31.12.2016: own holdings and controlled entities.

# Board Committees

The Board has established an Audit Committee, which has four members, and a Personnel and Remuneration Committee, which has three members. A quorum exists when more than two members, including the Chair, are present. All members are elected from amongst the members of the Board for a one-year term. The tasks and responsibilities of each committee are defined in their Charters, which are approved by the Board. The schedule and frequency of committee meetings are determined by the Chair and committee members. Committees meet at least twice a year. Each committee reports regularly on its meetings to the Board. Reports include a summary of the matters addressed and the measures undertaken. Each committee conducts an annual self-evaluation of its performance and submits a report to the Board.

## Audit Committee

Under its Charter, the Audit Committee shall consist of a minimum of three Board members that are independent of the Company and its subsidiaries, and at least one of whom shall be independent of Neste's major shareholders. Members are required to have sufficient knowledge of accounting practices and the preparation of financial statements and other qualifications that the Board deems necessary. The Audit Committee is permitted to use external consultants and experts when deemed necessary.

### Duties

The responsibilities and duties of the Audit Committee are defined in detail in the Charter approved by the Board.

### 2016

Starting from 1 April 2016, the Audit Committee comprised Marco Wirén (Chair), Laura Raitio, Willem Schoeber, and Kirsi Sormunen. Until 30 March 2016, the Audit Committee comprised Marco Wirén (Chair), Maija-Liisa Friman, Willem Schoeber, and Kirsi Sormunen.

During 2016, the Audit Committee convened 7 times and the attendance rate was 100%. In addition to the tasks specified in the Charter, the Audit Committee focused on financial reporting and risk management, and reviewed the hedging of the company's market risks. Moreover, the committee monitored the management of market risks associated with the growth of the renewable fuel business in particular. The focus areas of the committee's work also included the development of ICT systems and reforming the ERP system, as well as monitoring the related project.

## Personnel and Remuneration Committee

The Personnel and Remuneration Committee consists of the Chair of the Board and at least two non-executive members of the Board.

### Duties

The responsibilities and duties of the Personnel and Remuneration Committee are defined in detail in the Charter approved by the Board.

### 2016

Starting from 1 April 2016, the Personnel and Remuneration Committee comprised Jorma Eloranta (Chair), Maija-Liisa Friman, and Jean-Baptiste Renard. Until 30 March 2016, the Personnel and Remuneration Committee comprised Jorma Eloranta (Chair), Laura Raitio, and Jean-Baptiste Renard.

The Personnel and Remuneration Committee convened 6 times in 2016, and the attendance rate was 100%. In addition to the normal duties coming within the scope of its Charter, the Personnel and Remuneration Committee concentrated on discussing, reviewing, and developing the Company's remuneration principles based on the new Government Resolution on State-Ownership Policy (13 May 2016). The Committee also followed the functioning of short and long-term incentive plans to ensure that they supported the achievement of the objectives and helped improve the Company's performance. In addition, the Committee focused on developing the key personnel and competences required for the new growth strategy, new key personnel nominations and the management review, as well as monitoring the developmental progress of the organizational culture.

## President & CEO

Neste's President & CEO, Matti Lievonen (b.1958, B.Sc. (Eng.), eMBA), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President & CEO shall oversee the executive management of the company in accordance with instructions and orders given by the Board of Directors, and is responsible for ensuring that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The President & CEO is appointed by the Board of Directors, which evaluates the performance of the President & CEO annually and approves his remuneration on the basis of a proposal by the Personnel and Remuneration Committee. Information on the remuneration of the President & CEO can be found in the 2016 Remuneration Statement.

## Neste Executive Board

The Neste Executive Board (NEB) assists the President & CEO in managing the Company and in the deployment of the Company's strategic and operational goals. Members are appointed by the Board of Directors. The NEB meets regularly, on average once a month. Information on the remuneration of the members of the NEB can be found in the 2016 Remuneration Statement.

### 2016

The Neste Executive Board comprised ten members and met 12 times in 2016. The NEB focused on cash flow management by monitoring and guiding investments and working capital and by implementing an efficiency program targeting variable and fixed costs. The NEB boosted the implementation of the strategy by increasing flexibility in the renewable product raw material base, with a specific eye on the use of commercial and technology-based waste and residue feedstock solutions. The NEB also initiated the development of the business in various renewable product solutions, such as renewable aviation fuels and bio-based chemicals, for which the company founded the Emerging Businesses business unit. In addition, the NEB founded a program to improve the international recognition of the company and its brand. The NEB also continued its work in order to improve safety, change operating methods, improve the availability of production units and to promote more customer-oriented operations.

# Members of the Neste Executive Board

## Matti Lievonen

President & CEO, Chair of the Neste Executive Board
B.Sc. (Eng.), eMBA
D.Sc. (Tech.) h.c.
Born in 1958
President & CEO since 1 December 2008

Joined the company in 2008. Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM-Kymmene 1986–2008, and prior to that at ABB. Member of UPM-Kymmene's Executive Board 2002–2008. Vice Chair of the Board of Nynas AB. Vice Chair of the Board of the Chemical Industry Federation of Finland. Member of the Board of SSAB AB. Chair of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and Member of the Advisory Board of National Emergency Supply Agency. Member of the Supervisory Board of The Finnish Fair Corporation.

* Holdings in Neste Corporation on 31 December 2016: 50,757 shares.

## Matti Lehmus

Executive Vice President, Oil Products
M.Sc. (Eng.), eMBA
Born in 1974
Member of the Neste Executive Board since 2009

Joined the company in 1997. Responsible for the Oil Products business area. Previously served as Executive Vice President of the Oil Products and Renewables business area 2011–2014, Executive Vice President of the Oil Products business area 2009–2010, Vice President of the Base Oils business in the Specialty Products Division 2007–2009, Vice President of Oil Refining Business Development 2007 and Gasoline Exports and Trading Manager 2004–2007 in the Oil Refining Division. Chair of the Board of the Finnish Petroleum & Biofuels Association.

* Holdings in Neste Corporation on 31 December 2016: 18,282 shares.

## Kaisa Hietala

Executive Vice President, Renewable Products
M.Sc. (Physics), Finland and M.Phil. (Env.Sc.), UK
Born in 1971
Member of the Neste Executive Board since 2014

Joined the company in 1998. Responsible for the Renewable Products business area. Served in several positions at Neste, most recently as Vice President of the Renewable Fuels business 2011–2014, Vice President of Supply and Commercial Director in Singapore 2008–2011 and Feedstock Manager in the Renewable Fuels Business operations 2006–2008. Member of the Board of Kemira Oyj.

* Holdings in Neste Corporation on 31 December 2016: 11,174 shares.

## Panu Kopra

Executive Vice President, Marketing & Services
BBA, MBA
Born in 1972
Member of the Neste Executive Board since May 2016

Joined the company in 1996. Responsible for Marketing & Services Business Area (before 7 February 2017 Oil Retail) in Finland, Baltic Rim and Russia. Previously served as Vice President in Oil Retail Sales in Finland and Baltic Rim (2014–2015), Vice President in Oil Retail Russia and Baltic Rim (2010–2014), General Manager in St. Petersburg Russia (2009), Business Development Manager in Renewable Products (2007–2008), Sales Director (2006), General Manager in Latvia (2003–2005) and in several other positions in the company.

* Holdings in Neste Corporation on 31 December 2016: 10,605 shares.

## Tuomas Hyyryläinen

Senior Vice President, Emerging Businesses business unit
M.Sc. (Econ.)
Born in 1977
Member of the Neste Executive Board since 2012

Joined the company in 2012. Responsible for Emerging Businesses business unit. Previously served as Senior Vice President, responsible for Strategy, New Ventures, Market Intelligence, and M&A operations 2014–2016 and as Senior Vice President, Strategy 2012–2014. Prior to that served as Vice President for Strategy at F-Secure and in various strategy and business development related positions at Nokia. Member of the Boards of Nynas AB and Vapo Oy.

* Holdings in Neste Corporation on 31 December 2016: 6,718 shares.

## Simo Honkanen

Senior Vice President, Sustainability and Public Affairs
M.Sc. (Econ.)
Born in 1958
Member of the Neste Executive Board since 2009

Joined the company in 2006. Responsible for the Sustainability and Public Affairs activities. Served previously as Vice President, Marketing, Stakeholder Relations and Raw Material Procurement in the Renewable Fuels division 2008–2009, Vice President, New Ventures in the Components Division 2006–2007. Prior to that various positions in Finland and abroad in Shell. Deputy Member of the Board of the Chemical Industry Federation of Finland, Member of the Board of the Smart & Clean Foundation, Vice Chair of the Board of World Energy Council Finland, Member of the Advisory Board for Sustainable use of natural resources at the Technical Research Centre of Finland (VTT).

* Holdings in Neste Corporation on 31 December 2016: 17,612 shares.

## Hannele Jakosuo-Jansson

Senior Vice President, Human Resources and Safety
M.Sc. (Eng.)
Born in 1966
Member of the Neste Executive Board since 2006

Joined the company in 1990. Responsible for the Group's Human Resources and Safety corporate functions. Served as Vice President, Human Resources at Oil Refining 2004–2005 and as Laboratory and Research Manager at the Technology Center 1998–2004. Member of the Boards of Munksjö and Neste Jacobs.

* Holdings in Neste Corporation on 31 December 2016: 14,976 shares.

## Osmo Kammonen

Senior Vice President, Communications and Brand Marketing
M.Sc. (Laws)
Born in 1959
Member of the Neste Executive Board since 2004

Joined the company in 2004. Responsible for the Group's Communications and Brand Marketing. Served as Senior Vice President, Corporate Communications and Investor Relations, and Communications Manager in various companies in the electronics, engineering, construction materials, and forest products industries.

* Holdings in Neste Corporation on 31 December 2016: 17,275 shares.

## Lars Peter Lindfors

Senior Vice President, Technology
Ph.D. (Tech.), MBA
Born in 1964
Member of the Neste Executive Board since 2009

Joined the company in 2007. Responsible for Research & Development, Investment Management, Information Technology, Procurement, and Business Processes. Served previously as Senior Vice President, Technology and Strategy 2009–2012, Vice President for the company's Research and Technology unit 2007–2009, Executive Vice President, Renewal and Development at Perstorp Group 2004–2007, Executive Vice President, R&T&D at Perstorp Group 2001–2004, and prior to that at Neste as R&D Manager and in various other positions. Member of the Boards of the Fortum Foundation, Finnish Foundation for Technology Promotion, and Neste Jacobs.

* Holdings in Neste Corporation on 31 December 2016: 14,941 shares.

## Jyrki Mäki-Kala

Chief Financial Officer
M.Sc. (Econ.)
Born in 1961
Member of the Neste Executive Board since 2013

Joined the company in 2013. Responsible for the Group's strategy, financial management, investor relations, and risk management. Served in various business and corporate financial positions at Kemira 2005–2013. Previously worked for Finnish Chemicals. Chair of the Board of Neste Jacobs.

* Holdings in Neste Corporation on 31 December 2016: 11,000 shares.

## Matti Hautakangas

General Counsel and Secretary to the Neste Executive Board, the Board of Directors, the Audit Committee, and the Shareholders' Nomination Board
M.Sc. (Laws)
Born in 1963

Joined the company in 2003. Responsible for the Group's legal affairs. Secretary to the Neste Executive Board, Board of Directors, and the Audit Committee since 2004 and to the Shareholders' Nomination Board since 2013. Served previously as Legal Counsel, Oil Refining 2003–2004 and as an attorney-at-law at Procopé & Hornborg Law Offices Ltd. 1994–2003.

Not a member of the Neste Executive Board.

Neste Executive Board CVs on Neste.com >>

* Holdings in Neste Corporation on 31.12.2016: own holdings and controlled entities.

# Neste Executive Management Board

The Neste Executive Management Board (NEMB) is responsible for leading and setting operational business targets and monitoring progress on achieving them.

**2016**
The Neste Executive Management Board comprised the President & CEO, business area Executive Vice Presidents, the CFO and the Senior Vice President, Emerging Businesses business unit. The NEMB met 12 times in 2016.

## Company Auditor

The Annual General Meeting elects an Audit Firm annually. The Audit Firm's term of office ends at the end of the next AGM following election.

The Audit Firm is responsible for auditing the Company's accounts, its financial statements, and Neste's administration. The Auditor's Report covers the Consolidated Financial Statements and the Parent Company's Financial Statements, and can be found in the Financial Statements section of the Annual Report.

**2016**
Audit Firm PricewaterhouseCoopers Oy served as Neste's Auditor until 30 March 2016, with Authorized Public Accountant Mr. Markku Katajisto as the principally responsible auditor. The Annual General Meeting re-elected PricewaterhouseCoopers Oy as the Audit Firm on 30 March 2016, with Authorized Public Accountant Mr. Markku Katajisto continuing to serve as the principally responsible auditor, until the end of the next AGM.

**Fees charged by the statutory auditor**

| EUR 1,000 | 2016 | 2015 |
|---|---|---|
| Audit fees | 936 | 990 |
| Other | 288 | 1,517 |
| Total | 1,224 | 2,507 |

## Internal Audit

Neste's Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of Neste. As a component in the corporate governance process, it supports the organization by systematic risk and assurance based approach to evaluate and improve the effectiveness of risk management and control and governance processes.

Internal Audit evaluates the actualization of objectives, financial effectiveness, safeguarding of assets and compliance of laws and regulations. In the scope of each audit project Internal Audit assures also that the organizational structure and governance model enable efficient decision-making and steering system including clear roles and responsibilities and key policies and guidelines. In addition, the adequate monitoring systems and reporting practices are in the scope of audit.

Internal Audit is responsible of creating and executing the annual audit plan, proposing findings, recommendations and continuous improvement actions that add value for Neste and mitigate risks in its operations. Neste's strategic and operative objectives and risks of businesses related to them are the key elements of audit planning and execution. To assure effective, and efficient and value adding process, Internal Audit co-operates actively with other Neste's assurance service functions and top management and shares best practices from a process and governance point of view.

Internal Audit is also responsible for conducting special assignments on behalf of management or the Board of Directors' Audit Committee. As part of audits, Internal Audit assesses that the values and Code of Conduct determined by Neste top management are complied with. Neste has an internal ethical online system where personnel can anonymously report possible misconducts and Internal Audit is responsible for evaluating and investigating cases. The possible irregularities or misconducts are investigated and reported regularly to the Board of Directors' Audit Committee.

Internal Audit follows the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. Internal Audit reports directly to Board of Directors' Audit Committee and administratively to the President & CEO. The Board of Directors is responsible for approving Internal Audit Charter and annual audit plan. Internal Audit Charter includes the determination regarding Internal Audit position, operational model, process and reporting lines. Internal Audit has at least annually a non-executive meeting with the Audit Committee members and the Audit Committee Chairman. Neste's Head of Internal Audit is responsible for the internal audit operations, and manages in-house internal audit resources and operates as the coordinator towards outsourced service providers.

**2016**

Internal Audit function continued cooperation with other Neste assurance and service functions to create and enhance risk and compliance based audit activities.

Internal Audit continued operating with co-sourcing model using audit resources and experts effectively in order to achieve audit related objectives. Neste's key business processes, locations, projects and risk areas were focus areas during the year 2016, including for example significant investment projects, ICT projects and supply chain management.

## Compliance function

Neste conducts its business and operates in compliance with applicable laws, regulations and widely accepted practices for good corporate governance. Neste's Code of Conduct sets the core requirements for its employees to follow. It is the responsibility of every employee to conduct his/her business activities and operations in compliance with these provisions. Compliance in Neste not only seeks adherence to formal laws and regulations but also promotes the integrity of the company, its businesses and employees.

The purpose of Neste's Compliance function is to strengthen the effectiveness of compliance within the company. It supports Neste's management in maintaining and developing the company's compliance practices. Compliance function works in close collaboration with Neste's business areas, common functions and other internal assurance organizations, in particular the Risk Management and the Internal Audit functions. Compliance function is headed by the Chief Compliance Officer (CCO), who reports to Neste's Chief Financial Officer.

**2016**

To create a comprehensive view on compliance and to support the work of the Compliance Committee founded by the operative management, the Company has initiated company-wide compliance reporting. An Ethics Committee was founded by the operative management to steer and support fraud and other misconduct related notifications' resolution process. Compliance risk assessment in the Company and the definition of action points began in 2016. The Neste Supplier Code of Conduct was approved in late 2015 and its inclusion in procurement and supply contracts began.

## Insider administration procedures

Neste complies with the EU Market Abuse Directive (596/2014) and the 2nd and 3rd level rules that complement it, as well as Nasdaq Helsinki Oy's Insider Guideline, which came into force on 3 July 2016, as a minimum standard on insider matters. In addition, the Board of Directors has approved the Company's own Guidelines for Insiders on 9 June 2016. The Company's Guidelines for Insiders are available to all personnel. The Company arranges training related to the insider guidelines.

The Company's General Counsel is responsible for the coordination and supervision of insider matters, along with the insider register manager, insider communication manager and a possible insider project manager. All the above individuals have their own deputies. In addition, the head of each common function or business area is responsible for supervising insider matters within his or her organization.

The creation and maintenance of project-specific insider registers is the responsibility of that insider project's manager, who is named in the project-specific insider register.

It is an executive's and his/her circle of acquaintances' personal responsibility to report their transactions to the Company and the Financial Supervisory Authority. The Company has defined as executives the members of the Board of Directors and its secretary, the President and CEO, as well as the members of the Executive Board and its secretary. These executives and their circles of acquaintances must report their own transactions conducted with the Company's financial instruments or financial derivatives to the Company and the Financial Supervisory Authority without delay, and no more than three business days of completing the business transaction. Reports to the Company and the Financial Supervisory Authority can be made by following the instructions on [www.neste.com/trading](www.neste.com/trading).

The Company has also named other, specific individuals as persons with insider knowledge, as they have access to insider company knowledge based on their tasks. These individuals are typically ones that prepare the company's Interim Reports and Financial Statements, persons responsible for the Company's finances, financial reporting or communication, or persons that have access to said information, as well as certain individuals in executive positions.

Executives and persons with insider knowledge may not trade with or conduct business with the company's financial instruments for themselves or a third party, directly or indirectly during the period from the closing date of an interim or annual accounting period to the date of publication of the interim report or financial statements for that period. The minimum period concerned is always 30 days prior to the date of publication of the interim report or the financial statements, including the date of publication ('closed window').

The Company also maintains a project or event-specific list of insiders for all individuals that have access to insider information and that are employed by the Company or otherwise perform tasks that provide them access to insider information. Individuals who participate in the development and preparation of projects or events that involve insider information, such as mergers and acquisitions, are considered project or event-specific insiders. Project-specific insiders may not trade or conduct other business using the Company's financial instruments during the project.

# Main features of internal control and risk management systems pertaining to the financial reporting process

## Objectives

The objective of internal control over financial reporting at Neste is to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statement in accordance with applicable laws and regulations and internal requirements of control activities.

The system of internal control related to financial reporting in the Neste Corporation is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## Control environment

Under the Finnish Companies Act, the Board of Directors is responsible for ensuring that there is adequate control over the Company's accounts and finances. Responsibility for arranging this control is delegated to the President & CEO, who is required to ensure that the Company's accounts are in compliance with the law and that its financial management have been arranged in a reliable manner.

The internal control at Neste is based on the corporate structure whereby the operations are organized into business areas and services functions. The heads of business areas and finance function are responsible for establishing and maintaining appropriate, up-to-date, effective and adequate internal control over financial reporting. To ensure sufficient control in business areas, the Neste controllers network and process owners have a key role in developing an internal control system and reporting practices. In some key areas, the Corporate Finance department has centralized control responsibility.

Neste's values and management system containing formal Code of Conduct are the foundation of the control environment. The President & CEO and corporate management are responsible for emphasizing the importance of ethical principles and correct financial reporting. The structure of the organization and the resources allocated within it are designed to provide effective control over financial reporting and segregation of duties.

## Risk assessment

As a prerequisite for risk assessment, the organization's objectives need to be established. With respect to financial reporting, the general objective is to have reliable reporting and ensure that transactions are recorded and reported completely and correctly. The assessment of risk includes risks related to fraud.

Based on risk assessment, the requirement for internal control has been included in the Principle and Instruction for Control over Financial Reporting documentation which are to be obeyed in Neste Corporation.

Additional information on risk management principles is available in the Risk Management section of the Annual Report.

## Control activities

Neste's control activities include instructions, guidelines and procedures to ensure that the actions identified by management to address the relevant risks are carried out effectively. The Controller's Manual is the most important guideline related to financial reporting systems and practices.

Neste's entity-level and process-level control activities with respect to reliable financial reporting are described in the Principle and Instruction for Control over Financial Reporting documentation. These establish the minimum control requirements covering also control activities related to transactions in relevant processes as well as controls carried out as part of the monthly reporting process. The other key risk and process level policies and guidelines are documented in Neste's management system.

## Communications

The Neste corporate level communication practices support completeness and correctness of financial reporting. Neste personnel has access to adequate information and communication regarding accounting and reporting principles and guidelines. The main means of communicating the relevant matters for appropriate financial reporting is the Controllers' Manual for controllers at common functions and business areas. It contains instructions covering accounting principles, forecasting and reporting.

Neste's business areas make regular financial and management reports to the management review, including analysis and comments of financial performance. The Neste Executive Board receives financial reports monthly. Interim Reports are reviewed in Audit Committee meetings, and thereafter by the Board of Directors.

### Monitoring

The effectiveness of the controls is regularly monitored as part of management, as a control that was initially effective can become ineffective due to changes in the operating environment. Changes can also take place in the controls due to changed processes, IT systems or personnel.

The Board of Directors and the Audit Committee regularly review the financial performance including reviewing whether there is an adequate level of process to evaluate the risks and effectiveness of controls related to financial reporting process in all level of the organization. The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing as part of the Company's corporate governance. Internal control deficiencies are communicated in a timely manner to those parties responsible for taking corrective action, and to management and the Board as appropriate.

Corporate Internal Audit assesses annually the operational model and practices of internal control over financial reporting of Neste as part of business and process level audits.

**2016**

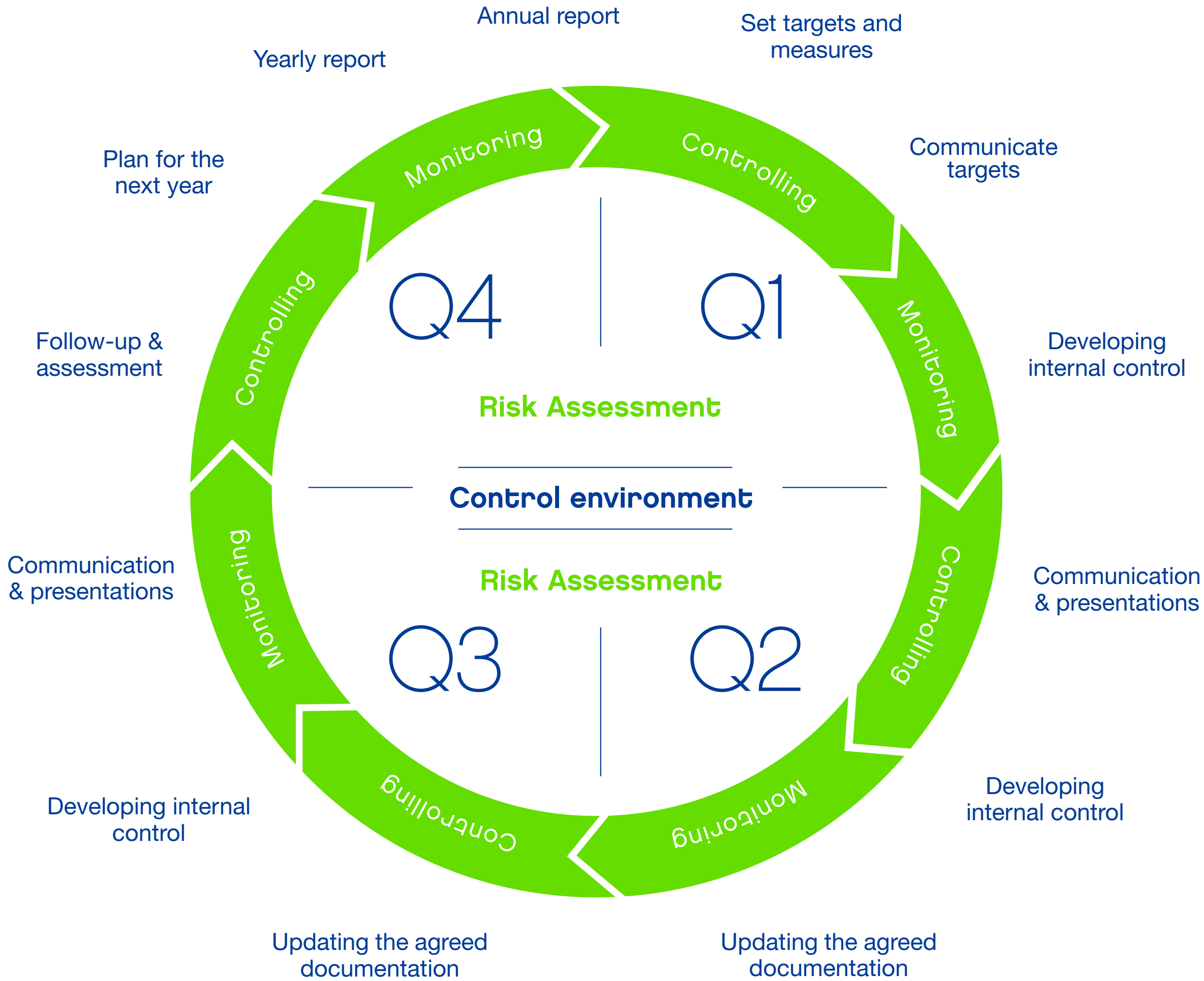
In 2016, the focus areas of internal controls development were the design of a new ERP system (SAP), development of control evidence and improving cooperation of corporate assurance functions (e.g. Internal Audit, Compliance, Risk management, Internal controls).

Design of the new ERP system has progressed from the global design phase to the detailed process-level design. Process design includes risk identification and control design. The first unit was taken into production over the course of 2016.

The theme of internal control was to improve control evidence, with the focus especially on supply and sales processes.

Cooperation between corporate assurance functions was improved by reviewing the tasks of each function and by designing forms of cooperation.

## Internal control over financial reporting




The company's internal control is maintained and developed in cooperation with business areas and finance function. Focus areas to be developed are reviewed annually.

**In 2016, the focus areas of internal controls development were the design of a new ERP system, development of control evidence and improving cooperation of corporate assurance functions.**

## Performance Management Process

The Neste Performance Management Process plays an essential role in helping the Group attain its strategic goals and reinforcing its performance-driven mindset. Neste has taken a step change in developing its performance leadership towards a more agile model supporting daily operations.

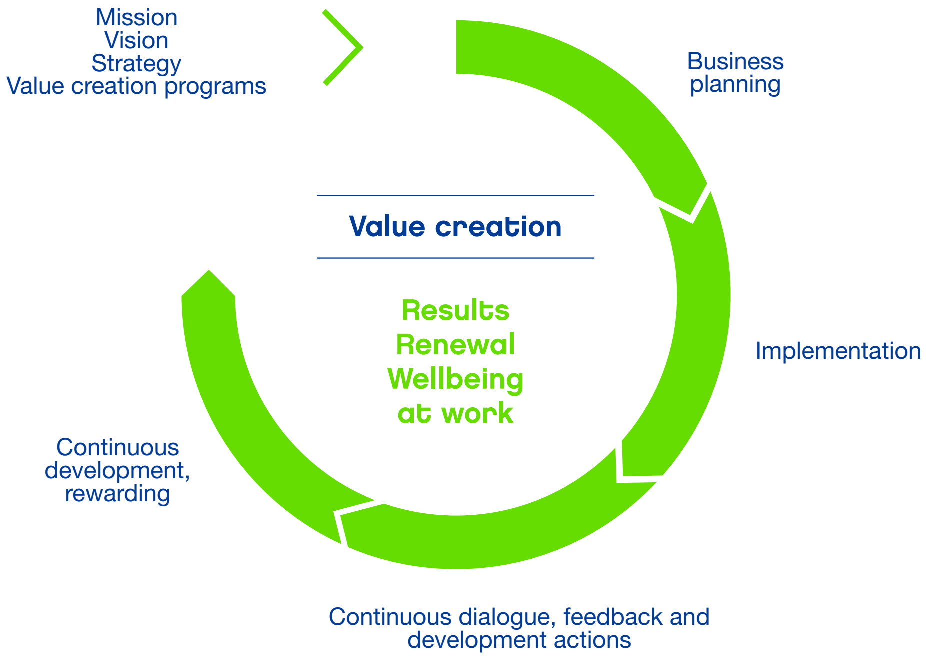
Performance management comprises daily leadership, through which individuals, teams, units and the Company can reach selected strategic priorities and develop organizational capability. Performance leadership is used to ensure that everyone knows the values and objectives of the Company, and their short and long-term objectives, and what kind of competence is needed to reach these objectives.

Individual and team objectives are based on Neste's strategy and way of working. There is a clear link between well-being at work and good leadership performance.

The key elements in the Neste daily performance leadership approach are:

- setting challenging objectives and following them through
- supporting the achievement of objectives with up-to-date feedback
- evaluating one’s own performance and results
- developing ways of working and taking responsibility of own competence development
- holding personal development discussions and discussions that support day-to-day work.

## Performance Management Process

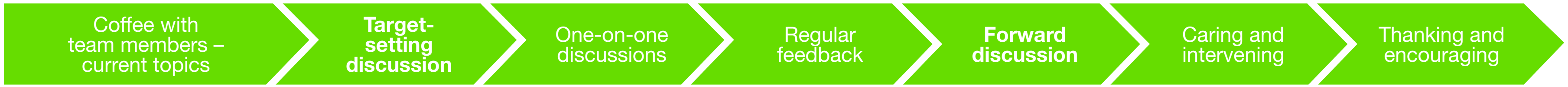



From a financial reporting point of view, Neste Performance Management Process consists of monthly Management Reporting, quarterly Business Review, and biannual Common Functions Review.

Results, information in management reporting, and performance reviews are compared to strategic goals and business plans, and to analyses and planned corrective actions throughout the year.

Business areas and common functions follow a similar approach, but emphasize a more detailed analysis and definition of corrective actions, as well as continuous improvement and prioritization of actions and development projects.

## Leading performance in daily work



# Risk management

## Risk management objectives and scope

Neste considers risk management as an integral part of daily management processes and good corporate governance. Risk is an unavoidable component of running the business and is characterized by both opportunity and threat. Systematic risk management practices are the means to ensure that Neste is successful in reaching the set strategic targets and business objectives and is able to maintain continuous operations in the changing business environment.

Neste's risk management practices can be characterized by the following statements:

- The company emphasizes risk aware culture and proactive management of risks.
- Risk management is a continuous process that is designed to add value to the company.
- Purpose of risk management is to analyze and manage all opportunities and threats that the company may encounter. By exploiting opportunities and reducing threats, Neste gains competitive advantage.
- Risks are managed as an integrated part of planning, decision making, and operational processes with a defined structure of roles and responsibilities.
- Sufficiency of risk treatment actions and controls is monitored in a systematic way.

## Risk management framework and principles

Framework and principles for risk management have been defined in Neste Corporate risk management policy, that has been approved by the Board of Directors. The policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines.

Neste's Risk Management has been implemented and maintained in accordance with the International Standard for risk management ISO 31000:2009.

In Neste's risk model, risks are classified into external, strategic and more operational risks that are mostly preventable.

- External risks consist of exposures that cannot be fully influenced or controlled by Neste. Main risk classes are changes in the external environment and risks in the extended enterprise.
- Strategic risks relate to strategic choices, strategy implementation, and risks in planning and execution of major projects. Strategic risks typically contain both upside and downside risk potential.
- Third category of risks consists of various risk classes that arise within the organization and are mostly controllable. In general, Neste does not get strategic benefits from taking these risks.

## Risk governance

Neste Board of Directors has the ultimate responsibility for risk oversight and is in this role responsible e.g. for setting the Group's risk appetite and for approving the Risk Management Policy.

Practical implementation, development and monitoring of the risk management process is based on the three lines of defense model. The model distinguishes between:

### 1st Line of Defense

As a part of the first line of defense, Neste's President & CEO and Neste Executive Board have the overall responsibility for proper risk management.

In practice, business areas and common functions are owning and managing risks with the help from a dedicated network of risk champions. Role of the risk champions is to represent different risk disciplines and to ensure that risk discussions are embedded into everyday management routines.

### 2nd Line of Defense

Role of the actors in the 2nd line of defense is to provide risk management support, facilitation, and consultation.

Compliance Committee, headed by the CFO, aims at increasing management oversight on compliance related issues within the Group. The Committee also ascertains adequacy of mitigation actions in higher risk compliance areas.

Risk coordination team, supporting the CRO, acts as a working group that aims to ascertain effective and efficient risk management practices within Neste. The team steers the development of risk management principles, tools, and processes.

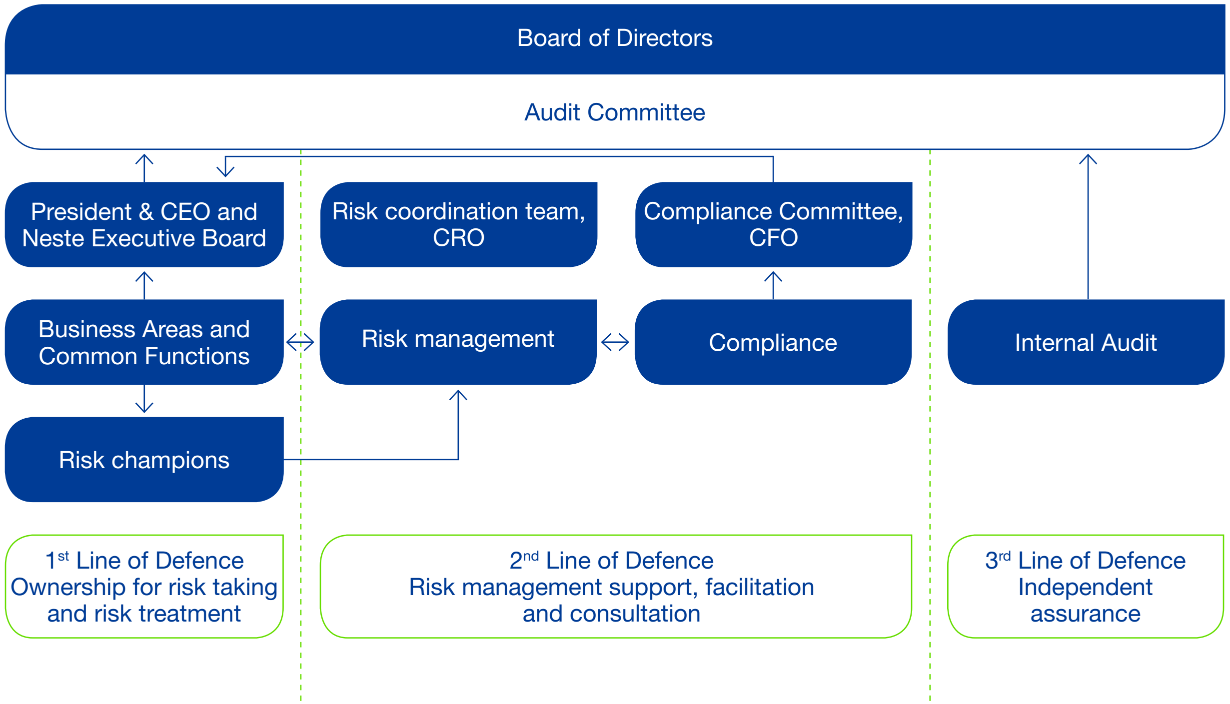
Corporate risk management team is responsible for confirming that risk management activities are carried out consistently. Corporate risk management also drives overall development of risk management practices and tools.

### 3rd Line of Defense

Internal Audit evaluates the effectiveness and efficiency of the corporate level risk governance model and related risk management processes, including the effectiveness of internal controls and other risk treatment actions in the scope of each audit.

Internal Audit also provides recommendations for improvement areas.

## Risk governance



## Risk reporting

Risk reporting aims at transparent, consistent, and comprehensive communication of risk status in different areas.

Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle.

Formal risk reporting is directed to business management and function management teams, Neste Executive Board, Audit Committee, and Board of Directors. The Corporate risk management team is responsible for aggregating risk information for reporting to different internal and external audiences.

### Risks relating to Neste's business

In the pursuit of its objectives and targets, Neste is exposed to different risk factors that stem from the external environment, internal decision making, operating processes, and systems in use.

Due to the different nature of Neste's businesses, main risk factors vary between the units. In particular, risks relating to legislation, technology, and intellectual property rights, as well as raw materials supply, are likely to be of greater emphasis in the Renewable Products business than in traditional oil refining.

The most significant risk factors relate to the below mentioned areas. Any one of the risks, either singly or in the aggregate, may have a material adverse effect on Neste's business, financial condition, operational results, and future prospects.

### External risks – Geopolitical

During the last few years, the uncertain world economy and geopolitical tensions have had an effect on Neste's key markets and the oil market in general.

In addition, geopolitical tensions may have an adverse impact on Neste's business. For example, trade sanctions or similar actions against Russia could limit Neste's access to Russian crude oil and other raw materials.

### External risks – Laws and regulation

Changing regulation presents both an opportunity and threat to Neste's business. Neste's operations and products are subject to extensive regulation (e.g. environmental, health & safety, sustainability). Constantly increasing regulatory pressure in areas like commodity trading, data protection, and traceability is a challenge for the whole industry.

On the other hand, especially Renewable Products business is benefiting from increased support for biofuels and renewable fuels (e.g. requirements that relate to renewable content in diesel and gasoline). Changes in regulation especially in the EU and US may influence the speed at which the demand for renewable products develops, and new raw materials sources are taken into use.

### Risks relating to strategic choices and strategy implementation

The majority of strategic risks relate to the viability of made strategic choices and risks in strategy implementation. Opportunities and threats may arise from changes in the competitive landscape or from internal decision making and use of technology.

**Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle.**

Neste's competitive position in the selected key markets is good. According to the current estimate, Neste's proprietary NEXBTL production technology is the leading commercially proven technology to produce high-quality diesel from renewable raw materials. However, there is no assurance that this competitive position will continue as new players enter the market, current competitors develop their technologies or customer preferences change. In addition to the development of alternative diesel production technologies, the evolution of engine technologies can be faster than expected.

Staying ahead of competition requires ability to challenge current business models and develop operations further. Continued contributions of Neste's senior management, personnel and partners are vital for the company's success. Due to fierce competition for talent, there is a risk that Neste may not be able to recruit and retain highly skilled employees that are needed for strategy deployment and successful operations in the future.

