Passion for renewal

Annual Report 2018

Content

Year 2018 in brief

14,918 M€	Revenue
1,422 M€	Comparable operating profit
2.28 €	Our dividend proposal for 2018 per share
21.1%	Return on average capital employed after tax (ROACE)
438 M€	Investments
–1.5%	Leverage ratio
83%	The approximate share of waste and residues in the renewable raw materials
7.9 Mt	Our renewable products helped reduce greenhouse gas emissions
314	Safe days
5,468	Average number of personnel

Neste helps transport and cities, aviation, polymers and chemicals customers make their business more sustainable.

The year 2018 took us further on our journey of creating a healthier planet for our children. We are one of the global leaders in renewable products produced from waste and residues and strengthen our position with new achievements, exciting announcements, and a major investment in Singapore.

What made year 2018 so inspiring? Watch the video to discover

Passion for renewal

The special report by the Intergovernmental Panel on Climate Change (IPPC), published in October 2018, highlighted the need for rapid actions in order to limit the global temperature rise to 1.5 °C degrees. The report received a lot of public attention but raised also concern and many justified questions: are we ready as citizens, companies and nations to act strongly enough to avoid the most disastrous consequences and to set the path for a more sustainable future?

Creating a healthier planet for our children

The climate challenge is indeed staggering. Solving and mitigating challenges linked with it will define the future of the energy sector. Neste has a solid track record of delivering the change, by developing renewable, low-emission and circular solutions in transport and cities, aviation, polymers and chemicals.

"The investment in Singapore is the single biggest investment in the company's history, and a major contribution to combat climate change."

"We are passionate about placing safety as a priority and want everyone to go home safely after a work day."

We have a clearly articulated purpose of creating a healthier planet for our children and for the next generations. This is the only planet we have, and we all are responsible for keeping it in shape.

The investment in Singapore strengthens our global leading position in renewable products

In December 2018, we announced our decision to invest in additional renewable production capacity in Singapore. The investment is the single biggest investment in the company's history, and a major contribution to combat climate change.

The investment will extend our renewable product overall capacity close to 4.5 million tons annually in 2022. With this expansion, we are creating capacity for renewable polymers and chemicals, and renewable jet fuel. Thus, we will have more options to choose between different product solutions in our whole production system.

From products and services to managing ecosystems for change

In 2018, Neste's renewable fuels such as Neste MY Renewable Diesel™ helped our customers to reduce their greenhouse gas emissions by altogether 7.9 million tons, equaling the annual carbon footprint of 1.2 million average EU citizens. Here our customers, by choosing our low-emission alternatives instead of higher-emission fossil products, are the real climate heroes.

2018 was also a year for creating partnerships to provide solutions for more sustainable aviation, and to support the aviation industry to achieve its target of carbon-neutral growth from 2020 and beyond. We introduced new partnerships with airports and airlines, and produced the first commercial batch of renewable jet fuel produced from waste and residues.

But what is more, we are going broader than offering products or services: we are managing ecosystems with our clients and partners to provide renewable solutions for new business areas. These include our Green Hub concept to decarbonize aviation, and our collaboration with Ikea to offer renewable polymers globally. In 2018, we also joined forces with Clariant, a world leader in specialty chemicals, in developing and making new sustainable material solutions accessible to a variety of industries.

The time is right to move forward with circular solutions

Neste is one of the global leaders in renewable products and in the circular economy. We are putting a lot of resources into research on lower-quality waste and residue raw materials. In addition to biofuels, also renewable polymers can be produced from waste and residues.

The circular economy has an important role in our new strategy. The time is right to go forward with circular solutions such as substituting crude oil with liquefied waste plastic in the production of oil products.

Ensuring that everyone can return home safely after a work day

Our occupational safety performance, measured by the TRIF indicator, was the best ever at Neste in 2018. We made excellent progress and exceeded our target. Our employees are exceptionally committed to safety: we are passionate about placing safety as a priority and want everyone to go home safely after a work day. However, we still need further improvement in the field of process safety. It is something that we will put more focus on in 2019, with a full support from our Board of Directors and Neste Management.

Passion for renewal and the way we do business

The idea of renewal is the key driver in our business transformation but also a motivator for our people. We are in the middle of a transformation to be a truly global

"Neste will stand clear with its aspiration, helping customers with renewable solutions to make their business more sustainable."

company, with passionate people with different cultural backgrounds that share the same purpose. We foster change by renewing ourselves.

I am impressed with the drive and motivation everyone has for being a part of Neste. All our employees are passionate about our purpose of creating a healthier planet for our children. This level of alignment is key to our continued success.

Innovation is in our DNA

Creating new requires commitment, courage and persistence, as forerunners face a wide range of technical and other challenges. Technical ones can be solved with our experts, and the integration of Neste Engineering Solutions further supports our leadership in innovation.

Innovation is in our DNA as much as is sustainability. We have around 1,375 people – more than 25% of our personnel – directly involved in technology, research and development; not to mention those working in market, and new business development, as well as our external innovation cooperation partners.

New market development requires support from political decision-makers as well. The global community has an urgent need to move forward with more sustainable solutions. We believe that multiple avenues for these should be encouraged. Time should not be wasted in debating about the one and only best solution to combat climate change but to start moving in the right direction on multiple fronts. All we hope for, is a stable, reliable but also ambitious regulatory environment for sustainable solutions.

Focus in 2019 and beyond

Neste will stand clear with its aspiration, helping customers with renewable solutions to make their business more sustainable. We continue focusing on our customers' needs for reliable and high-quality, technology solutions to achieve their sustainability aspirations.

The work in Singapore has started for the new production plant, and that work will require a lot of focus. We are a growing company, and in a hiring mode for new capabilities. We need people with expertise in innovation, aviation, polymers, digitalization, new business models and customer care, to mention a few. Above all, we will ensure that personnel and process safety will remain our top priority which we keep improving.

We have revisited our strategy in February 2019 and set the bar high for the next decade. We will accelerate our journey towards a sustainable future, and invite everyone on board.

Peter Vanacker
President and CEO
@peter_vanacker

"Above all, we will ensure that personnel and process safety will remain our top priority which we keep improving."