## Staying ahead of competition requires ability to challenge current business models and develop operations further.

### Business continuity risks

Neste's business is dependent to a significant extent on its wholly owned fossil fuel refineries in Finland (Porvoo and Naantali) and its renewable diesel refineries in Singapore and the Netherlands (Rotterdam). Neste's conventional oil refineries are scheduled to have a major maintenance turnaround every five years. The scheduled and any unexpected shutdowns affect continuity of refining operations.

The vessels chartered to Neste or owned by Neste are subject to inherent risks like maritime disaster, damage to environment and loss of, or damage to cargo and property. Such events can be caused by multiple factors, such as adverse weather conditions or mechanical failures.

Neste has insurances in place to reduce the financial impact of property damage, business interruption, and maritime disasters. However, insurances do not cover all potential losses and Neste could therefore be seriously harmed by operational catastrophes or deliberate sabotage.

### Market risks

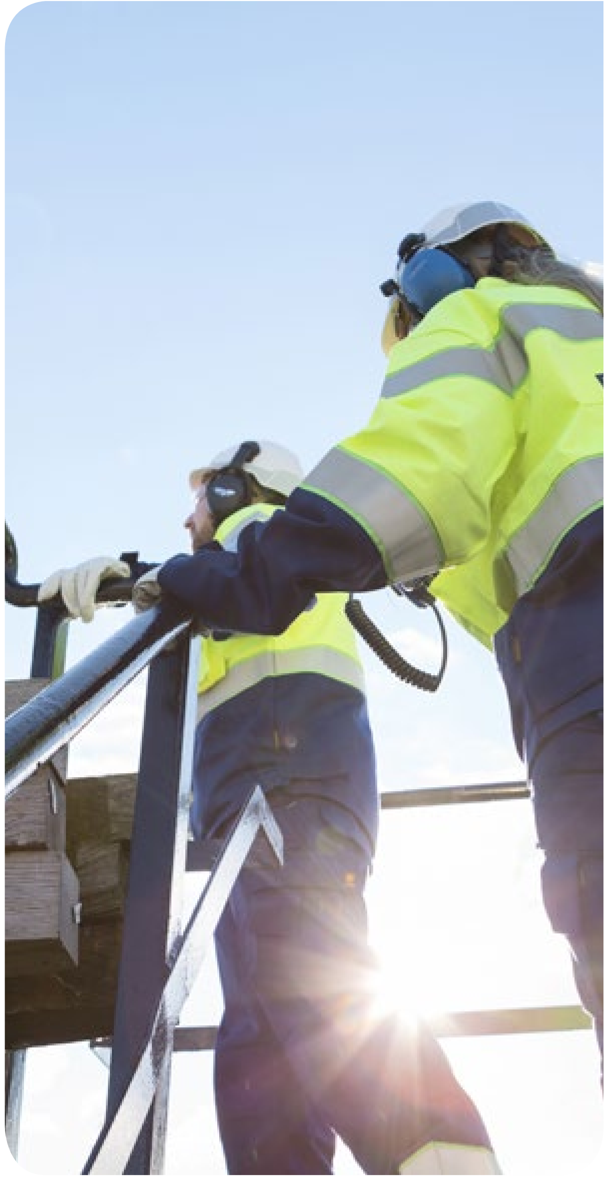
The oil market has been and is expected to continue to be very volatile. General turbulence in the oil markets may result in unexpected swings in crude oil and raw materials prices.

The financial results of Neste are primarily affected by the price differential, or margin, between refined petroleum and renewable product prices; and the prices for crude oil, different vegetable oils and other feedstock used. Historically, refining margins have been volatile and they are likely to continue to be so in the future. Main factors that may affect the refining margins include:

- Changes in aggregate demand and supply for raw materials and products.
- Changes in demand and supply for specific raw materials and products.
- Raw materials and product price fluctuations.
- Evolution of worldwide refining capacity, and in particular development of refining capacity that relates to petroleum and renewable products similar to Neste.

As a part of management of risks relating to fluctuations in commodity prices, Neste uses derivative instruments to protect its position.

Neste is exposed to foreign exchange risks due to the fact that most of sales are denominated in US dollars, whereas operating expenses (except purchase of raw



materials) are recorded in euros. Neste limits the uncertainties relating to changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures.

More information on market risks can be found in the Financial Statements Note 3 section of the Annual Report.

### Credit risk

Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. The risk is linked to the potential failure of a counterparty to meet its contractual payment obligations, and is therefore dependent on the creditworthiness of the counterparty and the size of the exposure concerned.

In order to manage the risk, Neste has implemented systematic controls for counterparty screening and monitoring.

### Cyber risk

Digitalization and emerging technologies (e.g. sensors, drones, and augmented reality helmets) offer chances to automate dangerous or error-prone tasks and increase efficiency of operations. At the same time, increasing sophistication of cyber threats and generally rising frequency of attacks targeted at oil & gas companies is a concern also for Neste.

Cyber risks multiply the impact of other risks and could also as individual risks have a major negative impact on Neste's reputation or continuity of business operations.

### Risk management focus in 2016

During 2016, the risk management focus was on integrating it more closely into strategy work and performance planning. As continuity of key processes is critical for Neste, business continuity planning practices were formalized and new business continuity plans were documented in several areas.

In order to gain a more comprehensive understanding regarding the emerging cyber threats, systematic risk mapping and assessment of risk mitigation activities was completed for the key processes during autumn 2016.

Follow-up on finance market regulation continued as during the previous years. Steps were taken to comply with Market Abuse Directive and Regulation (MAD II and MAR) that entered into force in the beginning of July. Preparations for upcoming MiFID II were continued.

**During 2016, the management focus was on integrating it more closely into strategy work and performance planning.**

# Neste Remuneration Statement 2016

## Letter from the Chair of the Personnel and Remuneration Committee

### Dear shareholder

In our report published in spring 2015, I described how Neste had reshaped the organization to enable it to respond more dynamically to the constantly changing market situation – an ability that has played a role in our continuing excellent financial performance in 2016.

### Our approach

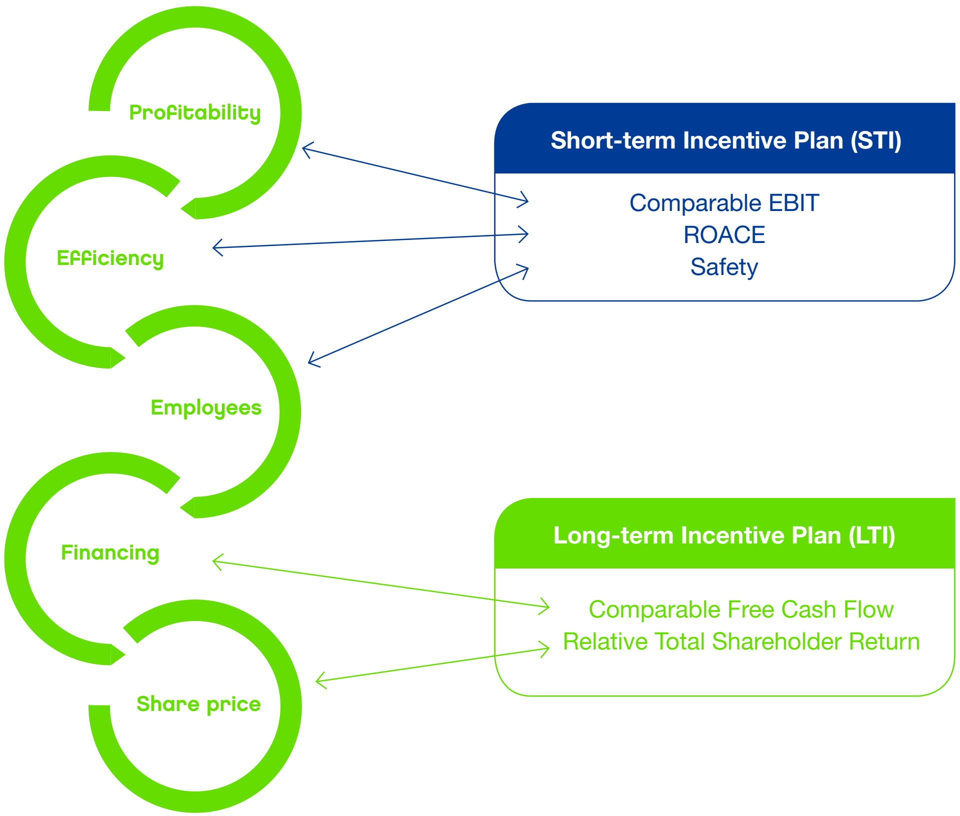
Our remuneration policy is designed to:

- **Drive performance** – striving for world-class operational and financial performance.
- **Support value-based behaviour** – we are a responsible employer and encourage all employees to live up to their commitments. We care about the well-being of others and ensure that our operations have the minimum possible negative impact on the natural environment and surrounding community.
- **Encourage individual and team accountability** – we strive for an honest and open atmosphere. Our competitive edge is based on our ability to combine the wide-ranging experience and ideas of our people to create better solutions.
- **Be fair and transparent** – we set tough challenges and acknowledge success when goals are met.

### How we structure remuneration

It is not the Company's objective to be the market leader in pay, but we want be able to compete for the best workforce and senior management. Salaries and incentive plans form one part of the whole that is used

### Measuring performance at Neste



to achieve this. Selecting the right individuals for key positions, the use of performance reviews and performance-based incentives as well as job rotation, proactive succession planning and the competence and appropriate rewarding of the entire personnel are key to our success – now and in the future. We feel that the policy defenitions and decisions we have made in the field of remunation have contributed to the company's continuing success.

For our President & CEO and key personnel, a significant proportion of remuneration is derived from variable pay to ensure that there is strong alignment between performance and reward.

The performance criteria used for the incentive schemes are linked to the delivery and execution of our business strategy. Further through the delivery of rewards under the long-term incentive scheme in shares and the requirement for the President & CEO and NEB members to build and maintain a minimum shareholding in Neste, the policy supports alignment of interest between management and our shareholders.

We also want to reward all our employees for good performance, believing that fair remuneration motivates our people to strive for excellence. All our employees are therefore able to participate in short-term incentive programs and in 2016, we paid out EUR 29 million in such schemes. This sum represents 3% of comparable EBIT for 2016.

### Remuneration for 2016

Over the past few years the Company's profitability has increased considerably, and its corporate structure has become more diversified and more international. This positive development is reflected in the competitive performance-based rewards earned by the President & CEO and NEB members through both the short-term and the long-term share-based incentive plans. The Company's share price has more than doubled over the past three years, and we have been able to pay dividends to shareholders in compliance with our dividend policy without compromising our growth and the development of our business.

Neste's Board of Directors takes into account the State of Finland's incentive guidelines and, in 2016, the long-term share incentive rewards to the President & CEO and certain NEB members were limited to ensure that the total value of incentives (short-term and long-term incentives combined) did not exceed 1.2 times fixed annual base salary. Increases of base salaries were modest among senior management with the President & CEO receiving no base salary increase.

### Remuneration policy for 2017

During the course of the year, the Committee reviewed the remuneration policy to ensure that it continued to meet its objectives and supports the business strategy. The Committee also re-confirmed that the remuneration policy should continue to comply with the latest guidance issued by the State of Finland.

Following this review, the following changes have been made to the remuneration policy and will apply to incentives for the 2017 financial year onwards:

- An additional safety measure has been introduced to the short-term incentive program. As well as measuring the rate of accidents requiring medical treatment per million hours worked including contractors (Total Recordable Injury Frequency, TRIF), at a Group level and for Oil Products and Renewable Products we will also look at the rate of process safety events per million hours worked (PSER). Safety is imperative to the delivery of our strategy and we want to ensure that we continue to drive performance improvements in this area.
- On the long-term incentive plan, the target incentive opportunity has been reduced to 30% of salary to encourage the pursuit of excellence and out-performance of the business plan, and, in line with the changes to the latest guidance issued by the State of Finland, the lock-up period for shares vesting under the plan has been reduced from three years to one year for the 2017-2019 LTIP cycle onwards.
- No salary increase is allocated for the President & CEO. A few salary increases are allocated for other NEB members based on new broader roles and responsibilities.

**Over the past few years the Company's profitability has increased considerably, and its corporate structure has become more diversified and more international.**

### Changes to the Neste Executive Board

The continuous development of our business requires strong expertise and an innovate mindset and it is the task of the Personnel and Remuneration Committee to ensure that the Company commands the expertise it needs to execute the strategy. As such, the Committee is delighted to have overseen during the year the appointment of Panu Kopra (after Antti Tiitola's resignation) and Christian Ståhlberg to the Neste Executive Board, as Executive Vice President of Oil Retail and General Counsel respectively and the transition of Tuomas Hyyryläinen to Senior Vice President, Emerging Business, to lead our new business unit in this area.

### Remuneration reporting

The salary and remuneration report is divided into four sections as follows:

1. **Letter from the Chair of the Personnel and Remuneration Committee.** This section highlights the key activities and decisions undertaken by the Personnel and Remuneration Committee during the year. The Personnel and Remuneration Committee reports to the Board of Directors, which makes the final decisions concerning the proposals made by the Committee.

2. **Neste Executive Remuneration Policy Report.** This section explains how the executive remuneration policy and performance criteria are used to determine the remuneration of the President & CEO and members of the Neste Executive Board over future financial years. It also describes the remuneration principles that apply to our senior managers.

3. **Neste Executive Annual Remuneration Report.** This section presents a full report on the remuneration of Neste's President & CEO and the members of the Executive Board in light of the Company's financial and operational performance over the latest reporting year.

4. **Neste's Board of Directors Remuneration Review.** This section describes the remuneration paid to Neste's Board of Directors during the latest financial period and how remuneration levels have developed over the recent years. The Shareholders' Nomination Board submits proposals on the remuneration of Neste's Board of Directors to the Annual General Meeting for approval. Whilst the Chair of Neste's Board of Directors is a member of the Shareholders' Nomination Board, he does not participate in either proposing or deciding his own remuneration, nor does he participate in the Nomination Board's proposal for the Chair of the Board for the AGM.

**Jorma Eloranta**
Chair of the Personnel and Remuneration Committee
jorma.eloranta@neste.com

**The continuous development of our business requires strong expertise and an innovate mindset. It is the task of the Personnel and Remuneration Committee to ensure that the Company commands the expertise it needs to execute its strategy.**

# Neste Executive Remuneration Policy Report

## Principles guide our performance

We regularly review the Company's guiding remuneration principles. The performance and reward principles introduced in the beginning of 2014 continue to apply unchanged as no updates were found necessary in 2015 or 2016. The four principles underpin the remuneration programs across the Company and are founded on the platforms of "fairness" and "pay for performance."

We want to recognise and reward high performance and responsible behaviour in support of the attainment of Neste's strategic targets and the long-term sustainable development of the business.

## Remuneration principles for the Neste Executive Board and senior management

Based on proposals submitted by the Personnel and Remuneration Committee, the Board takes into account the following objectives in determining the remuneration for the Executive Board and senior managers:

- Remuneration should be sufficient to attract and retain senior management with the requisite skills and experience to ensure that we meet our strategic goals, yet at the same time make financial sense from the Company's point of view so as not to jeopardize its competitive cost structure.

**Ensure the execution of our strategy**

We aim to chart a clear path forward by executing our corporate strategy and sharing our business objectives.

**Drive performance and value-based behavior**

We aim to drive results on the individual, the team and the business-unit level by rewarding excellence, development and value based behavior.

**Encourage individual and team accountability**

We promote clear targets and a focus on continuous improvement of our performance. We make this possible by maintaining ongoing dialogue with our personnel and welcoming their feedback.

**Be fair and transparent**

We run our performance and total rewards processes ethically and with integrity, and support this with clear communication.

- For the Company to operate effectively in a global context, remuneration should be fair and competitive within the international markets where the Company operates. Salaries and other pay components should be based on local market conditions and be sufficient to attract key management talent.
- To help drive performance in the short and the long-term, to maintain a flexible cost base, and to avoid creating incentives for excessive risk-taking, an appropriate proportion between fixed and performance-based pay should be maintained in incentive plans.
- Remuneration should also guide and encourage the achievement of challenging strategic, operational and financial targets.
- Senior management interests should align with those of the Company and its broad base of domestic and international stakeholders.
- The senior management remuneration policy should be consistent with the global remuneration applied to Neste employees worldwide.
- Neste will always endeavor to treat senior managers and personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, and other comparable factors.
- Remuneration is defined according to the "grandfather principle" whereby the pay of any individual is subject to the approval of a manager's manager. No individual may decide matters relating to their own remuneration.

**We want to reward all our employees for good performance, believing that fair remuneration motivates our people to strive for excellence.**

## Summary of Remuneration Policy for the Neste Executive Board

The Neste Executive Board's remuneration policy consists of the following key elements:

| Remuneration element | Purpose and link to strategy | Description and operation |
|---|---|---|
| Base salary | To provide a core level of reward for the role. | Fixed salary which includes taxable fringe benefits (car and telephone). CEO's salary is EUR 55,039 per month (unchanged since 1.1.2012). |
| Insurances | To support and protect NEB members in the performance of their duties. | The NEB members have private accident, life and disability insurance, business travel, directors' and officers' liability insurance. The NEB members may participate in the sickness fund (in Finland). |
| Additional pension | To provide a competitive retirement benefit in line with local market practices. | President & CEO: defined benefit (DB) plan approved in 2008, based on a retirement age of 60 years and 60% of retirement salary.<br>NEB members: DB plan based on a retirement age of 60 (up to 60% of retirement salary) or, for those who have started after 1 January 2009, a defined contribution (DC) pension scheme (based on retirement age of 62, 63 or as prescribed under Finnish pension legislation). Retirement salary for DB schemes is calculated on the basis of the average monthly salary and related statutory pension insurance contributions over the ten years prior to retirement. New DB plans are no longer made. |
| Short-term incentives | To reward and incentivize improvements in short-term financial and operational performance and support the delivery of the business strategy. | Based on the attainment of annual financial and non-financial measures. Maximum award value is 40% of annual fixed base salary.<br>President & CEO: based on group financial targets (comparable EBIT, Return on Average Capital Employed [ROACE%] and group safety targets [Total Recordable Injury Frequency, TRIF] and, new for 2017, process safety event rate [PSER]).<br>NEB members with business area responsibility based on comparable Group EBIT and ROACE, business area specific comparable EBIT, business area specific TRIF and, for Oil Products and Renewable Products, PSER (new for 2017).<br>For NEB members with common function responsibility, based on Group comparable EBIT, ROACE, TRIF, PSER (new for 2017) and specific strategic measures of the function in question. |

| Remuneration element | Purpose and link to strategy | Description and operation |
|---|---|---|
| **Long-term share-based incentives** | To drive long-term sustainable growth and align the interests of executives with shareholders | Based on the attainment of three-year financial and share price performance targets for Neste. For award cycles commencing in 2016 and 2017, 75% of the awards are based on cumulative comparable free cash flow and 25% are based on the total return of Neste shares relative to the STOXX Europe 600 Index.<br>Awards vest in one tranche after three years, partly in shares and partly in cash. The cash element will cover taxes and other tax-like costs.<br>The award for President & CEO varies between 0–100% of annual salary, based on performance and share price appreciation. Awards for NEB members vary between 0–80% of annual salary. Target award levels for both the President & CEO and NEB members are 30% of salary (previously 40%).<br>Should the amount of total incentive awarded to executives (STI + LTI) exceed 120% of annual salary, the excess amount of LTI shares vesting in any one year will be cut to maintain this limit. |
| **Shareholding restriction** | To promote a longer term outlook and align the interests of members with those of share-holders | For LTI award cycles commencing in 2017 onwards, the President & CEO and NEB members are not permitted to sell or transfer shares awarded under the LTI plan for one year after vesting (previously three years). During this 'lock-up' period shares may be subject to forfeiture on termination, at the discretion of the Board of Directors. |
| **Claw back** | To ensure pay for performance | Claw back provisions apply to LTI and STI plan awards in exceptional circumstances such as misconduct or misstatement of financial results. |
| **Share ownership guidelines** | To encourage executives to build a meaningful share-holding in Neste | President & CEO and NEB members must accumulate and maintain a shareholding which is equivalent to their annual fixed salary. Until this threshold is met, participants must retain 100% of vested incentive shares after tax (~50% for 2010 LTI plan). |
| **Service contracts and loss of office payments** | To ensure clear contractual terms are followed | Notice period for both the Company and the President & CEO and NEB members is 6 months.<br>In the event of termination by the Company, the President & CEO is entitled to severance payment equivalent to 18 months' salary. NEB members are entitled for 6 months' severance payments.<br>Change of control terms are same as for termination. |

## Supplementary information

**Benchmarking approach:** The Personnel and Remuneration Committee reviews market benchmark data from Finnish and, where necessary, international industrial companies of a similar size and complexity to Neste when setting total remuneration packages for the CEO and the members of the NEB. This is used more as a guide than a direct determinant of pay levels. Other factors considered include each individual's role and experience, as well as Company and personal performance.

**Shareholder alignment:** The Company's largest shareholder, the State of Finland, issued updated guidelines for the remuneration of executives within state-owned listed companies in 2016. Neste's Board of Directors has deemed it correct to take these guidelines into consideration, along with the interests of its wider shareholder base, when determining the remuneration policy for its senior executives.

# Neste Executive Annual Remuneration Report

## The year in review

We measure the success of our Executive Board by how well Neste achieves its strategic and financial targets.

Year 2016 was another excellent year for Neste's businesses. All three reporting segments were able to improve their comparable EBIT from 2015 leading to Group's comparable EBIT at EUR 983 million.

## Short-term incentives (STI)

### STI for 2015 (paid in 2016)

The STI program for 2015 was based on:

- Group and business area specific comparable EBIT
- Group ROACE
- Group safety target TRIF
- Specific strategic targets also featured for part of the STI program for NEB members with business area or functional responsibility.

In 2015, Neste's financial result was at a record high (EUR 925 million) and the company achieved an excellent return on equity (16.3%). The company's position in the Baltic Sea region strengthened as Neste utilized all of its business areas better than before and with Oil Products delivering comparable EBIT of EUR 439 million. The company set a new record in the sales of Renewable Products delivering comparable EBIT of EUR 402 million and Oil Retail obtained a considerable new customer base delivering comparable EBIT of EUR 84 million in 2015.

Safety management is an integral part of our daily work. In 2015, we focused on management practices and supervisory work. We organized safety workshops with the company's Board of Directors, the Executive Board and the management teams of several functions, discussing the role and significance of the management in safety management. Notwithstanding these efforts, the rate of accidents requiring medical treatment per million hours worked including contractors (Total Recordable Injury Frequency, TRIF) rate in 2015 was 3.3 and our target for 2015 was not reached.

Overall, Neste exceeded the financial goals of the 2015 short-term incentive plan. Taking the business and function level performance and safety targets into account, the Board of Directors awarded the CEO and the NEB rewards at above-target levels for performance year 2015. On average, the rewards were higher than in 2014 but remained within the maximum limits of the short-term incentives (40% of annual salary).

Details of the short-term incentive plan award for the President & CEO for 2015 are set out below:

| President & CEO 2015 STI (paid March 2016) | | 2015 results |
|---|---|---|
| **Weighting** | **Measures** | **Level of achievement** |
| 60% | Group comparable EBIT | At maximum |
| 30% | Group ROACE | At maximum |
| 10% | Group Safety (TRIF) | Between threshold and target |
| | **Total** | **Between target and maximum** |

### STI for 2016 (payable in 2017)

The STI performance measures for 2016 were the same as 2015 and were based on:

- Group and business area specific comparable EBIT
- Group ROACE
- Group safety target TRIF
- Specific strategic targets also featured for part of the STI program for NEB members with business area or functional responsibility.

Neste's high performance continued in 2016, with the Group delivering comparable EBIT of EUR 983 million. Similarly the Group free cash flow was on a record level at EUR 834 million. Solid profits and a well-managed balance sheet lead to a healthy ROACE for Neste's business, 16.9%.

Oil Products' result was negatively impacted by reference margin, which was lower than during 2015. However, increased additional margin enabled Oil Products to deliver comparable EBIT of EUR 453 million. Renewable Products comparable EBIT improved as a result of successful margin management, sales allocation and feedstock optimization delivering a total of EUR 469 million and Oil Retail's result was positively impacted by increased sales volumes delivering comparable EBIT of EUR 90 million.

Neste has ambitious targets for improving its safety performance. We continued our focus on safety management in 2016, working with unit management teams and the entire personnel to deliver the Way Forward to Safety program. In 2016 the Company took steps in the right direction in personnel safety as TRIF (total recordable incident frequency per million hours worked) landed at 2.8. However, we were still behind the target for 2016. In PSER (process safety event rate) the development was for the worse, and the figure was 3.1. To encourage greater focus on this area, targets linked to PSER have been incorporated into the STI program for 2017.

Overall, Neste exceeded the financial goals of the 2016 short-term incentive plan. Taking the business and unit-level performance and safety targets into account, the Board of Directors awarded the President & CEO and the NEB rewards at above-target levels for performance year 2016. On average, the rewards were broadly on a similar level to 2015 and remained within the maximum limits of the short-term incentives (40% of annual salary).

Details of the short-term incentive plan award for the President & CEO for 2016 are set out below.

| The President & CEO 2016 STI (payable March 2017) | | 2016 results |
|---|---|---|
| **Weighting** | **Measures** | **Level of achievement** |
| 60% | Group comparable EBIT | At maximum |
| 20% | Group ROACE | At maximum |
| 20% | Group Safety (TRIF) | Between threshold and target |
| | **Total** | **Between target and maximum** |

## Long-term incentives (LTI)

Neste's 2010 long-term incentive program ran in three-year plan cycles from 2010 to 2012, 2011 to 2013 and 2012 to 2014. The 2013 long-term incentive program runs in three-year plan cycles from 2013–2015, 2014–2016 and 2015–2017. The 2016 long-term incentive program started with 2016–2018 plan and continues with 2017–2019 plan. Details of the awards under the long-term incentive programs are set out in the table below:

| | LTI 2010 | | | LTI 2013 | | | LTI 2016 | |
|---|---|---|---|---|---|---|---|---|
| **Earnings period** | **2010–2012** | **2011–2013** | **2012–2014** | **2013–2015** | **2014–2016** | **2015–2017** | **2016–2018** | **2017–2019** |
| Total number of participants at the delivery or grant | 34 | 50 | 66 | 86 | 92 | 89 | 94 | 95 |
| Earnings criteria | 50% Renewables Product sales volume & 50% relative TSR* | 50% Renewables Product sales volume & 50% relative TSR | 50% Renewables Product sales volume & 50% relative TSR | 75% comparable cashflow & 25% comparable operating profit of the Renewable Products business | 75% comparable cashflow & 25% relative TSR | 75% comparable cashflow & 25% relative TSR | 75% comparable cashflow & 25% relative TSR | 75% comparable cashflow & 25% relative TSR |
| Extent to which criteria achieved | 19.6% | 64.6% | 100% | 100% | 100% | - | - | - |
| **Number of shares delivered after tax:** | | | | | | | | |
| - to President & CEO | 10,912 | 25,064 | 14,823 | 10,458 | 7,791 | - | - | - |
| - to other members of NEB | 21,214 | 48,993 | 39,124 | 25,856 | 18,241 | - | - | - |
| Year of vesting | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Lock-up period on vested shares | 3 years | | | 3 years for the President & CEO & NEB (1 year for others) | | | 3 years | 1 year |

* Total Shareholder Return

### LTI plan cycle 2013–2015 (paid in 2016)

For the 2013–2015 LTI plan cycle, paid in 2016, the performance criteria were achieved in full: the targets set for cumulative comparable free cash flow were exceeded and the comparable operating profit of the Renewable Products business exceeded the target set in December 2012. As a result, total reward awarded in 2016 corresponded to 232,482 company shares, of which 76,769 shares were awarded to President & CEO and current NEB members. The number of shares paid to President & CEO and NEB members (at the time of delivery) after tax was 36,314.

### LTI plan cycle 2014–2016 (payable in 2017)

For the 2014–2016 LTI plan cycle, the targets set for group cumulative comparable free cash flow in December 2013 were exceeded and Neste generated a total shareholder return clearly out-performing the peer group of ten oil industry peers. As a result, the total reward in 2017 corresponds to 167,693 company shares, of which 58,513 shares will be awarded to President & CEO and current NEB members. The number of shares to be paid to President & CEO and NEB members after tax will be 26,032 (further details of the shares awarded are shown on page 95). The shares are subject to a 3-year lock-up period for the President & CEO and NEB members.

The performance targets for the cycles that started in 2015, 2016 and 2017 are shown in the previous table above. For the 2015–2017 cycle, the maximum value of share incentives to be delivered will be EUR 7 million. For the 2016–2018 and 2017–2019 cycles, the awards correspond to the value of an approximate maximum total of 272,000 and 191,000 Neste Corporation shares, respectively.

## Remuneration paid to the President & CEO and NEB members as of 31 December 2016

| | President & CEO | | NEB members (in aggregate) | |
|---|---|---|---|---|
| **EUR** | **2016** | **2015** | **2016** | **2015** |
| **Annual remuneration** | | | | |
| Base salary [1] | 685,702 | 667,623 | 1,845,731 | 1,860,683 |
| Taxable benefits [2] | 7,034 | 17,040 | 101,675 | 113,992 |
| Annual incentive (STI plan) [3] | 260,337 | 221,501 | 683,492 | 505,950 |
| **Total annual remuneration** | **953,072** | **906,164** | **2,630,898** | **2,480,625** |
| **Vested long-term remuneration [4]** | | | | |
| LTI 2013: 2013–2015 plan | 630,226 | - | 1,538,602 | - |
| LTI 2010: 2012–2014 plan | - | 716,954 | - | 1,538,552 |
| **Additional pension** (see page 89) | **957,062** | **824,019** | **487,153** | **462,914** |
| **Total remuneration** | **2,540,360** | **2,447,137** | **4,656,653** | **4,482,091** |

(1) Base salary amount includes vacation pay which has varied between the years 2015 and 2016. The fixed gross base salary (incl. taxable benefits) of the President & CEO is unchanged since 1.1.2012.
(2) Members of the NEB receive taxable car and mobile phone benefits as part of their fixed salary. For the President & CEO, the value of benefits comprises: EUR 6,554 for car and EUR 480 for telephone.
(3) 2016 figures relate to performance in 2015. 2015 figures relate to performance in 2014. 2017 payments, based on performance in 2016, the President & CEO EUR 237,521 and NEB members EUR 596,432.
(4) Total taxable value of LTI payments awarded (including transfer tax).

## Vested LTI plan share awards

### Share incentive awards for the Neste Executive Board

| Name | Position | NEB member since | 2016 [1] (paid 2017) | 2015 [2] (paid 2016) |
|---|---|---|---|---|
| Matti Lievonen | The President & CEO | 2008 | 7,791 | 10,458 |
| Kaisa Hietala | EVP, Renewable Products | 2014 | 1,572 | 2,569 |
| Panu Kopra [3] | EVP, Oil Retail [4] | 2016 | 1,244 | 1,569 |
| Matti Lehmus | EVP, Oil Products | 2009 | 2,528 | 3,997 |
| Simo Honkanen | SVP, Sustainability and Public Relations | 2009 | 1,907 | 2,476 |
| Tuomas Hyyryläinen | SVP, Emerging Businesses | 2012 | 1,991 | 2,840 |
| Hannele Jakosuo-Jansson | SVP, Human Resources and Safety | 2006 | 2,096 | 2,718 |
| Osmo Kammonen | SVP, Communications and Brand Marketing | 2004 | 1,768 | 2,833 |
| Lars Peter Lindfors | SVP, Technology | 2009 | 2,122 | 3,023 |
| Jyrki Mäki-Kala | CFO | 2013 | 3,013 | 4,217 |

[1] The 2016 column refers to share incentives to be paid in spring 2017 for the earning period 2014–2016. The figures indicate the net amount of shares after tax and other statutory payments. Shares are subject to holding period restrictions and ownership requirements (for more information see remuneration table).
[2] The 2015 column refers to share incentives paid in 2016 for the earning period 2013–2015. The table gives the net amount of shares transferred (after tax).
[3] Appointed to NEB, in place of Antti Tiitola, on 1 May 2016.
[4] Oil Retail business area will be called Marketing & Services from 7 February 2017 onwards.

## Executive share ownership

A major principle of our executive remuneration policy is to ensure that there is strong alignment between the interests of Neste executives and those of its share-holders.

Our executive share ownership policy requires that the President & CEO and the members of the NEB build up and maintain shareholdings which are equivalent to their annual fixed base salary. Until this threshold is met, participants must retain 100% of vested incentive shares, net of tax (~50% for 2010 LTI plan).

For LTIP cycles commencing in 2016–2018 and prior, the President & CEO, and NEB members, are not permitted to sell or transfer any vested LTI plan shares for a period of three years after vesting. Once the share ownership requirements have been met, the restriction period may be cut from three years to one year at the Board's decision. For LTI plan cycles commending in 2017–2019 and beyond, the lock-up period has been reduced to one year for all participants.

The following table shows the current shareholdings of members of the Neste Executive Board.

## Shareholdings [1] of the Neste Executive Board as of 31 December 2016

| Name | Position | NEB member since | 2016 | 2015 |
|---|---|---|---|---|
| Matti Lievonen | The President & CEO | 2008 | 50,757 | 50,799 |
| Kaisa Hietala | EVP, Renewable Products | 2014 | 11,174 | 14,224 |
| Panu Kopra [2] | EVP, Oil Retail [3] | 2016 | 10,605 | - |
| Matti Lehmus | EVP, Oil Products | 2009 | 18,282 | 23,285 |
| Simo Honkanen | SVP, Sustainability and Public Relations | 2009 | 17,162 | 15,136 |
| Tuomas Hyyryläinen | SVP, Emerging Businesses | 2012 | 6,718 | 3,878 |
| Hannele Jakosuo-Jansson | SVP, Human Resources and Safety | 2006 | 14,976 | 17,258 |
| Osmo Kammonen | SVP, Communications and Brand Marketing | 2004 | 17,275 | 17,442 |
| Lars Peter Lindfors | SVP, Technology | 2009 | 14,941 | 14,828 |
| Jyrki Mäki-Kala | CFO | 2013 | 11,000 | 7,000 |

(1) Shareholdings include shares paid under the long-term incentive plan partly subject to prohibition of sale. In case of an employee leaving the Company during this period, the Board of Directors may, at its discretion, decide to recover the shares. The figure also includes the shares personally acquired by the employee (if any). All NEB members fulfill the ownership requirement on 31 December 2016.
(2) Appointed to NEB, in place of Antti Tiitola, on 1 May 2016.
(3) Oil Retail business area will be called Marketing & Services from 7 February 2017 onwards.

## Remuneration of personnel

**Short-term Incentives.** Neste wants to ensure that its employees have the opportunity to share in the Company's success and excellent performance of its personnel. STI schemes are in place in all countries, and incentives are paid on the basis of the set goals.

For the 2015 performance year, Neste was able to fund a payout of EUR 29 million (EUR 23.5 million) in performance-based incentives for senior managers and employees in the spring of 2016 (including pension and social insurance contributions).

The Company's main short-term incentive system for the personnel is determined according to the job grade and posting country, and is 4–20% of the basic salary at an annual level. The final incentive is determined by the Company's result multiplier which, depending on the Company's comparable operating profit, ranges between 0 and 1.5 if the threshold value has been exceeded. As a result, the incentive is determined according to the Company's financial situation.

**Personnel fund.** Neste offers permanent and fixed-term employees based in Finland an entitlement to a profit share award through its personnel fund after six months of continuous service. The profit share earnings paid into the fund are distributed equally between members. Whilst the scheme is intended to build up participation over the long-term, part of the award can be withdrawn each year in cash. Note, however, that employees who participate in LTI plans will not be entitled to profit share awards during the earning period of the plan.

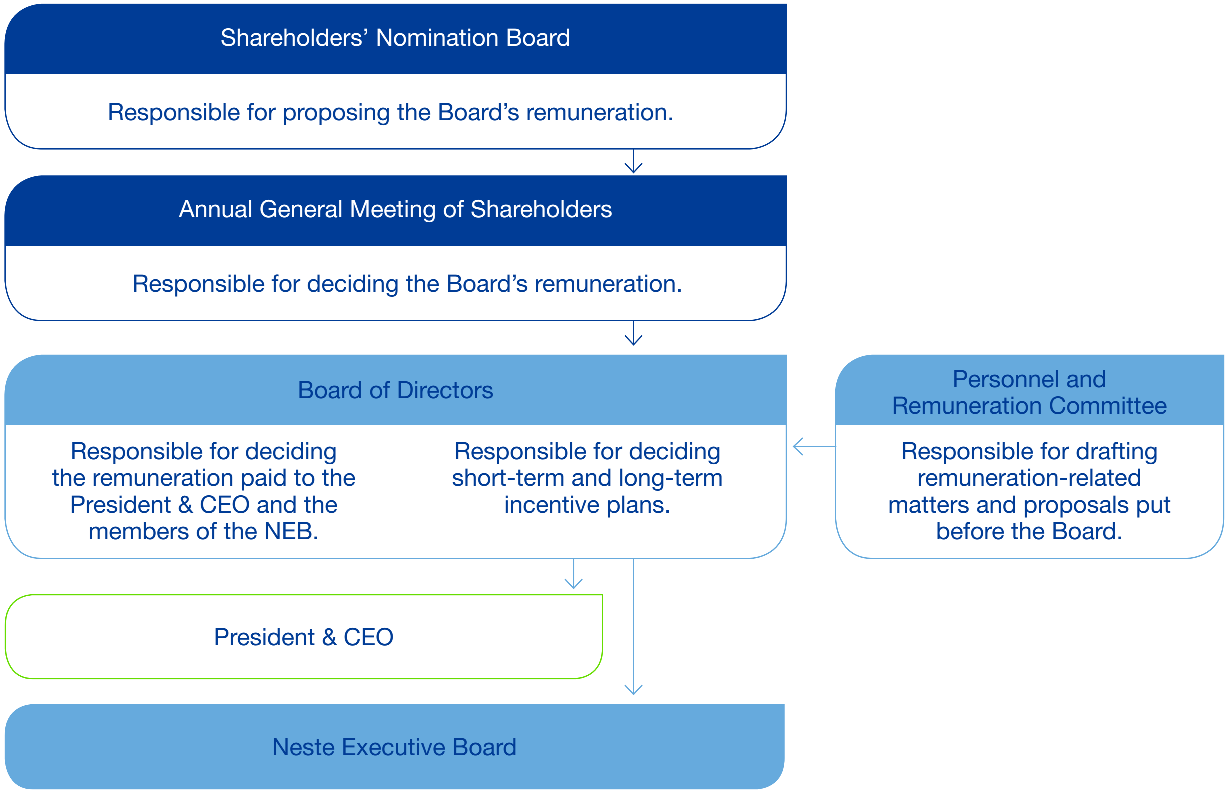
The Board of Directors sets the earning criteria for the profit share award annually. The award is tied to Neste's comparable operating profit. In 2016, the Company's personnel fund contribution was EUR 5.7 million (EUR 2.6 million) based on the excellent comparable operating profit result achieved in 2015.

# Neste's Board of Directors Remuneration Review

## Remuneration governance

Remuneration-related discussion and decision-making at Neste involves the Shareholders' Nomination Board, the Annual General Meeting of Shareholders, the Board of Directors, and the Board's Personnel and Remuneration Committee. The Shareholders' Nomination Board submits a proposal concerning the remuneration payable to the Board of Directors to the AGM, while the Board of Directors is responsible for making decisions on remuneration and incentive arrangements for senior management and key personnel based on proposals made by its Personnel and Remuneration Committee. The decision-making process, which is outlined in the chart below, guarantees that decisions are fair and unbiased.

### The decision-making process in remuneration-related matters



## Remuneration of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors. In 2016, the AGM decided to keep the fees payable to the Board unchanged as follows:

- Chair, EUR 66,000 a year.
- Vice Chair, EUR 49,200 a year.
- Members, EUR 35,400 a year.

The amounts have remained unchanged since 2008.

In addition, members receive an attendance payment of EUR 600 for each Board or Committee meeting held in the member's home country and EUR 1,200 for each Board or Committee meeting held in another country, plus compensation for expenses in accordance with Company's travel policy. The meeting fee for telephone meetings will be paid according to the fee payable for meetings held in each member's home country.

Board members are not within the scope of the Company's incentive systems and do not receive any performance or share-related payments.

### Remuneration paid to members of the Board as of 31 December 2016

| | Annual board fees (EUR) | | Meeting attendance fees (EUR) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Jorma Eloranta | 66,000 | 66,000 | 10,800 | 13,200 |
| Maija-Liisa Friman | 49,200 | 49,200 | 11,400 | 11,400 |
| Laura Raitio | 35,400 | 35,400 | 10,800 | 13,200 |
| Jean-Baptiste Renard | 35,400 | 35,400 | 18,000 | 24,000 |
| Willem Schoeber [(1)] | 35,400 | 35,400 | 23,400 | 20,400 |
| Kirsi Sormunen | 35,400 | 35,400 | 12,000 | 11,400 |
| Marco Wirén [(2)] | 35,400 | 26,550 | 12,000 | 8,400 |

[(1)] Meeting fees also include a total of EUR 4,200 in meeting fees from five meetings paid due to special tasks set by the Board of Directors for Willem Schoeber in 2016.
[(2)] Marco Wirén joined the Board of Directors on 1 April 2015, and has been remunerated for the period 1.4.–31.12.2015.

The meeting attendance fees do not include travel expenses.
Details of the shareholdings of the Board of Directors are shown in the Annual Report on pages 66–67. These shares are personally acquired.

# 04

# Review by the Board of Directors



Read more: Members of the Board of Directors >>

# Review by the Board of Directors 2016

Neste had another successful year in 2016 and posted a record-high comparable operating profit of EUR 983 million compared to EUR 925 million in the previous year. The Group's IFRS operating profit was EUR 1,155 million (699 million). For the first time Renewable Products had the largest full-year comparable operating profit contribution, which reflected the continuing strategic transformation of the company. The company generated a strong cash flow and further strengthened its balance sheet. The return on average capital employed was maintained over the long-term target level of 15%. Oil Products' reference margin averaged clearly lower than the exceptionally high level in 2015, as high product inventories limited the upside in refining margins. However, additional margin reached USD 5.5/bbl level as a result of operational performance and leveraging of contango opportunities, with sales volumes back on track after the turnaround year 2015. Renewable Products' average reference margin and additional margin were higher than in 2015. The segment's sales volumes reached 2.22 million tons, almost the same level as in the previous year, despite of the scheduled maintenance at the Rotterdam refinery. A slightly higher share of the sales volumes was allocated to the North American market. Oil Retail's markets were growing and the segment was able to increase profits by higher sales volumes and unit margins. The Board of Directors will propose a dividend of EUR 1.30 per share (1.00) for 2016, totaling EUR 332 million (256 million).

Figures in parentheses refer to the full-year financial statements for 2015, unless otherwise noted.

## The Group's results for 2016

Neste's revenue in 2016 totaled EUR 11,689 million (EUR 11,131 million). Sales volumes increased, but the revenue was negatively impacted by a lower average oil price year-on-year. The Group's comparable operating profit was EUR 983 million (EUR 925 million). Oil Products' result was negatively impacted by reference margin, which was materially lower than in 2015. However, additional margin increased, and the sales volume was higher compared to last year, which was impacted by the scheduled turnaround at the Porvoo refinery. Renewable Products operating profit improved as a result of higher reference margin and additional margin. Oil Retail's result was positively impacted by increased sales volumes and unit margins. The Others segment recorded a lower comparable operating profit compared to 2015, mainly due to Nynas' lower result and higher common corporate costs.

Oil Products' full-year comparable operating profit was EUR 453 million (439 million), Renewable Products' EUR 469 million (402 million), and Oil Retail's EUR 90 million (84 million). The comparable operating profit of the Others segment totaled EUR -23 million (2 million); Nynas accounted for EUR 11 million (29 million) of this figure.

The Group's IFRS operating profit was EUR 1,155 million (699 million), which was impacted by inventory gains totaling EUR 280 million (losses of 263 million), and changes in the fair value of open commodity and currency derivatives totaling EUR -118 million (-15 million), mainly related to hedging of inventories. IFRS operating profit was also impacted by capital gains totaling EUR 23 million (76 million), mainly related to the sale of Ekokem shares and the sale of Neste's power plant to Kilpilahti Power Plant Ltd. Profit before income taxes was EUR 1,075 million (634 million), net profit EUR 943 million (560 million). Comparable earnings per share were EUR 3.10 (2.84), and earnings per share EUR 3.67 (2.18). The Group's effective tax rate was 12% (12%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Latvia, Lithuania, Singapore, and Switzerland, where Neste has business operations. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010-2023 under the applicable Singapore legislation.

## Group key figures, MEUR

| | 2016 | 2015 |
|---|---|---|
| **Comparable operating profit** | 983 | 925 |
| - inventory gains/losses | 280 | -263 |
| - changes in the fair value of open commodity and currency derivatives | -118 | -15 |
| - capital gains/losses | 23 | 76 |
| - insurance and other compensations | 0 | 0 |
| - other adjustments | -13 | -25 |
| **IFRS operating profit** | 1,155 | 699 |

### Revenue

| | 2016 | 2015 |
|---|---|---|
| Oil Products | 7,395 | 7,467 |
| Renewable Products | 2,690 | 2,372 |
| Oil Retail | 3,552 | 3,748 |
| Others | 294 | 267 |
| Eliminations | -2,241 | -2,724 |
| **Total** | 11,689 | 11,131 |

### Comparable operating profit

| | 2016 | 2015 |
|---|---|---|
| Oil Products | 453 | 439 |
| Renewable Products | 469 | 402 |
| Oil Retail | 90 | 84 |
| Others | -23 | 2 |
| Eliminations | -6 | -2 |
| **Total** | 983 | 925 |

### IFRS operating profit

| | 2016 | 2015 |
|---|---|---|
| Oil Products | 563 | 389 |
| Renewable Products | 518 | 233 |
| Oil Retail | 89 | 79 |
| Others | -11 | 0 |
| Eliminations | -5 | -2 |
| **Total** | 1,155 | 699 |

## Financial targets

Return on average capital employed after tax (ROACE) and leverage ratio are Neste's key financial targets. ROACE figures are based on comparable results. The company's long-term ROACE target is 15% and the leverage ratio target is 25–50%. ROACE calculated over the last 12 months period was maintained over the target level, and leverage ratio continued on a downward trend.

| | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|
| Return on average capital employed after tax (ROACE)*, % | 16.9 | 16.3 |
| Leverage ratio (net debt to capital), % | 15.4 | 29.4 |

* Last 12 months

## Cash flow, investments and financing

The Group's net cash generated from operating activities totaled EUR 1,193 million (743 million) in 2016. The year-on-year difference was mainly attributable to the strong EBITDA generation of businesses, and payment of the US Blender's Tax Credit from the year 2015 during 2016. Cash flow before financing activities was EUR 834 million (480 million). The Group's net working capital in days outstanding was 26.8 days (21.4 days) on a rolling 12-month basis at the end of 2016.

| | 2016 | 2015 |
|---|---|---|
| EBITDA (IFRS) | 1,521 | 1,057 |
| Capital gains/losses | -28 | -77 |
| Other adjustments | 121 | -27 |
| Change in working capital | -229 | -94 |
| Finance cost, net | -56 | -88 |
| Income taxes paid | -137 | -27 |
| Net cash generated from operating activities | 1,193 | 743 |
| Capital expenditure | -407 | -505 |
| Other investing activities | 49 | 241 |
| **Free cash flow (Cash flow before financing activities)** | 834 | 480 |

Cash-out investments totaled EUR 407 million (505 million) in 2016. Maintenance investments accounted for EUR 148 million (374 million) and productivity and strategic investments for EUR 259 million (131 million). Oil Products' investments totaled EUR 257 million (437 million), with the largest single project being the Solvent Deasphalting (SDA) unit under construction at the Porvoo refinery. Renewable Products' investments totaled EUR 90 million (32 million), mainly related to the ongoing biopropane unit investment at the Rotterdam refinery. Oil Retail's investments totaled EUR 26 million (19 million) and were mainly related to the station network. Investments in the Others segment totaled EUR 35 million (17 million) and were mainly related to IT and business infrastructure upgrade.

Interest-bearing net debt was EUR 683 million as of the end of December 2016, compared to EUR 1,291 million at the end of 2015. Net financial expenses for the year were EUR 79 million (65 million). The average interest rate of borrowing at the end of December was 3.5% (3.4%) and the average maturity 3.6 (3.7) years. The interest-bearing net debt/comparable EBITDA ratio was 0.5 (1.0) over the previous 12 months at the end of the year.

The Group has a strong financial position. The leverage ratio was 15.4% (31 Dec. 2015: 29.4%), and the gearing ratio 18.2% (31 Dec. 2015: 41.6%) at the end of the year.

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,438 million as of the end of December (31 Dec. 2015: 2,246 million). There are no financial covenants in the Group companies' current loan agreements.

In accordance with its hedging policy, Neste hedges a large part 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. At the end of December the Group's foreign currency hedging ratio was slightly above 50% for the next 12 months.

### US dollar exchange rate

| | 2016 | 2015 |
|---|---|---|
| EUR/USD, market rate | 1.11 | 1.11 |
| EUR/USD, effective rate* | 1.11 | 1.15 |

* The effective rate includes the impact of currency hedges.

## Segment reviews

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

## Oil Products

### Key financials

| | 2016 | 2015 |
|---|---|---|
| Revenue, MEUR | 7,395 | 7,467 |
| EBITDA, MEUR | 780 | 606 |
| Comparable EBITDA, MEUR | 670 | 655 |
| Comparable operating profit, MEUR | 453 | 439 |
| IFRS operating profit, MEUR | 563 | 389 |
| Net assets, MEUR | 2,424 | 2,320 |
| Return on net assets, % | 23.2 | 16.2 |
| Comparable return on net assets, % | 18.7 | 18.2 |

### Key drivers

| | 2016 | 2015 |
|---|---|---|
| Reference refining margin, USD/bbl | 4.88 | 7.74 |
| Additional margin, USD/bbl | 5.50 | 4.05 |
| Total refining margin, USD/bbl | 10.38 | 11.79 |
| Urals-Brent price differential, USD/bbl | -2.48 | -1.84 |
| Urals' share of total refinery input, % | 68 | 62 |

Crude oil prices were again volatile during 2016. After a weak start for the year the prices rose significantly towards USD 50/bbl during the first half of the year. The rise was driven by expectations of a more balanced crude oil supply and demand as markets saw low crude oil price negatively impacting upstream investment. During the second half of the year prices were trending upward mainly driven by talks and a later agreement between OPEC and NON-OPEC countries to cut production. In 2016 Brent price averaged USD 43.7/bbl, but at year end it was approx. USD 55/bbl – the highest level since summer 2015.

The Russian Export Blend (REB) crude averaged USD 2.5/bbl lower than Brent in 2016 and USD 2.2/bbl lower during the fourth quarter. Record production in post-Soviet period and continued high exports through the Baltic ports contributed to a reasonably wide differential during the year. Also, competition from Middle Eastern sour grades in the Baltic Sea and Mediterranean markets drove a wider REB differential.

Despite a weak diesel margin due to the mild winter, the Neste reference refining margin started the year 2016 on a seasonally high level as gasoline storing for the summer season and a weak crude oil market had positive impact on margins. During the summer refining margins came under pressure as gasoline market started to lose its strength due to high inventory levels and the slowly recovering diesel margins were not able to compensate gasoline weakness. During the second half of the year, margin recovered from the summer lows driven by refinery run cuts and autumn refinery maintenance season together with several refinery outages. On average, gasoline was the strongest part of the barrel in 2016. Neste's reference margin averaged USD 4.9/bbl in 2016, and USD 5.2/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 453 million (439 million). During 2016 the average reference refining margin was USD 2.9/bbl lower than in the previous year, which had a negative impact of EUR 235 million on the result. On the other hand, additional margin was USD 1.5/bbl higher and had a positive impact of EUR 206 million on the comparable operating profit year-on-year. Sales volumes were 20% higher compared to the year 2015, which was impacted by the scheduled major turnaround at Porvoo. Higher sales volumes increased the operating profit by EUR 69 million. The segment's fixed costs were approx. EUR 33 million higher year-on-year, mainly as a result of higher maintenance activities.

### Production

| | 2016 | 2015 |
|---|---|---|
| Porvoo refinery production, 1,000 ton | 11,718 | 9,835 |
| Porvoo refinery utilization rate, % | 89 | 75 |
| Naantali refinery production, 1,000 ton | 1,869 | 1,956 |
| Naantali refinery utilization rate, % | 62 | 62 |
| Refinery production costs, USD/bbl | 4.2 | 4.0 |
| Bahrain base oil plant production (Neste's share), 1,000 ton | 159 | 184 |

### Sales from in-house production, by product category (1,000 t)

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Middle distillates* | 6,590 | 46 | 5,395 | 45 |
| Light distillates** | 4,706 | 33 | 3,857 | 33 |
| Heavy fuel oil | 1,594 | 11 | 1,122 | 9 |
| Base oils | 461 | 3 | 433 | 4 |
| Other products | 965 | 7 | 1,075 | 9 |
| **Total** | 14,316 | 100 | 11,881 | 100 |

* Diesel, jet fuel, heating oil

** Motor gasoline, gasoline components, LPG

### Sales from in-house production, by market area (1,000 t)

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Baltic Sea area* | 8,037 | 56 | 7,876 | 66 |
| Other Europe | 4,596 | 32 | 3,154 | 27 |
| North America | 1,198 | 8 | 491 | 4 |
| Other areas | 485 | 3 | 360 | 3 |

* Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark

## Renewable Products

### Key financials

| | 2016 | 2015 |
|---|---|---|
| Revenue, MEUR | 2,690 | 2,372 |
| EBITDA, MEUR | 628 | 327 |
| Comparable EBITDA, MEUR | 578 | 497 |
| Comparable operating profit, MEUR | 469 | 402 |
| IFRS operating profit, MEUR | 518 | 233 |
| Net assets, MEUR | 1,811 | 1,884 |
| Return on net assets, % | 28.6 | 12.6 |
| Comparable return on net assets, % | 25.9 | 21.8 |

### Key drivers

| | 2016 | 2015 |
|---|---|---|
| FAME - Palm oil price differential*, USD/ton | 194 | 211 |
| SME - Soybean oil price differential**, USD/ton | 204 | 118 |
| Reference margin, USD/ton | 207 | 182 |
| Additional margin***, USD/ton | 272 | 247 |
| Comparable sales margin***, USD/ton | 348 | 299 |
| Biomass-based diesel (D4) RIN, USD/gal | 0.91 | 0.73 |
| Palm oil price****, USD/ton | 634 | 576 |
| Crude palm oil's share of total feedstock, % | 19 | 31 |

* FFAME seasonal vs. CPO BMD 3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month futures price) + 70 $/t freight to ARA (Amsterdam-Rotterdam-Antwerp)

** SME US Gulf Coast vs. SBO CBOT 1st (Soybean Oil Chicago Board of Trade 1st month futures price)

*** Includes impact of US BTC (Blender's tax Credit); full-year 2015 contribution in both 10-12/15 and 2015 figures

**** CPO BMD 3rd

During 2016, crude palm oil (CPO) and other vegetable oil prices were supported by low inventories globally. Severe El Nino weather phenomenon reduced palm oil production with some time lag, and as exports continued at reasonably high level, CPO inventories were drawn down. CPO price averaged 10% higher in 2016 than in the previous year. Rapeseed oil (RSO) supply was negatively impacted by the poor European rapeseed crop. Soybean oil (SBO) price got support later in the year by strong worldwide demand and continued positive outlook for the US Renewable Fuel Standard requirements in 2017.

European Fatty Acid Methyl Ester (FAME) biodiesel demand did not grow in 2016. FAME prices were on an increasing trend supported by stronger RSO, but producer margins declined. In the US market Soy Methyl Ester (SME) demand growth in 2016 was driven by increased biomass-based diesel volume obligations, need to replace ethanol due to the gasoline blend wall issue, and limitations in Brazilian ethanol supply for the advanced biofuels category. SME margins improved clearly from the previous year despite the higher SBO prices. This was also reflected in Renewable Identification Number (RIN) prices, which increased by USD 0.18/gallon (D4 RIN) on average in 2016. Overall, biodiesel and renewable diesel production benefited from the increase in the biomass-based diesel mandate and the US Blenders' Tax Credit introduced for 2016. The California Low Carbon Fuel Standard (LCFS) program progressed as expected, and the LCFS credit prices increased by approx. USD 50/ton from 2015 on average.

Renewable Products' full-year comparable operating profit was EUR 469 million (402 million). The reference margin in 2016 was higher than in the previous year, which had EUR 49 million positive impact on the segment's operating profit. The additional margin also improved through successful margin management and sales allocation, which had a positive impact of EUR 52 million year-on-year. Sales volume was 2.222 million tons in 2016, down only 2% from the record level of the previous year, despite the scheduled turnaround at the Rotterdam refinery in the second quarter. During the year 2016 approximately 66% (69%) of sales volume went to Europe and 34% (31%) to North America. Demand for renewable diesel delivered as 100% to end-users has increased steadily in Europe and North America, as it is an efficient solution to quickly reduce greenhouse gas and other emissions in existing fleets. In 2016 100% renewable diesel sales accounted for more than 15% of our total renewable diesel sales volumes. Renewable diesel production achieved an average capacity utilization rate of 88% (94%) in 2016, mainly impacted by the scheduled turnaround and other maintenance at the Rotterdam refinery. Feedstock mix optimization continued successfully, and the proportion of waste and residue inputs rose to 78% (68%) on average. Fixed costs and depreciations increased by EUR 29 million year-on-year.

### Production

| | 2016 | 2015 |
|---|---|---|
| Neste Renewable Diesel, 1,000 ton | 2,213 | 2,328 |
| Other products, 1,000 ton | 175 | 165 |
| Utilization rate, % | 88 | 94 |

### Sales

| | 2016 | 2015 |
|---|---|---|
| Neste Renewable Diesel, 1,000 ton | 2,222 | 2,267 |
| Share of sales volumes to Europe, % | 66 | 69 |
| Share of sales volumes to North America, % | 34 | 31 |

## Oil Retail

### Key Financials

| | 2016 | 2015 |
|---|---|---|
| Revenue, MEUR | 3,552 | 3,748 |
| EBITDA. MEUR | 111 | 110 |
| Comparable EBITDA, MEUR | 112 | 115 |
| Comparable operating profit, MEUR | 90 | 84 |
| IFRS operating profit, MEUR | 89 | 79 |
| Net assets, MEUR | 196 | 184 |
| Return on net assets, % | 47.3 | 38.9 |
| Comparable return on net assets, % | 47.5 | 41.2 |

Oil Retail's markets grew modestly in Finland and more rapidly in the Baltic countries. Heavy duty traffic continued to recover in Finland. Russian economy affects consumer demand, but the ruble has stabilized.

Oil Retail's full-year comparable operating profit was EUR 90 million (84 million). Higher sales volumes had a positive impact of EUR 4 million and improved unit margins a positive impact of EUR 2 million on the segment's comparable operating profit year-on-year. The weaker ruble had a negative impact of EUR 1 million on the result in Northwest Russia compared to the previous year.

### Sales volumes by main product categories, million liters

| | 2016 | 2015 |
|---|---|---|
| Gasoline, station sales | 1,112 | 1,115 |
| Diesel, station sales | 1,695 | 1,589 |
| Heating oil | 620 | 569 |

### Net sales by market area, MEUR

| | 2016 | 2015 |
|---|---|---|
| Finland | 2,497 | 2,642 |
| Northwest Russia | 248 | 255 |
| Baltic countries | 777 | 821 |

## Others

### Key figures

| | 2016 | 2015 |
|---|---|---|
| Comparable operating profit, MEUR | -23 | 2 |
| IFRS operating profit, MEUR | -11 | 0 |

The Others segment consists of the engineering and technology solutions company Neste Jacobs, 60/40-owned by Neste and Jacobs Engineering; Nynas, a joint venture 50/50-owned by Neste and Petróleos de Venezuela; and common corporate costs. The full-year comparable operating profit for the Others segment totaled EUR -23 million (2 million); of which Nynas accounted for EUR 11 million (29 million). Nynas' result was negatively impacted by lower margins and effects of the delayed Harburg refinery start-up.

## Shares, share trading, and ownership

Neste's shares are traded on NASDAQ Helsinki Ltd. The share price closed the year 2016 at EUR 36.50, up by 32.1% compared to the end of 2015. The total shareholder return (TSR) was 35.7% (41.0%) in 2016. At its highest during 2016, the share price reached EUR 40.78, while the lowest daily closing price was EUR 25.42. Market capitalization was EUR 9.4 billion as of 31 December 2016. An average of 0.79 million shares were traded daily, representing 0.3% of the company's shares.

Neste's share capital registered with the Company Register as of 31 December 2016 totaled EUR 40 million, and the total number of shares was 256,403,686. As resolved by the AGM held on 1 April 2015, the Board of Directors was authorized to purchase and/or take as security a maximum of 1,000,000 company shares using the company's unrestricted equity. At the end of December 2016, Neste held 686,574 treasury shares purchased under this authorization. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

As of the end of the year, the Finnish State owned 50.1% (50.1% at the end of 2015) of outstanding shares, foreign institutions 30.3% (25.0%), Finnish institutions 10.1% (13.8%), and Finnish households 9.6% (11.1%).

## Largest shareholders as of 31 December 2016

| Shareholder | Shares | % of shares |
|---|---|---|
| Prime Minister´s Office of Finland | 128,458,247 | 50.10% |
| Ilmarinen Mutual Pension Insurance Company | 4,820,849 | 1.88% |
| The Social Insurance Institution of Finland, KELA | 2,648,424 | 1.03% |
| The State Pension Fund | 1,900,000 | 0.74% |
| Varma Mutual Pension Insurance Company | 1,777,514 | 0.69% |
| The City of Kurikka | 1,550,875 | 0.60% |
| Elo Mutual Pension Insurance Company | 1,221,107 | 0.48% |
| Schweizerische Nationalbank | 933,413 | 0.36% |
| Neste Corporation | 686,574 | 0.27% |
| OP-Delta Mutual Fund | 580,000 | 0.23% |
| Sigrid Jusélius Foundation | 423,000 | 0.17% |
| OP-Finland Value Fund | 370,918 | 0.14% |
| Alhopuro Eero Sakari | 348,400 | 0.14% |
| Veritas Pension Insurance Company Ltd. | 306,934 | 0.12% |
| Finnish Cultural Foundation | 302,882 | 0.12% |
| OP-Focus Fund | 290,000 | 0.11% |
| Etola Erkki Olavi | 250,000 | 0.10% |
| OP Bank Group Pension Fund | 238,442 | 0.09% |
| Danske Finnish Institutional Equity Fund | 212,874 | 0.08% |
| Jenny and Antti Wihuri Foundation | 210,000 | 0.08% |
| | | |
| 20 largest owners total | 147,530,453 | 57.54% |
| Nominee registrations | 76,111,549 | 29.68% |
| Others | 32,761,684 | 12.78% |
| **Number of shares, total** | 256,403,686 | 100.00% |

## Breakdown of share ownership as of 31 December 2016

### By the number of shares owned

| No. of shares | No. of shareholders | % of shareholders | Total no. of shares | % of shares |
|---|---|---|---|---|
| 1–100 | 26,356 | 40.7% | 1,386,733 | 0.6% |
| 101–500 | 26,977 | 41.6% | 6,698,990 | 2.6% |
| 501–1,000 | 6,301 | 9.7% | 4,815,283 | 1.9% |
| 1,001–5,000 | 4,524 | 7.0% | 9,094,641 | 3.6% |
| 5,001–10,000 | 363 | 0.6% | 2,611,541 | 1.0% |
| 10,001–50,000 | 208 | 0.3% | 4,113,315 | 1.6% |
| 50,001–100,000 | 21 | 0.0% | 1,439,235 | 0.6% |
| 100,001–500,000 | 29 | 0.1% | 5,881,083 | 2.3% |
| 500,001– | 15 | 0.0% | 220,362,865 | 85.9% |
| **Total** | **64,794** | **100.0%** | **256,403,686** | **100.0%** |
| of which nominee registrations | 11 | | 76,111,549 | |

### By shareholder category

| | % of shares |
|---|---|
| State of Finland | 50.1% |
| Non-Finnish shareholders | 30.3% |
| Households | 9.6% |
| General government | 5.9% |
| Financial and insurance companies | 1.3% |
| Corporations | 1.6% |
| Non-profit organizations | 1.2% |
| **Total** | **100.0%** |

## Corporate governance

The control and management of Neste 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 Nomination Board. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting following its election. Neste'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's Annual General Meeting (AGM) was held in Helsinki on 30 March 2016. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2015, and discharged the Board of Directors and the President & CEO from liability for 2015. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2015, authorizing payment of a dividend of EUR 1.00 per share. The dividend was paid on 8 April 2016.

In accordance with the proposal made by the Shareholders' Nomination Board, the AGM confirmed the membership of the Board of Directors at seven members, and the following were re-elected to serve until the end of the next AGM: Mr Jorma Eloranta, Ms Maija-Liisa Friman, Ms Laura Raitio, Mr Jean-Baptiste Renard, Mr Willem Schoeber, Ms Kirsi Sormunen and Mr Marco Wirén. Mr Eloranta was re-elected as Chair and Ms Friman as Vice Chair.

Convening after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Maija-Liisa Friman and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Laura Raitio, Willem Schoeber, and Kirsi Sormunen as members of the Audit Committee.

In accordance with a proposal by the Board of Directors, PricewaterhouseCoopers Oy, were appointed as the company's Auditor, with Authorized Public Accountant Mr Markku Katajisto as the principally responsible auditor for Neste Corporation, until the end of the next AGM. Payment for their services shall be made in accordance with their invoice approved by the Company.

In accordance with a proposal by the Board of Directors, the Annual General Meeting authorized the Board to decide on donations in the aggregate maximum amount of EUR 1,500,000 to be given to universities and higher education institutions. The donations can be made in one or more installments. The Board may decide on the donation beneficiaries and the amount of each donation. The authorization shall be in force until the closing of the next Annual General Meeting.

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

## Personnel

Neste employed an average of 5,013 (4,906) employees in 2016, of which 1,585 (1,553) were based outside Finland. As of the end of December, the company had 5,001 employees (4,856), of which 1,602 (1,577) were located outside Finland.

## Health, safety, and the environment

### Key figures

| | 2016 | 2015 |
|---|---|---|
| TRIF* | 2.8 | 3.3 |
| PSER** | 3.1 | 2.4 |

* Total Recordable Incident Frequency, number of cases per million hours worked. The figure includes both Neste's and contractors' personnel.

** Process Safety Event Rate, number of cases per million hours worked.

Neste's safety performance improved towards the end of the year, but, however, the targets for 2016 were not reached. The occupational safety key performance indicator TRIF in 2016 was better than in the previous year. PSER, the main indicator for process safety, was higher than the target and higher than the 2015 result. Several short-term initiatives have been started to ensure reaching the targets for 2017. Our long-term safety development activities continue according to the corporate-wide Way Forward to Safety program plan focusing on behavior, leadership, operational discipline, process safety and contractor safety.

Neste's operational environmental emissions were in substantial compliance at all sites during 2016. A total of eight environmental non-compliance cases occurred in Neste's operations. All these cases were minor and had a limited environmental impact only. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. In December 2016 the Porvoo refinery was granted an amended environmental permit pursuant to the EU Best Available Technology (BAT) requirements for oil refineries.

Neste was included in the Dow Jones Sustainability World Index for the tenth consecutive time, this year being the only company in the European oil refining and retail sector included on the list. The company was also recognized as a world leader for corporate action on climate change, reaching the Climate A List of Carbon Disclosure Project (CDP). In December, Neste's actions to prevent deforestation received high score and Leadership-status also in the CDP Forests program 2016.

Neste continued to be the only company in the energy sector to transparently report on its forest footprint as part of the globally acknowledged CDP Forests program.

Read more about the topics on Neste's website.

## Research and development

Neste's R&D expenditure totaled EUR 41 million (41 million) in 2016. Expansion of the feedstock portfolio and broadening of the product portfolio also beyond fuel applications was continued. Participation in standardization group work has been active. The approval of the new paraffinic diesel standard EN 15940 in 2016 was an important step to larger scale use of 100% renewable diesel. Product development work has continued on renewable aviation fuel and new application areas, where e.g. cooperation with Ikea on bioplastics and with Avantherm on heat exchanger fluids has been continued. Neste's patent portfolio in renewable feedstock, fuels and applications was further strengthened with new patents and patent applications.

Expansion of the renewable feedstock base continued to be a key research topic in 2016. Volume of waste and residue based renewable feedstock increased significantly summing up to annual total of 2.1 (1.9) million tons and accounted already for 78% (68%) of the total feed. Especially lower grade waste and residue feedstock, such as low quality animal fats, technical corn oil and used cooking oil quantities were increased. Improvements in renewable diesel production capacity enabled to reach total production of 2.2 (2.3) million tons despite of the scheduled Rotterdam turnaround in spring 2016. R&D also supported the development and optimization of both fossil and renewables refinery units, including selection of the most suitable catalysts for the catalytic units.

## Main events published during 2016

On 16 March, Neste announced that the power plant arrangement between Neste, Veolia and Borealis was closed in the form it was announced in December 2015. In the arrangement, Neste will transfer its existing power plant to Kilpilahti Power Plant Limited (KPP). The company will build a new combined heat and power plant in Porvoo to match the needs of Neste and Borealis. Neste and Veolia both own 40% of KPP, and Borealis owns 20%. The total investment value of the power plant is about EUR 400 million. The plant, to be operated by Veolia, is scheduled for commissioning in 2018.

On 29 March, Neste announced that the name of the Neste Oil station network will change to Neste.

On 12 May, Neste announced that it had been informed of the State of Finland's proposed amendments to its ownership policy. The Government proposes a new lower limit of 33.4% for the implementation of strategic interest, which would be applied to Neste. The planned changes in the shareholding of the State of Finland will not have effects on Neste's business. The Finnish Parliament decides on ownership limits and changes in them.

On 2 September, Neste announced that the company's Shareholders' Nomination Board had been appointed with the following members: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Liisa Hyssälä, Director General of Kela, and Jorma Eloranta, the Chair of Neste's Board of Directors. The Nomination Board will forward its proposals for the AGM to the Board of Directors by 31 January 2017.

On 6 September, Neste and Ikea of Sweden announced a partnership to deliver renewable, bio-based plastics. Neste and IKEA have joined forces to take leadership in renewable, bio-based materials, and invite other companies to join the initiative. The partnership includes the production of plastics and other materials utilizing Neste's renewable solutions in polymer production. The partnership combines IKEA's commitment to reduce their dependence on virgin fossil based materials and Neste's expertise in renewable solutions. The companies will work with a number of partners in the supply chain.

On 8 September, Neste announced that it will be renewing the Finnish diesel market by introducing 100% renewable diesel. Neste is planning to start selling diesel produced entirely from renewable raw materials at selected stations in Finland around the turn of the year. The new product offers environmentally conscious consumers and corporate customers a sustainable and easy solution for reducing traffic-borne emissions. Majority of the renewable raw materials the company uses consists of waste and residues.

On 13 September, Neste announced changes in the Neste Executive Board’s roles and responsibilities. Tuomas Hyyryläinen was appointed Senior Vice President, Emerging Businesses Unit as of 14 September, 2016. He will continue as a member of the Executive Board, reporting to President and CEO Matti Lievonen. Strategy and related operations will report to Jyrki Mäki-Kala, CFO.

On 14 September, Neste held a Capital Markets Day in London under the theme "Creating the next wave of profitable growth." The company's strategic objectives remain unchanged: be the Baltic Sea champion and grow in the global renewables markets. Neste continues its efforts to enhance Oil Products' additional margin. The target for additional margin has been raised from the earlier USD 5.0/bbl to above USD 5.5/bbl on average. Neste sees great potential in many new renewable product applications such as renewable jet fuel and bio-based chemicals, and targets to have 20% of its renewable business sales volume from these new applications by 2020. The company's ambition is to increase its renewable products capacity from the current 2.6 million tons/a further to maintain its global market leadership in drop-in solutions. The company is exploring different options for the new capacity increase program, and will give more information during the first quarter of 2017. Neste's most important financial targets are leverage and ROACE after tax, and they remain unchanged. Neste's dividend policy has been revised. The company will distribute at least 40% of the company's comparable net profit for the year in the form of dividends.

On 2 November, Neste announced that to celebrate the 100th anniversary of Finland's independence, Neste will donate a total of EUR 1.5 million to Finnish universities. The donation will be split between Aalto University, Åbo Akademi, Lappeenranta University of Technology, and the University of Helsinki.

On 23 November, Neste announced that the US Environmental Protection Agency (EPA) had published the final ruling covering renewable fuel volume requirements for 2017 under the Renewable Fuel Standard (RFS) program. The final rule calls for further increases in the volume requirements above those in proposed rule published on 18 May 2016, and includes an increased volume requirement for biomass-based diesel for 2018.

On 30 November, Neste announced that the European Commission had published its proposal on the revised Renewable Energy Directive for the years 2021 through 2030. Neste welcomes EU's continuing commitment to long-term policies and ambitious climate targets. The goal of the Directive is to increase the proportion of renewable energy in Europe to 27% by 2030. The proposed Renewable Energy Directive introduces aviation and marine sectors to contribute to the climate effort. The proposal will next be considered by the European Council and the European Parliament.

On 15 December, Neste announced that Christian Ståhlberg, M.Sc. (Laws), had been appointed as General Counsel of Neste Corporation and member of the Neste Executive Board. He will join Neste on 1 July 2017, at the latest, and will report to President and CEO Matti Lievonen.

On 27 December, Neste announced that it had signed an agreement with Electrawinds ReFuel B.V. on the acquisition of a former biodiesel plant in Sluiskil in the Netherlands. Neste intends to use the Sluiskil plant for the storage and pre-treatment of renewable raw materials for the company's renewable diesel refineries. The aim is to complete the transaction during the first quarter of 2017. The purchase price is not disclosed.

## Events after the reporting period

On 2 January, 2017, Neste announced the following change in membership in Neste's Shareholders' Nomination Board: Due to the retirement of Liisa Hyssälä, the new Director General of Kela, Elli Aaltonen, has succeeded her as a member of the Neste's Shareholders' Nomination Board on 1 January 2017.

On 27 January, 2017, Neste announced that the Shareholders' Nomination Board will propose to the AGM to be held on 5 April 2017 that the company's Board of Directors should comprise the following members: Mr. Jorma Eloranta should be re-elected as Chair, and Board members Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén should be re-elected for a further term of office. The Shareholders' Nomination Board further proposes that the Board should have eight members and that Ms. Martina Flöel (PhD, Chemistry), Ms. Heike van de Kerkhof (BSc, Mechanical Engineering, and MBA) and Mr. Matti Kähkönen (M.Sc. Eng) should be elected as new members. The Nomination Board further proposes that Mr. Kähkönen should be elected as the Vice Chair of the Board.

## Potential risks

There have been no significant changes in Neste´s short-term risks or uncertainties since the end of 2015.

Key market risks affecting Neste's financial results for the next 12 months include rapid changes in global oil markets, unexpected changes in the product and feedstock prices of Oil Products and/or Renewable Products, weakening of USD against EUR, and adverse changes in the current biofuel legislation in our main markets. Any scheduled or unexpected shutdowns at Neste's refineries would have a negative effect on Neste's financial results.

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

## Risk management

Neste considers risk management as an integral part of daily management processes and good corporate governance. Risk is recognized as an unavoidable component of running the business and is characterized by both opportunity and threat. Systematic risk management practices are the means to ensure that Neste is successful in reaching the set strategic targets and business objectives and is able to maintain continuous operations in the changing business environment.

Framework and principles for risk management in Neste have been defined in Corporate Risk Management Policy, which is approved by the Board of Directors. The policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines.

Neste's Risk Management has been implemented and maintained in accordance with the International Standard for risk management ISO 31000:2009. Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle.

Formal risk reporting is directed to business management teams, Neste Executive Board, Audit Committee and Board of Directors.

For more detailed information on Neste'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 2016.

## Outlook for 2017

Developments in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets; and volatility in these markets is expected to continue.

Crude oil supply and demand are expected to become more balanced, leading to a stronger crude market. Global oil demand growth estimates for 2017 by recognized experts currently vary between 1.2 and 1.6 million bbl/d. In light of the expected refining capacity growth the global product supply and demand look relatively balanced.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Market volatility in feedstock prices is expected to continue, which will have an impact on the Renewable Products segment's profitability.

Neste expects Oil Products' reference refining margin to be quite similar to that in 2016 on average. Our Porvoo refinery is expected to run at a high utilization rate and to have normal planned unit maintenance. A major two month turnaround at the Naantali unit is scheduled for the third quarter. We are targeting at least USD 5.5/bbl additional margin after mid-2017 as the ongoing strategic investments in the Porvoo Solvent Deasphalting (SDA) unit and the Naantali configuration change are completed.

Renewable Products' reference margin is expected to be at approximately the average level of the year 2016. Neste continues to optimize sales allocation based on the total margin, and we have new attractive markets in Europe. For example, Norway has set a biofuel target in traffic growing from 7.5% in 2017 to 20% in 2020. California continues to be an important market for Neste. Sales volumes of the renewable diesel delivered as 100% to end-users are expected to continue growing and be close to 25% of the total sales volumes in 2017. The vegetable oil market is expected to remain volatile, and we aim to expand the use of lower quality waste and residue feedstock further. The completed acquisition of the new feedstock pretreatment and storage facility in the Netherlands will support this goal. A new nameplate capacity of 2.6 million tons is effective 1 January, 2017, and utilization rates of our renewable diesel facilities are expected to be high. Our production costs have been reduced and we lower our variable production cost guidance from USD 130 to USD 110/ton.