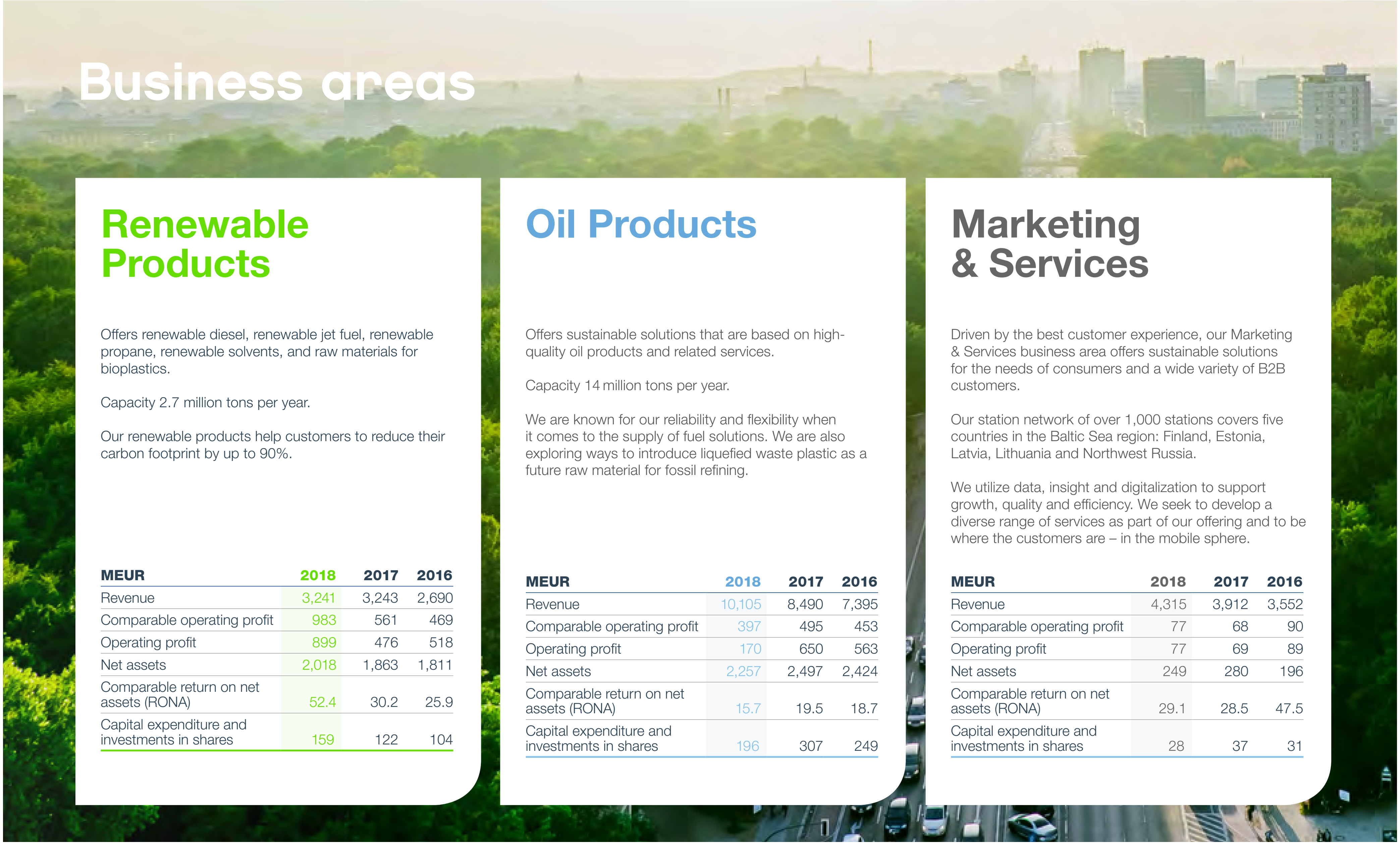

Neste is committed to combating climate change and driving circular economy.

Strategy

Neste's strategy is guided by our purpose to create a healthier planet for our children and our vision of creating responsible choices every day.

Neste is committed to combating climate change and driving circular economy. We are in the business of helping transport and cities, aviation, polymers and chemicals customers make their business more sustainable. With our renewable products and solutions, we help our customers to reducing their greenhouse gas emissions and replacing fossil crude oil with renewable and recycled raw materials.

Read more about our strategy, revisited in February 2019, on our website



Business areas

Renewable Products

Offers renewable diesel, renewable jet fuel, renewable propane, renewable solvents, and raw materials for bioplastics.

Capacity 2.7 million tons per year.

Our renewable products help customers to reduce their carbon footprint by up to 90%.

MEUR	2018	2017	2016
Revenue	3,241	3,243	2,690
Comparable operating profit	983	561	469
Operating profit	899	476	518
Net assets	2,018	1,863	1,811
Comparable return on net assets (RONA)	52.4	30.2	25.9
Capital expenditure and investments in shares	159	122	104

Oil Products

Offers sustainable solutions that are based on high-quality oil products and related services.

Capacity 14 million tons per year.

We are known for our reliability and flexibility when it comes to the supply of fuel solutions. We are also exploring ways to introduce liquefied waste plastic as a future raw material for fossil refining.

MEUR	2018	2017	2016
Revenue	10,105	8,490	7,395
Comparable operating profit	397	495	453
Operating profit	170	650	563
Net assets	2,257	2,497	2,424
Comparable return on net assets (RONA)	15.7	19.5	18.7
Capital expenditure and investments in shares	196	307	249

Marketing & Services

Driven by the best customer experience, our Marketing & Services business area offers sustainable solutions for the needs of consumers and a wide variety of B2B customers.

Our station network of over 1,000 stations covers five countries in the Baltic Sea region: Finland, Estonia, Latvia, Lithuania and Northwest Russia.

We utilize data, insight and digitalization to support growth, quality and efficiency. We seek to develop a diverse range of services as part of our offering and to be where the customers are – in the mobile sphere.

MEUR	2018	2017	2016
Revenue	4,315	3,912	3,552
Comparable operating profit	77	68	90
Operating profit	77	69	89
Net assets	249	280	196
Comparable return on net assets (RONA)	29.1	28.5	47.5
Capital expenditure and investments in shares	28	37	31

Renewable Products

Main market areas: Europe and North America.

Customers: Retailers, wholesale customers such as professional transportation companies and municipalities, fleets, chemical industry producers, as well as major brand owners and oil companies.

Strengths:

- High-quality renewable products suitable for greenhouse gas reduction solutions for engines, in distribution systems and processes
- Reliable production technology enabling flexible use of different renewable and sustainable raw materials
- Global customer base and supply chain

Main demand factors:

- Climate change and emission reduction target around the world
- Increasing renewable energy requirements particularly in Europe and the U.S.
- Leading brands who 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%.

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

Oil Products

Main market areas: the Baltic Sea area, Europe and North America.

Customers: Oil and petrochemicals companies and companies marketing oil, fuels, lubricants, and other special products.

Strengths:

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

Main demand factors:

- Stricter oil product quality requirements
- Increasing demand for solutions containing both fossil and renewable fuels
- Increasing global demand for oil products – structural import need for middle distillates in Europe

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.

Marketing & Services

Main market areas: 800 stations in Finland, 75 in the St. Petersburg region in Northwest Russia, and 209 stations in the Baltic countries (Estonia, Latvia and Lithuania).

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

Strengths:

- Best customer experience
- High-quality and sustainable solutions
- Strong brand
- Extensive station network
- Customer solutions that create additional value

Main demand factors:

- Developments in traffic and transport volumes
- Customers' growing expectations for services and more sustainable solutions
- Municipality, cities and industry requirements for cleaner energy solutions

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.

Technology

At the heart of everything we do.

Creating a healthier planet for our children is a joint effort of individuals, research institutions and organizations willing to bravely move forward. We at Neste know that best results are achieved through close cooperation.

Our partnerships with for example Air BP and ReNew ELP and Licella are made possible by technological innovations.

We work in close cooperation with our strategic customers and partners and have world-class know-how in the value chain from idea generation and innovation to technology development and industrial investment projects.

We firmly believe that technology plays a vital role in strengthening circular and bioeconomies. For the past decades Neste has been on an innovative technological journey during which we have also received global recognition. Our strong know-how and long experience have enabled us to provide our customers with even more sustainable solutions.

Our technological focus includes broadening of the raw material base, development of new technologies from pretreatment to upgrading, as well as providing top performing sustainable drop-in solutions for a growing customer base.

Innovations and technology are an essential part of Neste's DNA. We have always been inclined to technology and for decades have worked on converting low-quality raw materials into world-class sustainable products for our customers. Technology is at the heart of Neste's doing also in the future. Today already more than 25% of the group's personnel are dedicated to work with innovative research, product development and engineering.

"Neste Engineering Solutions plays a vital part in enabling Neste's strategy implementation by participating in research and development programs with core modelling, automation and process engineering know-how."

Lars Peter Lindfors
Senior Vice President, Technology

Neste Engineering Solutions

In 2017 Neste acquired the 40% shareholding of Jacobs in Neste Jacobs Oy. The new name Neste Engineering Solutions describes how the company operates as an engineering solutions provider.

Neste Engineering Solutions delivers high-quality technology and engineering services such as engineering, procurement and construction management services for the group and its external customers.

Neste Engineering Solutions is committed to meeting its customer's objectives, enabling the smart use of energy and facilitating customers' transformation towards circular economy.

The company's existing portfolio includes their own technology solutions, such as NEXSAT and NAPCON.

Learn more

Key events 2018

Peter Vanacker started as President and CEO

Peter Vanacker (born 1966, M.Sc. Chem. Eng.) started on 1 November 2018 as the President and CEO of Neste Corporation. He joined Neste in September 2018 as a Senior Executive to familiarize himself with Neste's business and operations.

Read more

Piloting a new kind of customer experience

Neste launched a new automated station concept for shopping on the road in Finland. The pilot station also features a robotic arm for refueling, first of its kind in the country!

Read more

Neste strengthens its global leading position in renewable products

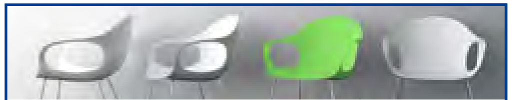
Neste made an investment decision on additional renewable production capacity by up to 1.3 million tons per annum in Singapore. The investment marks an important step in the execution of Neste's profitable growth strategy globally.

Read more

Neste and Clariant join forces

We joined forces in developing and making new sustainable material solutions accessible to a variety of industries.