In Oil Retail the sales volumes and unit margins are expected to follow the previous years' seasonality pattern.

Neste will continue to implement its global renewables growth strategy. The global demand for renewable products is expected to continue growing globally. Neste's renewables capacity increase program will include both debottlenecking of the existing production capacity to 3 million tons by 2020, and building of new capacity. We are currently evaluating the feasibility of options to invest in new production capacity. The options under review include locations in the US and Singapore.

Our strategy implementation is proceeding well, we continue to focus on our customers and growth initiatives, and will be completing the already announced strategic investments in 2017. Therefore, we are confident that the year 2017 will be another successful one for Neste.

## Dividend distribution proposal

Neste's dividend policy is to distribute at least 40% of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2016 amounted to EUR 1,670 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 Corporation pays a cash dividend of EUR 1.30 per share (1.00) for 2016, totaling EUR 332 million (256 million) based on the number of outstanding shares.

The proposed dividend represents a yield of 3.6% (at year-end 2016 share price of EUR 36.50) and 42% of the comparable net profit in 2016.

# Key figures

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Income statement** | | | | |
| Revenue | MEUR | 11,689 | 11,131 | 15,011 |
| Operating profit | MEUR | 1,155 | 699 | 150 |
| - of revenue | % | 9.9 | 6.3 | 1.0 |
| Comparable operating profit | MEUR | 983 | 925 | 583 |
| Profit before income taxes | MEUR | 1,075 | 634 | 78 |
| - of revenue | % | 9.2 | 5.7 | 0.5 |
| EBITDA | MEUR | 1,521 | 1,057 | 480 |
| Comparable EBITDA | MEUR | 1,349 | 1,284 | 913 |
| Comparable net profit | MEUR | 793 | 726 | 408 |
| **Profitability** | | | | |
| Return on equity (ROE) | % | 28.1 | 19.7 | 2.1 |
| Return on capital employed, pre-tax (ROCE) | % | 22.6 | 14.7 | 3.3 |
| Return on average capital employed, after tax (ROACE) | % | 16.9 | 16.3 | 10.1 |
| **Financing and financial position** | | | | |
| Interest-bearing net debt | MEUR | 683 | 1,291 | 1,621 |
| Leverage ratio | % | 15.4 | 29.4 | 37.9 |
| Gearing | % | 18.2 | 41.6 | 60.9 |
| Equity-to-assets ratio | % | 50.6 | 46.1 | 41.0 |
| **Other indicators** | | | | |
| Capital employed | MEUR | 5,226 | 4,991 | 4,526 |
| Capital expenditure and investments in shares | MEUR | 422 | 536 | 418 |
| - of revenue | % | 3.6 | 4.8 | 2.8 |
| Research and development expenditure | MEUR | 41 | 41 | 40 |
| - of revenue | % | 0.4 | 0.4 | 0.3 |
| Average number of personnel | | 5,013 | 4,906 | 4,989 |

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Share-related indicators** | | | | |
| Earnings per share (EPS) | EUR | 3.67 | 2.18 | 0.22 |
| Comparable earnings per share | EUR | 3.10 | 2.84 | 1.60 |
| Equity per share | EUR | 14.60 | 12.06 | 10.34 |
| Cash flow per share | EUR | 4.67 | 2.91 | 0.97 |
| Price/earnings ratio (P/E) | | 9.94 | 12.66 | 89.62 |
| Dividend per share | EUR | 1.30 [1] | 1.00 | 0.65 |
| Dividend payout ratio | % | 35.4 [1] | 45.8 | 290.4 |
| Dividend yield | % | 3.6 [1] | 3.6 | 3.2 |
| Share prices | | | | |
| At the end of the period | EUR | 36.50 | 27.63 | 20.06 |
| Average share price | EUR | 32.25 | 23.54 | 15.77 |
| Lowest share price | EUR | 25.42 | 19.91 | 13.24 |
| Highest share price | EUR | 40.78 | 27.70 | 20.32 |
| Market capitalization at the end of the period | MEUR | 9,359 | 7,084 | 5,143 |
| Trading volumes | | | | |
| Number of shares traded | 1,000 | 200,351 | 213,855 | 233,793 |
| In relation to weighted average number of shares | % | 78 | 84 | 91 |
| Average number of shares | | 255,696,935 | 255,568,717 | 255,532,039 |
| Outstanding number of shares at the end of the period | | 255,717,112 | 255,605,219 | 255,403,686 |

[1] Board of Directors' proposal to the Annual General Meeting

## Reconciliation of key figures to IFRS Financial Statements

Reconciliation between comparable operating profit and operating profit (IFRS) is presented in Note 4, Segment information.

## Reconciliation between comparable operating profit and comparable net profit

| MEUR | 2016 | 2015 |
|---|---|---|
| **Comparable operating profit** | 983 | 925 |
| Total financial income and expenses | -79 | -65 |
| Income tax expense | -133 | -74 |
| Non-controlling interests | -4 | -3 |
| Tax on items affecting comparability | 26 | -58 |
| **Comparable net profit** | 793 | 726 |

## Reconciliation of return on average capital employed, after tax (ROACE), %

| MEUR | 2016 | 2015 |
|---|---|---|
| **Comparable operating profit, last 12 months** | 983 | 925 |
| Financial income | 4 | 2 |
| Exchange rate and fair value gains and losses | -17 | 16 |
| Income tax expense | -133 | -74 |
| Tax on other items affecting ROACE | 16 | -74 |
| Comparable net profit, net of tax | 853 | 796 |
| Capital employed average | 5,047 | 4,883 |
| **Return on capital employed, after tax (ROACE), %** | 16,9 | 16,3 |

## Reconciliation of equity-to-assets ratio, %

| MEUR | 2016 | 2015 |
|---|---|---|
| Total equity | 3,755 | 3,104 |
| Total assets | 7,443 | 6,793 |
| Advances received | 18 | 56 |
| **Equity-to-assets ratio, %** | 50.6 | 46.1 |

# Calculation of key figures

## Calculation of key figures

| | | |
|---|---|---|
| EBITDA | = | Operating profit + depreciation, amortization and impairments |
| Comparable EBITDA | = | Comparable operating profit + depreciation, amortization and impairments |
| Comparable operating profit [1] | = | Operating profit -/+ inventory gains/losses -/+ changes in the fair value of open commodity and currency derivatives -/+ capital gains/ losses - insurance and other compensations -/+ other adjustments |
| Items affecting comparability | = | Inventory gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations and other adjustments |
| Comparable net profit | = | Comparable operating profit - total financial income and expense - income tax expense - non-controlling interests - tax on items affecting comparability |
| Return on equity (ROE), % | = | $100 \times \frac{\text{Profit before income taxes - income tax expense, last 12 months}}{\text{Total equity average, 5 quarters end values}}$ |
| Return on capital employed, pre-tax (ROCE), % | = | $100 \times \frac{\text{Profit before income taxes + financial expenses, last 12 months}}{\text{Capital employed average, 5 quarters end values [2]}}$ |
| Return on average capital employed, after-tax (ROACE), % | = | $100 \times \frac{\text{Comparable operating profit + financial income + exchange rate and fair value gains and losses - income tax expense - tax on other items affecting ROACE, last 12 months}}{\text{Capital employed average, 5 quarters end values}}$ |
| Capital employed | = | Total equity + interest bearing liabilities |
| Interest-bearing net debt | = | Interest-bearing liabilities - cash and cash equivalents |
| Leverage ratio, % | = | $100 \times \frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt + total equity}}$ |
| Gearing, % | = | $100 \times \frac{\text{Interest-bearing net debt}}{\text{Total equity}}$ |
| Equity-to-assets ratio, % | = | $100 \times \frac{\text{Total equity}}{\text{Total assets - advances received}}$ |
| Return on net assets, % | = | $100 \times \frac{\text{Segment operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$ |
| Comparable return on net assets, % | = | $100 \times \frac{\text{Segment comparable operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$ |
| Segment net assets | = | Property, plant and equipment + intangible assets + investments in joint ventures + inventories + interest-free receivables and liabilities - provisions - pension liabilities allocated to the business segment. |
| Research and development expenditure | = | Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received. |

## Calculation of share-related indicators

| | | |
|---|---|---|
| Earnings per share (EPS) | = | $\frac{\text{Profit for the period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$ |
| Comparable earnings per share | = | $\frac{\text{Comparable net profit for the period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$ |
| Equity per share | = | $\frac{\text{Shareholder's equity attributable to the owners of the parent}}{\text{Adjusted average number of shares at the end of the period}}$ |
| Cash flow per share | = | $\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$ |
| Price / earnings ratio (P/E) | = | $\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$ |
| Dividend payout ratio, % | = | $100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$ |
| Dividend yield, % | = | $100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$ |
| Average share price | = | $\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$ |
| Market capitalization at the end of the period | = | Number of shares at the end of the period x share price at the end of the period |

## Calculation of key drivers

| | | |
|---|---|---|
| Oil Products reference margin (USD/bbl) | = | Product value - feed cost - standard refining variable cost - sales freights |
| Oil Products total refining margin (USD/bbl) | = | $\frac{\text{Comparable sales margin x average EUR/USD exchange rate for the period x standard refinery yield}}{\text{Refined sales volume x standard barrels per ton}}$ |
| Oil Products additional margin (USD/bbl) | = | Oil Products total refining margin - Oil Products reference margin |
| Renewable Products reference margin (USD/ton) | = | Share of sales volumes Europe x (FAME - CPO) + share of sales North America x (SME - SBO) [3] |
| Renewable Products comparable sales margin (USD/ton) | = | $\frac{\text{Comparable sales margin}}{\text{Total sales volume}}$ |
| Renewable Products additional margin (USD/ton) | = | Comparable sales margin - (reference margin - standard variable production cost) |

[1] In the business environment where Neste operates, commodity prices and foreign exchange rates are volatile and can cause significant fluctuations in inventory values and IFRS operating profit. Comparable operating profit eliminates both the inventory gains/losses generated by the volatility in raw material prices and changes in open derivatives, and better reflects the company's underlying operational performance. Also, it reflects Neste's operational cash flow, where the change in IFRS operating profit caused by inventory valuation is mostly compensated by changing working capital. Items affecting comparability are linked to unpredictability events of a significant nature that do not form part of normal day-to-day business. They include among others impairment losses and reversals, gains and losses associated with the combination or termination of businesses, restructuring costs, and gains and losses on the sales of assets. Only items having an impact of more than EUR 1 million on Neste's result will be classified as items affecting comparability.

[2] Total equity average and capital employed average are calculated using last 5 quarters' end values from Q2 2016 interim report onwards, previously calculated using the yearly opening balance and each quarter end values.

[3] FAME = Fatty Acid Methyl Ester (biodiesel), CPO = Crude Palm Oil, SME = Soy Methyl Ester (biodiesel), SBO = Soybean Oil

# Quarterly segment information

**Revenue**

| MEUR | 10–12/2016 | 7–9/2016 | 4–6/2016 | 1–3/2016 | 10–12/2015 | 7–9/2015 | 4–6/2015 | 1–3/2015 |
|---|---|---|---|---|---|---|---|---|
| Oil Products | 2,159 | 1,961 | 1,916 | 1,359 | 1,756 | 2,060 | 1,675 | 1,976 |
| Renewable Products | 870 | 640 | 596 | 584 | 711 | 582 | 583 | 496 |
| Oil Retail | 964 | 925 | 886 | 776 | 898 | 991 | 976 | 882 |
| Others | 77 | 73 | 75 | 70 | 71 | 60 | 74 | 62 |
| Eliminations | –649 | –564 | –546 | –482 | –678 | –670 | –704 | –672 |
| Total | 3,421 | 3,034 | 2,927 | 2,306 | 2,759 | 3,023 | 2,605 | 2,744 |

**Operating profit**

| MEUR | 10–12/2016 | 7–9/2016 | 4–6/2016 | 1–3/2016 | 10–12/2015 | 7–9/2015 | 4–6/2015 | 1–3/2015 |
|---|---|---|---|---|---|---|---|---|
| Oil Products | 126 | 125 | 218 | 95 | 2 | 119 | 42 | 226 |
| Renewable Products | 158 | 162 | 48 | 150 | 218 | 12 | 11 | –7 |
| Oil Retail | 19 | 25 | 23 | 22 | 13 | 27 | 22 | 17 |
| Others | 2 | 6 | –8 | –11 | 15 | –1 | –14 | 0 |
| Eliminations | –3 | 0 | –1 | –2 | –3 | 1 | 3 | –3 |
| Total | 302 | 319 | 280 | 254 | 245 | 158 | 63 | 233 |

**Comparable operating profit**

| MEUR | 10–12/2016 | 7–9/2016 | 4–6/2016 | 1–3/2016 | 10–12/2015 | 7–9/2015 | 4–6/2015 | 1–3/2015 |
|---|---|---|---|---|---|---|---|---|
| Oil Products | 98 | 120 | 149 | 86 | 91 | 178 | 14 | 156 |
| Renewable Products | 146 | 124 | 119 | 80 | 231 | 75 | 54 | 42 |
| Oil Retail | 19 | 25 | 23 | 22 | 17 | 27 | 22 | 17 |
| Others | 2 | –6 | –8 | –11 | 15 | –1 | –14 | 3 |
| Eliminations | –3 | 0 | –1 | –2 | –3 | 1 | 3 | –3 |
| Total | 262 | 264 | 282 | 175 | 352 | 281 | 78 | 215 |

# 05

# Financial Statements



Read more: Key figures 2016 >>

# Consolidated Statement of Income

| MEUR | Note | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|
| **Revenue** | 4,7 | 11,689 | 11,131 |
| Other income | 8 | 71 | 109 |
| Share of profit (loss) of joint ventures | 19 | 14 | 27 |
| Materials and services | 9 | -9,519 | -9,539 |
| Employee benefit costs | 10 | -349 | -351 |
| Depreciation, amortization and impairments | 11 | -366 | -358 |
| Other expenses | 12 | -386 | -320 |
| **Operating profit** | | 1,155 | 699 |
| | | | |
| **Financial income and expenses** | 13 | | |
| Financial income | | 4 | 2 |
| Financial expenses | | -67 | -84 |
| Exchange rate and fair value gains and losses | | -17 | 16 |
| **Total financial income and expenses** | | -79 | -65 |
| | | | |
| **Profit before income taxes** | | 1,075 | 634 |
| Income tax expense | 14 | -133 | -74 |
| **Profit for the period** | | 943 | 560 |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 939 | 558 |
| Non-controlling interests | | 4 | 3 |
| | | 943 | 560 |
| | | | |
| **Earnings per share from profit attributable to owners of the parent (in EUR per share)** | 15 | | |
| Basic | | 3.67 | 2.18 |
| Diluted | | 3.66 | 2.18 |

# Consolidated Statement of Comprehensive Income

| MEUR | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|
| **Profit for the period** | 943 | 560 |
| | | |
| **Other comprehensive income, net of tax:** | | |
| | | |
| **Items that will not be reclassified to profit or loss** | | |
| Remeasurements on defined benefit plans | -21 | 30 |
| | | |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Translation differences | 6 | 1 |
| Cash flow hedges | | |
| recorded in equity | -20 | -71 |
| transferred to income statement | 6 | 97 |
| Net investment hedges | 0 | 1 |
| Share of other comprehensive income of investments accounted for using the equity method | -9 | -9 |
| Total | -17 | 20 |
| | | |
| **Other comprehensive income for the period, net of tax** | -38 | 50 |
| | | |
| **Total comprehensive income for the period** | 905 | 611 |
| | | |
| **Total comprehensive income attributable to:** | | |
| Owners of the parent | 902 | 608 |
| Non-controlling interests | 4 | 3 |
| | 905 | 611 |

The notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

| MEUR | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 18 | 87 | 71 |
| Property, plant and equipment | 17 | 3,747 | 3,745 |
| Investments in joint ventures | 19 | 216 | 220 |
| Non-current receivables | 20,21 | 55 | 10 |
| Deferred tax assets | 28 | 39 | 29 |
| Derivative financial instruments | 20,25 | 9 | 11 |
| Available-for-sale financial assets | 20,21 | 5 | 5 |
| **Total non-current assets** | | 4,157 | 4,090 |
| **Current assets** | | | |
| Inventories | 22 | 1,416 | 1,090 |
| Trade and other receivables | 3,23 | 1,034 | 870 |
| Derivative financial instruments | 20,25 | 48 | 99 |
| Cash and cash equivalents | 24 | 788 | 596 |
| **Total current assets** | | 3,285 | 2,655 |
| **Assets classified as held for sale** | 5 | 0 | 47 |
| **Total assets** | | 7,443 | 6,793 |

| MEUR | Note | 31 Dec 2016 | 31 Dec 2015 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the parent** | 26 | | |
| Share capital | | 40 | 40 |
| Other equity | | 3,693 | 3,044 |
| **Total** | | 3,733 | 3,084 |
| **Non-controlling interests** | | 22 | 20 |
| **Total equity** | | 3,755 | 3,104 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | 20,27 | 1,117 | 1,449 |
| Deferred tax liabilities | 28 | 246 | 265 |
| Provisions | 29 | 53 | 39 |
| Pension liabilities | 30 | 136 | 113 |
| Derivative financial instruments | 20,25 | 2 | 6 |
| Other non-current liabilities | 20,27 | 11 | 6 |
| **Total non-current liabilities** | | 1,565 | 1,878 |
| **Current liabilities** | | | |
| Interest-bearing liabilities | 20,27 | 354 | 438 |
| Current tax liabilities | 27 | 40 | 21 |
| Derivative financial instruments | 20,25 | 164 | 45 |
| Trade and other payables | 20,27 | 1,565 | 1,307 |
| **Total current liabilities** | | 2,123 | 1,811 |
| **Total liabilities** | | 3,688 | 3,689 |
| **Total equity and liabilities** | | 7,443 | 6,793 |

The notes are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

| MEUR | Note | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income taxes | | 1,075 | 634 |
| Adjustments for | | | |
| Share of profit (loss) of joint ventures | 19 | -14 | -27 |
| Depreciation and amortization | 11 | 366 | 358 |
| Other non-cash income and expenses | | 135 | 0 |
| Financial expenses - net | 13 | 79 | 65 |
| Profit/loss from disposal of fixed assets and shares | 8 | -28 | -77 |
| | | 1,614 | 953 |
| Change in working capital | | | |
| Decrease (+)/increase (-) in trade and other receivables | | -147 | 16 |
| Decrease (+)/increase (-) in inventories | | -321 | -37 |
| Decrease (-)/increase (+) in trade and other payables | | 239 | -74 |
| Change in working capital | | -229 | -94 |
| | | 1,385 | 858 |
| Interest and other finance cost paid | | -73 | -74 |
| Interest income received | | 6 | 3 |
| Dividends received | | 0 | 0 |
| Realized foreign exchange gains and losses | | 12 | -18 |
| Income taxes paid | | -137 | -27 |
| | | -192 | -115 |
| **Net cash generated from operating activities** | | 1,193 | 743 |

| MEUR | Note | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | -381 | -491 |
| Purchases of intangible assets | 18 | -26 | -13 |
| Proceeds from sale of subsidiaries, net of cash disposed | 6 | 0 | 171 |
| Proceeds from sale of property, plant and equipment | | 40 | 26 |
| Changes in non-current receivables and available-for-sale financial assets | | 9 | 44 |
| **Cash flows from investing activities** | | -359 | -263 |
| **Cash flow before financing activities** | | 834 | 480 |
| **Cash flows from financing activities** | | | |
| Payment of (-) / proceeds from (+) current interest-bearing liabilities | | 0 | -99 |
| Proceeds from non-current interest-bearing liabilities | | 0 | 528 |
| Repayments of non-current interest-bearing liabilities | | -387 | -390 |
| Dividends paid to the owners of the parent | | -256 | -166 |
| Dividends paid to non-controlling interests | | -1 | -1 |
| **Cash flows from financing activities** | | -644 | -128 |
| **Net decrease (-)/increase (+) in cash and cash equivalents** | | 191 | 352 |
| Cash and cash equivalents at beginning of the period | | 596 | 246 |
| Exchange gains (+)/losses (-) on cash and cash equivalents | | 1 | -1 |
| **Cash and cash equivalents at end of the period** | 24 | 788 | 596 |

The notes are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

| MEUR | Note | Share capital | Reserve fund | Reserve of invested unrestricted equity | Treasury shares | Fair value and other reserves | Actuarial gains and losses | Translation differences | Retained earnings | Owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total equity at 1 January 2015** | | 40 | 19 | 0 | -15 | -56 | -85 | -61 | 2,800 | **2,641** | 18 | **2,659** |
| Profit for the period | | | | | | | | | 558 | **558** | 3 | **560** |
| Other comprehensive income for the period | | | | | | 17 | 30 | 2 | | **50** | | **50** |
| Total comprehensive income for the period | | | | | | 17 | 30 | 2 | 558 | **608** | 3 | **611** |
| Dividend paid | | | | | | | | | -166 | **-166** | -1 | **-167** |
| Share-based compensation | | | | 1 | 3 | | | | -4 | **0** | | **0** |
| Transfer from retained earnings | | | 1 | | | | | | -1 | **0** | | **0** |
| **Total equity at 31 December 2015** | 26 | 40 | 20 | 1 | -12 | -39 | -54 | -59 | 3,186 | **3,084** | 20 | **3,104** |

| MEUR | Note | Share capital | Reserve fund | Reserve of invested unrestricted equity | Treasury shares | Fair value and other reserves | Actuarial gains and losses | Translation differences | Retained earnings | Owners of the parent | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total equity at 1 January 2016** | | 40 | 20 | 1 | -12 | -39 | -54 | -59 | 3,186 | **3,084** | 20 | **3,104** |
| Profit for the period | | | | | | | | | 939 | **939** | 4 | **943** |
| Other comprehensive income for the period | | | | | | -23 | -21 | 6 | | **-38** | | **-38** |
| Total comprehensive income for the period | | | | | | -23 | -21 | 6 | 939 | **902** | 4 | **905** |
| Dividend paid | | | | | | | | | -256 | **-256** | -1 | **-257** |
| Share-based compensation | | | | 3 | 2 | | | | -2 | **3** | | **3** |
| Transfer from retained earnings | | | 1 | | | | | | -1 | **0** | | **0** |
| **Total equity at 31 December 2016** | 26 | 40 | 20 | 4 | -10 | -62 | -75 | -52 | 3,867 | **3,733** | 22 | **3,755** |

The notes are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. General information

Neste Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The company is listed on the NASDAQ OMX Helsinki. The address of its registered office is Keilaranta 21, P.O. Box 95, 00095 Neste, Finland.

Neste Corporation and its subsidiaries (together referred to as the Group) is a forerunner in oil refining and renewable solutions. Neste offers its customers cleaner traffic solutions and industrial products based on cutting-edge research. The Group's refineries and other production facilities, together with its network of service stations and other retail outlets in Finland and the Baltic Rim area, supply both domestic and export markets with gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel components, solvent, liquefied petroleum gas, and bitumen as well as renewable diesel and other renewable products based on Neste's proprietary technology. Neste's customers benefit not only from the high quality products, but also from the comprehensive supply and logistics services that Neste can provide. As an oil refiner, Neste is a leading manufacturer of high-quality fuels for cleaner traffic.

The Board of Directors has approved these consolidated financial statements for issue on 6 February 2017.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS as adopted by the European Union. The notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through the comprehensive income statement.

The consolidated financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

### New standards, significant amendments and interpretations adopted by the Group

There have been no new standards, significant amendments or interpretations to existing standards in year 2016, which would have had a material impact on Neste's consolidated financial statements.

### New standards, amendments and interpretations not yet adopted

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards when they become effective.

#### IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains, but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through an income statement. The basis of classification depends on the entity´s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through an income statement with the irrevocable option at inception to present changes in fair value in other comprehensive income not to be recycled. A new expected credit loss model replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through income statement. IFRS 9 relaxes the requirements for hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

IFRS 9 has been endorsed and approved by the EU in November 2016. The standard is effective from 1 January 2018 onwards. Early adoption is permitted. The Group will start applying IFRS 9 from 1.1.2018. Classification and measurement changes or impairment requirements for financial instruments do not have major effects for Neste.

Application of hedge accounting within existing hedge accounting relationships (cash flow and fair value hedges within foreign exchange and interest rate derivatives) will continue under IFRS 9 as earlier.

IFRS 9 will allow the application of hedge accounting in separate commodity risk components, but the Group does not expect to be applying hedge accounting in commodity derivatives. The Group hedges its commodity risk in line with its risk management policy and these derivatives will continue to be presented at fair value through income statement.

### IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity´s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces all existing requirements (IAS 18 Revenue and IAS 11 Construction contracts and related interpretations).

IFRS 15 has been endorsed by the EU in September 2016. The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will start applying IFRS 15 from 1.1.2018, and will apply the modified retrospective model.

Based on the Groups' interpretations, it has been assessed that the implementation of IFRS 15 is not likely to have a significant impact on the consolidated financial statements. Management has assessed the IFRS 15 impact on the different agreement types that are used in Neste's business areas. The majority of the Group's net sales comprise of fuel and other product sales. These sales contracts are mostly standard in nature, and the delivery terms have been investigated, with no major impact compared to the current revenue recognition. Certain storage service contracts, rebates, bonuses, penalties, warranties and other special terms and conditions that deviate from the basic agreement types have also been analyzed in more detail, and these are unlikely to have an impact on Neste's revenue recognition compared to the current accounting policy.

A part of the Group's product sales are under CIF Incoterm conditions, where the total sales price is allocated to the separate performance obligations; the first being the product and the second being the other costs, insurance and freight. The sales price allocated to the product is recognized upon shipment. The sales price for the costs, insurance and freight will be recognized when the latter performance obligation has been fulfilled. However, the allocated sales price for these is a minor part of the total revenue from contracts with customers, and thus the estimated impact of IFRS 15 on the Group's net sales and operating profit is estimated to be minor.

Subsidiary Neste Jacobs' current revenue recognition based on the percentage of completion method is also consistent with IFRS 15, as the revenue is already recognized over time.

Renewable products' RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) and other similar separate performance obligations have also been assessed, with no changes to the current revenue recognition.

At the moment there is no industry guidance for the Oil and Gas Industry. Should there be any industry guidance published, the Group will follow that guidance and the impact on the Group's net sales might differ from the current assessment described above.

### IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In lessor accounting IFRS 16 substantially carries forward requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16 after EU endorsement. The Group has preliminary reviewed leasing, service and some utility purchase contracts to assess the effects of IFRS 16. The Group's assessment of the standard impact is under further investigation.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## Estimates and judgements requiring management estimation

The preparation of Consolidated Financial Statements in conformity with the International Accounting Standard requires the Group's management to make estimates and assumptions which have an impact on reported assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. In addition, management judgement may be required in applying the accounting principles, for example, classifying assets as held for sale.

These estimates, assumptions and judgements are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual amounts may differ significantly from the estimates used in the financial statements.

The Group follows the changes in estimates, assumptions and the factors affecting them by using multiple internal and external sources of information. Possible changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed. The most significant estimates relate to the following:

### Inventories

Inventories are measured at the lower value of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. More information regarding inventories is presented in Note 22.

### Impairment testing

Intangible assets and property, plant and equipment are always tested for impairment, when there is any indication that an asset may be impaired. When the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognized as an expense immediately and the carrying amount is reduced to the asset's recoverable amount.

The amounts recoverable from cash generating units' operating activities are determined based on value in use calculations. These calculations are based on estimated future cash flows approved by the Group's management, covering a period of three years. Preparation of these estimates requires management to make assumptions relating to future expectations. The main assumptions used relate to the estimated future operating cash flows and discount rates. More information regarding impairment testing is presented in Note 18.

### Taxes

Determination of income taxes and deferred tax assets and liabilities and the amount of deferred tax asset to be recognized requires management judgement.

The Group has deferred tax assets and liabilities which are expected to be realized through the income statement over extended periods of time in the future. In calculating the deferred tax items, the Group is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets, and liabilities as recorded in the financial statements and their tax basis.

More information regarding taxes is presented in Note 14, Income tax expense and in Note 28, Deferred income taxes.

### Employee benefits

Pension calculations under defined benefit plans in compliance with IAS 19 include the factors that rely on management estimates: the discount rate used in calculating pension expenses and obligations for the period, the rate of salary increase and the rate of future discretionary bonuses decided by the insurance company. Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses. The assumptions used are presented in Note 30, Employee benefit obligations.

### Provisions

The existence of criteria for recognizing provisions and the amounts of provisions are determined based on estimates. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, the opinion of external experts. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

The most significant provisions in the statement of financial position relate to environmental liabilities. Environmental provisions are based on management's best estimate of remediation costs. The restructuring provision is recognized when the Group has prepared a detailed restructuring plan and published it. More information regarding provisions is presented in Note 29, Provisions.

### Structured entities

Management uses judgement when determining the accounting treatment of the structured entities. In addition to the voting rights or similar rights the management considers other factors such as the nature of the arrangement, contractual arrangements and level of influence with the structured entities.

## Consolidation

### Subsidiaries

The consolidated financial statements cover the parent company, Neste Corporation, and all those companies in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when this control ceases.

Acquired or established subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable asset acquired and liabilities assumed in the acquired company are measured at the fair value at acquisition date. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Any contingent consideration related to the business combination is measured at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as liability is re-measured at its fair value at the end of each reporting period and the subsequent changes to fair value are recognized in profit or loss. Contingent consideration classified as equity is not subsequently re-measured. The consideration transferred does not include any transactions accounted for separately from the acquisition. Acquisition-related costs are expensed as incurred.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements.

The result for the period and items recognized in other comprehensive income are allocated to the equity holders of the company and non-controlling interests and presented in the statement of income and statement of other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the equity holders of the company. Comprehensive income is allocated to the equity holders of the company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed the non-controlling interests' investment in the company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

### Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint arrangements are arrangements in which the sharing of control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be either joint ventures or joint operations.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method. Joint operations are consolidated for its share of the assets, liabilities, revenues, expenses and cash flow on a line-by-line basis. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

### Associates

Associated companies are entities over which the Group has significant influence but not control, and generally involve a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method as described above in the ´Joint arrangements´ paragraph.

### Structured entities

The Group engages in business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group. The extent of the Group's interests to unconsolidated structured entities will vary depending on the type of structured entities. Entities are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

## Segment reporting

The Group's operations are divided into four operating segments: Oil Products, Renewable Products, Oil Retail and Others. The performance of the reporting segments is reviewed regularly by the chief operating decision maker, Neste President & CEO, to assess performance and to decide on allocation resources.

The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements.

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

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

The assets are not depreciated after being classified as held for sale.

## Foreign currency translation

### (a) 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 presentation currency.

### (b) Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 recognized in the income statement, except when deferred in other comprehensive income 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 uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

## Revenue recognition

Revenue from the sale of goods is recorded in the consolidated statement of income when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when services have been provided. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licenses are recognized when the risks and rewards are transferred to the buyer.

Revenue will be recognized as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission.

Revenue includes sales from actual operations, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the income statement.

Blender's tax credit (BTC) is recognized in revenue if the Government of the United States will make decision to grant it. It is made annually. Blender's tax credit is an incentive given to fuel blenders to use more renewable fuel by making the bio mandates less costly to achieve.

Revenue from activities outside normal operations is reported in other income. This includes items such as capital gains on disposal of other non-current assets and rental income.

## Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the consolidated statement of income in 'Other income' over the period necessary to match them with the costs that they are intended to compensate. Investment grants related to acquisitions of property, plant and equipment and intangible assets are deducted from the cost of the asset in question in the statement of financial position and recognized as income on a systematic basis over the useful life of the asset in the form of reduced depreciation expense.

## Borrowing costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility.

## Income taxes

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. In respect of the deferred tax liability on undistributed foreign earnings, the amount recorded is based on expected circumstances and management expectations regarding the profit distribution. For items recognized directly in equity or other comprehensive income, the income tax effect is similarly recognized. Management judgment is required in determining the income tax expense and deferred tax assets.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

## Research and development

Research expenditure is recognized as an expense as incurred and included in other operating expenses in the consolidated statement of income. Expenditure on development activities is capitalized only when it fulfills strict criteria e.g. development relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

## Property, plant and equipment

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, marine fleet, and retail station network infrastructure and equipment. The Group owns station network infrastructure with the exception of dealer stations. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value on the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3–5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

| | | |
|---|---|---|
| Buildings and structures, including terminals | 20–40 | years |
| Production machinery and equipment, including special spare parts | 15–20 | years |
| Marine fleet | 15–20 | years |
| Retail station network infrastructure and equipment | 5–15 | years |
| Other equipment and vehicles | 3–15 | years |
| Other tangible assets | 20–40 | years |

The residual values and useful lives of assets are reviewed and adjusted where appropriate at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated statement of income.

## Intangible assets

Intangible assets, except goodwill, are stated at historical cost and amortized in a straight-line method over expected useful lives. Intangible assets comprise the following:

### Computer software

Computer software licenses are capitalized on the basis of the costs incurred to acquire and introduce the software in question. The costs include the software development employee costs and professional fees arising directly bringing the asset to its working condition. Capitalization depends also on the technology used e.g. cloud services are not capitalized. Costs are amortized over their estimated useful lives (three to five years). Costs associated with updates or maintaining computer software programs are recognized as an expense.

### Trademarks and licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years).

### Goodwill

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

### Emission allowances

Emission allowances, which are purchased to cover future periods deficit are recorded in intangible assets and measured at cost, and emission allowances received free of charge are recorded in their nominal value, i.e. at zero.

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

### Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered 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.

Derivatives are recognized on the trade date at fair value. Purchases and sales of other financial assets are recognized on the settlement date. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

#### Financial assets at fair value through income statement

The assets in this category are financial assets held for trading, and include derivative financial instruments, if they are held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are held for trading or are expected to be realized within 12 months of the balance sheet date.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' 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 other category and consist of shares in unlisted companies. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses'.

### Leases

#### Finance leases

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

An arrangement that does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. Determining whether an arrangement is, or contains, a lease is based on IFRIC interpretation 4.

#### Operating leases

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

## Inventories

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

## Trade receivables

Trade receivables are recognized initially at fair value. A provision for impairment of trade receivables is established for receivables over 90 days overdue, or when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. Impairment for doubtful trade receivables are based on a periodic review of outstanding amounts, including an analysis of historical bad debt, customer creditworthiness, past due amounts and changes in customer payment terms. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the loss is recognized in the consolidated statement of income within 'Other expenses'. When the trade receivables are sold to a third party, the Group receives the purchase price, less a discount for commission and fees. These fees are booked to financial expenses. The Group derecognizes a trade receivable when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the related risks and rewards to the third party.

## Cash and cash equivalents

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

## Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met. The Group has asset retirement obligations recorded in the consolidated statement of financial position.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

## Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently measured at amortized cost. Any difference between net proceeds and nominal amount is recognized as interest cost over the period of the borrowing, using the effective interest method. Bank overdrafts are shown in current liabilities on the balance sheet. Derivative financial instruments are recorded at fair value through profit and loss when hedge accounting is not applied.

Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date. Fees of revolving credit facility are capitalized and amortized over the period of the facility.

## Employee benefits

### Pension obligations

The Group has pension arrangements in different countries, which are generally funded through insurance companies. Pension schemes consist of both defined benefit and defined contribution plans.

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits. All arrangements that do not fulfill these conditions are considered defined benefit plans.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The defined benefit obligation represents the present value of future cash flows from payable benefits, which are calculated for by using the projected unit credit method. The discount rate assumed in calculating the present value of the pension obligation is based on the market yield of high-quality corporate bonds (AA-rated) with appropriate maturities. Pension costs are recognized in the consolidated statement of income so as to spread the current service cost over the service lives of employees based on actuarial calculations. The net interest is included as part of the finance cost component in the consolidated statement of income.

The liability (or asset) recognized in the consolidated financial statement of financial position is the pension obligation at the closing date less the fair value of plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Actuarial valuations for the Group's defined benefit pension plans are performed annually.

## Share-based payments

The share-based incentive plans are accounted for as a share-based transaction. The portion of the earned reward (approximately 50%) for which the participants will receive shares is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants (approximately 50%), is accounted for as a cash settled transaction. The earned reward is entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the consolidated statement of income are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the consolidated statement of income.

## Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as either:

1. hedges of highly probable forecast transactions (cash flow hedges);
2. hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
3. hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in Note 3.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity/other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecast sale that is being hedged takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within revenue. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity/other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the consolidated statement of income in 'financial income and expenses', together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk compensating the effect.

### Derivative financial instruments that do not qualify for hedge accounting

Some commodity and currency derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Any movements in the fair value of these contracts are recognized in the income statement in operating profit for commodity derivative contracts and in 'financial income and expenses' concerning financial instruments related to financing activities.

## 3. Financial risk management

### Financial risk management principles

Neste Board of Directors has approved the corporate risk management policy. This policy together with the related principles and instructions defines the framework for financial risk management within Neste. Mandates and limits that are applicable to financial risks have been defined in the risk management policy.

For more information regarding Neste's risk management, please refer to the risk management section in the annual report.

### Market risks

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. The primary commodity price risks that the Group is exposed to include crude oil, oil products, renewable feedstocks, and renewable diesel prices that could adversely affect the value of the Group's financial assets, liabilities, or expected future cash flows. As the pricing currency used in the oil market is the U.S. dollar and Neste operates and reports in Euro, also this factor exposes Neste's business to short-term transaction risks and longer-term economic currency risks. In accordance with Group risk management principles, the Group enters into various derivatives transactions for risk management purposes. The positions are monitored and managed on a daily basis according to the above mentioned risk management principles.

### 1. Commodity price risks

The main commodity price risks Neste faces in its businesses are related to market prices for crude oil, renewable feedstocks, and other feedstocks, as well as refined petroleum and renewable products. These prices are subject to significant fluctuations resulting from a periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand.

Neste's results of operations in any given period are principally driven by the demand for and prices of oil and renewable products relative to the supply and cost of raw materials. These factors, combined with Neste's own consumption of raw materials and output of refined products, drive operational performance and cash flows in Oil Products and Renewable Products, which are Neste's largest business areas in terms of revenue, profits and net assets.

Neste divides the commodity price risks affecting Neste's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

#### Inventory price risk

From a price risk management perspective, Neste's refinery inventory consists of two components. The first and largest component remains relatively constant over time and is referred to as the 'base inventory'. The second and daily fluctuating component is the amount of inventories differing from the base inventory level and at Neste it is called 'transaction position'.

The base inventory is the minimum level of stocks which can reasonably assure the continuous operation of the refineries and preventing deliveries from being compromised. It comprises inventories at the refineries and within the supply chain. The base inventory includes the minimum level of stocks that Neste is required to maintain under Finnish laws and regulations.

The role of price risk management in logistics is particularly present in the Renewable Products' business due to market practices in feedstock pricing and longer sea voyages. In the Renewable Products' business, the price risk related to the base inventory is higher than the physical inventory and is approximately one third of the annual renewables refining capacity used. In traditional oil refining, the base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

The base inventory creates a risk in Neste's income statement and balance sheet inasmuch as Neste applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste's inventory risk management policies target the 'transaction position' inasmuch as these stocks create cash flow risks depending on the relationships between feedstocks purchases, refinery production and refined petroleum product sales over any given period.

According to the Neste risk management principle, any open exposures of the transaction position are hedged without delay.

In hedging the transaction position, derivative financial instruments are used. Because of the differences between the quality of the underlying feedstocks for which derivative financial instruments can be sold and purchased and the actual quality of Neste's feedstocks, the business will remain exposed to some degree of basis risk. Basis risk is typically higher in the Renewables business due to the nature of the feedstock pool and limited availability of hedging instruments.

#### Refining margin risk

As the total refining margin is an important determinant of Oil Products business area's earnings, its fluctuations constitute a significant risk.

In the traditional oil refining business, the refining margin at risk is a function of the revenue from sold petroleum products and the cost of raw materials together with other costs. Neste's exposure to low refining margins in traditional oil refining is partly offset by its high-conversion refineries.

Neste is exposed to greater margin volatility in the Renewable Products' business compared to that in fossil fuel refining. In the Renewables business, the refining margin is mainly a function of the renewable fuel sale price received and the feedstocks used. The underlying indices used in renewable diesel pricing are primarily oil products or conventional biodiesel related. Product prices fluctuate regionally depending on the nature of bio mandates, local supply and demand, and fossil fuel prices. In Europe, the price of renewable fuels is determined mainly by the price of the local biodiesel price. Typical biodiesel qualities are Fatty Acid Methyl Ester (FAME) or Rapeseed-Oil Methyl Ester (RME). In North America, the local biodiesel reference and typical renewable fuel pricing driver is Soy Methyl Ester (SME), on which the value of the Renewable Identification Number (RIN) has a direct impact. The cost of feedstocks depends on feedstock selection and is typically derived from different vegetable oils and fats. Feedstock prices are mainly driven by supply and demand balances, crop forecasts and regional weather. In the Renewables business area, operational activities are the primary means of mitigating margin volatility.

With the aim of securing its margin and cash flow, Neste has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business, the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the Renewable Products' business, the targeted hedge ratios are typically higher. Hedge ratios can, however, be expected to fluctuate over time. The hedge ratio for renewable business is measured and monitored as a percentage of the quarterly sales volumes.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste's total refining margin, based on its forecast or committed sales and refinery production, which are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying feedstocks and refined petroleum products for which derivative financial instruments can be sold and purchased, and the actual quality of Neste's feedstocks and refined petroleum products in any given period, the business will remain exposed to some degree of basis risk. The basis risk is typically higher in the Renewable Products' business than in the fossil fuel refining due to the nature of the feedstock selection and limited availability of hedging instruments.

The exposure to open positions of commodity derivative contracts as of 31 December 2016 (2015) is summarized in Note 25.

## 2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste operates and reports in Euro, this factor is one that exposes Neste's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings, and in the Group's balance sheet. Generally, this is done by hedging currency risks in contracted and forecast cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-eurozone subsidiaries (referred to as translation exposure).

### Transaction exposure

In general, all business areas hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecast over a 12-month period on a rolling basis and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 70% for the first six months and 30% of the next six months for the renewable business. Deviations from the risk-neutral benchmark position are allowed in line with the limits set by treasury principles. The most important hedged currency is the U.S. dollar. Other material hedged currencies are the Malaysian Ringgit (MYR), Swedish Crown (SEK), Norwegian Crown (NOK) and Singapore Dollar (SGD).

The Group's net exposure is managed through the use of forward contracts and options. All transactions are made for hedging purposes and the majority is also hedge accounted for according to IFRS. Business areas are responsible for forecasting net foreign currency cash flows, while Group Treasury & Risk Management is responsible for implementing hedging transactions.

Neste has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than home currency. The principle is to hedge this balance sheet exposure fully using forward contracts and options. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess of the base inventory. Open exposures are allowed based on risk limits set by treasury principles. The largest and most volatile item in terms of balance sheet exposure is net working capital. Since many of the Group's business transactions, sales of products and services and purchases of crude oil and other feedstock are linked to the U.S. dollar, the daily exposure of net working capital is hedged as part of the balance sheet hedge in order to neutralize the effect of volatility in EUR/USD exchange rate. During

2016, the daily balance sheet exposure fluctuated between approximately EUR 483 million and 1,090 million (2015: EUR 440 million and 985 million). Group Treasury & Risk Management is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

The nominal and fair values of the outstanding foreign exchange derivative contracts as of 31 December 2016 (2015) are summarized in Note 25.

**Translation exposure**

Group Treasury & Risk Management is responsible for managing Neste's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste may seek to reduce the volatility in equity in the consolidated balance sheet through hedging transactions. Forward contracts are used to hedge translation exposure. Any hedging decisions are made by Group Treasury & Risk Management. The total non-Euro-denominated equity of the Group's subsidiaries and associated companies was EUR 250 million as of 31 December 2016 (2015: EUR 284 million) and the exposures and hedging ratios are summarized in the following table.

| Group translation exposure | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| MEUR | Net investment | Hedge | Hedge % | Net investment | Hedge | Hedge % |
| USD | 21 | 0 | 0% | 17 | 0 | 0% |
| SEK | 182 | 0 | 0% | 174 | 0 | 0% |
| CAD | 2 | 0 | 0% | 55 | 0 | 0% |
| RUB | 45 | 0 | 0% | 38 | 0 | 0% |
| Other | 0 | 0 | 0% | 0 | 0 | 0% |
| | 250 | 0 | 0% | 284 | 0 | 0% |

## 3. Interest rate risk

Neste is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the company's interest rate risk management is to limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the debt portfolio is 12 months, and duration can vary between six and 48 months. In addition to duration, Neste uses flow risk limitation.

Interest rate derivatives have been used to adjust the duration of the debt portfolio. The Group's interest rate risk management is handled by Group Treasury & Risk Management. The nominal and fair values of the outstanding interest rate derivative contracts as of 31 December 2016 (2015) are summarized in Note 25.

The following table summarizes the re-pricing of the Group's interest-bearing debt.

| Period in which re-pricing occurs | Within 1 year | 1 year–5 years | > 5 years | Total |
|---|---|---|---|---|
| **Financial instruments with floating interest rate** | | | | |
| Financial liabilities | | | | |
| Loans from financial institutions | 127 | 0 | 0 | 127 |
| Finance lease liabilities | 0 | 0 | 0 | 0 |
| Bonds | 0 | 50 | 0 | 50 |
| Effect of interest rate swaps | 150 | -150 | 0 | 0 |
| **Financial instruments with fixed interest rate** | | | | |
| Bonds | 254 | 400 | 500 | 1,154 |
| Other loans | 2 | 30 | 19 | 51 |
| Finance lease liabilities | 3 | 14 | 73 | 90 |
| | 536 | 344 | 592 | 1,471 |

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2016 and 2015, in millions of Euros.

| MEUR | 2016 | 2015 |
|---|---|---|
| EUR | 1,290 | 1,703 |
| SGD | 86 | 87 |
| USD | 95 | 98 |
| | 1,471 | 1,888 |

## 4. Key sensitivities to market risks

**Sensitivity of operating profit to market risks arising from the Group's operations**

Due to the nature of its operations, the Group's financial performance is sensitive to the market risks described above. The following table details the approximate impact that movements in the Group's key price and currency exposures would have on its operating profit for 2017 (2016), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

| Approximate impact on operating profit (IFRS), excluding hedges | | 2017 | 2016 |
|---|---|---|---|
| +/- 10% in the EUR/USD exchange rate | EUR million | -136/+166 | -105/+129 |
| +/- USD 1.00/barrel in total refining margin | USD million | +/-105 | +/-110 |
| +/- USD 10/barrel in crude oil price [1] | USD million | +/-80 | +/-85 |
| +/- USD 100/t in Renewable Products raw material price [1] | USD million | +/-105 | +/-105 |
| +/- USD 50/t in Renewable Products refining margin [2] | USD million | +/-120 | +/-120 |

[1] Inventory gains/losses excluded from comparable operating profit
[2] Based on name-plate capacity

**Sensitivity to market risks arising from financial instruments as required by IFRS 7**

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the period and equity to changes in oil prices, the EUR/USD exchange rate, the USD/MYR exchange rate, and interest rates, resulting from financial instruments, such as financial assets and liabilities and derivative financial instruments, as defined by IFRS, included in the balance sheet as of 31 December 2016 (2015). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- The flat price variation for oil derivative contracts of crude oil, refined oil products and vegetable oil is assumed to be +/- 10%
- The sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- The sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation
- The sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- The sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- The variation in EUR/USD-rate is assumed to be +/- 10%
- The position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, trade and other liabilities, and cash and cash equivalents, as well as derivative financial instruments
- The position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

- The variation in USD/MYR-rate is assumed to be +/- 10%
- The position includes MYR-denominated derivative financial instruments
- The position excludes MYR-denominated future cash flows

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- The interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps, however cash in bank accounts is excluded
- The income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from balance sheet items other than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items, which are recorded directly in equity. Items affecting the income statement are not included in equity.

| Sensitivity to market risks arising from financial instruments as required by IFRS 7 | | 2016 Income statement | 2016 Equity | 2015 Income statement | 2015 Equity |
|---|---|---|---|---|---|
| +/- 10% change in oil price [1] | EUR million | -/+17 | -/+0 | -/+4 | -/+0 |
| +/- 10% change in EUR/USD exchange rate | EUR million | +65/-76 | +60/-69 | +57/-67 | +25/-33 |
| 1% parallel shift in interest rates | EUR million | +/-3 | +/-0 | +/-4 | +/-0 |
| +/- 10% change in USD/MYR exchange rate | EUR million | -/+3 | -/+0 | +/-0 | +/-7 |

[1] Includes crude oil, refined oil products and vegetable oil derivatives

## 5. Hedge accounting

Neste applies hedge accounting to certain currency derivatives and interest rate derivatives. The Group uses foreign currency derivative contracts to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted sales and earnings, as well as in Neste's balance sheet. Foreign exchange derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, net investment hedges, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses foreign exchange forward contracts and options as hedging instruments.

The Group uses interest rate derivatives to reduce the volatility of interest expenses in the income statement. In addition, Neste reduces the volatility by adjusting the duration of the debt portfolio. Interest rate derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, or as hedges of the fair value of recognized assets or liabilities. The Group uses interest rate swaps as hedging instruments.

### Cash flow hedges

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are, e.g. foreign currency derivative contracts hedging USD-sales for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2018.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity/other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2016 and 2015, the ineffective portion has been immaterial. Testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. Accrued interest of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity/ other comprehensive income. Movements in hedging reserve are presented in the statement of comprehensive income.

### Fair value hedges

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk compensating the effect. The ineffective portion is also recognized in the income statement.

| Items recognized in the income statement | 2016 | 2015 |
|---|---|---|
| Gain or loss on the hedging instrument | -8 | -10 |
| Gain or loss on the hedged item | 7 | 10 |

## Liquidity and refinancing risks

Liquidity risk is defined as financial distress or extraordinarily high financing costs arising due to a shortage of liquid funds in a situation where business conditions unexpectedly deteriorate and require financing. The objective of liquidity risk management is to maintain sufficient liquidity and to ensure that it is available fast enough to avoid uncertainty related to financial distress at all times.

Neste's principal source of liquidity is expected to be cash generated from operations. In addition, the Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. Unused committed credit facilities together with excess cash must always be in minimum EUR 500 million and sufficient to cover all forecasted negative free cash flows and interest bearing liabilities maturing within the next 12 month period. In addition, total short-term financing shall not account for more than 30% of total interest-bearing liabilities.

The average loan maturity as of 31 December 2016 was 3.6 years. The most important financing programs in place are:

- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 150 million
- Domestic commercial paper program (uncommitted), EUR 400 million

As of 31 December 2016, the Group had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 2,438 million at its disposal.

| Cash and cash equivalents and committed unutilized credit facilities | 2016 | 2015 |
|---|---|---|
| Floating rate | | |
| - cash and cash equivalents | 788 | 596 |
| - overdraft facilities, expiring within one year | 150 | 150 |
| - revolving credit facility, expiring beyond one year | 1,500 | 1,500 |
| | 2,438 | 2,246 |

Tables below present the maturity profile of the Group's financial liabilities based on contractual payments

| Maturity profile of financial liabilities based on contractual payments 31 Dec 2016 | 2017 [1] | 2018 | 2019 | 2020 | 2021 | 2022– | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **Other than derivatives** | | | | | | | |
| Trade payables | **1,030** | **0** | **0** | **0** | **0** | **0** | **1,030** |
| | | | | | | | |
| Bonds and debentures | **287** | **77** | **427** | **11** | **11** | **511** | **1,324** |
| - less interest expenses | 37 | 27 | 27 | 11 | 11 | 11 | 124 |
| Repayment of bonds and debentures | 250 | 50 | 400 | 0 | 0 | 500 | 1,200 |
| | | | | | | | |
| Loans from financial institutions | **101** | **8** | **14** | **0** | **0** | **0** | **123** |
| - less interest expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of loans from financial institutions | 101 | 8 | 14 | 0 | 0 | 0 | 123 |
| | | | | | | | |
| Finance lease liabilities | **15** | **15** | **16** | **15** | **14** | **161** | **236** |
| - less interest expenses | 12 | 12 | 12 | 11 | 10 | 89 | 146 |
| Repayment of finance lease liabilities | 3 | 3 | 4 | 4 | 4 | 72 | 90 |
| | | | | | | | |
| Other liabilities | **4** | **5** | **37** | **2** | **2** | **22** | **72** |
| - less interest expenses | 4 | 4 | 4 | 1 | 1 | 4 | 18 |
| Repayment of other long-term liabilities | 0 | 1 | 32 | 1 | 1 | 19 | 54 |
| **Other than derivatives together** | **1,437** | **105** | **493** | **28** | **27** | **695** | **2,785** |
| | | | | | | | |
| Commodities | 102 | 0 | 0 | 0 | 0 | 0 | 102 |
| Interest rate swaps: inflow (-) | -3 | -2 | -3 | 0 | 0 | 0 | -8 |
| | | | | | | | |
| Gross settled forward foreign exchange contracts | | | | | | | |
| - inflow (-) | -2,016 | 0 | 0 | 0 | 0 | 0 | -2,016 |
| - outflow | 2,064 | 0 | 0 | 0 | 0 | 0 | 2,064 |

[1] Repayments in 2017 are included in current liabilities in the balance sheet

| Maturity profile of financial liabilities based on contractual payments 31 Dec 2015 | 2016 [1] | 2017 | 2018 | 2019 | 2020 | 2021– | Total |
|---|---|---|---|---|---|---|---|
| **Other than derivatives** | | | | | | | |
| Trade payables | **787** | **0** | **0** | **0** | **0** | **0** | **787** |
| | | | | | | | |
| Bonds and debentures | **355** | **287** | **77** | **427** | **11** | **521** | **1,678** |
| - less interest expenses | 55 | 37 | 27 | 27 | 11 | 21 | 178 |
| Repayment of bonds and debentures | 300 | 250 | 50 | 400 | 0 | 500 | 1,500 |
| | | | | | | | |
| Loans from financial institutions | **110** | **56** | **16** | **21** | **7** | **3** | **213** |
| - less interest expenses | 1 | 1 | 1 | 0 | 0 | 0 | 3 |
| Repayment of loans from financial institutions | 109 | 55 | 15 | 21 | 7 | 3 | 210 |
| | | | | | | | |
| Finance lease liabilities | **38** | **15** | **15** | **14** | **14** | **175** | **271** |
| - less interest expenses | 13 | 12 | 12 | 11 | 11 | 98 | 157 |
| Repayment of finance lease liabilities | 25 | 3 | 3 | 3 | 3 | 77 | 114 |
| | | | | | | | |
| Other liabilities | **4** | **4** | **4** | **36** | **2** | **26** | **76** |
| - less interest expenses | 4 | 4 | 4 | 3 | 1 | 6 | 22 |
| Repayment of other long-term liabilities | 0 | 0 | 0 | 33 | 1 | 20 | 54 |
| **Other than derivatives together** | **1,294** | **362** | **112** | **498** | **34** | **725** | **3,025** |
| | | | | | | | |
| Commodities | 21 | 2 | 0 | 0 | 0 | 0 | 23 |
| | | | | | | | |
| Interest rate swaps: inflow (-) | -10 | -3 | -1 | -3 | 0 | 0 | -17 |
| | | | | | | | |
| Gross settled forward foreign exchange contracts | | | | | | | |
| - inflow (-) | -1,325 | 0 | 0 | 0 | 0 | 0 | -1,325 |
| - outflow | 1,337 | 0 | 0 | 0 | 0 | 0 | 1,337 |

[1] Repayments in 2016 are included in current liabilities in the balance sheet

## Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of the counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size of the exposure. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. Limits, mandates and management principles for credit and counterparty risk are covered in the Neste Risk Management Policy and separate instruction level documents.

The amount of risk is quantified as the expected loss to Neste in the event of a default by counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste's business areas, which are responsible for counterparty risk management within these limits. When determining the credit lines for sales contracts for oil deliveries, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral, for example, a letter of credit, bank guarantee or parent company guarantee has to be posted. In the event that collateral is required credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services. In addition, Neste may reduce its counterparty risks by selling trade receivables to a third party e.g. the bank. The sale of the receivables essentially transfers the title, benefits and interest in the trade receivables to the bank, indicating the bank to obtain all of the rights associated with the receivables. The sale and transfer shall be without guarantee from the seller in respect of the buyer's creditworthiness and with limited recourse to the seller. The seller receives the purchase price from the bank at the time of sale. Fees and other expenses are deducted from the payment or invoiced separately.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to rated counterparties by general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste has negotiated framework agreements in the form of an ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement with the main counterparties concerning commodity, emissions, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults and termination events. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Neste reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties have a minimum credit rating that is defined in Neste Risk Management Policy. Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Group, the minimum credit rating requirement is defined in Neste Treasury principles.

The Group has a large number of different counterparties on the international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure on 31 December 2016, approximately 100% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from an established international credit rating agency. Respectively, Group Treasury & Risk Management had an exposure for currency and interest rate derivative contracts as at 31 December 2016 with banks, of which all have investment grade rating at a minimum. Commodity derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. Of the trade receivables portfolio exposure, 49% is from counterparties or their parent companies having an investment grade credit rating; 51% consists of trade receivables from counterparties not having an investment grade credit rating, most of it comprising from a large number of corporate and private customers.

| Analysis of trade receivables by age | 2016 | 2015 |
|---|---|---|
| Undue trade receivables | 824 | 730 |
| Trade receivables 1-30 days overdue | 39 | 38 |
| Trade receivables 31-60 days overdue | 3 | 1 |
| Trade receivables more than 60 days overdue | 10 | 5 |
| Trade receivables total | 875 | 774 |
| Credit loss provision | -2 | -3 |
| Trade receivables – Net | 874 | 771 |

The Group makes an ISDA master netting agreement or another netting agreement with each derivative counterparties. Based on the agreement sales and purchase invoices / payments are netted and in certain credit events all outstanding transactions under the ISDA agreement are terminated and either Neste or the counterparty pays the netted amount.

### Financial impact of netting for instruments subject to an enforceable master netting agreement (or similar)

| 31 Dec 2016 | Gross amount of recognized financial instruments | Related liabilities or assets subject to Master netting agreements | Net exposure |
|---|---|---|---|
| **Financial assets** | | | |
| Derivatives | 56 | 47 | 9 |
| Trade receivables | 9 | 6 | 4 |
| **Financial liabilities** | | | |
| Derivatives | 166 | 49 | 117 |
| Trade payables | 7 | 6 | 1 |

| 31 Dec 2015 | Gross amount of recognized financial instruments | Related liabilities or assets subject to Master netting agreements | Net exposure |
|---|---|---|---|
| **Financial assets** | | | |
| Derivatives | 110 | 26 | 84 |
| Trade receivables | 24 | 5 | 19 |
| **Financial liabilities** | | | |
| Derivatives | 51 | 26 | 25 |
| Trade payables | 6 | 5 | 1 |

### Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures access to capital markets at all times despite the volatile nature of the industry in which Neste operates. Despite the fact that the Group does not have a public credit rating, the Group's target is to have a capital structure equivalent to that of other refining and marketing companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25-50%. The leverage ratio as of 31 December 2016 and 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| Total interest-bearing liabilities | 1,471 | 1,888 |
| Cash and cash equivalents | 788 | 596 |
| Interest-bearing net debt | 683 | 1,291 |
| Total equity | 3,755 | 3,104 |
| Interest-bearing net debt and total equity | 4,438 | 4,395 |
| | | |
| Leverage ratio | 15.4% | 29.4% |

## 4. Segment information

### Neste´s business structure

The Group's operations are built around three business areas and seven common functions. The business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products, Renewable Products, and Oil Retail. The common functions are: Finance and Strategy, Human Resources and Safety, Sustainability and Public Affairs, Technology, Emerging Businesses, Communications and Brand Marketing and Legal Affairs.

### Operating segments

The Group's operations are divided into four operating segments: Oil Products, Renewable Products, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste President & CEO, to assess performance and to decide on allocation of resources.

Operating segments are engaged in the following key business activities:

**Oil Products** segment produces, markets and sells an extensive range of premium-quality traffic fuels and other high value-added petroleum products to a global customer base. The product range includes gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas and bitumen. Neste Shipping's chartering operations are included in the Oil Products segment.

**Renewable Products** segment produces, markets and sells Neste renewable diesel and Neste renewable aviation fuel based on Neste's proprietary technology to domestic and international wholesale markets. Renewable diesel is produced at the Porvoo, Singapore, and Rotterdam refineries.

**Oil Retail** segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Group's own service station network and direct sales.
**Others** segment consists of Group administration, shared service functions, Research and Technology, Neste Jacobs and Nynas AB (publ).

The operating segments presented above do not include any segments which are formed from aggregating two or more smaller segments.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements as described in 'Summary of significant accounting policies'. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement. The 'other expenses' included in the income statement for each business segment includes the following major items:

**Oil Products:** repairs and maintenance, rents, research, other property costs and insurance premiums
**Renewable Products:** repairs and maintenance, rents, research, other property costs and insurance premiums
**Oil Retail:** repairs and maintenance, rents, other property costs and marketing costs

Segment operating assets and liabilities comprise of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investments in joint ventures, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities comprise operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Group's customer structure in 2016 and 2015 did not result in any major concentration in any given geographical area or operating segment.

Information about the Group's operating segments as of and for the years ended 31 December 2016 and 2015 is presented in the following tables:

| 2016 | Oil Products | Renewable Products | Oil Retail | Others | Eliminations | Group | Note |
|---|---|---|---|---|---|---|---|
| External revenue | 5,629 | 2,467 | 3,523 | 69 | 0 | 11,689 | |
| Internal revenue | 1,766 | 223 | 28 | 225 | -2,241 | 0 | |
| Total revenue | 7,395 | 2,690 | 3,552 | 294 | -2,241 | 11,689 | 7 |
| Other income | 42 | 6 | 7 | 34 | -19 | 71 | 8 |
| Share of profit (loss) of joint ventures | 3 | 0 | 0 | 11 | 0 | 14 | 19 |
| Materials and services | -6,266 | -1,939 | -3,326 | -64 | 2,076 | -9,519 | 9 |
| Employee benefit costs | -138 | -32 | -33 | -148 | 2 | -349 | 10 |
| Depreciation, amortization and impairments | -217 | -109 | -22 | -18 | 0 | -366 | 11 |
| Other expenses | -256 | -97 | -88 | -121 | 177 | -386 | 12 |
| Operating profit | 563 | 518 | 89 | -11 | -5 | 1,155 | |
| Financial income and expense | | | | | | -79 | 13 |
| Profit before taxes | | | | | | 1,075 | |
| Income taxes | | | | | | -133 | 14 |
| Profit for the period | | | | | | 943 | |
| | | | | | | | |
| Comparable operating profit | 453 | 469 | 90 | -23 | -6 | 983 | |
| inventory gains/losses | 157 | 123 | 0 | 0 | 0 | 280 | |
| changes in the fair value of open commodity and currency derivatives | -57 | -60 | 0 | 0 | 0 | -118 | |
| capital gains and losses | 11 | 0 | 0 | 12 | 0 | 23 | |
| insurance and other compensations | 0 | 0 | 0 | 0 | 0 | 0 | |
| other adjustments | 0 | -13 | 0 | 0 | 0 | -13 | |
| Operating profit | 563 | 518 | 89 | -11 | -5 | 1,155 | |
| | | | | | | | |
| Capital expenditure and investments in shares | 249 | 104 | 31 | 38 | 0 | 422 | |
| | | | | | | | |
| Segment operating assets | 3,560 | 2,191 | 545 | 307 | -310 | 6,293 | |
| Investments in joint ventures | 21 | 0 | 0 | 195 | 0 | 216 | 19 |
| Deferred tax assets | | | | | | 39 | 28 |
| Unallocated assets | | | | | | 894 | |
| Total assets | 3,581 | 2,191 | 545 | 502 | -310 | 7,443 | |
| | | | | | | | |
| Segment operating liabilities | 1,157 | 380 | 350 | 253 | -297 | 1,843 | |
| Deferred tax liabilities | | | | | | 246 | 28 |
| Unallocated liabilities | | | | | | 1,599 | |
| Total liabilities | 1,157 | 380 | 350 | 253 | -297 | 3,688 | |
| | | | | | | | |
| Segment net assets | 2,424 | 1,811 | 196 | 249 | -12 | 4,667 | |
| Return on net assets, % | 23.2 | 28.6 | 47.3 | -5.3 | | | |
| Comparable return on net assets, % | 18.7 | 25.9 | 47.5 | -11.3 | | | |

| 2015 | Oil Products | Renewable Products | Oil Retail | Others | Eliminations | Group | Note |
|---|---|---|---|---|---|---|---|
| External revenue | 5,406 | 1,946 | 3,709 | 69 | 0 | 11,131 | |
| Internal revenue | 2,061 | 426 | 40 | 198 | -2,724 | 0 | |
| Total revenue | 7,467 | 2,372 | 3,748 | 267 | -2,724 | 11,131 | 7 |
| Other income | 101 | 1 | 4 | 20 | -18 | 109 | 8 |
| Share of profit (loss) of joint ventures | 2 | 0 | 0 | 26 | 0 | 27 | 19 |
| Materials and services | -6,602 | -1,930 | -3,528 | -56 | 2,578 | -9,539 | 9 |
| Employee benefit costs | -148 | -31 | -34 | -139 | 2 | -351 | 10 |
| Depreciation, amortization and impairments | -216 | -95 | -31 | -17 | 0 | -358 | 11 |
| Other expenses | -215 | -84 | -81 | -101 | 161 | -320 | 12 |
| Operating profit | 389 | 233 | 79 | 0 | -2 | 699 | |
| Financial income and expense | | | | | | -65 | 13 |
| Profit before taxes | | | | | | 634 | |
| Income taxes | | | | | | -74 | 14 |
| Profit for the period | | | | | | 560 | |
| | | | | | | | |
| Comparable operating profit | 439 | 402 | 84 | 2 | -2 | 925 | |
| inventory gains/losses | -143 | -119 | 0 | 0 | 0 | -263 | |
| changes in the fair value of open commodity and currency derivatives | 35 | -50 | 0 | 0 | 0 | -15 | |
| capital gains and losses | 76 | 0 | 0 | 0 | 0 | 76 | |
| insurance and other compensations | 0 | 0 | 0 | 0 | 0 | 0 | |
| other adjustments | -17 | 0 | -5 | -3 | 0 | -25 | |
| Operating profit | 389 | 233 | 79 | 0 | -2 | 699 | |
| | | | | | | | |
| Capital expenditure and investments in shares | 453 | 28 | 37 | 17 | 0 | 536 | |
| | | | | | | | |
| Segment operating assets | 3,282 | 2,145 | 439 | 260 | -237 | 5,889 | |
| Investments in joint ventures | 18 | 0 | 0 | 201 | 0 | 220 | 19 |
| Deferred tax assets | | | | | | 29 | 28 |
| Unallocated assets | | | | | | 655 | |
| Total assets | 3,300 | 2,145 | 439 | 461 | -237 | 6,793 | |
| | | | | | | | |
| Segment operating liabilities | 980 | 261 | 255 | 193 | -230 | 1,459 | |
| Deferred tax liabilities | | | | | | 265 | 28 |
| Unallocated liabilities | | | | | | 1,965 | |
| Total liabilities | 980 | 261 | 255 | 193 | -230 | 3,689 | |
| | | | | | | | |
| Segment net assets | 2,320 | 1,884 | 184 | 269 | -7 | 4,650 | |
| Return on net assets, % | 16.2 | 12.6 | 38.9 | -0.2 | | | |
| Comparable return on net assets, % | 18.2 | 21.8 | 41.2 | 1.1 | | | |

## Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and retail selling network in Finland, North-West Russia, Estonia, Latvia and Lithuania. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets comprise of intangible assets, property, plant and equipment and investments in joint ventures. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. 'Baltic rim' includes Estonia, Latvia, Lithuania, Russia and Poland. The Group's activities in this geographical area comprise mainly of retail activities in the mentioned countries.

| 2016 | Finland | Other Nordic countries | Baltic rim | Other European countries | North and South America | Other countries | Group |
|---|---|---|---|---|---|---|---|
| Revenue by destination | 4,181 | 1,983 | 1,135 | 2,504 | 1,790 | 96 | 11,689 |
| Non-current assets | 2,545 | 195 | 103 | 650 | 0 | 557 | 4,049 |
| Capital expenditure | 315 | 0 | 8 | 84 | 0 | 15 | 422 |

| 2015 | Finland | Other Nordic countries | Baltic rim | Other European countries | North and South America | Other countries | Group |
|---|---|---|---|---|---|---|---|
| Revenue by destination | 4,529 | 1,477 | 1,232 | 2,248 | 1,506 | 139 | 11,131 |
| Non-current assets | 2,535 | 201 | 96 | 614 | 0 | 589 | 4,036 |
| Capital expenditure | 507 | 0 | 9 | 18 | 0 | 2 | 536 |

## 5. Assets held for sale

There were no assets classified as held for sale on 31 December 2016.

The assets classified as held for sale as of 31 December 2015 relate to the agreements to create a joint venture company owned by Neste, Veolia and Borealis. The joint venture company produces and supplies steam and other utilities to Neste´s refinery and Borealis´ petrochemical plant in Porvoo, Finland. The transaction was completed in March 2016. The company, Kilpilahti Power Plant Ltd is owned 40% each by Neste and Veolia and 20% by Borealis. Classified power plant was part of the Oil Products segment.

| Assets classified as held for sale | 2015 |
|---|---|
| Property, plant and equipment | 47 |
| Inventories | 1 |
| Total | 47 |

## 6. Acquisitions and disposals

### Acquisitions

No acquisitions took place in financial periods 2016 and 2015.

### Disposals

No disposals took place in financial period 2016.

On 2 January 2015 Neste sold all shares of Kilpilahden Sähkönsiirto Oy to InfraVia European Fund II, an infrastructure fund managed by InfraVia. The sale produced a capital gain of EUR 79 million for Neste in the first quarter 2015. The sold operations were part of the Oil Product segment.

### Assets and Liabilities of Kilpilahden Sähkönsiirto Oy

| MEUR | 2 Jan 2015 |
|---|---|
| Property, plant and equipment | 99 |
| Trade and other receivables | 8 |
| **Total assets** | 107 |
| | |
| Trade and other payables | 9 |
| Deferred tax liabilities | 6 |
| **Total liabilities** | 15 |
| **Sold net assets** | 92 |
| | |
| Gain on disposal | 79 |
| **Total consideration** | 171 |
| | |
| Cash consideration received | 171 |
| Cash and cash equivalents disposed of | 0 |
| **Cash inflow arising from disposal** | 171 |

## 7. Analysis of revenue by category

| | 2016 | 2015 |
|---|---|---|
| Sale of goods | 11,526 | 10,946 |
| Revenue from services | 158 | 182 |
| Royalty income | 3 | 2 |
| Other | 1 | 1 |
| | 11,689 | 11,131 |

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,457 million (2015: EUR 1,309 million) are included in product sales. The corresponding amount is included in 'Materials and Services', Note 9.

Oil trading included in Sale of goods comprise of revenue from physical trading activities conducted on international and regional markets by taking delivery of and selling petroleum products and raw materials within a short period of time for the purpose of generating a profit from short-term fluctuations in product and raw material prices and margins.

Net gains/losses on financial instruments related to sales, designated as cash flow hedges, are included in Sale of goods amounting to EUR -3 million (2015: EUR -82 million).

Revenue from services mainly comprises revenue from the chartering services and Neste Jacobs, which is included in the Others segment.

## 8. Other income

| | 2016 | 2015 |
|---|---|---|
| Gain on sale of subsidiaries | 0 | 79 |
| Capital gains on disposal of other non-current assets | 28 | 1 |
| Rental income | 22 | 17 |
| Government grants | 6 | 7 |
| Insurance compensations | 10 | 0 |
| Other | 5 | 5 |
| | 71 | 109 |

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation. EUR 0 million (2015: EUR 1 million) of the amount is included in 'Trade and other receivables' in the consolidated statement of financial position. This amount relating to operations in the financial period ended 31 December is applied for and received during the following financial period. The Group believes that it has fulfilled all the conditions related to the grants recognized in the income statement. Capital gains on disposal of other non-current assets relate mainly to the sale of a minority share in Ekokem Corporation.

## 9. Materials and services

| | 2016 | 2015 |
|---|---|---|
| Materials and supplies | 9,780 | 9,508 |
| Change in inventories | -317 | -31 |
| External services | 56 | 61 |
| | 9,519 | 9,539 |

Materials and supplies include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,457 million (2015: EUR 1,309 million). The corresponding amount is included in 'Revenue', Note 7.

Net gains/losses on financial instruments related to purchases designated as cash flow hedges are included in Materials and supplies. In 2016 the loss amounted to EUR 5 million (2015: loss EUR 38 million).

## 10. Employee benefit costs

| | 2016 | 2015 |
|---|---|---|
| Wages, salaries | 266 | 271 |
| Social security costs | 26 | 27 |
| Pension costs-defined contribution plans | 42 | 37 |
| Pension costs-defined benefit plans | 8 | 8 |
| Other costs | 7 | 8 |
| | 349 | 351 |

| Number of personnel (average) | 2016 | 2015 |
|---|---|---|
| Oil Products | 1,693 | 1,725 |
| Renewable Products | 267 | 263 |
| Oil Retail | 1,354 | 1,353 |
| Others | 1,699 | 1,565 |
| | 5,013 | 4,906 |

## 11. Depreciation, amortization and impairment charges

| | 2016 | 2015 |
|---|---|---|
| Depreciation of property, plant, and equipment | | |
| Buildings and structures | 75 | 82 |
| Machinery and equipment | 259 | 243 |
| Other tangible assets | 22 | 22 |
| | 356 | 347 |
| Amortization of intangible assets | 10 | 11 |
| Depreciation, amortization and impairment charges total | 366 | 358 |

## 12. Other expenses

| | 2016 | 2015 |
|---|---|---|
| Operating leases and other property costs | 44 | 42 |
| Repairs and maintenance | 143 | 109 |
| Services | 107 | 88 |
| Insurance | 18 | 17 |
| Other | 73 | 65 |
| | 386 | 320 |

Operating leases include rents for land, premises, machinery, and equipment. Services include planning- and consulting services, IT-services and other services. Other expenses include travel expenses, HSE, and advertising costs.

| Fees charged by the statutory auditor, PwC EUR thousands | 2016 | 2015 |
|---|---|---|
| Audit fees | 936 | 990 |
| Auditor's mandatory opinions | 0 | 19 |
| Tax advisory | 67 | 181 |
| Other advisory services | 221 | 1,317 |
| | 1,224 | 2,507 |

Other advisory services include for example the fee relating to the sale of Kilpilahden Sähkönsiirto Oy in 2015.

## 13. Financial income and expenses

| | 2016 | 2015 |
|---|---|---|
| **Financial income** | | |
| Dividend income on available-for-sale investments | 0 | 0 |
| Interest income from loans and receivables | 4 | 2 |
| Other financial income | 0 | 0 |
| | 4 | 2 |
| **Financial expenses** | | |
| Interest expenses for financial liabilities at amortized cost | -60 | -77 |
| Interest rate derivatives, non-hedge accounted | 0 | 0 |
| Interest rate derivatives, hedge accounted | -1 | 0 |
| Other financial expenses | -6 | -6 |
| | -67 | -84 |
| **Exchange rate and fair value gains and losses** | | |
| Loans and receivables | -15 | 24 |
| Other | 4 | 6 |
| Foreign exchange derivatives, non-hedge accounted | -6 | -13 |
| | -17 | 16 |
| **Financial cost - net** | -79 | -65 |

| **Net gains/losses on financial instruments included in operating profit** | 2016 | 2015 |
|---|---|---|
| Foreign exchange rate and commodity derivative financial instruments designated as cash flow hedges | -8 | -120 |
| Non-hedge accounted foreign exchange rate, commodity derivative instruments | -144 | 37 |
| | -151 | -83 |

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Financial instruments held for trading purposes include also the net result of physical trading transactions for some of the contracts that can be settled net in cash and are not entered into and held for the purpose of the receipt or delivery in accordance with expected purchase, sale or usage requirements. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR -137 million (2015: EUR 34 million), and transactions entered into for trading purposes amounting to EUR -7 million (2015: EUR 3 million). The net result of non-hedge accounted derivative financial instruments are included in Materials and services.

Net gains/losses on financial instruments related to sales, designated as cash flow hedges, are included in Revenue (Note 7). Net gains/losses on financial instruments related to purchases designated as cash flow hedges and net gains/losses on non-hedge accounted financial instruments are included in Materials and services (Note 9).

## 14. Income tax expense

The major components of tax expense are presented in the following table:

| | 2016 | 2015 |
|---|---|---|
| Current tax | 150 | 56 |
| Adjustments recognized for current tax for prior periods | 2 | -1 |
| Change in deferred taxes | -20 | 19 |
| Tax charge in the consolidated income statement | 133 | 74 |

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled in the following table:

| | 2016 | 2015 |
|---|---|---|
| Profit before tax | 1,075 | 634 |
| Hypothetical income tax calculated at Finnish tax rate 20% | -215 | -127 |
| | | |
| Differences in tax rates in other countries | 81 | 35 |
| Tax exempt income | 0 | 18 |
| Non-deductible expenses | -2 | -1 |
| Tax on undistributed earnings | -1 | -4 |
| Taxes for prior periods | -2 | 1 |
| Net results of joint ventures | 2 | 5 |
| Realisability of deferred tax assets | 1 | -1 |
| Other | 3 | 0 |
| Tax charge in the consolidated income statement | -133 | -74 |

The Group's effective tax rate was 12% (12%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Latvia, Lithuania, Singapore and Switzerland, where Neste has business operations. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010–2023 under the applicable Singapore legislation.