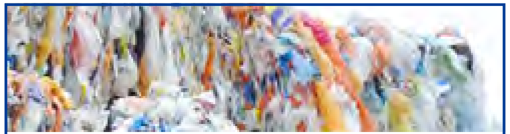
Read more



Forerunners in bio-based plastics

Neste and IKEA prepared for the world's first commercial scale production of bio-based polypropylene (PP) plastic.

Read more



Waste plastic as a raw material for fuels and plastics

Neste explores ways to introduce liquefied waste plastic as a future raw material for fossil refining.

Read more

Alaska Airlines

Neste and Alaska Airlines joined forces to fly more sustainably and expand the use of sustainable aviation fuels.

Read more

Chevron Lummus Global and Neste Engineering Solutions collaboration

We joined forces in order to offer solutions for all end-customer training solution needs for operating residue hydrocracking.

Read more

Neste celebrated its 70th anniversary in 2018

Neste celebrated its journey from a Finnish oil refiner to one of the global leaders in renewable products.

Read more

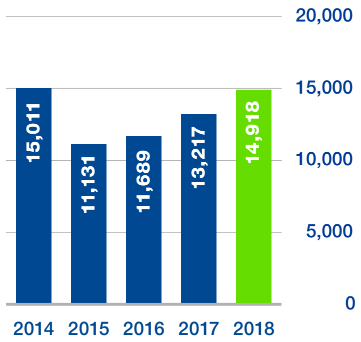
Neste MY Renewable Diesel™ launched in Sweden and Latvia

Produced entirely from waste and residues, Neste MY Renewable Diesel was introduced in Sweden under the motto "Five minutes to fossil free". Neste MY Renewable Diesel was also launched in Latvia in November.

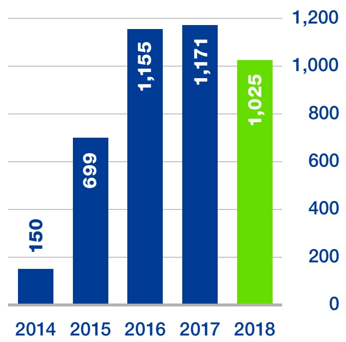
Read more (SWE)
Read more (LV)

Key figures 2018

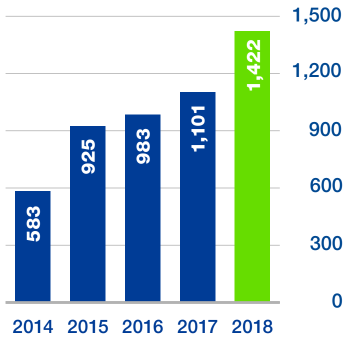
Revenue, EUR million



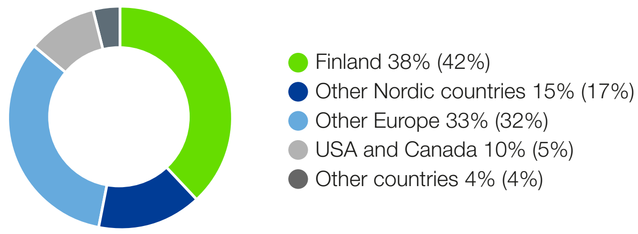
Operating profit, EUR million



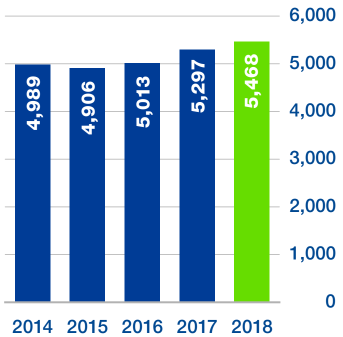
Comparable operating profit, EUR million



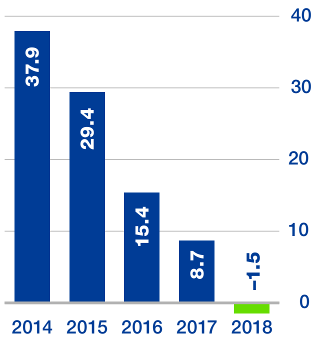
Sales by region from in-house production, %



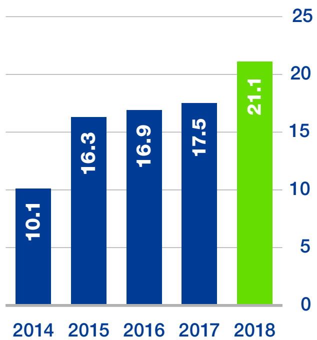
Personnel, on average



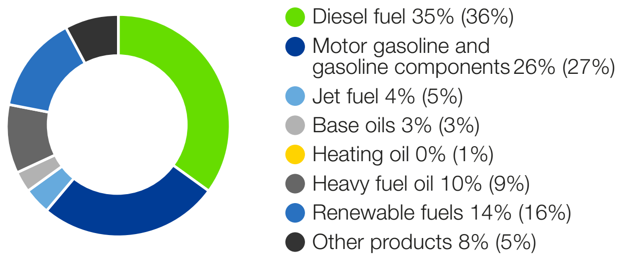
Leverage ratio, %



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



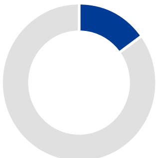
Sales by product from in-house production, %



Financial targets

A leverage ratio of below

40%



ROACE of at least

15%

annually over the long-term

Our dividend policy is to distribute at least

50%

of our comparable net profit as dividend

	2018	2017	Change, %
Income statement			
Revenue, MEUR	14,918	13,217	13
Operating profit, MEUR	1,025	1,171	–12
Comparable operating profit, MEUR	1,422	1,101	29
Profit before income taxes, MEUR	951	1,094	–13
EBITDA, MEUR	1,639	1,542	6
Comparable net profit, MEUR	1,150	851	35
Profitability, %			
Return on equity (ROE), %	17.3	22.7	–24
Return on average capital employed, after tax (ROACE), %	21.1	17.5	21
Financing and financial position			
Total equity, MEUR	4,630	4,338	7
Interest-bearing net debt, MEUR	–70	412	–117
Leverage ratio, %	–1.5	8.7	–117
Gearing, %	–1.5	9.5	–116
Equity-to-assets ratio, %	56.5	55.8	1
Net cash generated from operating activities, MEUR	1,452	1,094	33
Other indicators			
Capital employed, MEUR	5,770	5,533	4
Capital expenditure and investment in shares, MEUR	438	536	–18
Research and development expenditure, MEUR	48	44	9
Average number of personnel	5,468	5,297	3
Total refining margin, USD/bbl	11.18	11.08	1
Total Recordable Injury Frequency per million hours worked (TRIF)	1.7	2.1	–19
Share-related indicators			
Earnings per share (EPS), EUR	3.04	3.56	–15
Comparable earnings per share, EUR	4.50	3.33	35
Equity per share, EUR	18.09	16.96	7
Cash flow per share, EUR	5.68	4.28	33
Price/earnings ratio (P/E)	22.15	14.99	48
Dividend per share, EUR	2.28 [1)]	1.7	34
Dividend payout ratio, %	75.0 [1)]	47.8	57
Dividend yield, %	3.4 [1)]	3.2	6
Dividend per comparable earnings per share, %	50.6 [1)]	51.1	–1
Share price at the end of the period, EUR	67.36	53.35	26
Average share price, EUR	65.17	38.34	70
Lowest share price, EUR	52.12	31.15	67
Highest share price, EUR	76.54	54.05	42
Market capitalization at the end of the period, MEUR	17,271	13,679	26

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

Information for investors

Neste shares are traded on NASDAQ Helsinki under the trading code NESTE. The company had 61,071 (63,082) shareholders at the end of 2018.

Annual General meeting

Neste Corporation's Annual General Meeting will be held on Tuesday, 2 April 2019 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 27 March 2019 at the latest by:

- visiting www.neste.com and following the instructions given there
- phoning +358 (0)20 770 6862 (Monday–Friday, 9.00 am–4.00 pm EET)
- 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 27 March 2019 at the latest.

The Board of Directors will propose to the AGM that a dividend of EUR 2.28 per share shall be paid for the financial year ending 31 December 2018. The company intends to distribute the annual dividend in two installments, and this will also be proposed to the Annual General Meeting 2019. The Board of Directors will propose to the Annual General Meeting a share issue without payment (share split).