The tax charge(-)/credit relating to components of other comprehensive income:

| 2016 | Before tax | Tax charge (-) / credit | After tax |
|---|---|---|---|
| Remeasurements of defined benefit plans | -26 | 5 | -21 |
| Translation differences | 6 | 0 | 6 |
| Cash flow hedges | | | |
| recorded in equity | -25 | 5 | -20 |
| transferred to income statement | 6 | 0 | 6 |
| Net investment hedges | 0 | 0 | 0 |
| Share of other comprehensive income of investments accounted for using the equity method | -9 | 0 | -9 |
| Other comprehensive income | -48 | 10 | -38 |
| Current tax | | 0 | |
| Deferred tax | | 10 | |
| | | 10 | |

| 2015 | Before tax | Tax charge (-) / credit | After tax |
|---|---|---|---|
| Remeasurements of defined benefit plans | -38 | 8 | -31 |
| Translation differences | -1 | 0 | -1 |
| Cash flow hedges | | | |
| recorded in equity | -85 | 14 | -71 |
| transferred to income statement | 117 | -20 | 97 |
| Net investment hedges | 1 | 0 | 1 |
| Share of other comprehensive income of investments accounted for using the equity method | -9 | 0 | -9 |
| Other comprehensive income | -15 | 1 | -14 |
| Current tax | | 0 | |
| Deferred tax | | 1 | |
| | | 1 | |

## 15. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. The average number of shares has been adjusted with treasury shares, 686,574 shares (2015: 798,467), as described in Note 26. Diluted earnings per share reflect the impact of the share-based incentive plans. The Company has not granted any options.

| | 2016 | 2015 |
|---|---|---|
| Profit attributable to owners of the parent, MEUR | 939 | 558 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands) | 255,697 | 255,569 |
| Number of ordinary shares, including treasury shares, used as the denominator in calculating diluted earnings per share (thousands) | 256,404 | 256,404 |
| Basic earnings per share (euro per share) | 3.67 | 2.18 |
| Diluted earnings per share (euro per share) | 3.66 | 2.18 |

## 16. Dividend per share

The dividends paid in 2016 were EUR 1.00 per share, totalling EUR 256 million (2015: EUR 0.65 per share, totalling EUR 166 million). A dividend of EUR 1.30 per share will be proposed at the Annual General Meeting on 5 April 2017, corresponding to total dividends of EUR 332 million for 2016. This dividend is not reflected in the financial statements.

## 17. Property, plant and equipment

| 2016 | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount at 1 January 2016 | 73 | 2,189 | 4,005 | 321 | 165 | 6,753 |
| Exchange rate differences | 2 | 12 | 5 | 0 | 0 | 19 |
| Additions | 1 | 53 | 101 | 27 | 214 | 396 |
| Disposals | -1 | -22 | -87 | -30 | -9 | -149 |
| Reclassifications | 0 | -17 | 21 | 0 | -4 | 0 |
| Gross carrying amount at 31 December 2016 | 75 | 2,215 | 4,044 | 318 | 366 | 7,019 |
| | | | | | | |
| Accumulated depreciation and impairment losses at 1 January 2016 | 0 | 835 | 2,073 | 100 | 0 | 3,008 |
| Exchange rate differences | 0 | 6 | 3 | 0 | 0 | 9 |
| Disposals | 0 | -17 | -70 | -14 | 0 | -101 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the period | 0 | 75 | 259 | 22 | 0 | 356 |
| Accumulated depreciation and impairment losses at 31 December 2016 | 0 | 899 | 2,265 | 108 | 0 | 3,272 |
| | | | | | | |
| Carrying amount at 1 January 2016 | 73 | 1,353 | 1,932 | 221 | 165 | 3,745 |
| Carrying amount at 31 December 2016 | 75 | 1,316 | 1,779 | 210 | 366 | 3,747 |

| 2015 | Land | Buildings and constructions | Machinery and equipment | Other tangible assets | Assets under construction | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount at 1 January 2015 | 72 | 2,101 | 3,991 | 321 | 253 | 6,738 |
| Exchange rate differences | -1 | -5 | -2 | 0 | 0 | -9 |
| Additions | 2 | 90 | 365 | 34 | 32 | 523 |
| Disposals | -1 | -8 | -254 | -46 | -13 | -322 |
| Reclassifications | 0 | 34 | 41 | 12 | -94 | -7 |
| Classified as assets held for sale | 0 | -23 | -134 | 0 | -13 | -170 |
| Gross carrying amount at 31 December 2015 | 73 | 2,189 | 4,005 | 321 | 165 | 6,753 |
| | | | | | | |
| Accumulated depreciation and impairment losses at 1 January 2015 | 0 | 776 | 2,171 | 124 | 0 | 3,071 |
| Exchange rate differences | 0 | -3 | -1 | 0 | 0 | -4 |
| Disposals | 0 | -8 | -228 | -46 | 0 | -282 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the period | 0 | 82 | 243 | 22 | 0 | 347 |
| On assets classified as held for sale | 0 | -12 | -111 | 0 | 0 | -123 |
| Accumulated depreciation and impairment losses at 31 December 2015 | 0 | 835 | 2,073 | 100 | 0 | 3,008 |
| | | | | | | |
| Carrying amount at 1 January 2015 | 72 | 1,325 | 1,820 | 197 | 253 | 3,667 |
| Carrying amount at 31 December 2015 | 73 | 1,353 | 1,932 | 221 | 165 | 3,745 |

Capital expenditure in the turnaround at the Porvoo refinery totalled EUR 116 million. The scheduled major turnaround was implemented during the second quarter of 2015. The capitalization related to the turnaround is included in Machinery and Equipment.

## Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table:

| | 2016 | 2015 |
|---|---|---|
| Gross carrying amount | 108 | 173 |
| Accumulated depreciation | 33 | 67 |
| Carrying amount | 74 | 106 |

## Capitalized borrowing costs

During 2016 borrowing costs amounting to EUR 5.5 million (2015: EUR 2.4 million) were capitalized related mainly to Oil Products investments. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.5% in 2016 (2015: 3.5%).

# 18. Intangible assets

| 2016 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Gross carrying amount at 1 January 2016 | 11 | 182 | 193 |
| Exchange rate differences | 0 | 0 | 0 |
| Additions | 0 | 26 | 26 |
| Disposals | 0 | -4 | -4 |
| Reclassifications | 0 | 0 | 0 |
| Gross carrying amount at 31 December 2016 | 11 | 204 | 216 |
| | | | |
| Accumulated amortization and impairment losses at 1 January 2016 | 0 | 122 | 122 |
| Exchange rate differences | 0 | 0 | 0 |
| Disposals | 0 | -3 | -3 |
| Reclassifications | 0 | 0 | 0 |
| Amortization for the period | 0 | 10 | 10 |
| Accumulated amortization and impairment losses at 31 December 2016 | 0 | 129 | 129 |
| | | | |
| Carrying amount at 1 January 2016 | 11 | 60 | 71 |
| Carrying amount at 31 December 2016 | 11 | 76 | 87 |

| 2015 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Gross carrying amount at 1 January 2015 | 11 | 163 | 175 |
| Exchange rate differences | 0 | 0 | 0 |
| Additions | 0 | 13 | 13 |
| Disposals | 0 | -2 | -2 |
| Reclassifications | 0 | 7 | 7 |
| Gross carrying amount at 31 December 2015 | 11 | 182 | 193 |
| | | | |
| Accumulated amortization and impairment losses at 1 January 2015 | 0 | 113 | 113 |
| Exchange rate differences | 0 | 0 | 0 |
| Disposals | 0 | -2 | -2 |
| Reclassifications | 0 | 0 | 0 |
| Amortization for the period | 0 | 11 | 11 |
| Accumulated amortization and impairment losses at 31 December 2015 | 0 | 122 | 122 |
| | | | |
| Carrying amount at 1 January 2015 | 11 | 50 | 62 |
| Carrying amount at 31 December 2015 | 11 | 60 | 71 |

## Emission allowances

Neste's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 18.6 million tons emission allowances for the period 2013-2020. Emission allowances, which are purchased to cover future periods deficit 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 buy emission allowances if emission allowances received free of charge and purchased emission allowances intended to cover the deficit do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as the change in the probable amount of the provision, are reflected in operating profit.

As of 31 December 2016 an estimated obligation to purchase emission allowances was recognized in the balance sheet as a provision amounting to EUR 2.5 million (2015: intangible assets EUR 0 million). The actual amount of CO2 emissions in 2016 were 3.2 million tons (2015: 2.9 million tons). The Group has traded emission allowances for net amount of 0.3 million tons during the financial period ended 31 December 2016 (2015: 1.2 million tons).

## Impairment test of goodwill

Goodwill is allocated to Group's cash-generating units (CGU's). From identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

| | WACC% | 2016 | 2015 |
|---|---|---|---|
| Oil Products | 6.0 | 2 | 2 |
| Other | 4.9 | 9 | 9 |
| | | 11 | 11 |

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of three years. Cash flows beyond the three-year period are extrapolated by using 1.0% nominal growth rate.

The discount rates represent the WACC specified for the business area in question after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. WACC rates are specified for each of the cash generating units separately in the table above. WACC% and growth rate are used purely for the impairment testing.

The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering and project management services, as well as the billability rate. The key assumptions used in the impairment test are the billability rate affecting the EBITDA.

The key assumptions for the plans in Oil Products are the demand and the margin level for oil products.

Sensitivity analysis: A decrease of 10% in cash flows or 2%-points increase in the discount rate would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

## 19. Investments in joint ventures

| Carrying amount | 2016 | 2015 |
|---|---|---|
| On 1 January | 220 | 195 |
| Share of profits of joint ventures | 14 | 27 |
| Translation differences | -8 | 6 |
| Share of other comprehensive income of investments accounted for using the equity method | -9 | -9 |
| Other changes | -1 | 1 |
| On 31 December | 216 | 220 |

The Group's interest in its principle joint ventures at 31 December, all of which are unlisted, are listed in the following table:

| | Country of incorporation | Nature of the relationship | 2016 % interest held | 2015 % interest held |
|---|---|---|---|---|
| Glacia Limited | Bermuda | Note 1 | 50.00 | 50.00 |
| Nynas AB (publ) | Sweden | Note 2 | 49.99 | 49.99 |
| Kilpilahden Voimalaitos Oy | Finland | Note 3 | 40.00 | 100.00 |

**Note 1:** Glacia Limited is a joint venture company owned on a 50/50 basis by Neste and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste fleet in January 2007. Neste has entered into a 10+2-year time charter contract with the joint venture for the vessel, of which 2 years remain.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which (limited liability company) separates the assets and liabilities of the arrangement from the assets and liabilities of its shareholders, and are directed so that the relevant activities of the company require unanimous consent from all shareholders.

**Note 2:** Nynas AB (publ) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. Neste Owns 49.99% of the shares of the company. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petróleos de Venezuela S.A. Nynas AB (publ) is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle the legal form of which separates its assets and liabilities from the assets and liabilities of its shareholders, and that the terms and conditions of the shareholders' agreement or other facts and circumstances do not give Neste or Petróleos de Venezuela S.A. rights to the assets and obligations for the liabilities of Nynas AB (publ).

**Note 3:** Kilpilahti Power Plant Limited is a joint venture company that produces and supplies steam and other utilities to Neste´s refinery and Borealis´ petrochemical plant in Porvoo, Finland. The company, Kilpilahti Powerplant Ltd is owned 40% each by Neste and Veolia and 20% by Borealis.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which separates its assets and liabilities of its shareholders and it is directed so that the relevant activities of the company require unanimous consent from all parties sharing control. The new power plant´s capacity is meant to serve also external customers in addition to Neste and Borealis and thus optimize the returns of all shareholders in form of net profit. Management has also taken into account that Kilpilahti Power Plant Ltd plans and executes the power plant operations as its own business decisions which are operated by Veolia.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table:

| | Kilpilahti Power Plant Ltd | Glacia Limited | | Nynas AB (publ) | |
|---|---|---|---|---|---|
| | 2016 | 2016 | 2015 | 2016 | 2015 |
| **Non-current assets** | 186 | 35 | 37 | 610 | 520 |
| | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 25 | 11 | 21 | 39 | 37 |
| Other current asset (excl. Cash and cash equivalents) | 35 | 0 | 0 | 608 | 602 |
| **Total current assets** | 60 | 11 | 21 | 647 | 639 |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Non-current financial liabilities (excl. Trade payables and provisions) | 192 | 0 | 0 | 424 | 413 |
| Other non-current liabilities | 0 | 0 | 0 | 142 | 93 |
| **Total non-current liabilities** | 192 | 0 | 0 | 566 | 506 |
| | | | | | |
| **Current liabilities** | | | | | |
| Current financial liabilities (excl. Trade payables and provisions) | 0 | 0 | 19 | 43 | 0 |
| Other current liabilities | 53 | 2 | 2 | 259 | 251 |
| **Total current liabilities** | 53 | 2 | 20 | 302 | 251 |
| | | | | | |
| **Net assets** | 0 | 42 | 37 | 388 | 402 |
| | | | | | |
| **Revenue** | 85 | 11 | 10 | 1,321 | 1,937 |
| Depreciation, amortization and impairments | 7 | 4 | 3 | 47 | 43 |
| Interest income | 0 | 0 | 0 | 2 | 3 |
| Interest expense | 0 | 0 | 0 | 15 | 22 |
| Income tax expense | 0 | 0 | 0 | 10 | 15 |
| **Profit/loss** | 0 | 4 | 4 | 22 | 51 |

### Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture.

| | Kilpilahti Power Plant Ltd | Glacia Limited | | Nynas AB (publ) | |
|---|---|---|---|---|---|
| **Summarized financial information** | **2016** | **2016** | **2015** | **2016** | **2015** |
| **Opening net assets 1 January** | 0 | 37 | 31 | 402 | 357 |
| Profit for the period | 0 | 4 | 4 | 22 | 51 |
| Other comprehensive income | 0 | 1 | 2 | -36 | -7 |
| **Closing net assets** | 0 | 42 | 37 | 388 | 402 |
| Interest in joint venture | 0 | 21 | 18 | 194 | 201 |
| **Carrying value** | 0 | 21 | 18 | 194 | 201 |

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2016 and 2015 financial information above is based on 30 September 2016 and 30 September 2015 published interim reports. The share of profits of Glacia Limited for 2016 is consolidated based on the companys' preliminary results for the financial period.

Transactions carried out with joint arrangements are disclosed in Note 32.

Contingent liabilities relating to the Group's interest in the joint arrangements are disclosed in Note 34.

## 20. Carrying amounts of financial assets and liabilities by measurement categories

Financial assets and liabilites divided by categories were as follows as of December 31:

| 2016 Balance sheet item | Derivatives, hedge accounting | Assets/liabilities at fair value through income statement | Loans and receivables | Available-for-sale financial assets | Financial liabilities measured at amortized cost | Carrying amounts by balance sheet item | Fair value | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Non-current receivables | | | 55 | | | 55 | | 21 |
| Derivative financial instruments | 8 | 1 | | | | 9 | 9 | 25 |
| Available-for-sale financial assets | | | | 5 | | 5 | | 21, 25 |
| **Current financial assets** | | | | | | | | |
| Trade and other receivables [1] | | | 1,029 | | | 1,029 | | |
| Derivative financial instruments | 2 | 46 | | | | 48 | 48 | 25 |
| Cash and cash equivalents | | | 788 | | | 788 | | 24 |
| **Carrying amount by category** | 10 | 47 | 1,873 | 5 | 0 | 1,934 | 56 | |
| | | | | | | | | |
| **Non-current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 1,117 | 1,117 | 1,172 | 27 |
| Derivative financial instruments | 2 | 0 | | | | 2 | 2 | 25 |
| Other non-current liabilities | | | | | 11 | 11 | | 27 |
| **Current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 354 | 354 | 355 | 27 |
| Derivative financial instruments | 46 | 118 | | | | 164 | 164 | 25 |
| Trade and other payables [2] | | | | | 1,565 | 1,565 | | 27 |
| **Carrying amount by category** | 48 | 118 | 0 | 0 | 3,047 | 3,213 | 1,694 | |

[1] excluding non-financial assets
[2] excluding non-financial liabilities

| 2015 Balance sheet item | Derivatives, hedge accounting | Assets/liabilities at fair value through income statement | Loans and receivables | Available-for-sale financial assets | Financial liabilities measured at amortized cost | Carrying amounts by balance sheet item | Fair value | Note |
|---|---|---|---|---|---|---|---|---|
| **Non-current financial assets** | | | | | | | | |
| Non-current receivables | | | 10 | | | 10 | | 21 |
| Derivative financial instruments | 11 | 0 | | | | 11 | 11 | 25 |
| Available-for-sale financial assets | | | | 5 | | 5 | | 21, 25 |
| **Current financial assets** | | | | | | | | |
| Trade and other receivables [1] | | | 868 | | | 868 | | |
| Derivative financial instruments | 8 | 91 | | | | 99 | 99 | 25 |
| Cash and cash equivalents | | | 596 | | | 596 | | 24 |
| **Carrying amount by category** | 19 | 91 | 1,475 | 5 | 0 | 1,589 | 110 | |
| | | | | | | | | |
| **Non-current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 1,449 | 1,449 | 1,482 | 27 |
| Derivative financial instruments | 4 | 2 | | | | 6 | 6 | 25 |
| Other non-current liabilities | | | | | 6 | 6 | | 27 |
| **Current financial liabilities** | | | | | | | | |
| Interest-bearing liabilities | | | | | 438 | 438 | 445 | 27 |
| Derivative financial instruments | 20 | 26 | | | | 45 | 45 | 25 |
| Trade and other payables [2] | | | | | 1,307 | 1,307 | | 27 |
| **Carrying amount by category** | 23 | 27 | 0 | 0 | 3,200 | 3,251 | 1,978 | |

[1] excluding non-financial assets
[2] excluding non-financial liabilities

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:
**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities
**Level 2:** Inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
**Level 3:** Inputs for the assets or liability that is not based on observable market data (unobservable inputs).

## 2016 Fair value hierarchy

| Financial assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 8 | 0 | 8 |
| Currency derivatives | 0 | 0 | 0 | 0 |
| Commodity derivatives | 0 | 1 | 0 | 1 |
| Available-for-sale financial assets | 0 | 0 | 5 | 5 |
| Non-currents financial assets | 0 | 9 | 5 | 13 |
| Current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 0 | 0 | 0 |
| Currency derivatives | 0 | 4 | 0 | 4 |
| Commodity derivatives | 0 | 43 | 0 | 43 |
| Current financial assets | 0 | 47 | 0 | 48 |
| Total financial assets | 0 | 56 | 5 | 61 |

| Financial liabilities | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 2 | 0 | 2 |
| Currency derivatives | 0 | 0 | 0 | 0 |
| Commodity derivatives | 0 | 0 | 0 | 0 |
| Non-current financial liabilities | 0 | 2 | 0 | 2 |
| Current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 0 | 0 | 0 |
| Currency derivatives | 0 | 62 | 0 | 62 |
| Commodity derivatives | 48 | 53 | 0 | 102 |
| Current financial liabilities | 48 | 116 | 0 | 164 |
| Total financial liabilities | 48 | 118 | 0 | 166 |

During the financial period 2016 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. Available-for-sale financial assets consist of shares in unlisted companies of EUR 5 million (2015: EUR 5 million), for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

## 2015 Fair value hierarchy

| Financial assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 11 | 0 | 11 |
| Currency derivatives | 0 | 0 | 0 | 0 |
| Commodity derivatives | 0 | 0 | 0 | 0 |
| Available-for-sale financial assets | 0 | 0 | 5 | 5 |
| Non-currents financial assets | 0 | 11 | 5 | 16 |
| Current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 5 | 0 | 5 |
| Currency derivatives | 0 | 7 | 0 | 7 |
| Commodity derivatives | 39 | 47 | 0 | 87 |
| Current financial assets | 39 | 60 | 0 | 99 |
| Total financial assets | 39 | 71 | 5 | 115 |

| Financial liabilities | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 4 | 0 | 4 |
| Currency derivatives | 0 | 0 | 0 | 0 |
| Commodity derivatives | 0 | 0 | 0 | 0 |
| Non-current financial liabilities | 0 | 4 | 0 | 4 |
| Current derivative financial instruments | | | | |
| Interest rate derivatives | 0 | 0 | 0 | 0 |
| Currency derivatives | 0 | 24 | 0 | 24 |
| Commodity derivatives | 0 | 23 | 0 | 23 |
| Current financial liabilities | 0 | 47 | 0 | 47 |
| Total financial liabilities | 0 | 51 | 0 | 51 |

During the financial period 2015 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Fair values of non-current interest-bearing liabilities that are carried at amortised cost, but for which fair value is disclosed, are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. Non-current interest-bearing liabilities are classified into fair value measurement hierarchy Level 2.

## 21. Non-current receivables and available-for-sale financial assets

| | Carrying amount | |
|---|---|---|
| Non-current receivables | 2016 | 2015 |
| Non-current interest-bearing receivables | 47 | 1 |
| Other non-current receivables | 9 | 10 |
| | 55 | 10 |

Carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method. Fair values are not materially different from the carrying amounts. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

| Available-for-sale financial assets | 2016 | 2015 |
|---|---|---|
| On 1 January | 5 | 5 |
| Additions | 0 | 0 |
| On 31 December | 5 | 5 |

Available-for-sale financial assets are investments in unlisted companies, and are measured at cost less possible impairment, because their fair value cannot be reliably measured in the absence of an active market.

## 22. Inventories

| | 2016 | 2015 |
|---|---|---|
| Materials and supplies | 643 | 417 |
| Finished products and goods | 765 | 667 |
| Other inventories | 8 | 7 |
| Classified as assets held for sale | 0 | -1 |
| | 1,416 | 1,090 |

Cumulative inventory gains due to oil price changes amounted EUR 280 million (2015: losses EUR 263 million) of which EUR 6 million (2015: EUR 86 million) consisted of inventory write downs recorded at the end of the period.

## 23. Current trade and other receivables

| | Carrying amount | |
|---|---|---|
| | 2016 | 2015 |
| Trade receivables | 874 | 771 |
| Other receivables | 118 | 59 |
| Advances paid | 13 | 11 |
| Accrued income and prepaid expenses | 29 | 29 |
| | 1,034 | 870 |

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Credit loss of trade receivables amounted to EUR 1 million (2015: EUR 1 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

An unsubstantial part of the trade receivables have been sold to a third party during 2016 and 2015.

## 24. Cash and cash equivalents

Cash and cash equivalents include the following:

| | 2016 | 2015 |
|---|---|---|
| Cash at bank and in hand | 768 | 596 |
| Short term bank deposits | 20 | 0 |
| Total | 788 | 596 |

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

## 25. Derivative financial instruments

| Nominal values of interest rate and currency derivative contracts | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Remaining maturities | | | Remaining maturities | | |
| | < 1 year | 1–3 years | Total | < 1 year | 1–4 years | Total |
| **Derivative financial instruments designated as cash flow hedges** | | | | | | |
| Interest rate swaps [1] | 0 | 50 | 50 | 0 | 50 | 50 |
| Forward foreign exchange contracts | 954 | 0 | 954 | 522 | 0 | 522 |
| Currency options | | | | | | |
| - Purchased | 388 | 0 | 388 | 283 | 0 | 283 |
| - Written | 388 | 0 | 388 | 283 | 0 | 283 |
| | 1,730 | 50 | 1,780 | 1,088 | 50 | 1,138 |
| **Derivative financial instruments designated as fair value hedges** | | | | | | |
| Interest rate swaps [1] | 100 | 200 | 300 | 250 | 300 | 550 |
| | 100 | 200 | 300 | 250 | 300 | 550 |
| **Non-hedge accounting derivative financial instruments** | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 0 | 0 | 0 |
| Forward foreign exchange contracts | 1,132 | 0 | 1,132 | 821 | 0 | 821 |
| Currency options | | | | | | |
| - Purchased | 0 | 0 | 0 | 175 | 0 | 175 |
| - Written | 0 | 0 | 0 | 0 | 0 | 0 |
| | 1,132 | 0 | 1,132 | 996 | 0 | 996 |

[1] Interest rate swaps mature in 3 years.

| Volumes of commodity derivative contracts | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Volume million bbl** Remaining maturities | | | **Volume million bbl** Remaining maturities | | |
| | < 1 year | 1–3 years | Total | < 1 year | 1–3 years | Total |
| **Commodity derivative contracts designated as cash flow hedges [2]** | | | | | | |
| Futures and forwards | | | | | | |
| - Sales contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives [3]** | | | | | | |
| Futures and forwards | | | | | | |
| - Sales contracts | 27 | 0 | 27 | 16 | 0 | 16 |
| - Purchase contracts | 17 | 0 | 18 | 8 | 0 | 8 |
| | 44 | 1 | 45 | 24 | 0 | 24 |

| | Volume GWh Remaining maturities < 1 year | 1–3 years | Total | Volume GWh Remaining maturities < 1 year | 1–3 years | Total |
|---|---|---|---|---|---|---|
| **Non-hedge accounting electricity and gas derivative contracts** | | | | | | |
| Futures and forwards | | | | | | |
| - Purchase contracts | 1,716 | 665 | 2,381 | 1,548 | 884 | 2,432 |
| | 1,716 | 665 | 2,381 | 1,548 | 884 | 2,432 |

[2] Commodity derivative contracts with hedge accounting status are oil derivatives.
[3] Commodity derivative contracts with non-hedge accounting status include oil and vegetable oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

## Fair values of derivative financial instruments

| | Fair value 2016 | | | | Fair value 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive | | Negative | | Positive | | Negative | |
| **Interest rate and currency derivative contracts** | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–4 years | < 1 year | 1–4 years |
| **Derivative financial instruments designated as cash flow hedges** | | | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 4 |
| Forward foreign exchange contracts | 0 | 0 | 35 | 0 | 1 | 0 | 15 | 0 |
| Currency options | | | | | | | | |
| - Purchased | 1 | 0 | 3 | 0 | 0 | 0 | 3 | 0 |
| - Written | 0 | 0 | 8 | 0 | 1 | 0 | 2 | 0 |
| | 1 | 0 | 46 | 2 | 3 | 0 | 20 | 4 |
| **Derivative financial instruments designated as fair value hedges** | | | | | | | | |
| Interest rate swaps [1] | 0 | 8 | 0 | 0 | 5 | 11 | 0 | 0 |
| | 0 | 8 | 0 | 0 | 5 | 11 | 0 | 0 |
| **Non-hedge accounting derivative financial instruments** | | | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forward foreign exchange contracts | 3 | 0 | 17 | 0 | 4 | 0 | 3 | 0 |
| Currency options | | | | | | | | |
| - Purchased | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |
| - Written | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 3 | 0 | 17 | 0 | 4 | 0 | 4 | 0 |

[1] Interest rate swaps mature in 3 years.

| | Fair value 2016 | | | | Fair value 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive | | Negative | | Positive | | Negative | |
| **Commodity derivative contracts** | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–3 years |
| **Commodity derivative contracts designated as cash flow hedges [2)]** | | | | | | | | |
| Futures and forwards | | | | | | | | |
| - Sales contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| **Non-hedge accounting commodity derivative contracts [3)]** | | | | | | | | |
| Futures and forwards | | | | | | | | |
| - Sales contracts | 1 | 0 | 89 | 0 | 72 | 0 | 3 | 0 |
| - Purchase contracts | 42 | 1 | 12 | 0 | 15 | 0 | 19 | 2 |
| | 43 | 1 | 102 | 0 | 87 | 0 | 22 | 2 |

[2)] Commodity derivative contracts with hedge accounting status are oil derivatives.

[3)] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Assets | | Liabilities | |
| **Balance sheet reconciliation** | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Derivative financial instruments | 48 | 9 | 164 | 2 | 99 | 11 | 45 | 6 |

## Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e.the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant and the measurement date.

The fair values of the interest rate swaps are the present values of the estimated future cash flows. Foreign exchange forward contracts are calculated using the valuation model and the market rates as per last business day of financial year. The fair value of currency options are calculated using market rates as per last business day of financial year and by using the Black and Scholes option valuation model.

The fair value of exchange traded commodity futures and option contracts is determined using the forward exchange market quotations as per last business day of financial year. The fair value of over-the-counter derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per last business day of the financial year.

## 26. Equity

### Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2016 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined. There have been no changes in share capital in 2016 or 2015.

| | Number of shares, 1,000 | Treasury shares, 1,000 | Outstanding shares, 1,000 |
|---|---|---|---|
| 1 January 2016 | 256,404 | -798 | 255,605 |
| Transfer of treasury shares | | 112 | 112 |
| 31 December 2016 | 256,404 | -687 | 255,717 |
| | | | |
| 1 January 2015 | 256,404 | -1,000 | 255,404 |
| Transfer of treasury shares | | 202 | 202 |
| 31 December 2015 | 256,404 | -798 | 255,605 |

### Treasury shares

1.1.2015 Group had 1,000,000 treasury shares. In addition, in the Annual General Meeting on 1 April 2015 the Board of Directors was authorized to decide on the purchase of and/or take as security a maximum of 1,000,000 company shares using the company's unrestricrted equity. During the year 2015, 201,533 treasury shares of Neste Corporation were conveyed without consideration to 64 key persons participating in the share-based incentive plan 2010 according to the terms and conditions of the plan. On 7 March 2016, 111,893 treasury shares have been conveyed without consideration to 86 key persons participating in the share-based incentive plan 2013 according to the terms and conditions of the plan. After this directed share issue the total amount of treasury shares is 686,574 shares. The acquisition cost including transaction costs, has been deducted from equity. The total number of the company's shares is 256,403,686 shares.

### Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement.

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates.

## 27. Non-current and current liabilities

| | Carrying amount | |
|---|---|---|
| **Non-current liabilities** | **2016** | **2015** |
| Bonds | 954 | 1,205 |
| Loans from financial institutions | 22 | 101 |
| Finance lease liabilities | 87 | 89 |
| Other loans | 54 | 54 |
| Other non-current liabilities | 7 | 6 |
| Accruals and deferred income | 4 | 0 |
| **Non-current liabilities total** | 1,128 | 1,455 |
| of which interest-bearing | 1,117 | 1,449 |

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 1,261 million (2015: EUR 1,238 million) of which EUR 1,211 million belong to fair value hierarchy Level 1 and 50 million to Level 2. The fair values of other non-current liabilities are not materially different from their carrying amounts.

| | Carrying amount | |
|---|---|---|
| **Current liabilities** | **2016** | **2015** |
| Bonds | 250 | 305 |
| Loans from financial institutions | 101 | 108 |
| Finance lease liabilities | 3 | 25 |
| Advances received | 17 | 56 |
| Trade payables | 1,030 | 787 |
| Other current liabilities | 407 | 340 |
| Current tax liabilities | 40 | 21 |
| Accruals and deferred expenses | 112 | 123 |
| **Current liabilities total** | 1,959 | 1,766 |
| of which interest-bearing | 354 | 438 |

The carrying amounts of current interest-free liabilities are reasonable approximations of their fair value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 252 million (2015: EUR 311 million) of which EUR 252 million belong to fair value hierarchy level 1. The fair values of other current liabilities are not materially different from their carrying amounts.

Re-pricing periods of the Group's interest-bearing debt is disclosed in Note 3, Financial risk management, section 'Market risk'.

## Listed bond issues

| Issued/Maturity | Interest basis | Interest rate, % | Effective interest, % | Currency | Nominal million | Carrying amount MEUR |
|---|---|---|---|---|---|---|
| 2012/2017 | Fixed | 4.0000 | 4.0650 | EUR | 250 | 252 |
| 2012/2019 | Fixed | 4.0000 | 4.0780 | EUR | 400 | 437 |
| 2015/2022 | Fixed | 2.1250 | 2.2080 | EUR | 500 | 522 |
| Total outstanding carrying amount 31 December 2016 | | | | | | 1,211 |

In addition private placement (2011/2018) of EUR 50 million with floating interest

## The future minimum lease payments of finance lease liabilities and their present value in the balance sheet

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Minimum lease payments | Future finance charges | Present value of minimum lease payments | Minimum lease payments | Future finance charges | Present value of minimum lease payments |
| Amounts payable under finance lease: | | | | | | |
| Within one year | 15 | 12 | 3 | 38 | 13 | 25 |
| Between one and five years | 73 | 55 | 18 | 73 | 53 | 20 |
| More than 5 years | 150 | 80 | 69 | 157 | 87 | 70 |
| Total amounts payable | 238 | 147 | 90 | 268 | 153 | 115 |

Finance lease liabilities arise from two finance lease agreements for the Singapore production plant. The agreements of Singapore plant are made with two local companies that provide utilities and jetty and storage services that are used by the production facility. The major assets under these agreements are a jetty used for loading and discharging of vessels, a pipeline for off-gas produced as a side product in the production process, and product tanks used for storing of the end product. The leasing contracts are 30 and 15 years long.

## 28. Deferred income taxes

The movement in deferred tax assets and liabilities during 2016 is presented in the following table:

| | on 1 Jan 2016 | Charged to Income Statement | Charged in Other comprehensive income | Exchange rate differences and other changes | on 31 Dec 2016 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax loss carried forward | 2 | 4 | 0 | 0 | 6 |
| Provisions | 2 | 0 | 0 | 0 | 3 |
| Pensions | 23 | -1 | 5 | 0 | 27 |
| Fixed assets [1] | 6 | 6 | 0 | 0 | 12 |
| Financial instruments [1] | 0 | 0 | 8 | 0 | 8 |
| Other temporary differences | 4 | 1 | 0 | -1 | 4 |
| Total deferred tax assets | 36 | 11 | 13 | 0 | 59 |
| Netting against liabilities | -8 | -13 | 0 | 0 | -20 |
| Total deferred tax assets in balance sheet | 29 | -2 | 13 | 0 | 39 |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Depreciation difference and untaxed reserves | 242 | -8 | 0 | 0 | 234 |
| Tax on undistributed earnings | 12 | -1 | 0 | 0 | 11 |
| Finance leases | 1 | -1 | 0 | 0 | 0 |
| Capitalized interest | 11 | 0 | 0 | 0 | 11 |
| Other temporary differences | 6 | 1 | 3 | 0 | 10 |
| Total deferred tax liabilities | 272 | -9 | 3 | 0 | 267 |
| Netting against assets | -8 | -13 | 0 | 0 | -20 |
| Total deferred tax liabilities in balance sheet | 265 | -22 | 3 | 0 | 246 |

The movement in deferred tax assets and liabilities during 2015 is presented in the following table:

| | on 1 Jan 2016 | Charged to Income Statement | Charged in Other comprehensive income | Exchange rate differences and other changes | on 31 Dec 2015 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax loss carried forward | 14 | -12 | 0 | 0 | 2 |
| Provisions | 4 | -2 | 0 | 0 | 2 |
| Pensions | 31 | -1 | -8 | 0 | 23 |
| Fixed assets [1)] | 1 | 5 | 0 | 0 | 6 |
| Other temporary differences | 5 | -1 | 0 | 0 | 4 |
| Total deferred tax assets | 55 | -11 | -8 | 0 | 36 |
| Netting against liabilities | 0 | -8 | 0 | 0 | -8 |
| Total deferred tax assets in balance sheet | 55 | -19 | -8 | 0 | 29 |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Depreciation difference and untaxed reserves | 232 | 16 | 0 | -6 | 242 |
| Tax on undistributed earnings | 19 | -6 | 0 | 0 | 12 |
| Finance leases | 2 | -1 | 0 | 0 | 1 |
| Capitalized interest | 12 | -1 | 0 | 0 | 11 |
| Other temporary differences | 1 | 0 | 6 | 0 | 6 |
| Total deferred tax liabilities | 265 | 7 | 6 | -6 | 272 |
| Netting against assets | 0 | -8 | 0 | 0 | -8 |
| Total deferred tax liabilities in balance sheet | 265 | 0 | 6 | -6 | 265 |

[1)] Tax assets related to fixed assets and financial instruments are presented as separate line items (previously: included in 'Other temporary difference') in order to give more precise information.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets are recognized for tax loss carryforwards and other unused tax credits to the extent that the utilization of the related tax benefit through future taxable profits is probable.

There are altogether EUR 7 million (2015: EUR 2 million) tax loss carry forwards and other unused tax credits for which no deferred tax asset is recognized. Expiry dates are between 2017 and 2025 for EUR 2 million and no expiry for EUR 4 million.

A deferred tax liability has been recognized for undistributed earnings of subsidiaries where income taxes would be payable upon distribution.

| Deferred tax assets | 2016 | 2015 |
|---|---|---|
| Deferred tax asset to be recovered after more than 12 months | 34 | 25 |
| Deferred tax asset to be recovered within 12 months | 6 | 3 |
| | 39 | 29 |

| Deferred tax liabilities | 2016 | 2015 |
|---|---|---|
| Deferred tax liability to be recovered after more than 12 months | 241 | 264 |
| Deferred tax liability to be recovered within 12 months | 5 | 1 |
| | 246 | 265 |

## 29. Provisions

| | Environmental provisions | Restructuring provisions | Provision to return emission allowances | Other provisions | Total |
|---|---|---|---|---|---|
| **On 1 January 2016** | 36 | 3 | 0 | 0 | 39 |
| Charged to income statement | | | | | |
| Additional provisions | 15 | 0 | 2 | 0 | 17 |
| Amounts used during the period | -1 | -3 | 0 | 0 | -4 |
| Reversed unused provisions | 0 | 0 | 0 | 0 | 0 |
| **On 31 December 2016** | 50 | 0 | 2 | 0 | 53 |

| | Environmental provisions | Restructuring provisions | Provision to return emission allowances | Other provisions | Total |
|---|---|---|---|---|---|
| **On 1 January 2015** | 10 | 9 | 2 | 1 | 21 |
| Charged to income statement | | | | | |
| Additional provisions | 28 | 0 | 0 | 0 | 28 |
| Amounts used during the period | -1 | -5 | -2 | -1 | -9 |
| Reversed unused provisions | -1 | 0 | 0 | 0 | -1 |
| **On 31 December 2015** | 36 | 3 | 0 | 0 | 39 |

The nature of certain Group's businesses exposes the Group to risks of environmental costs and potential contingent liabilities. The risks arise from the manufacture, use, storage, disposal and maritime and inland transport as well as sale of materials that may be considered to be contaminants when released into the environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

Environmental provisions consists mostly of the Group's asset retirement obligations (ARO). The Group recognizes a provision for the decommissioning costs of an oil installation to the extent that Group is obliged to rectify damage already caused. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation on the balance sheet date or transfer to a third party. The provisions are to be discounted, where the effect of the time value of money is material.

Based on IAS 37, in addition to the provisions recognized, there are some off-balance-sheet contingent liabilities for which the future potential outcome (timing, costs) cannot be estimated reliably.

The exchange rate difference relating to the Group's provisions is immaterial.

## 30. Employee benefit obligations

The Group has several pension arrangements in different countries. Pension cover is based on the legislation and agreement in force in each country. Finnish statutory pensions are accounted for as a defined contribution plan in the consolidated financial statements.

The Group has defined benefit pension plans in Finland, Belgium and Switzerland. The largest plans are in Finland, which account for 96% (2015: 96%) of the Group's total defined benefit pension obligation and 98% of the Group's total plan assets. The voluntary pension plan in Finland accounting for most of this has been closed since 1 January 1994. The insured supplementary pension scheme consists of defined benefit group pension insurances, which are very similar in structure, with the exception of retirement age and pension accrual rules.

Other long-term employee benefits are long-service remunerations, which are accounted for as an unfunded defined benefit plan in accordance to IAS 19.

## Characteristics of the post-employment defined benefit plans in Finland

In Finland the Group has a voluntary pension plan for a certain group of employees to fulfill an aggregated benefit after retirement. The voluntary pension plan is managed in an insurance company. There is a pension reform in Finland starting at 1 January 2017. The Group will not compensate the changes in a majority of the defined benefit pension plans and thus the benefits of the plan will not change significantly due to the reform.

The voluntary plan's benefit is based on the aggregated benefits determined by the insurance contract. The voluntary benefit is the difference between aggregated benefits and compulsory benefits calculated at the age 63 in the old age plan. The aggregated benefits are at most 60% or 66% of the supplementary pension salary depending on the plan. The supplementary pension salary is calculated based on the last 10 years' salaries prior to the pension event adjusted by the index level. The benefits in the plans are old age and disability pensions, survivors' pensions for widows and children, and funeral grants. Old-age pension ages are 60, 62 and 65 years. In some pension schemes the pension cover also includes the right to early old-age pension retirement ages.

The insurance company collects premiums on yearly basis from the employer. The future premiums are adjusted so that the old-age pension will be fully funded until retirement. The disability and survivor's pension are also financed by risk premiums collected during the employment period. The premiums with fixed discount rate 1.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees the same interest yield to the assets in the plan, as the one they have used in calculating the premiums.

The employer finances the index-linkage by paying an additional premium covering the index increase in the year. Discretionary bonuses from the insurance company will lower the index premium. The insurance company decides the amount of the bonus annually.

The Group has insured the benefits index increases each year as the benefits have been increased. If the insurance company's granted bonus index does not cover the annual index increase, the insurance company collects a premium from the employer to cover the increase. The insurance company's bonus index varies on yearly basis.

## Risks associated with defined benefit plans

Through its defined benefit pension plans the Group is exposed to a number of risks. The employer´s defined benefit obligations pension liability depends on the discount rate which is determined to a yield of corporate bonds as at the reporting date. A decrease (increase) in used discount rates increase (decrease) the defined benefits obligations. However, a decrease (increase) in the used discount rate yield also increases (decreases) the fair value of the assets partially offsetting the total impact of change in yield on the net defined benefit pension liability.

The benefit of the plans is tied to the future benefit increase, which depends on inflation and common salary index. Higher inflation increases the benefit increase, which leads to an increase in liabilities and annual payments to the insurance company.

If the active employee's salary increases more than the common salary index, the amount of promised benefit and the benefit obligation increases together with annual payments to life insurance company.

The longevity risk is borne by the insurance company in case the actual mortality differs from the assumed. Possible adjustments in mortality assumption have an effect on the employer's liability according to IFRS. The insurance company completely bears the mortality risk on accrued benefits. The employers have a mortality risk only if the insurance company will raise its future benefit accruals premiums because of mortality adjustment.

## Defined benefit plans

| Cost of defined benefit plans | 2016 | 2015 |
|---|---|---|
| Service cost | 8 | 8 |
| Net interest (+expense/-income) | 2 | 2 |
| Remeasurements related to other long-term remulations | 1 | 0 |
| Defined benefit cost recognized in the consolidated statement of income | 11 | 11 |

| Remeasurements of defined benefit plans | 2016 | 2015 |
|---|---|---|
| Actuarial gains/losses: | | |
| Changes in demographic assumptions | 1 | -3 |
| Changes in financial assumptions | -63 | 60 |
| Return on plan assets, excluding amounts included in net interest expense | 32 | -22 |
| Experience adjustments | 4 | 3 |
| Total remeasurements recognized in other comprehensive income | -27 | 38 |

| Amounts recognized in the consolidated statement of financial position | 2016 | 2015 |
|---|---|---|
| Present value of funded defined benefit obligations | 508 | 451 |
| Present value of unfunded defined benefit obligations | 8 | 8 |
| Fair value of plan assets | -381 | -346 |
| Net defined benefit liablity | 136 | 113 |

| Changes in fair value of plan assets | 2016 | 2015 |
|---|---|---|
| On January 1 | 346 | 366 |
| Interest income | 7 | 6 |
| Return on plan assets (excluding amounts included in net interest expense) | 32 | -22 |
| Employer contributions | 15 | 15 |
| Benefits paid | -19 | -19 |
| On December 31 | 381 | 346 |

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution within categories is not possible to provide.

| Changes in the present value of the defined benefit obligation | 2016 | | 2015 | |
|---|---|---|---|---|
| | Funded | Unfunded | Funded | Unfunded |
| On January 1 | 451 | 8 | 513 | 8 |
| Current service cost | 7 | 1 | 8 | 1 |
| Curtailments | 0 | 0 | 0 | 0 |
| Interest cost | 9 | 0 | 8 | 0 |
| Actuarial gains (-)/ losses (+) | 58 | 1 | -60 | 0 |
| Settlements | -1 | 0 | -1 | 0 |
| Benefits paid | -17 | -1 | -17 | -1 |
| On December 31 | 508 | 8 | 451 | 8 |

The expected contributions to be paid to the defined benefit plans in 2017 are EUR 14 million.

| Significant actuarial assumptions (2016 presented as weighted average) | 2016 | 2015 |
|---|---|---|
| Discount rate, % | | |
| Finland | 1.37% | 2.13% |
| Other countries | 0.96% | 0.9–1.9% |
| Future salary increase, % | | |
| Finland | 3.0% | 2.6–3.1% |
| Other countries | 2.0% | 1.5–2.5% |
| Insurance company's bonus index, % | | |
| Finland | 0.0% | 0.0% |
| Other countries | 0.0% | 0.0% |
| Future benefit increase, % | | |
| Finland | 1.8% | 0–1.8% |
| Other countries | 0.0% | 0.0% |

## Sensitivity analysis of significant actuarial assumptions

Reasonably possible changes at the reporting date to one of the weighted principal assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation as shown below:

| Assumptions | Change in assumption | | Impact on the defined benefit pension obligation 2016 | 2015 |
|---|---|---|---|---|
| Discount rate | | | | |
| | 0.25% increase | MEUR | -18 | -14 |
| | 0.25% decrease | MEUR | 19 | 15 |
| Future salary increase | | | | |
| | 0.25% increase | MEUR | 5 | 4 |
| | 0.25% decrease | MEUR | -5 | -4 |
| Future benefit increase | | | | |
| | 0.25% increase | MEUR | 15 | 13 |
| | 0.25% decrease | MEUR | -14 | -12 |

- 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 3.5%/3.7% in the defined benefit obligation.
- 0.25% increase/decrease in the rate of salary increase would lead to a increase/decrease of 1.0%/0.9% in the defined benefit obligation.
- 0.25% increase/decrease in the rate of pension index would lead to a increase/decrease of 2.9%/2.8% in the defined benefit obligation.

The above sensitivity analysis may not be representative of the actual impact of change. If more than one assumption is changed simultaneously, the combined impact of changes would not necessarily be the same as the sum of the individual change. If the assumptions change to a different level compared to that presented above, the effect on the defined benefit obligation may not be linear.

| Maturity profile of the undiscounted defined benefit obligation | 2016 |
|---|---|
| Within the next 12 months (next annual reporting period) | 21 |
| Between 1 and 5 years | 90 |
| Between 5 and 10 years | 102 |
| Beyond 10 years | 279 |
| Total | 492 |

The average duration of the defined benefit pension obligation at the end of the reporting period is 13 years.

## 31. Share-based payments

The aim of all of the Company's share-based long-term incentives plans is to align the objectives of the company's owners and key personnel to increase the company's value and to commit key personnel to the company through an incentive system based on ownership of Group's shares. The Board annually selects the members of Group's senior management and other key personnel entitled to participate in the long-term incentive plans.

### Share-based incentive plan as of 1 January 2016

The Board of Directors decided on 14 December 2015 to establish a new long-term share-based incentive plan for the Group's senior management and nominated key personnel. The plan includes three individual share plans, each with a three-year earning period. The first two plans have started, the first one in 2016 and the second in 2017. The third plan will start in 2018. Any possible payments will be made partly in Company shares and partly in cash in 2019, 2020, and 2021. The proportion to be paid in cash will cover taxes and other tax-related costs.

The Board of Directors have decided on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each on-going earning period. The earning criteria for the earning periods 2016–2017 and 2017–2019 are the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to STOXX Europe 600 index (25%). In plan 2016–2018 the target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be around 40% of individuals' annual fixed salary. In plan 2017–2019 the target long-term incentive for the President & CEO and the other members of the NEB is around 30% of individuals' annual fixed salary. The maximum long-term incentive for the President & CEO will be 100% of his annual fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on earnings under the long-term incentive program together with the incentive paid on the annual short-term program, may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The lenght of this period will be three years in the 2016–2018 plan. In 2017–2019 plan the restriction period will be one year.

There is Ownership requirement for all participants for shares earned from the long-term incentive plans. For NEB, reward shares must be held until ownership exceeds 100% of annual gross base salary. For others, reward shares must be held until ownership exceeds 50% of annual gross base salary.

### Share-based incentive plan as of 1 January 2013

The Board of Directors decided on 13 December 2012 to establish a long-term share-based incentive plan for the Group's senior management and nominated key personnel.

The plan includes three individual share plans, each with a three-year earning period. The share plans have started in 2013, 2014, and 2015. The Board of Directors have decided on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period and for the entire earning period. The earning criteria for the earning period 2013–2015 are the Group's comparable free cash flow (75%) and the comparable operating profit of Renewable Products (25%). The earning criteria for the earning periods 2014–2016 and 2015–2017 is the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to a peer group of 10 oil industry peers (25%). Any possible payments will be made partly in company shares and partly in cash in 2016, 2017, and 2018. The proportion to be paid in cash will cover taxes and other tax-related costs. The target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be approximately 40% of individuals' annual fixed salary on average. The maximum long-term incentive for the President & CEO will be 100% of his annual fixed salary and approximately 80% for the other members of the NEB. The combined amount of incentives paid based on target-level earnings under the long-term incentive program that has now been decided on, together with the incentive paid on the annual short-term program, may not exceed 60% of participants' annual fixed salary in any given year. In addition, the combined amount of incentives to be paid based on maximum-level earnings under the short-term program and this new long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period will be three years in respect of the President and CEO and the other members of the NEB, and one year in respect of other participants.

Earnings period of share-based incentive plan 2013–2015 ended 31 December 2015. The earning criteria was met fully resulting in the delivery of shares to the participants in 2016. A gross reward of 230,907 shares equaling to EUR 6.7 million was delivered to the participants. The net amount of shares delivered totaled 111,893 shares and the rest of the reward was paid in cash to cover taxes. The fair value of the share as at delivery date was 29,00 euros. The members of company's Executive Board received a gross reward equaling to 76,768 shares.

### Share-based incentive plan as of 1 January 2010

The Board of Directors decided in December 2009 to establish a new share-based incentive plan for the Group's key personnel. The plan has included three three-year earning periods beginning of 2010, 2011 and 2012. Earning period of share-based incentive plan 2011–2013 ended 31 December 2013 and the restriction period for this earning period ended 1 January 2017. The plan 2012-2014 ended 31. December 2014 and the restriuction period will end 1 January, 2018.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan:

| Grant dates and prices | Plan 2016–2018 | Plan 2015–2017 | Plan 2014–2016 | Plan 2013–2015 | Plan 2012–2014 | Plan 2011–2013 |
|---|---|---|---|---|---|---|
| Grant dates | 1 Feb 2016 | 11 Feb 2015 | 1 Feb 2014 | 10 Feb 2013 | 2 Jan 2012 | 3 Jan 2011 |
| Grant prices, euros | 26.09 | | | | 6.70 | 10.81 |
| Share price as at grant date, euros | 28.74 | | | | 8.10 | 12.21 |
| **Term of the plan** | | | | | | |
| Beginning of earnings period | 1 Jan 2016 | 1 Jan 2015 | 1 Jan 2014 | 1 Jan 2013 | 1 Jan 2012 | 1 Jan 2011 |
| End of earnings period | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | 31 Dec 2015 | 31 Dec 2014 | 31 Dec 2013 |
| End of restriction period | 31 Mar 2022 | 31 Mar 2019/ 31 Mar 2021 | 31 Mar 2018/ 31 Mar 2020 | 31 Mar 2017/ 31 Mar 2019 | 1 Jan 2018 | 1 Jan 2017 |
| **Assumptions used in calculating the value of the reward** | **Shares** | **Cash** | **Cash** | **Cash** | **Shares** | **Shares** |
| Amount of granted shares/cash at the beginning of the period, maximum reward | 0 | 5,394,576 | 5,011,364 | 6,357,410 | 407,978 | 416,177 |
| Granted during the period | 125,729 | 2,800 | 0 | 0 | 0 | 0 |
| Released during the period | 0 | 0 | 0 | -208,488 | -45,265 | -38,138 |
| Cancelled during the period | 0 | 0 | 0 | 0 | 0 | 0 |
| Forfeited during the period | -5,540 | -115,000 | -97,500 | -146,859 | -7,740 | 0 |
| Adjusted during the period | 94,197 | 6,650 | 917,096 | -192,313 | 0 | 0 |
| Amount of granted shares at the end of the period, maximum reward | 214,386 | 5,289,026 | 5,830,960 | 5,809,750 | 354,973 | 378,039 |
| Number of persons at the end of the reporting year | 93 | 84 | 84 | 79 | 64 | 47 |
| Share price at the end of the reporting period, euros | 36.50 | 36.50 | 36.50 | 26.52 | 23.28 | 15.44 |
| Estimated rate of realization of the earnings criteria, % | 88% | 88% | 100% | 100% | 100% | 65% |
| Estimated termination rate before the end of the restriction period, % | 10% | 10% | 10% | 0% | 0% | 0% |

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earning period.

The expense included in the income statement is specified in the following table:

| | 2016 | 2015 |
|---|---|---|
| Expense arising from equity-settled share-based payment transactions | 3 | 3 |
| Expense arising from cash-settled share-based payment transactions | 4 | 2 |
| Total expense arising from share-based payment transactions | 6 | 5 |

The liability recognized in the balance sheet related to share-based payments amounted to EUR 5 million (2015: EUR 5 million). The expense to be recognized during the financial periods 2017–2020 is estimated on 31 December 2016 to amount to EUR 10 million. The actual amount may differ from this estimate.

## 32. Related party transactions

The Group is controlled by the State of Finland, which owns 50.1% of the company's shares. The remaining 49.9% of shares are widely held.

The Group has a related party relationship with its subsidiaries, joint arrangements (Note 33) and the entities controlled by Neste's controlling shareholder the State of Finland. Related party also includes the members of the Board of Directors, the President and CEO and other members of the Neste Executive Board (key management persons), close members of the families of the mentioned key management persons and entities controlled or jointly controlled by the mentioned key management persons or close members of those persons' families.

Parent company of the Group is Neste Corporation. The transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated during consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions between Neste and other companies controlled by the State of Finland are on an arm's length basis.

### Transactions carried out with related parties

| 2016 | Sales of goods and services | Purchases of goods and services | Receivables | Financial income and expense | Liabilities |
|---|---|---|---|---|---|
| Joint ventures | 131 | 95 | 74 | 0 | 8 |
| Other related parties | 41 | 63 | 8 | 0 | 3 |
| | 173 | 158 | 82 | 0 | 10 |

| 2015 | Sales of goods and services | Purchases of goods and services | Receivables | Financial income and expense | Liabilities |
|---|---|---|---|---|---|
| Joint ventures | 67 | 60 | 2 | 0 | 0 |
| Other related parties | 44 | 4 | 15 | 0 | 0 |
| | 111 | 64 | 17 | 0 | 1 |

There were no material transactions with key management persons or entities controlled by them.

The major part of business between Neste and its joint ventures becomes from Nynas and Kilpilahti Power Plant Ltd. Transactions with Nynas comprises sales of bitumen production from the Naantali refinery based on a long term agreement and sales of process oils from the Porvoo refinery. Neste's transactions with Kilpilahti Power Plant Ltd consist mainly of steam purchases and sales of heavy fuel oil, water and asphaltene.

### Board of Directors and key management compensation

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Salaries and other short-term employee benefits | 3,975 | 3,785 |
| Statutory pensions | 233 | 220 |
| Supplementary pensions | 1,445 | 1,287 |
| Share-based payments | 2,169 | 2,256 |
| Total (Including statutory pensions) | 7,821 | 7,547 |

Key management consists of President and CEO and other members of the Neste Executive Board. There were no outstanding loan receivables from key management on 31 December 2016 or 31 December 2015.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Managament Performance Share Arrangements have been disclosed in Note 31, Share based payments.

### Compensation to President and CEO and members of the Neste Executive Board

| | President and CEO | | Members of the Neste Executive Board | |
|---|---|---|---|---|
| EUR thousand | 2016 | 2015 | 2016 | 2015 |
| Annual remuneration | | | | |
| Base salary | 686 | 668 | 1,846 | 1,861 |
| Taxable benefits | 7 | 17 | 102 | 114 |
| Annual incentive (STI plan) | 260 | 222 | 683 | 506 |
| Total annual remuneration | 953 | 906 | 2,631 | 2,481 |
| Vested long term remuneration | | | | |
| Supplementary pension (insurance contributions) | 957 | 824 | 488 | 463 |
| Share-based incentive plan | 630 | 717 | 1,539 | 1,539 |
| Total remuneration | 2,540 | 2,447 | 4,657 | 4,482 |

### Compensation to the Board of Directors

| EUR thousand | 2016 | 2015 |
|---|---|---|
| Board of Directors at 31 December 2016 | | |
| Jorma Eloranta | 77 | 79 |
| Maija-Liisa Friman | 61 | 61 |
| Laura Raitio | 46 | 49 |
| Jean-Baptiste Renard | 53 | 59 |
| Willem Schoeber | 59 | 56 |
| Kirsi Sormunen | 47 | 47 |
| Marco Wirén, since 1 April 2015 | 47 | 35 |
| Former Board members | | |
| Per-Arne Blomquist, until 1 April 2015 | 0 | 12 |
| Board of Directors, all members total | 391 | 398 |

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended. Board members are not covered by the company's remuneration systems and do not receive any performance- or share-related payments.

Should the company decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2016 totaled EUR 957 thousand (2015: EUR 824 thousand). Net liability of defined benefit plan on 31 December 2016 was EUR 862 thousand (2015: EUR 487 thousand). Statutory pension insurance contributions in 2016 were EUR 69 thousand (2015: EUR 66 thousand).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2016 were EUR 1,657 thousand (2015: EUR 1,297 thousand).

## 33. Group companies on 31 December 2016

| Subsidiaries | Group holding % | Country of incorporation |
|---|---|---|
| Kiinteistö Oy Espoon Keilaranta 21 | 100.00% | Finland |
| LLC Neste Saint-Petersburg | 100.00% | Russia |
| Navidom Oy | 50.00% | Finland |
| Neste (Suisse) S.A. | 100.00% | Switzerland |
| Neste AB | 100.00% | Sweden |
| Neste Affiliate B.V. | 100.00% | The Netherlands |
| Neste Canada Inc. | 100.00% | Canada |
| Neste Components B.V. | 100.00% | The Netherlands |
| Neste Eesti AS | 100.00% | Estonia |
| Neste Insurance Limited | 100.00% | Guernsey |
| Neste Jacobs Aktiebolag | 60.00% | Sweden |
| Neste Jacobs B.V. | 60.00% | The Netherlands |
| Neste Jacobs Oy | 60.00% | Finland |
| Neste Jacobs Pte. Ltd. | 60.00% | Singapore |
| Neste Markkinointi Oy | 100.00% | Finland |
| Neste N.V. | 100.00% | Belgium |
| Neste Netherlands B.V. | 100.00% | The Netherlands |
| Neste Oil Bahrain W.L.L. | 100.00% | Bahrain |
| Neste Renewable Fuels Oy | 100.00% | Finland |
| Neste Shipping Oy | 100.00% | Finland |
| Neste Singapore Pte. Ltd. | 100.00% | Singapore |
| Neste US, Inc. | 100.00% | USA |
| Neste USA, L.L.C. | 100.00% | USA |
| SIA Neste Latvija | 100.00% | Latvia |
| UAB Neste Lietuva | 100.00% | Lithuania |
| US Active Oy | 60.00% | Finland |

| Associated companies | Group holding % | Country of incorporation |
|---|---|---|
| Neste Arabia Co. Ltd. | 48.00% | Saudi Arabia |

| Joint arrangements | Group holding % | Classification | Country of incorporation |
|---|---|---|---|
| A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y | 40.00% | Joint Operation | Finland |
| Bahrain Lube Base Oil Company B.S.C. (Closed) | 45.00% | Joint Operation | Bahrain |
| Glacia Limited | 50.00% | Joint Venture | Bermuda |
| Kilpilahti Power Plant Ltd | 40.00% | Joint Venture | Finland |
| Nemarc Shipping Oy | 50.00% | Joint Venture | Finland |
| NSE Biofuels Oy Ltd | 50.00% | Joint Venture | Finland |
| Nynas AB (publ) | 49.99% | Joint Venture | Sweden |
| Oy Innogas Ab | 50.00% | Joint Operation | Finland |
| Porvoon Alueverkko Oy | 33.33% | Joint Operation | Finland |
| Tahkoluodon Polttoöljy Oy | 31.50% | Joint Operation | Finland |
| Tapaninkylän Liikekeskus Oy | 40.03% | Joint Operation | Finland |
| Vaskiluodon Kalliovarasto Oy | 50.00% | Joint Operation | Finland |

## Specification of financial information on subsidiaries with material non-controlling interests

| | Neste Jacobs Oy | | Navidom Oy | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Proportion of shares held by non-controlling interests | 40.00% | 40.00% | 50.00% | 50.00% |
| Current assets | 88 | 71 | 0 | 0 |
| Non-current assets | 7 | 5 | 0 | 0 |
| Current liabilities | 45 | 33 | 0 | 0 |
| Non-current liabilities | 0 | 0 | 0 | 0 |
| Revenue | 154 | 137 | 1 | 1 |
| Profit for the period | 9 | 8 | 0 | 0 |
| Dividends paid to non-controlling interests | 1 | 1 | 0 | 0 |
| Cash flows from operating activities | 16 | 4 | 0 | 0 |
| Cash flows from investing activities | -12 | -1 | 0 | 0 |
| Cash flows from financing activities | -3 | -3 | 0 | 0 |

## Unconsolidated structured entities

In 2015, Neste sold its shares of KED Oy (former Kilpilahden Sähkönsiirto Oy) to InfraVia European Fund II, an infrastructure fund managed by InfraVia. After the sale Neste does not have direct or indirect investment in KED Oy. KED Oy is responsible for high- and medium-voltage electricity distribution in the Kilpilahti industrial area where Neste's Porvoo refinery is situated. In addition to Neste, KED Oy's customers include other companies operating in the area.

As the Kilpilahti electricity distribution network requires significant investments, Neste selected InfraVia as its electricity distribution partner to contribute to the effective implementation of the investments and, therefore, secure reliable electricity distribution in Kilpilahti.

Under the contractual arrangements with KED Oy Neste is involved and supports the KED Oy in different ways and it can be considered that Neste has the possibility to influence the investments made by KED Oy. KED Oy distributes electricity to Neste and Neste remains to be the main user of the capacity of the electricity distribution network. KED Oy operates on land leased from Neste for 30 years with an option to extend the lease. Neste is supplying small part of the operating services needed in electricity distribution. Neste also has a repurchase option of the shares of KED Oy valid for two years in case of a substantial breach of the share purchase agreement. Neste has not provided any financial support or other significant support to KED Oy without contractual obligation.

Based on the factors described above Neste has determined that it has significant influence over KED Oy and treats KED Oy as unconsolidated structured entity in its consolidated financial statements. Management has assessed the company's exposure to losses by considering the nature of Neste's involvement in KED Oy, and KED Oy's significance to Neste from an operative perspective. Neste's exposure is mainly dependent upon the effective operation of the distribution network.

### Consolidated structured entities

Since 2014, Neste has treated the sold vessels' sale-and-leaseback agreements made with Ilmarinen Mutual Pension Insurance Company and Finland's National Emergency Supply Agency as structured entities. As a part of these arrangements, Neste guarantees the vessels' residual value and certain return on the investors' investments.

## 34. Contingencies and commitments

| Contingent liabilities | Value of collateral 2016 | Value of collateral 2015 |
|---|---|---|
| On own behalf for commitments | | |
| Real estate mortgages | 17 | 17 |
| Pledged assets | 116 | 116 |
| Other contingent liabilities | 48 | 42 |
| Total | 182 | 175 |
| On behalf of joint arrangements | | |
| Pledged assets | 46 | 0 |
| Guarantees | 1 | 1 |
| Total | 47 | 1 |
| On behalf of others | | |
| Guarantees | 2 | 2 |
| Other contingent liabilities | 0 | 2 |
| Total | 2 | 3 |
| | 230 | 179 |

| Operating lease liabilities | 2016 | 2015 |
|---|---|---|
| Due within one year | 79 | 72 |
| Due between one and five years | 80 | 61 |
| Due later than five years | 78 | 75 |
| | 237 | 209 |

### Operating leases

Lease rental expenses amounting to EUR 113 million (2015: EUR 105 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement.

| Commitments | 2016 | 2015 |
|---|---|---|
| Commitments for purchase of property, plant and equipment | 26 | 84 |
| | 26 | 84 |

The Group's operating lease commitments primarily relate to time charter vessels, land and office space.

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligations. The total fixed fees payable under the agreements during 2011–2026 as of 31 December 2016 are presented in the table below.

| Fixed fees payable under take-or-pay contracts | 2016 | 2015 |
|---|---|---|
| Payable | 17 | 16 |
| Payable after the financial period | 150 | 159 |
| Total payable | 167 | 176 |

### Other contingent liabilities

Neste Corporation has a collective contingent liability with Fortum Heat and Gas Oy related to liabilities of the demerged Fortum Oil and Gas Oy based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act.

## 35. Disputes and potential litigations

Neste has two pending disputes concerning the bio mandate penalty payments totaling approximately EUR 62 million. The dispute concerning the penalty payment levied in 2014, amounting approximately EUR 44 million, is pending at the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015. The dispute concerning the penalty payment levied and expensed in 2015, amounting approximately EUR 17 million, is pending at the Administrative Court of Helsinki. In both cases Neste considers that it has complied with the requirements according to the legislation and the authority instructions and that the penalty payments are in contradiction with the legislation and general principles.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment has been charged to the income statement during the financial period 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when export outside the EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of the EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste demands for rectification of decisions from the tax authority.

In December 2016, Finnish Customs decided – contrary to its former draft resolution and in consequence of the statement of Neste – not to levy excise tax, interest and additional tax totaling approximately EUR 18 million for two shippings placed to export procedure and shipped outside Finland in 2013. The representative of Finnish state has demanded for rectification of the Custom’s decision and the decision is not yet final. Neste considers that export has been the correct procedure in these shippings and Finnish Customs’ decision should not be changed. No provision is recognized in consolidated financial statement because possibility of an outflow of resources embodying economic benefits is not considered probable.

In August 2016, the US Customs agency granted Neste's appeal and filed its decision to revoke the prior classification ruling regarding Neste Renewable Diesel that was issued in 2014. The revocation confirmed that Neste Renewable Diesel should be classified in the Harmonized Tariff System in the same manner as classification decisions made by other jurisdictions including the EU. The confirmed classification has a more favorable corresponding import duty rate. Neste is in the process of amending its entry filing for the deliveries entered under the interim classification ruling.

In February 2015, the District Court of Helsinki has given its ruling in the long-pending fairway due dispute in favor of shipping companies who took action on the issue. Neste Shipping is one of the shipping companies party to the action and as a result of the court ruling will receive approximately EUR 23 million from the Finnish state as a refund for unjustifiably collected fairway dues for 2001–2004, if the ruling of the District Court becomes legally valid. The sum also includes interest for the time elapsed. The Finnish state appealed the ruling of the District Court to the Court of Appeals which repealed the ruling of the District Court in August 2016. Thereafter, the shipping companies (including Neste Shipping) have asked for a leave to appeal the case to the Surpreme Court.

Neste is currently engaged in arbitration with its joint arrangement's co-shareholders and considers the co-owners' claims unfounded. Neste has made counterclaims and the management estimates that the case will be solved in 2017.

In addition, some Group companies are involved in legal proceedings or disputes incidental to their business. In management's opinion, the outcome of these cases is difficult to predict but not likely to have material effect on the Group's financial position.

## 36. Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.

# Parent Company Income Statement

| MEUR | Note | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|---|
| **Revenue** | 2 | 6,429 | 6,366 |
| Change in product inventories | | 59 | 17 |
| Other operating income | 3 | 58 | 126 |
| Materials and services | 4 | -5,459 | -5,636 |
| Personnel expenses | 5 | -197 | -220 |
| Depreciation, amortization and write-downs | 6 | -179 | -172 |
| Other operating expenses | 7 | -278 | -324 |
| | | | |
| **Operating profit/loss** | | 433 | 157 |
| | | | |
| Financial income and expenses | 8 | 112 | 151 |
| | | | |
| **Profit/loss before approriations and taxes** | | 545 | 307 |
| | | | |
| Appropriations | 9 | 84 | 175 |
| Income tax expense | 10 | -95 | -32 |
| | | | |
| **Profit for the year** | | 534 | 450 |

# Parent Company Balance Sheet

| MEUR | Note | 31 Dec 2016 | Restated* 31 Dec 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets and other long-term investments** | 11,12 | | |
| Intangible assets | | 64 | 47 |
| Tangible assets | | 1,804 | 1,776 |
| Other long-term investments | | 2,096 | 2,382 |
| | | 3,964 | 4,205 |
| **Current assets** | | | |
| Inventories | 13 | 747 | 562 |
| Long-term receivables | 14 | 19 | 7 |
| Short-term receivables | 15 | 1,041 | 912 |
| Cash and cash equivalents | | 727 | 557 |
| | | 2,533 | 2,037 |
| | | | |
| **Total assets** | | 6,497 | 6,242 |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 16 | | |
| Share capital | | 40 | 40 |
| Other reverses | | -15 | -1 |
| Retained earnings | | 1,151 | 957 |
| Profit for the year | | 534 | 450 |
| | | 1,710 | 1,446 |
| | | | |
| **Accumulated appropriations** | 17 | 925 | 931 |
| | | | |
| **Provisions for liabilities and charges** | 18 | 5 | 5 |
| | | | |
| **Liabilities** | 19 | | |
| Long-term liabilities | | 1,114 | 1,271 |
| Short-term liabilities | | 2,742 | 2,590 |
| | | 3,856 | 3,861 |
| | | | |
| **Total equity and liabilities** | | 6,497 | 6,242 |

*The company has started to apply fair value method to derivatives under hedge accounting in 2016, and the comparatives in Balance Sheet for 2015 have been restated. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Other financial instruments are recognized at amortized cost. The effect on change for the comparison period is also disclosed in Notes 14, 15, 16 and 19.

# Parent Company Cash Flow Statement

| MEUR | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before extraordinary items | 545 | 307 |
| Depreciation, amortization and write-downs | 179 | 172 |
| Other non-cash income and expenses | 61 | -31 |
| Financial income and expenses | -112 | -151 |
| Divesting activities, net | -28 | -103 |
| **Operating cash flow before change in working capital** | 645 | 194 |
| Change in working capital | | |
| Decrease (+)/increase (-) in interest-free receivables | -223 | 97 |
| Decrease (+)/increase (-) in inventories | -185 | -76 |
| Decrease (-)/increase (+) in interest-free liabilities | 196 | -61 |
| Change in working capital | -213 | -40 |
| **Cash generated from operations** | 433 | 154 |
| Interest and other financial expenses paid, net | -50 | -54 |
| Dividends received | 164 | 223 |
| Income taxes paid | -93 | 0 |
| Realized foreign exchange gains and losses | 13 | -31 |
| **Net cash from operating activities** | 467 | 292 |
| **Cash flows from investing activities** | | |
| Capital expenditure | -263 | -341 |
| Proceeds from sale of fixed assets | 12 | 3 |
| Investments in shares in subsidiaries | 0 | 0 |
| Investments in shares in other shares | 0 | 0 |
| Proceeds from shares in subsidiaries | 404 | 171 |
| Procedds from other shares | 12 | 0 |
| Change in other investments, increase (-)/decrease (+) | -83 | 14 |
| **Net cash used in investing activities** | 83 | -153 |
| **Cash flow before financing activities** | 550 | 139 |

| MEUR | 1 Jan–31 Dec 2016 | 1 Jan–31 Dec 2015 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Sale of treasury shares | 0 | 0 |
| Proceeds from long-term liabilities | 150 | 747 |
| Payments of long-term liabilities | -377 | -401 |
| Change in short-term liabilities | -99 | 25 |
| Dividends paid | -256 | -166 |
| Group contributions, net | 202 | 204 |
| **Cash flow from financing activities** | -379 | 410 |
| **Net increase (+)/decrease (-) in cash and cash equivalents** | 170 | 549 |
| Cash and cash equivalents at the beginning of the period | 557 | 8 |
| Cash and cash equivalents at the end of the period | 727 | 557 |
| **Net increase (+)/decrease (-) in cash and cash equivalents** | 170 | 549 |

# Notes to the Parent Company Financial Statements

## 1. Accounting policies

The financial statements of Neste Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

### Change in accounting policies applied

The company has started to apply fair value method to derivatives under hedge accounting in 2016, and the comparatives in Balance Sheet for 2015 have been restated. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Other financial instruments are recognized at amortized cost. The effect on change for the comparison period is also disclosed in Notes 14, 15, 16 and 19.

### Revenue

Revenue include sales revenues from actual operations less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged.

### Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

### Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

### Financial assets and liabilities

Financial instruments are valued at fair value according alternative method of the Finnish Accounting act article 5.2a §. Loans and receivables and other financial liabilities are recognized at amortized cost. Available for sale financial assets include non-listed shares, which are at amortized cost.

Loans and receivables consist of cash and cash equivalents, loans granted together with trade and other receivables. Other financial liabilities include interest bearing liabilities together with trade and other payables.

### Derivative financial instruments

The company uses derivative financial instruments mainly to hedge commodity price, foreign exchange and interest rate exposures.

Derivative contracts hedging future cash flow and qualifying for hedge accounting are booked once matured and the underlying exposure occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables, as well as derivatives hedging future cash flow but no qualifying for hedge accounting, are recognized at fair value and gains or losses are recognized in the income statement.

Gains or losses for derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities when derivatives are used to hedge future cashflows.

### Hedge accounting

The company applies hedge accounting on certain forward foreign exchange contracts, options and interest rate derivatives.

### Fair value hedges

The company applies fair value hedge accounting to reduce exposure to fair value fluctuations of interest-bearing liabilities due to changes in interest rates. Changes in fair value of derivatives designated and qualifying as fair value hedges, together with any changes in the fair value of hedged liabilities attiributable to the hedged risk, are recognized in financial income and expenses.

### Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated.

The depreciation is based on the following expected useful lives:

| | |
|---|---|
| Buildings and structures | 20–40 years |
| Production machinery and equipment, including special spare parts | 15–20 years |
| Other equipment and vehicles | 3–15 years |
| Other tangible assets | 20–40 years |
| Intangible assets | 3–10 years |

### Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

### Research and development

Research expenditure is recognized as an expense as incurred and included in other operating expences in the income statement. Expenditure on development activities is capitalized only when it fulfills tight criteria e.g. development relates to new products that are techincally and commercially feasible. The majority of the company's development expenditure does not meet the criteria for capitalization and are recognized as expences as incurred.

### Cash Pool receivables/liabilities

Cash Pool items are presented as short-term receivables or liabilities.

### Pension expenses

An external pension insurance company manages the pension plan. The pension expenses are booked to income statement during the year they occur.

### Appropriations

Appropriations consist of received or given group contributions from or to Neste Group companies and depreciation above the plan.

### Deferred taxes

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply.

### Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, restructuring provisions, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.