Dividend payment in 2019:

- 23 March 2019: AGM record date
- 4 April 2019: Dividend payment record date for the first installment
- 11 April 2019: Dividend payable for the first installment
- 4 October 2019: Dividend payment record date for the second installment
- 11 October 2019: Dividend payable for the second installment

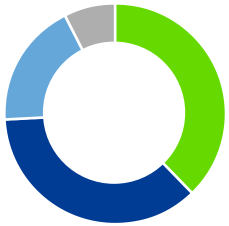
Interim reports in 2019

Neste Corporation will publish financial reports in 2019 as follows:

- Interim Report January–March 2019: 26 April 2019
- Half Year Financial Report January–June 2019: 25 July 2019
- Interim Report January–September 2019: 25 October 2019

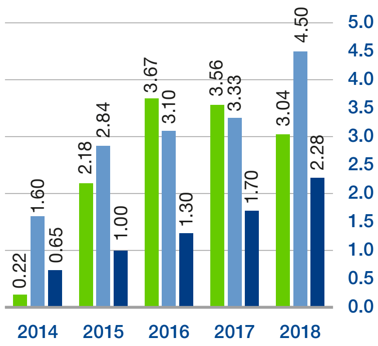
Interim Reports are published in Finnish and English and can be downloaded at www.neste.com/investors.

Shareholder structure on 31 December 2018, %



- Non-Finnish Shareholders 37.6% (31.5%)
- Finnish State 36.4% (50.1%)
- Finnish institutions 18.3% (9.6%)
- Households 7.7% (8.7%)

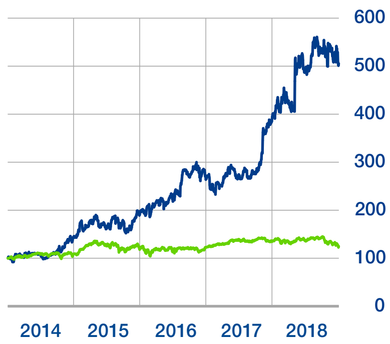
Earnings per share and dividend per share, EUR



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

*2018: 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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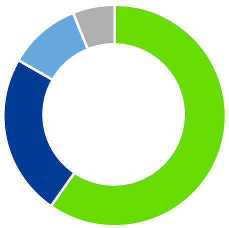
Neste's general e-mail address for investors:

investors@neste.com

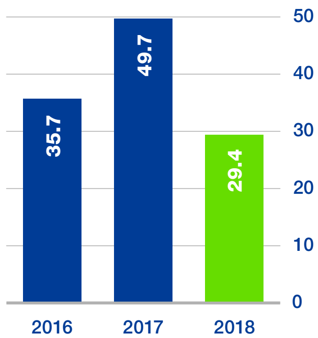
Neste share's trading volumes in 2018, %



- Nasdaq Helsinki 59.5% (59.2%)
- Chi-X Europe 23.7% (26.5%)
- BATS Europe 10.4% (7.0%)
- Turquoise 6.3% (7.3%)

Neste's share performance 2014–2018, EUR

Total shareholder return, %



Sustainability

Sustainability highlights 2018

Climate

2018 The amount of greenhouse gas emissions our customers reduced with our renewable products

7.9 Mt

equaling the annual emissions from 3 million passenger cars or

the annual carbon footprint of 1.2 million average EU citizens.

Target **2023**

2014	2015	2016	2017	2018	
5.6 Mt	6.4 Mt	6.7 Mt	8.3 Mt	7.9 Mt	14 Mt

Circular economy

Waste and residues accounted for

83%

of our total raw material usage to produce renewable products.

All our units producing renewables have a technical capability to run

100%

on waste and residues.

We aim at processing

>1 Mt

of plastic waste annually from 2030. onwards

Our annual R&D expenditure totaled

48 MEUR

the majority of which is used to research and test future raw materials.

People

314

safe days in 2018, 16 more than in 2017 (298).

Volunteer work at Neste

749

employees donated working hours to

84

good causes

In a good position to move forward

Climate change has a big impact on us as individuals. Companies, Neste included, have an important role to play in tackling the climate challenge and finding quick ways to move towards low-carbon economy. Circular economy and increasing resource efficiency are important questions for success in the future.

We are very pleased to share the progress we have made in 2018. Here are some highlights:

Our customers continued to reduce their greenhouse gas emissions by a total of nearly 8 million tons with our renewable products. Waste and residual materials continued to account for approximately 80% of our renewable raw material usage. We started exploring ways to turn plastic waste into high-quality raw material for fuels, chemicals and new plastics. We made a pledge to boost the uptake of recycled and bio-based plastics in Europe and introduced a target to process over 1 million tons of plastic waste annually from 2030 onwards.

We reached many milestones in 2018 and set ambitious new targets for the future. We are in a good position to continue working towards creating a healthier planet for our children.

Simo Honkanen
SVP, Sustainability and Public Affairs

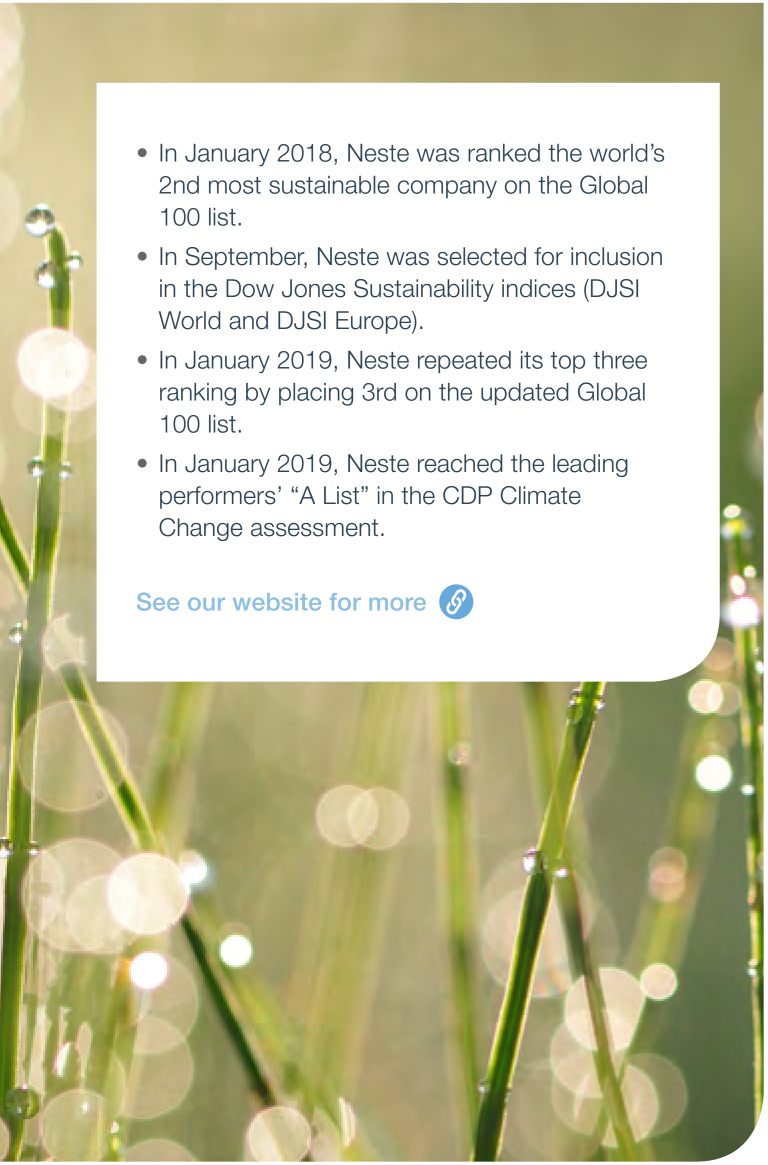
Managing sustainability

Neste's vision is to create responsible choices every day with a purpose to create a healthier planet for our children. We provide value for society by developing renewable, low-emission and circular solutions for transportation, aviation, and marine uses, as well as for the chemical and plastics industries. This helps our customers reduce climate emissions and crude oil dependency, as well as accelerate circular economy.

Neste's business areas are supported by Neste's Sustainability organization, as well as Human Resources and Health, Safety and Environment (HSE) organizations. These organizations share the responsibility of managing Neste's sustainability efforts described in this report.

Read more about how we manage sustainability at Neste

The most significant sustainability risks are identified and assessed as a part of the annual risk management cycle facilitated by Neste's risk management team. Risk management team monitors the level of risks, and ensures that the risks are mitigated appropriately by Neste's business areas, functions, and country units.



- In January 2018, Neste was ranked the world's 2nd most sustainable company on the Global 100 list.
- In September, Neste was selected for inclusion in the Dow Jones Sustainability indices (DJSI World and DJSI Europe).
- In January 2019, Neste repeated its top three ranking by placing 3rd on the updated Global 100 list.
- In January 2019, Neste reached the leading performers' "A List" in the CDP Climate Change assessment.

See our website for more

Neste Management System renewal

We continued to renew Neste Management System (NMS) in 2018 to clarify and simplify corporate minimum requirements and expectations for each business area and functions. NMS is our framework for implementing strategy, supporting business growth, and ensuring quality and safety.

As part of the NMS renewal program, we finalized content description and structure for the new Operations Excellence Management System (OEMS) replacing former Health, Safety and Environment (HSE) management system. OEMS enables systematic management of process safety, personal health and safety, environment, quality, reliability, and efficiency. Gap assessments will start in 2019 against new OE Principles on sites, and audits are planned for 2019–2021.

We also renewed our Commercial Excellence Management System (CEMS) describing guidelines, practices and requirements in commercial processes.

Ethics Online in use

In 2018, we reminded our employees of Ethics Online, Neste's whistleblowing system available also to external stakeholders. A total of 13 suspected misconducts were reported during 2018, and a majority of these came to our knowledge via the system. Proven misconduct leading to legal actions and process improvements was identified in two of the completed investigations, while no misconduct was found in eight completed investigations. Three cases are still under investigation.

Neste's Investigations Group (previously Ethics Committee) investigated the reports and reported the number of cases per category to the Board of Directors' Audit Committee and to the Ethics and Compliance Committee consisting of Neste Executive Committee members, Chief Compliance Officer, and Head of Internal Audit.

In 2018, all new employees were required to complete Code of Conduct online training. Trainings on anti-corruption, competition law compliance, and trade sanction compliance were conducted with defined target groups, such as sales and procurement teams.

Prevention of corruption by Neste's business partners was strengthened by the acquisition of a counterparty screening tool, Compliance Catalyst, which will be implemented in all Neste's operations during 2019.

Materiality assessment

This Sustainability Report focuses on the most material topics for Neste and its stakeholders. We conduct a materiality assessment once every two years. The most recent one was conducted with 161 stakeholder representatives in spring 2018. It identified nine material topics that create the frame for our sustainability work.

The nine material topics relate to the following three themes that are covered in this report:

- Managing sustainability: Economic viability and financial responsibility to owners;
- Climate and the environment: Low-carbon solutions, Sustainability of raw materials, Protecting biodiversity and preventing deforestation, Resource efficiency;
- People: Safety and incident-free operation, Human rights, Fair and equal employment, Good corporate citizenship and ethics.

The material topics presented in our materiality matrix have remained largely the same as in previous years. The assessment emphasized that we need to continue to focus on the development of new renewable products, management and transparency of our supply chains, as well as safety and incident-free operation.

Conducting materiality assessments with our stakeholders demonstrates our commitment to the principles of AA1000APS (2008) standard, consisting of inclusivity, materiality, and responsiveness.

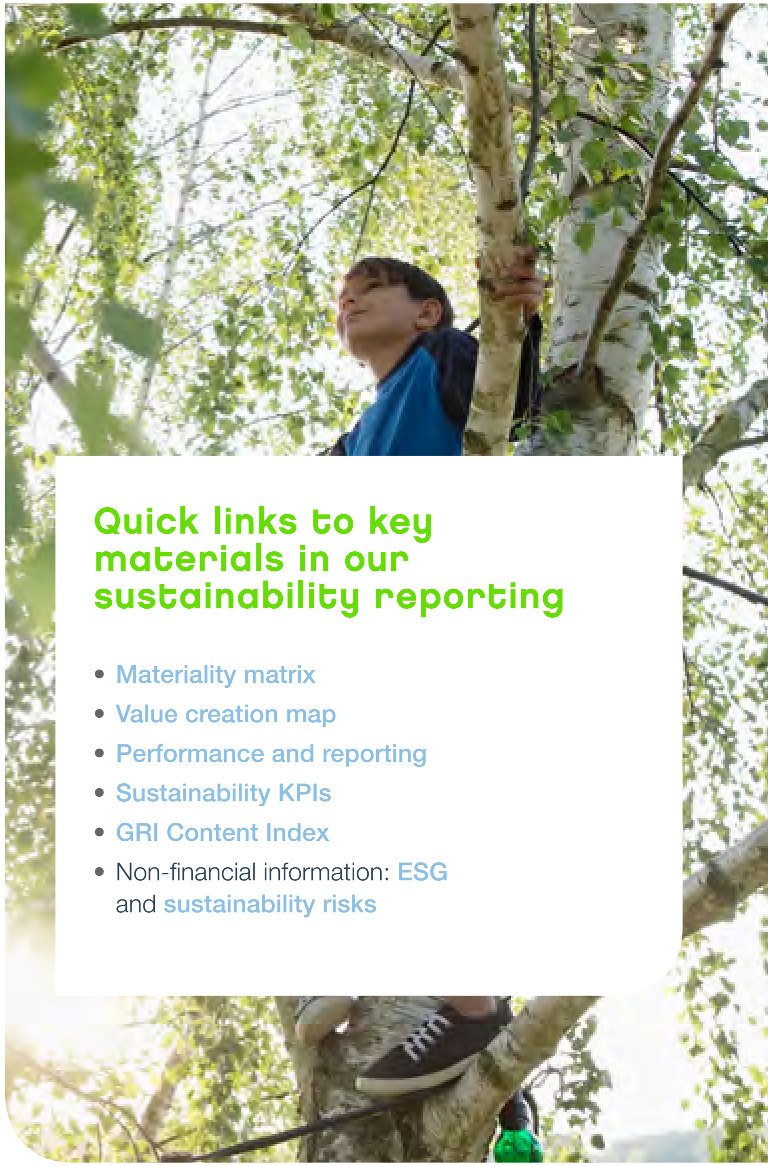
Materiality, value creation and impact measurement

Understanding how we create value for shareholders and the society at large enables us to evaluate our role in the society, identify and manage risks, as well as help us recognize long-term business opportunities. This is why we updated our materiality assessment and incorporated the identified material topics into value creation assessment in early 2018.

Value creation map, produced with the help of internal experts, visualizes environmental, social, and governance (ESG) aspects that are relevant and material to Neste's value creation.

As part of the materiality and value creation assessment, we conducted an internal exercise to evaluate Neste's most material impacts. The exercise helped us develop an understanding of how to measure impacts and what kind of information could be gathered of Neste to better measure them. We are not making the results of this very first exercise public but plan to continue assessing our monetary impact once standardized methodologies for impact monetization have been developed further.

Materiality assessment emphasized that we need to continue to focus on the development of new renewable products, management and transparency of our supply chains, as well as safety and incident-free operation.



Quick links to key materials in our sustainability reporting

- Materiality matrix
- Value creation map
- Performance and reporting
- Sustainability KPIs
- GRI Content Index
- Non-financial information: ESG and sustainability risks

Neste Business model

Input | Output | Outcome

Neste creates sustainable solutions for transportation, aviation, and marine uses, as well as chemical and plastics industries.

VISION

We create responsible choices every day.

BUSINESS AREAS

Renewable Products	Oil Products	Marketing & Services
Offering a wide variety of renewables	Producing a wide variety of traditional oil products and related services	We market and sell a wide variety of services and high-quality products

We seek for the best professionals and provide our employees a safe workplace and opportunities to develop their competences.

Material topics:

- Good corporate citizenship and ethics
- Low-carbon solutions
- Sustainability of raw materials
- Protecting biodiversity and preventing deforestation
- Resource efficiency
- Safety and incident-free operation
- Human rights
- Fair and equal employment
- Economic responsibility

Economic / Governance

Input – Indirect upstream

- Number of suppliers in
  - Renewable Products 53
  - Oil Products 55 [1]
  - Indirect procurement 7,386
- Operations in 12 countries
- Production in 4 countries

Input – Direct upstream

- Total equity 4,630 MEUR
- R&D expenditure 48 MEUR
- Interest-bearing net debt –70 MEUR
- Purchases of
  - refinery feedstocks 11,756 MEUR,
  - other goods and services 1,131 MEUR
- Use of renewable raw materials 2.9 Mt
- Sourced crude oil and fossil feedstock 15.3 Mt
- Indirect procurement spend 1,713.5 MEUR
- Cash-out investments 395 MEUR

Output – Direct downstream

- Market cap 17,271 MEUR (at the end of 2018)
- Comparable operating profit 1,422 MEUR
- ROACE 21.1%
- Dividends 583 MEUR from 2018
- Net sales 14,918 MEUR
- Share of Clean Revenue 21.7%[2]
- Neste MY Renewable Diesel sales 0.25 Mt
- Sales from in-house production, Oil Products 14.4 Mt
- 1,072 service stations in 5 countries
- Oil Products and Renewable Products in the wholesale market sold in 44 countries to approx. 265 customers

Output – Indirect downstream

- Increase in the value of the shares and dividends
- New business opportunities
- Renewables help customers to meet their greenhouse gas emission (GHG) reduction commitments and support UN Sustainable Development Goals
- M&S B2B Customer satisfaction: Net Promoter Score (NPS) 56%
- Helping end users to avoid infrastructure and other investments with drop-in solutions
- Taxes and tax-like fees paid and remitted by Neste 4 billion euro

Outcome – Impact

- Creating new jobs and supporting the existing ones in the company's value chains
- Redirecting consumer expenditure towards sustainable solutions
- Supporting the development of customers' brand value and brand awareness

Social

Input – Indirect upstream

- 100% of approved renewable raw material suppliers screened using social criteria

Input – Direct upstream

- Highly skilled employees
  - Number of employees 5,468
  - Hiring rate of permanent employees 10.9%
  - Leaving rate of permanent employees 11.4%
  - Recorded average training hours per FTE[3] 25.7
- 43,531 palm oil smallholders in Neste´s supply chain

Output – Direct downstream

- Wages and salaries 316 MEUR
- Other personnel expenses 84 MEUR, including training costs 4.4 MEUR
- 62.5% men and 37.5% women
- 3/8 members of the Board of Directors and 2/9 members of the Neste Executive Committee are women
- Employee safety TRIF 1.3[4]
- Safe days 314[5]

Output – Indirect downstream

- Contractor TRIF 2.2
- Charity work and sponsorship 1.5 MEUR
- Number of Neste employees who participated in volunteer work 749

Outcome – Impact

- Supporting social development and the services societies provide in countries of operation
- Enhancing competitiveness of employees in the labor market
- Well-being and safety of employees and suppliers
- Reducing transportation-related emissions in cities and communities
- Securing human and labor rights
- Improving gender equality

Environmental

Input – Indirect upstream

- 100% of our palm oil [6] use is certified and traceable to plantations
- 99% of our PFAD[7] supply chains mapped to palm oil mills and 44% to plantations
- 100% of the new indirect supplier contracts, 100% of the renewable raw material volume and 91% of the fossil raw material volume covered by the Neste Supplier Code of Conduct or equivalent
- Scope 2 [9]and 3 emissions from upstream value chain: 5.0 Mt CO_2e

Input – Direct upstream

- Waste and residue raw materials used to refine renewables 2.4 Mt, 83% of the total renewable feed
- Water intake 9,460,000 m^3/a
- Energy consumption 12.3 TWh

Output – Direct downstream

- Energy saving measures 57 GWh
- Waste generated 269,900 t of which 64% recycled
- Wastewater 8,473,000 m^3/a
- Scope 1, direct CO_2 emissions 2.25 Mt CO_2
- Scope 3 emissions from downstream value chain 43.4 Mt CO_2e

Output – Indirect downstream

- GHG reduction achieved with Neste's renewable fuels: 7.9 Mt [8]
- Neste MY Renewable Diesel enables up to 90% smaller greenhouse gas emissions over the fuel's life cycle compared to conventional diesel [8]

Outcome – Impact

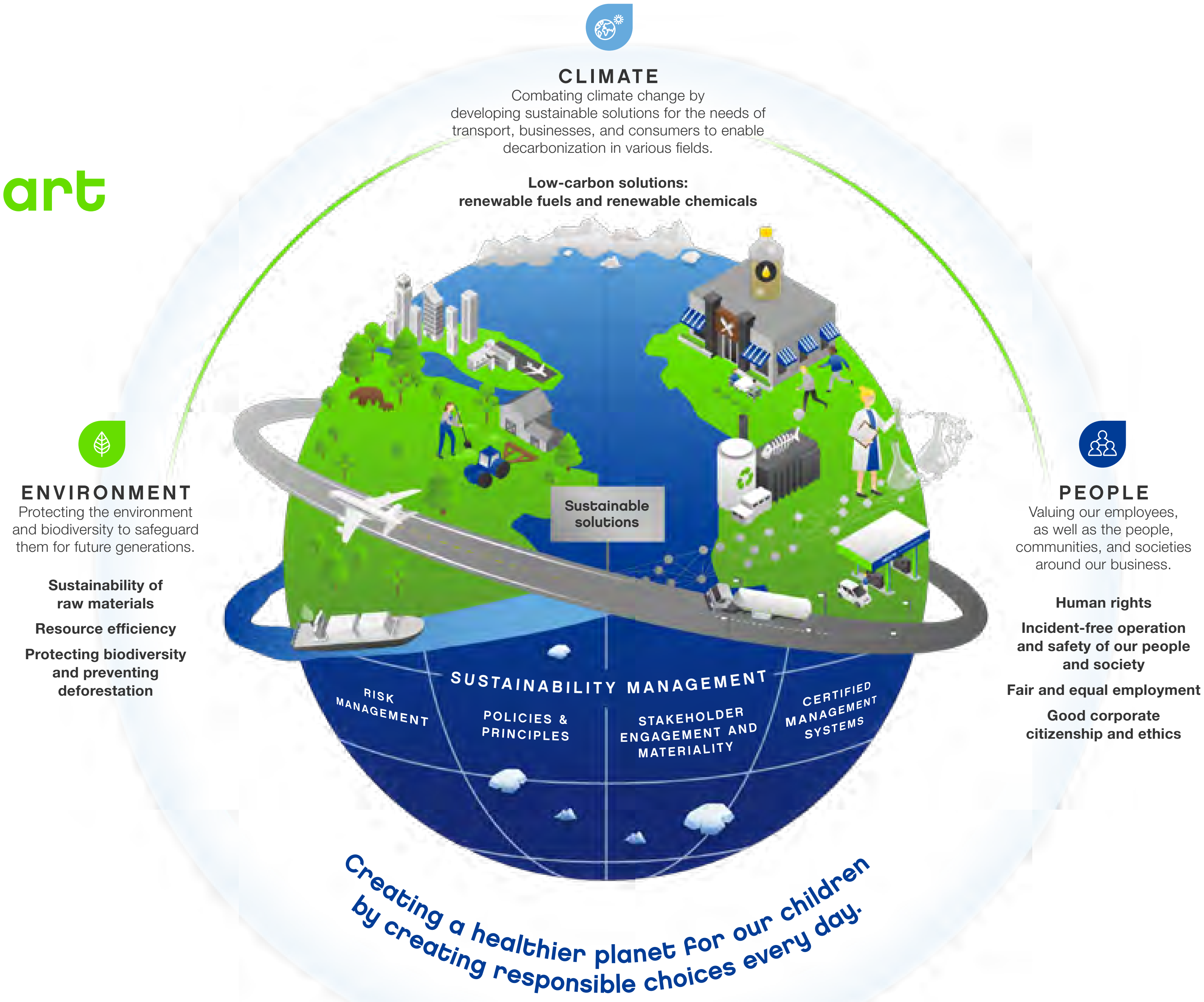
- Replacing non-renewables to mitigate depletion of scarce natural resources
- Improving air quality
- Mitigating deforestation
- Supporting circular economy
- Developing and producing renewable solutions to mitigate climate change
- Influencing operating environment and regulation

View Neste's tax footprint report on our website
Read more about Neste's value creation on our website

[1] Includes also natural gas and industrial gas suppliers. [2] Total revenue of Renewable Products segment divided by Group revenue. [3] Full-time equivalent (FTE). Excluding Russia. [4] Total Recordable Injury Frequency [5] A day without a TRI accident, process safety events, fire or ignition, breach of environmental permit, or traffic accident. [6] Contains the use of crude palm oil (CPO), refined bleached deodorized palm oil (RBDPO) and refined bleached deodorized palm stearin (RBDPS) that we have physically transferred out of our production plants within the year 2018. [7] Palm fatty acid distillate [8] Compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC). [9] Scope 2 emissions include only CO_2

Neste as part of society

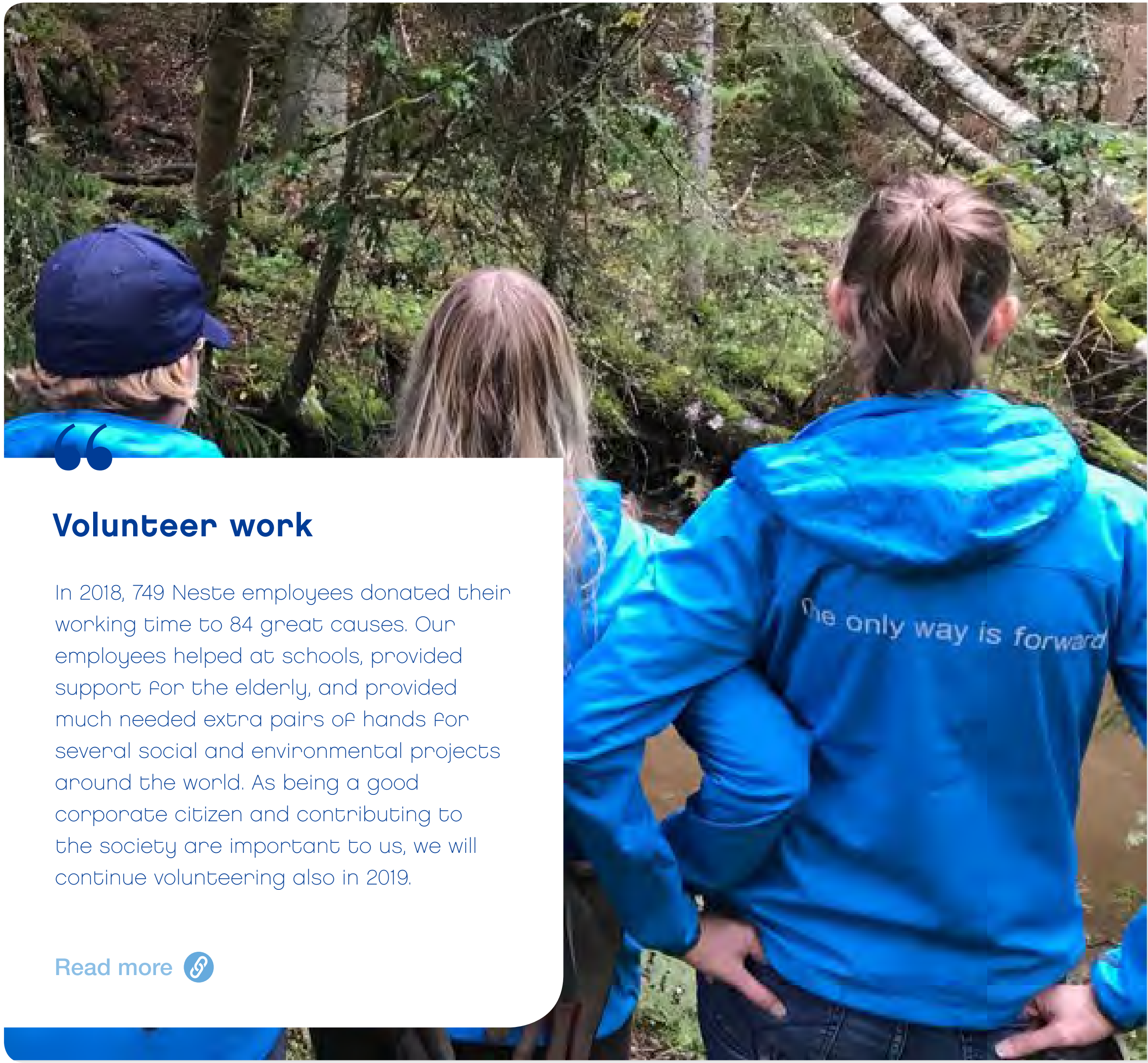
Neste is in the business of helping transport and cities, aviation, polymers and chemicals customers make their business more sustainable and will continue to lead the way for renewable products. With our renewable and circular low-emission solutions, we contribute to the implementation of the Paris Agreement, as well as the United Nations' Sustainable Development Goals (SDG) on "Climate Action" (SDG 13) and "Sustainable Cities and Communities" (SDG 11).



Stakeholder engagement

Understanding the views and expectations of our stakeholders plays a crucial role in the success of our company and the acceptability of our operations. We aim for continuous, active, and open dialogue with our stakeholders and regularly review their views on our operations. We engage with our stakeholders as part of our daily work, organize events and meetings, take part in working groups, seminars and conferences, and hold memberships in organizations that have significance to our industry and offer value to our business operations.

Stakeholder engagement is a central element in Neste's sustainability and public affairs, communications and brand marketing, as well as investor relations. Within these areas, work is primarily managed by SVPs responsible for each area. The company's business functions are responsible for continuous engagement with customers and business partners.



Volunteer work

In 2018, 749 Neste employees donated their working time to 84 great causes. Our employees helped at schools, provided support for the elderly, and provided much needed extra pairs of hands for several social and environmental projects around the world. As being a good corporate citizen and contributing to the society are important to us, we will continue volunteering also in 2019.

Read more

Together with several partners, we started exploring solutions to turn Lidö island in the Swedish archipelago entirely fossil free in one year.

Sweden aims to become fossil free by 2045. We provide solutions that can help meet this target.

Legislation continues to push towards renewables

Our engagement related to transportation and aviation fuels involved a wide variety of stakeholder groups. We announced several new business partnerships in these areas.

We were active towards legislators and other decision-makers in the Nordic countries and the rest of Europe, as well as in North America. With other industry players, we continued to emphasize the necessity to maintain a broad raw material base for biofuels production to effectively combat climate change. This work seemed to pay off as the agreement on EU Renewable Energy Directive for 2021–2030 (RED II) set an EU-wide target of 32% for renewables in 2030 and 14% for renewables in transport in 2030, and upheld the current broad raw material base for sustainable biofuels.

We engaged with authorities in Southeast Asia to help them understand EU requirements for sustainable palm oil produced in the region. We continued being involved also in smallholder projects in Indonesia and Malaysia to improve their knowledge of the EU RED and ISCC certification requirements.

Nordic countries, particularly Finland, Sweden, and Norway remain in a leadership position globally with their high ambition level to reduce climate emissions and increase circularity of materials:

- The Norwegian government announced in October 2018 that it will introduce a 0.5% biofuel blending mandate for aviation and plans to grow that to 30% by 2030. For the first time in the world, biofuel will become an essential element in aviation fuel.
- In Sweden, a new law requiring fuel suppliers to reduce the greenhouse gas intensity of their fuels entered into force in July 2018.
- In Finland, the Parliament voted in January 2019 in favor of a law for gradually increasing the share of biofuels in road transport to 30% by 2029.

The US and California kept course on their biofuels targets:

- The US reinstated the previously expired US Blender's Tax Credit.
- The US EPA finalized renewable fuel volume obligations for 2019 with continued increases for advanced biofuels and biomass-based diesel.
- California also continued to be a leading North American market as it modified its Low Carbon Fuel Standard by extending and increasing its carbon reduction targets to 20% by 2030 from 7.5% by 2020.
- California modified regulations and provided other support for renewable fuels by adding renewable jet fuel as a credit generating fuel. It also increased market certainty and clarity by adopting mandatory audit and verification requirements.

We share our views on these laws regularly with officials and legislators, and are glad to see these countries and states elevating their ambition level to tackle climate emissions from transport. We continue supporting the biofuels targets in all these markets and provide solutions that can help meet them.

Developing new business in cooperation with value chain partners

Cooperation with value chain partners plays a central role in our new and developing areas, such as bio-based chemicals and plastics and chemical recycling of plastic waste. We announced new partnerships in these areas in 2018.

In addition to several plastics producing and consuming companies, we engaged with legislators at European and national levels to discuss bio-based plastics, particularly those derived from bio-based waste and residue materials. Discussions focused on their potential to reduce greenhouse gas emissions and crude oil dependence.

We were active in introducing and promoting chemical recycling of plastic waste as an efficient way to increase plastics recycling rate and tackle global plastic waste challenge. Chemical recycling of plastic waste was a focus in many stakeholder engagements as it continues being a relatively unknown method and as liquefaction technologies and value chains are in a development phase globally.

Pledge to develop solutions to plastics waste challenge

The first-ever European Strategy for Plastics in a Circular Economy was adopted in January 2018, followed by the European Commission's EU-wide pledging campaign calling on stake-holders' voluntary pledges to boost the uptake of recycled plastics. We submitted our own Plastics Pledge in October to demonstrate our commitment to work towards processing more than one million tons of plastics waste annually from 2030 onwards. We also introduced our efforts to produce bio-based plastics as the means to reduce crude oil dependency and contribute to increasing circularity of plastics through being reusable and recyclable.

Finland published its Plastics Roadmap, the first one of its kind in the world. We support the ambitious targets and see that our efforts particularly in the area of chemical recycling of plastic waste are aligned to support reaching the targets.

Both bio-based plastics and waste plastics as a raw material remain largely unknown to many stakeholders. Uncertainty exists, for example, on how the quality and characteristics of bio-based plastics and plastics from recycled waste plastics measure up to conventional plas-tics from crude oil. Engagement with multiple stakeholder groups will continue actively in 2019 to increase knowl-edge of these high-quality drop-in materials and to gain general acceptability for these sustainable alternatives.

Less than 15% of all plastic waste in Europe is recycled. The rest ends up being incinerated, in landfills or in the environment as litter.
Source: Deloitte

Chemical recycling of plastic waste complements traditional mechanical recycling. It helps increase plastics recycling rate and tackle global plastic waste challenge.

Examples of our sustainability work with stakeholders around the world

Sustainability KPIs

Sustainability theme	Material topic	Targets	Achievements in 2018	GRI Standards
Climate	Low-carbon solutions	GHG reduction achieved with Neste's renewable fuels compared to crude oil based diesel, million tons.[1)] Target to reach 14 Mt GHG reduction by 2023.	GHG reduction: 7.9 Mt (8.3 Mt). Introduced an updated target for 2023.	GRI Standards 305-5
		To further develop our solutions portfolio for transport, aviation, polymers and chemical sectors	Share of Renewable Products business area revenue from Group revenue (Clean Revenue) 21.7% (24.5%).	
Circular Economy		Maximizing the share of waste and residue raw materials in our raw material mix to provide the highest possible reduction in greenhouse gas emissions when compared to products derived from crude oil.	Waste and residues accounted for 83% of the total raw material usage to produce renewable products.	
		Process more than 1 Mt of liquefied waste plastics annually from 2030 onwards to reduce crude oil dependence in refining and petrochemical processes	In July, we announced we are exploring ways to introduce liquefied waste plastic as a future raw material for fuels, chemicals, and new plastics.	
Environment	Protecting biodiversity and preventing deforestation	Introduce a system to measure and monitor how our suppliers implement Neste Responsible Sourcing Principle throughout their entire supply chain, including third party suppliers.	Started to update our No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock in 2017. The renewed guidelines are nowadays known as Neste Responsible Sourcing Principle.	
		In 2017, to have our entire PFAD supply chain mapped to palm oil mills. In 2020, to have our PFAD supply chain mapped to oil palm plantations.	By end 2018, 99% of the PFAD supply chain was mapped to the palm oil mills and 44% all the way to the plantations.	
	Sustainability of raw materials	To build a Supplier Sustainability Portal to facilitate and enhance evaluation of both potential and existing renewable raw material suppliers, to support performance monitoring, and active engagement with our suppliers.	We have developed the portal collaboratively with our suppliers since 2017, and launched the first operational version in December 2018. The number of renewable raw material supplier's Due Diligence and their outcome: Total: 87 (91), New approved suppliers: 41, All approved: 52 (46), Pending: 35 (44), Failed: 0 (1) [2)]	
		In 2019, our Supplier Code of Conduct will be updated. Long-term target: Everyone supplying raw materials or services to us will meet the Neste Supplier Code of Conduct or similar requirements.	100 % (100 %) of the new indirect supplier contracts, 100% (98%) of the renewable raw material volume and 91% (75%) of the fossil raw material volume delivered to Neste in 2018 were covered by the Neste Supplier Code of Conduct or equivalent.	
	Resource efficiency	Reduce Neste's energy consumption by 500 GWh during 2017–2025.	Energy efficiency, energy saving measures: 57 GWh (4 GWh)	GRI Standards 302-4
		Halve the number of permit violations within Oil Products (OP) in 2018 compared to the average number of incidents in 2016–2017. Long-term target for Oil Products and Renewable Products (RP): zero permit violations.	Permit violations: 2 (10), of which 2 (7) in OP (2016 all: 8, OP: 6)	GRI Standards 307-1
		Availability of pollution prevention technology. Long-term target: 100% availability of pollution prevention technology at refineries and terminals	Availability of pollution prevention technology on average 93% in Oil Products and Renewable Products.	

Sustainability theme	Material topic	Targets	Achievements in 2018	GRI Standards
People	**Safety and incident-free operation**	TRIF[3] target: 2.0 for 2018 and 1.5 for 2019 Long-term target: Zero.	TRIF 1.7 (2.1).	GRI Standards 403-2
		PSER[4] target: 1.7 for 2018 and 1.5 for 2019 Long-term target: Zero safety deviations.	PSER 2.1 (2.1).	
		Target for 2018: 315 Safe Days, for 2019: 320 Safe Days. Long-term target: Continuously increasing the number of Safe Days.	314 (298) Safe Days.	
		Long-term target: Zero incidents. Continuously increasing awareness by focusing on preventive measures such as safety observation tours, safety discussions, and reporting.	Preventive safety measures 31,677 (31,816).	
	Fair and equal employment	Maintain a good level of employee engagement.	Neste-level engagement survey scheduled for early 2019 (2017: 86% of employees had clear understanding of Neste's strategy and 92% of employees believed in company's outstanding future. Strategy and safety results exceeded global benchmark.)	
		Long-term target: To attract and retain highly skilled employees. Substantial effort is put into maintaining and developing the skills base within the company.	Leaving rate of permanent employees 11.4% (9.8%). Hiring rate of permanent employees 10.9% (13.8%).	GRI Standards 401-1
	Human rights	Managing human rights risks in renewable raw material supply chain. Target: To strengthen the human rights criteria in monitoring and measuring suppliers' performance on social (and other sustainability) issues with the digital supplier management system, Supplier Sustainability Portal.	Improved and strengthened criteria in self assessment questionnaire and audit checklists for evaluating human rights risk in supply chain.	
		Ensure sufficient internal capacity to manage human rights risks. Target for 2019: Most critical functions have initiated human rights due diligence process to evaluate and strengthen internal capacity to mitigate potential human rights impacts.	Three internal groups attended human rights workshops and are in the process of conducting gap assessments.	
	Good corporate citizenship and ethics	To further encourage employees and external stakeholders to report observed or suspected misconducts.	A total of 13 (13) suspected misconducts were reported in person or via the whistleblowing line to the Investigations Group, in the following categories: Discrimination and harassment 2, asset misuse 1, tax misconduct 2, fraud 4, conflict of interest 1, human resources related 2, and 1 belongs to category other. Two misconducts lead to legal actions and three cases are still under investigation.	GRI Standards 205-2, 205-3

[1] Cumulative greenhouse gas (GHG) reduction achieved with Neste's renewable fuels compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (RES 2009/28/EC). Neste updates its GHG emission factors regularly according to the updates in legislation and in the certification schemes.
[2] All figures except "New approved suppliers" include existing suppliers, which undergo a DD process every 5 years.
[3] Number of cases per million hours worked. The figure includes both Neste's and contractors' personnel. Hours worked in December is an estimate based on actual working hours from January to November 2018. Estimation error is irrelevant.
[4] Number of cases per million hours worked. Hours worked in December is an estimate based on actual working hours from January to November 2018. Estimation error is irrelevant.

Climate