## 2. Revenue

| Revenue by segment | 2016 | 2015 |
|---|---|---|
| Oil Products | 6,376 | 6,313 |
| Renewable Products | 1 | 3 |
| Oil Retail | 0 | 0 |
| Other | 129 | 123 |
| Eliminations | -76 | -73 |
| | 6,429 | 6,366 |

| Revenue by market area | 2016 | 2015 |
|---|---|---|
| Finland | 2,931 | 3,363 |
| Other Nordic countries | 671 | 701 |
| Baltic countries, Russia and Poland | 472 | 600 |
| Other European countries | 1,752 | 1,388 |
| North and South America | 475 | 245 |
| Other countries | 127 | 69 |
| | 6,429 | 6,366 |

## 3. Other operating income

| | 2016 | 2015 |
|---|---|---|
| Rental income | 24 | 20 |
| Gain on sale of intangible and tangible assets | 15 | 0 |
| Gain on sale of shares | 12 | 103 |
| Insurance compensations | 5 | 0 |
| Government grants | 1 | 1 |
| Other | 0 | 3 |
| | 58 | 126 |

## 4. Materials and services

| | 2016 | 2015 |
|---|---|---|
| Materials and supplies | | |
| Purchases during the period | 5,571 | 5,683 |
| Change in inventories | -121 | -54 |
| | 5,450 | 5,629 |
| | | |
| External services | 9 | 7 |
| | 5,459 | 5,636 |

## 5. Personnel expenses

| | 2016 | 2015 |
|---|---|---|
| Wages, salaries and remunerations | 150 | 167 |
| Indirect employee costs | | |
| Pension costs | 36 | 39 |
| Other indirect employee costs | 13 | 14 |
| Wages and salaries capitalized in fixed assets | -3 | -1 |
| | 197 | 220 |

### Salaries and remuneration

Key management compensations are presented in Note 32 in the Neste Group consolidated financial statements.

| Average number of employees | 2016 | 2015 |
|---|---|---|
| White-collar | 1,303 | 1,257 |
| Blue-collar | 1,000 | 1,060 |
| | 2,303 | 2,317 |

## 6. Depreciation, amortization and write-downs

| | 2016 | 2015 |
|---|---|---|
| Depreciation according to plan | 173 | 165 |
| Write-offs | 6 | 6 |
| Write-down of tangible fixed assets | 0 | 1 |
| | 179 | 172 |

## 7. Other operating expenses

| | 2016 | 2015 |
|---|---|---|
| Operating leases and other property costs | 17 | 17 |
| Repairs and maintenance | 109 | 177 |
| Other | 152 | 130 |
| | 278 | 324 |
| | | |
| Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress | 2 | 0 |

| Fees charged by the statutory auditor, PwC<br>EUR thousands | 2016 | 2015 |
|---|---|---|
| Audit fees | 339 | 344 |
| Auditor's mandatory opinions | 0 | 5 |
| Tax advisory | 20 | 29 |
| Other advisory services | 207 | 1,291 |
| | 566 | 1,669 |

## 8. Financial income and expenses

| | 2016 | 2015 |
|---|---|---|
| Dividend income | | |
| From Group companies | 163 | 223 |
| From associated companies | 0 | 0 |
| From others | 0 | 0 |
| Dividend income total | 164 | 223 |
| | | |
| Interest income from long-term loans and receivables | | |
| From Group companies | 2 | 0 |
| From others | 0 | 0 |
| Interest income from long-term loans and receivables total | 3 | 0 |
| | | |
| Other interest and financial income | | |
| From Group companies | 0 | 0 |
| Other | 0 | 0 |
| Other interest and financial income total | 1 | 0 |
| | | |
| Write-downs on long-term investments | 0 | 0 |
| | | |
| Interest expenses and other financial expenses | | |
| To Group companies | -1 | -3 |
| Other | -50 | -56 |
| Interest expenses and other financial expenses total | -51 | -59 |
| | | |
| Exchange rate differences | -4 | -13 |
| | | |
| Financial income and expenses total | 112 | 151 |

| **Total interest income and expenses** | 2016 | 2015 |
|---|---|---|
| Interest income | 3 | 0 |
| Interest expenses | -46 | -53 |
| Net interest expenses | -43 | -53 |

## 9. Appropriations

| | 2016 | 2015 |
|---|---|---|
| **Change in depreciation difference** | | |
| Difference between depreciation according to plan and depreciation in taxation | 5 | -27 |
| **Group contributions** | | |
| Group contributions received | 79 | 202 |
| Appropriations total | 84 | 175 |

## 10. Income tax expense

| | 2016 | 2015 |
|---|---|---|
| Income taxes on regular business operations | 95 | 18 |
| Taxes for prior periods | 0 | 0 |
| Change in deferred tax assets | 0 | 14 |
| | 95 | 32 |

## 11. Fixed assets and long-term investments

### Change in acquisition cost 2016

| Intangible assets | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Acquisition cost as of 1 January 2016 | 1 | 127 | 128 |
| Increases | 0 | 26 | 26 |
| Decreases | 0 | 2 | 2 |
| Transfers between items | 0 | 0 | 0 |
| Acquisition cost as of 31 December 2016 | 1 | 151 | 152 |
| | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2016 | 1 | 81 | 82 |
| Accumulated depreciation, amortization and write-downs of decreases and transfers | 0 | 2 | 2 |
| Depreciation and amortization for the period | 0 | 8 | 8 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2016 | 1 | 87 | 88 |
| | | | |
| Balance sheet value as of 31 December 2016 | 0 | 64 | 64 |

### Change in acquisition cost 2015

| Intangible assets | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Acquisition cost as of 1 January 2015 | 1 | 116 | 117 |
| Increases | 0 | 12 | 12 |
| Decreases | 0 | 0 | 0 |
| Transfers between items | 0 | 0 | 0 |
| Acquisition cost as of 31 December 2015 | 1 | 127 | 128 |
| | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2015 | 1 | 73 | 74 |
| Accumulated depreciation, amortization and write-downs of decreases and transfers | 0 | 0 | 0 |
| Depreciation and amortization for the period | 0 | 8 | 8 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2015 | 1 | 81 | 82 |
| | | | |
| Balance sheet value as of 31 December 2015 | 0 | 47 | 47 |

## Change in acquisition cost 2016

| Tangible assets | Land areas | Buildings and structures | Machinery and equipment | Other tangible assets | Advances paid and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost as of 1 January 2016 | 25 | 1,193 | 2,494 | 108 | 136 | 3,957 |
| Increases | 0 | 28 | 57 | 20 | 138 | 242 |
| Decreases | 0 | 37 | 128 | 9 | 14 | 189 |
| Transfers between items | 0 | -19 | 19 | 0 | 0 | 0 |
| Acquisition cost as of 31 December 2016 | 26 | 1,164 | 2,442 | 119 | 260 | 4,011 |
| | | | | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2016 | 0 | 591 | 1,577 | 42 | 0 | 2,209 |
| Accumulated depreciation, amortization and write-downs of decreases and transfers | 0 | 23 | 114 | 9 | 0 | 146 |
| Depreciation, amortization and write downs for the period | 0 | 32 | 123 | 15 | 0 | 170 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2016 | 0 | 600 | 1,587 | 47 | 0 | 2,234 |
| | | | | | | |
| Revaluations | 6 | 22 | 0 | 0 | 0 | 28 |
| Balance sheet value as of 31 December 2016 | 31 | 586 | 856 | 71 | 260 | 1,804 |
| | | | | | | |
| **Balance sheet value of machinery and equipments used in production** | | | | | | 856 |

## Change in acquisition cost 2015

| Tangible assets | Land areas | Buildings and structures | Machinery and equipment | Other tangible assets | Advances paid and construction in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost as of 1 January 2015 | 25 | 1,137 | 2,222 | 86 | 213 | 3,685 |
| Increases | 0 | 62 | 236 | 22 | 0 | 321 |
| Decreases | 0 | 6 | 32 | 0 | 10 | 48 |
| Transfers between items | 0 | 0 | 67 | 0 | -67 | 0 |
| Acquisition cost as of 31 December 2015 | 25 | 1,193 | 2,494 | 108 | 136 | 3,957 |
| | | | | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2015 | 0 | 563 | 1,486 | 35 | 0 | 2,084 |
| Accumulated depreciation, amortization and write-downs of decreases and transfers | 0 | 6 | 32 | 0 | 0 | 38 |
| Depreciation, amortization and write downs for the period | 0 | 34 | 122 | 7 | 0 | 163 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2015 | 0 | 591 | 1,577 | 42 | 0 | 2,209 |
| | | | | | | |
| Revaluations | 6 | 22 | 0 | 0 | 0 | 28 |
| Balance sheet value as of 31 December 2015 | 31 | 624 | 918 | 66 | 136 | 1,776 |
| | | | | | | |
| **Balance sheet value of machinery and equipments used in production** | | | | | | 872 |

| Other long-term investments | Shares in group companies | Receivables from group companies | Shares in associated companies | Receivables from associated companies | Other shares and holdings | Other receivables | Total |
|---|---|---|---|---|---|---|---|
| Acquisition cost as of 1 January 2016 | 2,377 | 1 | 0 | 0 | 4 | 0 | 2,382 |
| Increases | 0 | 73 | 0 | 46 | 0 | 0 | 119 |
| Decreases | 404 | 1 | 0 | 0 | 0 | 0 | 406 |
| Transfers between items | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisition cost as of 31 December 2016 | 1,973 | 73 | 0 | 46 | 3 | 0 | 2,096 |
| | | | | | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2016 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2016 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | |
| Balance sheet value as of 31 December 2016 | 1,973 | 73 | 0 | 46 | 3 | 0 | 2,096 |

| Other long-term investments | Shares in group companies | Receivables from group companies | Shares in associated companies | Receivables from associated companies | Other shares and holdings | Other receivables | Total |
|---|---|---|---|---|---|---|---|
| Acquisition cost as of 1 January 2015 | 2,445 | 4 | 0 | 0 | 4 | 44 | 2,497 |
| Increases | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Decreases | 69 | 2 | 0 | 0 | 0 | 44 | 115 |
| Acquisition cost as of 31 December 2015 | 2,377 | 1 | 0 | 0 | 4 | 0 | 2,382 |
| | | | | | | | |
| Accumulated depreciation, amortization and write-downs as of 1 January 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation, amortization and write-downs as of 31 December 2015 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | |
| Balance sheet value as of 31 December 2015 | 2,377 | 1 | 0 | 0 | 4 | 0 | 2,382 |

| Interest-bearing and interest-free receivables | 2016 | 2015 |
|---|---|---|
| Interest-bearing receivables | 119 | 2 |
| Interest-free receivables | 0 | 0 |
| | 119 | 2 |

## 12. Revaluations

| | Revaluations as of Jan 1 2016 | Increases | Decreases | Revaluations as of Dec 31 2016 |
|---|---|---|---|---|
| Land areas | 6 | 0 | 0 | 6 |
| Buildings | 22 | 0 | 0 | 22 |
| Total | 28 | 0 | 0 | 28 |

### Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation.
Deferred taxes have not been booked on revaluations.

## 13. Inventories

| | 2016 | 2015 |
|---|---|---|
| Raw materials and supplies | 372 | 247 |
| Products/finished goods | 367 | 309 |
| Advance payments on inventories | 7 | 6 |
| | 747 | 562 |
| | | |
| Replacement value of inventories | 758 | 562 |
| Book value of inventories | 747 | 562 |
| Difference | 11 | 0 |

## 14. Long-term receivables

| | 2016 | Restated 2015 |
|---|---|---|
| Long-term advance payments | 2 | 3 |
| Receivables from Group companies | | |
| Other long-term receivables | 9 | 0 |
| Deferred tax assets | 8 | 4 |
| | 19 | 7 |

## 15. Short-term receivables

| | 2016 | Restated 2015 |
|---|---|---|
| Trade receivables | 345 | 261 |
| Receivables from Group companies | | |
| Trade receivables | 289 | 212 |
| Other receivables | 134 | 254 |
| Accrued income and prepaid expenses | 91 | 3 |
| Total | 513 | 470 |
| Receivables from associated companies | | |
| Trade receivables | 27 | 0 |
| Other receivables | 0 | 0 |
| Total | 27 | 0 |
| Other receivables | 84 | 35 |
| Accrued income and prepaid expenses | 72 | 146 |
| | 1,041 | 912 |

| Short-term accrued income and prepaid expenses | 2016 | 2015 |
|---|---|---|
| Accrued interest | 2 | 4 |
| Derivative financial instruments | 151 | 133 |
| Other | 10 | 13 |
| | 163 | 150 |

Cash Pool receivables are presented as short-term receivables. Previously presented as long-term items.

## 16. Changes in shareholders' equity

| | 2016 | Restated 2015 |
|---|---|---|
| Share capital at 1 January | 40 | 40 |
| Share capital at 31 December | 40 | 40 |
| | | |
| Fair value reserve at 1 January | -5 | 0 |
| Increases | 4 | 1 |
| Decreases | -22 | -7 |
| Fair value reserve at 31 December | -22 | -5 |
| | | |
| Invested non-restricted equity fund at 1 January | 5 | 0 |
| Transfer of treasury shares | 3 | 5 |
| Invested non-restricted equity fund at 31 December | 8 | 5 |
| | | |
| Retained earnings at 1 January | 1,406 | 1,123 |
| Dividends paid | -256 | -166 |
| Profit for the year | 534 | 450 |
| Retained earnings at 31 December | 1,685 | 1,406 |
| | | |
| Capitalized development expenditure | 0 | 0 |
| | | |
| Distributable equity | 1,670 | 1,406 |

## 17. Accumulated appropriations

| | 2016 | 2015 |
|---|---|---|
| Depreciation difference | 925 | 931 |

## 18. Provisions for liabilities and charges

| | 2016 | | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | Restructuring provisions | Provision for environment | Liability to return emission rights | Total | Restructuring provisions | Provision for environment | Total |
| Provisions as of 1 January | 3 | 2 | 0 | 5 | 8 | 3 | 12 |
| Increase | 0 | 1 | 2 | 3 | 0 | 0 | 0 |
| Decrease | 3 | 0 | 0 | 3 | 5 | 2 | 7 |
| Provisions as of 31 December | 0 | 3 | 2 | 5 | 3 | 2 | 5 |

## 19. Liabilities

| Long-term liabilities | 2016 | Restated 2015 |
|---|---|---|
| Bonds | 954 | 1,194 |
| Loans from financial institutions | 0 | 70 |
| Advanced payments | 1 | 0 |
| Liabilities to Group companies | | |
| Other long-term liabilities | 150 | 0 |
| Other long-term liabilities | 3 | 3 |
| Accruals and deferred income | 5 | 4 |
| | 1,114 | 1,271 |

| Interest- bearing liabilities due after five years | 2016 | 2015 |
|---|---|---|
| Bonds | 497 | 497 |
| Loans from financial institutions | 0 | 3 |
| | 497 | 500 |

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 1,261 million (2015: EUR 1 238 million) of which EUR 1,211 million belong to Level 1 in fair value hierarchy and 50 million to Level 2. The fair values of other non-current liabilities are not materially different from their carrying amounts.

| Short-term liabilities | 2016 | Restated 2015 |
|---|---|---|
| Bonds | 250 | 300 |
| Loans from financial institutions | 0 | 7 |
| Advances received | 0 | 41 |
| Trade payables | 667 | 480 |
| Liabilities to Group companies | | |
| Advances received | 0 | 1 |
| Trade payables | 43 | 84 |
| Other short-term liabilities | 1,138 | 1,176 |
| Accruals and deferred income | 45 | 0 |
| Total | 1,226 | 1,261 |
| Liabilities to associated companies | | |
| Trade payables | 0 | 0 |
| Total | 0 | 0 |
| Other short-term liabilities | 338 | 297 |
| Accruals and deferred income | 260 | 204 |
| | 2,742 | 2,590 |

Cash Pool liabilities are presented as short-term liabilities. Previously presented as long-term items.

The carrying amounts of current interest-free liabilities are reasonable approximations of their value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 252 million (2015: EUR 311 million) of which EUR 252 million belong to Level 1 in fair value hierarchy. The fair values of other current liabilities are not materially different from their carrying amounts.

| Short-term accruals and deferred income | 2016 | 2015 |
|---|---|---|
| Salaries and indirect employee costs | 53 | 59 |
| Accrued interests | 21 | 27 |
| Accrued taxes | 9 | 7 |
| Derivative financial instruments | 222 | 111 |
| Other short-term accruals and deferred income | 0 | 0 |
| | 306 | 204 |

| Interest-bearing and interest-free liabilities | 2016 | 2015 |
|---|---|---|
| Long-term liabilities | | |
| Interest-bearing liabilities | 1,099 | 1,267 |
| Interest-free liabilities | 16 | 4 |
| | 1,114 | 1,271 |
| Short-term liabilities | | |
| Interest-bearing liabilities | 1,365 | 1,478 |
| Interest-free liabilities | 1,377 | 1,111 |
| | 2,742 | 2,590 |

## Listed bond issues

| Issue/Maturity | Interest basis | Interest rate, % | Effective interest, % | Currency | Nominal million | Carrying amount EUR million |
|---|---|---|---|---|---|---|
| 2012/2017 | Fixed | 4.0000 | 4.0650 | EUR | 250 | 252 |
| 2012/2019 | Fixed | 4.0000 | 4.0780 | EUR | 400 | 437 |
| 2015/2022 | Fixed | 2.1250 | 2.2080 | EUR | 500 | 522 |
| Total outstanding carrying amount 31 December 2016 | | | | | | 1,211 |

In addition Private Placement (2011/2018) of EUR 50 million with floating interest.

## 20. Contingent liabilities

| Contingent liabilities | 2016 | 2015 |
|---|---|---|
| | | |
| **Operating lease liabilities** | | |
| Due within a year | 3 | 3 |
| Due after a year | 3 | 3 |
| | 6 | 5 |
| | | |
| **Contingent liabilities given on own behalf** | | |
| Real estate mortgages | 17 | 17 |
| Pledged assets | 0 | 0 |
| Other contingent liabilities | 18 | 14 |
| | 35 | 31 |
| | | |
| **Contingent liabilities given on behalf of Group companies** | | |
| Guarantees | 94 | 102 |
| | 94 | 102 |
| | | |
| **Contingent liabilities given on behalf of associated companies** | | |
| Guarantees | 1 | 1 |
| | 1 | 1 |
| | | |
| **Contingent liabilities given on behalf of others** | | |
| Guarantees | 2 | 2 |
| | 2 | 2 |
| | | |
| **Contingent liabilities total** | 137 | 141 |

## 21. Derivative financial instruments

| Nominal values of interest rate and currency derivative contracts | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Remaining maturities | | | Remaining maturities | | |
| | < 1 year | 1–3 years | Total | < 1 year | 1–4 years | Total |
| **Derivative financial instruments** | | | | | | |
| Interest rate swaps [1] | 0 | 50 | 50 | 0 | 50 | 50 |
| Forward foreign exchange contracts | 967 | 0 | 967 | 522 | 0 | 522 |
| Currency options | | | | | | |
| - Purchased | 178 | 0 | 178 | 283 | 0 | 283 |
| - Written | 178 | 0 | 178 | 283 | 0 | 283 |
| | 1,323 | 50 | 1,373 | 1,088 | 50 | 1,138 |
| | | | | | | |
| **Derivative financial instruments designated as fair value hedges** | | | | | | |
| Interest rate swaps [1] | 100 | 200 | 300 | 250 | 300 | 550 |
| | 100 | 200 | 300 | 250 | 300 | 550 |
| | | | | | | |
| **Non-hedge accounting derivative financial instruments** | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 0 | 0 | 0 |
| Forward foreign exchange contracts | 1,119 | 0 | 1,119 | 821 | 0 | 821 |
| Intra-group forward foreign exchange contracts | 467 | 0 | 467 | 345 | 0 | 345 |
| Currency options | | | | | | |
| - Purchased | 0 | 0 | 0 | 293 | 0 | 293 |
| - Written | 0 | 0 | 0 | 0 | 0 | 0 |
| Intra-group currency options | | | | | | |
| - Purchased | 210 | 0 | 210 | 175 | 0 | 175 |
| - Written | 210 | 0 | 210 | 118 | 0 | 118 |
| | 2,006 | 0 | 2,006 | 1,752 | 0 | 1,752 |

[1] Interest rate swaps mature in 3 years.

| Volumes of commodity derivative contracts | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Volume million bbl Remaining maturities | | | Volume million bbl Remaining maturities | | |
| | < 1 year | 1–3 years | Total | < 1 year | 1–3 years | Total |
| **Commodity derivative contracts designated as cash flow hedges [2]** | | | | | | |
| Futures and forwards | | | | | | |
| - Sales contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives [3]** | | | | | | |
| Futures and forwards | | | | | | |
| - Sales contracts | 28 | 0 | 29 | 16 | 0 | 16 |
| - Purchase contracts | 19 | 0 | 19 | 8 | 0 | 8 |
| Intra-group futures and forwards | | | | | | |
| - Sales contracts | 15 | 0 | 15 | 5 | 0 | 5 |
| - Purchase contracts | 16 | 0 | 17 | 4 | 0 | 4 |
| | 78 | 2 | 80 | 33 | 0 | 33 |

| | Volume GWh Remaining maturities | | | Volume GWh Remaining maturities | | |
|---|---|---|---|---|---|---|
| | < 1 year | 1–3 years | Total | < 1 year | 1–3 years | Total |
| **Non-hedge accounting electricity and gas derivative contracts** | | | | | | |
| Futures and forwards | | | | | | |
| - Sales contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| - Purchase contracts | 1,716 | 665 | 2,381 | 1,548 | 884 | 2,432 |
| Intra-group futures and forwards | | | | | | |
| - Sales contracts | 765 | 196 | 961 | 571 | 263 | 834 |
| - Purchase contracts | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2,481 | 861 | 3,342 | 2,119 | 1,147 | 3,266 |

[2] Commodity derivative contracts with hedge accounting status are oil derivatives.
[3] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

| Fair values of derivative financial instruments | Fair value 2016 | | | | Fair value 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive | | Negative | | Positive | | Negative | |
| Interest rate and currency derivative contracts | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–4 years | < 1 year | 1–4 years |
| **Derivative financial instruments designated as cash flow hedges** | | | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 4 |
| Forward foreign exchange contracts | 0 | 0 | 15 | 0 | 1 | 0 | 14 | 0 |
| Currency options | | | | | | | | |
| - Purchased | 1 | 0 | 3 | 0 | 0 | 0 | 3 | 0 |
| - Written | 5 | 0 | 8 | 0 | 1 | 0 | 2 | 0 |
| | 6 | 0 | 32 | 2 | 3 | 0 | 19 | 4 |
| | | | | | | | | |
| **Derivative financial instruments designated as fair value hedges** | | | | | | | | |
| Interest rate swaps [1] | 0 | 8 | 0 | 0 | 5 | 11 | 0 | 0 |
| | 0 | 8 | 0 | 0 | 5 | 11 | 0 | 0 |
| **Non-hedge accounting derivative financial instruments** | | | | | | | | |
| Interest rate swaps [1] | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Forward foreign exchange contracts | 0 | 0 | 15 | 0 | 4 | 0 | 3 | 0 |
| Intra-group forward foreign exchange contracts | 11 | 0 | 1 | 0 | 11 | 0 | 0 | 0 |
| Currency options | | | | | | | | |
| - Purchased | 1 | 0 | 3 | 0 | 2 | 0 | 0 | 0 |
| - Written | 0 | 0 | 8 | 0 | 0 | 0 | 0 | 0 |
| Intra-group currency options | | | | | | | | |
| - Purchased | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 0 |
| - Written | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 17 | 0 | 28 | 0 | 17 | 0 | 4 | 0 |

[1] Interest rate swaps mature in 3 years.

| | Fair value 2016 | | | | Fair value 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive | | Negative | | Positive | | Negative | |
| **Commodity derivative contracts** | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–3 years | < 1 year | 1–3 years |
| **Commodity derivative contracts designated as cash flow hedges [2]** | | | | | | | | |
| Futures and forwards | | | | | | | | |
| - Sales contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-hedge accounting commodity derivative contracts [3]** | | | | | | | | |
| Futures and forwards | | | | | | | | |
| - Sales contracts | 10 | 0 | 91 | 0 | 75 | 0 | 5 | 0 |
| - Purchase contracts | 43 | 1 | 22 | 0 | 18 | 0 | 19 | 2 |
| Intra-group futures and forwards | | | | | | | | |
| - Sales contracts | 14 | 0 | 36 | 0 | 3 | 0 | 18 | 0 |
| - Purchase contracts | 60 | 0 | 10 | 0 | 5 | 0 | 32 | 0 |
| | 127 | 1 | 159 | 0 | 101 | 0 | 74 | 2 |

[2] Commodity derivative contracts with hedge accounting status are oil derivatives.
[3] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Assets | | Liabilities | |
| **Balance sheet reconciliation** | Current | Non-current | Current | Non-current | Current | Non-current | Current | Non-current |
| Derivative financial instruments | 151 | 9 | 219 | 3 | 126 | 11 | 97 | 6 |

## Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. the price that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participant and the measurement date.

The fair values of the interest rate swaps are the present values of the estimated future cash flows. Foreign exchange forward contracts are calculated using the valuation model and the market rates as per last business day of financial year. The fair value of currency options are calculated using market rates as per last business day of financial year and by using the Black and Scholes option valuation model.

The fair value of exchange traded commodity futures and option contracts is determined using the forward exchange market quotations as per last business day of financial year. The fair value of over-the-counter derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per last business day of financial year.

| Fair value hierarchy of derivatives | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Non-current derivative financial instruments | | | | | | | | |
| Interest rate derivatives | | 8 | | 8 | | 0 | | 0 |
| Currency derivatives | | 0 | | 0 | | 0 | | 0 |
| Commodity derivatives | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 |
| Non-current available-for-sale financial assets | | 0 | 5 | 5 | | 0 | 5 | 5 |
| Current derivative financial instruments | | | | | | | | |
| Interest rate derivatives | | 0 | | 0 | | 0 | | 0 |
| Currency derivatives | | 7 | | 7 | | 6 | | 6 |
| Commodity derivatives | 25 | 102 | 0 | 127 | 42 | 59 | 0 | 101 |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Non-current derivative financial instruments | | | | | | | | |
| Interest rate derivatives | | 2 | | 2 | | 0 | | 0 |
| Currency derivatives | | 0 | | 0 | | 0 | | 0 |
| Commodity derivatives | | 0 | | 0 | | 2 | | 2 |
| Current derivative financial instruments | | | | | | | | |
| Interest rate derivatives | | 0 | | 0 | | 0 | | 0 |
| Currency derivatives | | 58 | | 58 | | 22 | | 22 |
| Commodity derivatives | 58 | 101 | | 159 | 6 | 68 | 0 | 74 |

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierachy:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities

**Level 2:** Inputs other than quoted price included within Level 1 that are observable for the assests or liability, either directly (i.e. as prices) or indirectly (i.e derived from prices)

**Level 3:** Inputs for the assets or liablity that is not based on obervable market data (unobservable inputs).

## 22. Other contingent liabilities

### Real estate investments

The company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10 years control period.

## 23. Shares and holdings

| | Country of incorporation | No of shares | Holding -% | Book value 31 Dec 2016 EUR thousands |
|---|---|---|---|---|
| **Subsidiary shares** | | | | |
| Kiinteistö Oy Espoon Keilaranta 21 | Finland | 16,000 | 100.00 | 36,725 |
| LLC Neste Saint-Petersburg | Russia | 10 | 100.00 | 58,427 |
| Navidom Oy | Finland | 50 | 50.00 | 1 |
| Neste Eesti AS | Estonia | 10,000 | 100.00 | 5,927 |
| Neste Jacobs Oy | Finland | 2,100 | 60.00 | 438 |
| Neste Markkinointi Oy | Finland | 210,560 | 100.00 | 51,467 |
| Neste AB | Sweden | 2,000,000 | 100.00 | 23,972 |
| Neste Components B.V. | The Netherlands | 40 | 100.00 | 8,022 |
| Neste Affliliate B.V. | The Netherlands | 26,090 | 100.00 | 19,177 |
| Neste Insurance Limited | Guernsey | 7,000,000 | 100.00 | 3,000 |
| Neste N.V. | Belgium | 4,405,414 | 99.99 | 13,753 |
| Neste (Suisse) S.A. | Switzerland | 200 | 100.00 | 62 |
| Neste US, Inc. | USA | 1,000 | 100.00 | 19,528 |
| Neste Renewable Fuels Oy | Finland | 200 | 100.00 | 1,676,901 |
| Neste Shipping Oy | Finland | 101 | 100.00 | 55,452 |
| | | | | 1,972,852 |
| **Associated companies** | | | | |
| A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y | Finland | 14 | 40.00 | 124 |
| Kilpilahti Power Plant Ltd | Finland | 2,000 | 40.00 | 200 |
| Neste Arabia Co. Ltd. | Saudi-Arabia | 480 | 48.00 | 0 |
| Porvoon Alueverkko Oy | Finland | 40 | 33.33 | 7 |
| Tahkoluodon Polttoöljy Oy | Finland | 630 | 31.50 | 5 |
| Vaskiluodon Kalliovarasto Oy | Finland | 330 | 50.00 | 7 |
| | | | | 343 |

| | Country of incorporation | No of shares | Holding -% | Book value 31 Dec 2016 EUR thousands |
|---|---|---|---|---|
| **Other shares and holdings** | | | | |
| CLEEN Oy | Finland | 100 | | 100 |
| East Office of Finnish Industries Oy | Finland | 1 | | 10 |
| Kiinteistö Oy Anttilankaari 8 | Finland | 51 | | 545 |
| Kiinteistö Oy Himoksen Aurinkopaikka | Finland | 51 | | 457 |
| Kiinteistö Oy Katinkullan Hiekkaniemi | Finland | 102 | | 903 |
| Kiinteistö Oy Katinkultaniemi | Finland | 51 | | 398 |
| Kiinteistö Oy Kuusamon Tähti 1 | Finland | 51 | | 457 |
| Kiinteistö Oy Laavutieva | Finland | 51 | | 311 |
| Kiinteistö Oy Lapinniemi & Osakeyhtiö Lapinniemi | Finland | 24 | | 125 |
| Posintra Oy | Finland | 190 | | 34 |
| | | | | 3,340 |
| **Telephone shares** | | | | |
| Elisa Oyj | Finland | 1 | | 0 |
| Pietarsaaren Seudun Puhelin Oy | Finland | 3 | | 1 |
| Osuuskunta PPO | Finland | 1 | | 0 |
| Savonlinnan Puhelinosuuskunta SPY | Finland | 1 | | 1 |
| | | | | 2 |
| **Connection fees** | | | | 63 |
| **Total** | | | | 1,976,600 |

## 24. Disputes and potential litigations

Neste has two pending disputes concerning the bio mandate penalty payments totaling approximately EUR 62 million. The dispute concerning the penalty payment levied in 2014, amounting approximately EUR 44 million, is pending at the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015. The dispute concerning the penalty payment levied and expensed in 2015, amounting approximately EUR 17 million, is pending at the Administrative Court of Helsinki. In both cases Neste considers that it has complied with the requirements according to the legislation and the authority instructions and that the penalty payments are in contradiction with the legislation and general principles.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment has been charged to the income statement during the financial period 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when the export outside EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste demands for rectification of decisions from the tax authority.

In December 2016, Finnish Customs decided – contrary to its former draft resolution and in consequence of the statement of Neste – not to levy excise tax, interest and additional tax totaling approximately EUR 18 million for two shippings placed to export procedure and shipped outside Finland in 2013. The representative of Finnish state has demanded for rectification of the custom's decision and the decision is not yet final. Neste considers that export has been the correct procedure in these shippings and Finnish Customs' decision should not be changed. No provision is recognized in consolidated financial statement because possibility of an outflow of resources embodying economic benefits is not considered probable.

# Proposal for the distribution of earnings and signing of the Review by the Board of Directors and the Financial Statements

The parent company's distributable equity as of 31 December 2016 stood at EUR 1,670 million.

The Board of Directors proposes Neste Corporation to pay a dividend of EUR 1.30 per share for 2016, totalling EUR 332 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 6 February 2017

Jorma Eloranta

Maija-Liisa Friman

Laura Raitio

Jean-Baptiste Renard

Willem Schoeber

Kirsi Sormunen

Marco Wirén

Matti Lievonen
President and CEO

# Auditor's Report

## To the Annual General Meeting of Neste Oyj

## Report on the Audit of the Financial Statements

### Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

### What we have audited

We have audited the financial statements of Neste Oyj (business identity code 1852302-9) for the year ended 31 December 2016. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

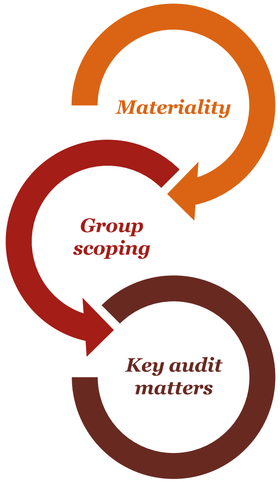
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our Audit Approach

### Overview




**Materiality**

- Overall group materiality of € 40 million

**Audit scope**

- The scope of our group audit has encompassed all significant refineries, as well as selected sales companies.

**Key audit matters**

- Timing of revenue recognition
- The valuation of inventories
- Income tax expense
- System environment and internal controls
- Disputes and potential litigations

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the following table. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

**Overall group materiality**
€ 40 million

**How we determined it**
4% of profit before tax

**Rationale for the materiality benchmark applied**
We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

### How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The scope included the refineries and operations in Finland, Switzerland, Singapore, the Netherlands and the USA, covering the most significant companies in the Oil products, Renewable products and Retail segments. We obtained, through our audit procedures at the aforementioned reporting units, combined with additional procedures at the Group level, sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

| Key audit matter in the audit of the group | How our audit addressed the key audit matter |
|---|---|
| **Timing of revenue recognition**<br>Refer to Notes 2 and 7 in the financial statements<br>The group has several different revenue streams, under the Oil Products, Renewable Products and Oil Retail segments.<br>In both the Oil Products and Renewable Products segments, the company has deliveries, which can be considered individually significant. We consider there to be a risk of misstatement of the financial statements related to transactions occurring close to the year end, as transactions could be recorded in the wrong financial period (cut-off). The Oil Retail segment's revenues consist of several small transactions, with short payment terms, low complexity and significant automation, therefore resulting in a lower risk related to cut-off.<br>Accordingly, we focused our work on cut-off in the Oil Products and Renewable Products segments. | In order to address the risk of misstatement related to cut-off in revenue recognition, we tested the company's controls around revenue recognition, tested balances recognized in the company's balance sheet and, tested individual transactions occurring either immediately before or after the year end.<br>Our testing of the company's manual and automated controls focused on controls around the timely and accurate recording of sales transactions.<br>We tested the company's system generated reports, based on which revenue is accrued at the year end, and performed tests of details on the accrued revenue and accounts receivable balances recognized in the balance sheet at the year end.<br>Our tests of detail focused on transactions occurring within proximity of the year end in the Oil Products and Renewable Products segments, obtaining evidence to support the appropriate timing of revenue recognition, based on terms and conditions set out in sales contracts and delivery documents or system generated reports. |
| **The valuation of inventories**<br>Refer to Notes 2 and 22 in the financial statements<br>The company has significant inventory balances in both the Oil Products and Renewable Products segments. The inventory is valued at the lower of cost or net realizable value. The calculations are complex and include inputs from a variety of different sources, introducing a risk of error. Accordingly, we focused on the appropriate valuation of inventory as part of our audit.<br>While the finished products in the Oil Products segment are refined from one type of input, being crude oil, the Renewable Products' main finished product, Neste Renewable Diesel, is produced using a wide range of different feedstocks. | Inventories are valued at the lower of cost or net realizable value. The valuation of inventory at cost is determined based on the assumption that goods are sold on in the same order in which they were purchased (the FIFO-principle). Our audit procedures focused on the valuation of inventory as described below. |

| Key audit matter in the audit of the group | How our audit addressed the key audit matter |
|---|---|
| **Renewable Products**<br>The cost of inventory in the Renewable Products segment reflects purchase prices, which are impacted by the market prices of different feedstocks, such as waste and residues and vegetable oils, as well as the mix of feedstocks purchased.<br>The net realizable value of the inventory reflects management's best estimate of the likely sales prices, which depend on a number of different factors, and expected sales mix by feedstock. | **Renewable Products**<br>We compared the cost of raw materials and pre-treated products to purchase invoices, verifying the application of the FIFO principle and application of the appropriate purchase prices.<br>We tested the cost of the finished products by tracing the purchase cost of the used raw materials to purchase invoices. We also verified that the capitalised production costs were based on actual refining costs and thereby appropriate.<br>Our testing of the net realizable value covered raw materials, pre-treated products and finished products. We compared raw materials and pre-treated products to relevant market prices where such exist. Where no readily available market price could be found, we performed a compound level comparison to the respective compound's repurchase price or the average purchase price based on the latest purchases. We compared finished products to a weighted average of sales made or agreed during the last month of the year. We have, as part of our procedures, ensured that the principle of valuing inventory at the lower of cost or net realisable value has been applied in the valuation of inventory. |
| **Oil Products**<br>The cost of inventory in the Oil Products reflects purchase prices, which are impacted by the market prices of crude oil, and the cost of refining.<br>The net realizable value of the inventory is affected by the market prices of refined products such as gasoline and diesel, as well as by crude oil prices. | **Oil Products**<br>We traced the cost of raw materials and finished goods to purchase invoices, verifying the application of the FIFO principle and purchase prices. We checked the cost of refining against the actual refining costs of the respective refineries.<br>Our testing of the net realizable value covered a selection of finished goods and raw materials, comparing the cost of the item to the relevant market price of the same compound, or similar compounds, where an exact match could not be found in the market. |

| Key audit matter in the audit of the group | How our audit addressed the key audit matter |
|---|---|
| **Income tax expense**<br>Refer to Notes 2 and 22 in the financial statements<br>The group operates in several different countries. The income tax expense in the consolidated financial statements depends on the tax rates applicable to the taxable earnings, which depend on the country, in which the income is earned.<br>We identified income taxes as an area of focus in the audit as there is a risk related to the appropriate application of all relevant tax regulations and that the income tax expense may be misstated. | We assessed the compliance with applicable tax laws in the respective countries.<br>We recalculated both the current tax expense and the tax liability in the balance sheet for all significant locations. We verified the applied tax rates against local tax law and decisions made by tax authorities.<br>We recalculated the deferred tax balances in the balance sheet and the income statement impact of the change in deferred taxes. |
| **System environment and internal controls**<br>The group has a fragmented system environment, reflecting the different nature of the different operating segments.<br>The fragmented system environment introduces risks related to system access, change management and data transfer between the different systems, and we have accordingly designated this as a focus area in the audit.<br>Management has mitigated this risk by means of manual controls. | Our response to the risks related to the fragmented system environment includes both the test of IT and business process controls. We also performed sufficient tests of details as part of our audit.<br>We tested the company's controls around access and change management related to key IT systems.<br>We also tested the company's controls around system interfaces, and the transfer of data from one system to another.<br>We noted certain weaknesses related to access controls to certain key systems. We have reported these control weaknesses to management, and included sufficient tests of detail in our audit response in order to sufficiently mitigate the related risks in our audit. |

| Key audit matter in the audit of the group | How our audit addressed the key audit matter |
|---|---|
| **Disputes and potential litigations**<br>Refer to Notes 2 and 35 in the financial statements<br>Neste is involved in a few legal proceedings, both for and against the company. For a smaller number of claims against the company, management has assessed that the probability of success of the claim is remote. Accordingly, the company has not accounted for or disclosed the claims. In many cases, Neste has counter claims against the other party.<br>The group has also been subject to customs investigations, some of which are still ongoing.<br>Management judgement is involved in assessing the accounting for claims, and in particular in considering the probability of a claim being successful and we have accordingly designated this as a focus area of the audit. The risk related to the claims is mainly associated with the completeness of the disclosure, and the completeness of the provisions in the financial statements. | In response to the risk of completeness of the disclosures and the completeness of the provisions in the financial statements, we obtained external confirmations directly from Neste's legal advisors. We discussed the cases with management, and reviewed correspondence and other documents exchanged between Neste and the other parties involved in the disputes. We read the minutes of the board meetings, and inspected the company's legal expenses, in order to ensure all cases have been identified.<br>We tested provisions recorded in the accounting records, and reviewed the disclosures for completeness based on our procedures detailed above. |

We have no key audit matters to report with respect to our audit of the parent company financial statements.

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Reporting Requirements

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Other Opinions

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 6 February 2017

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant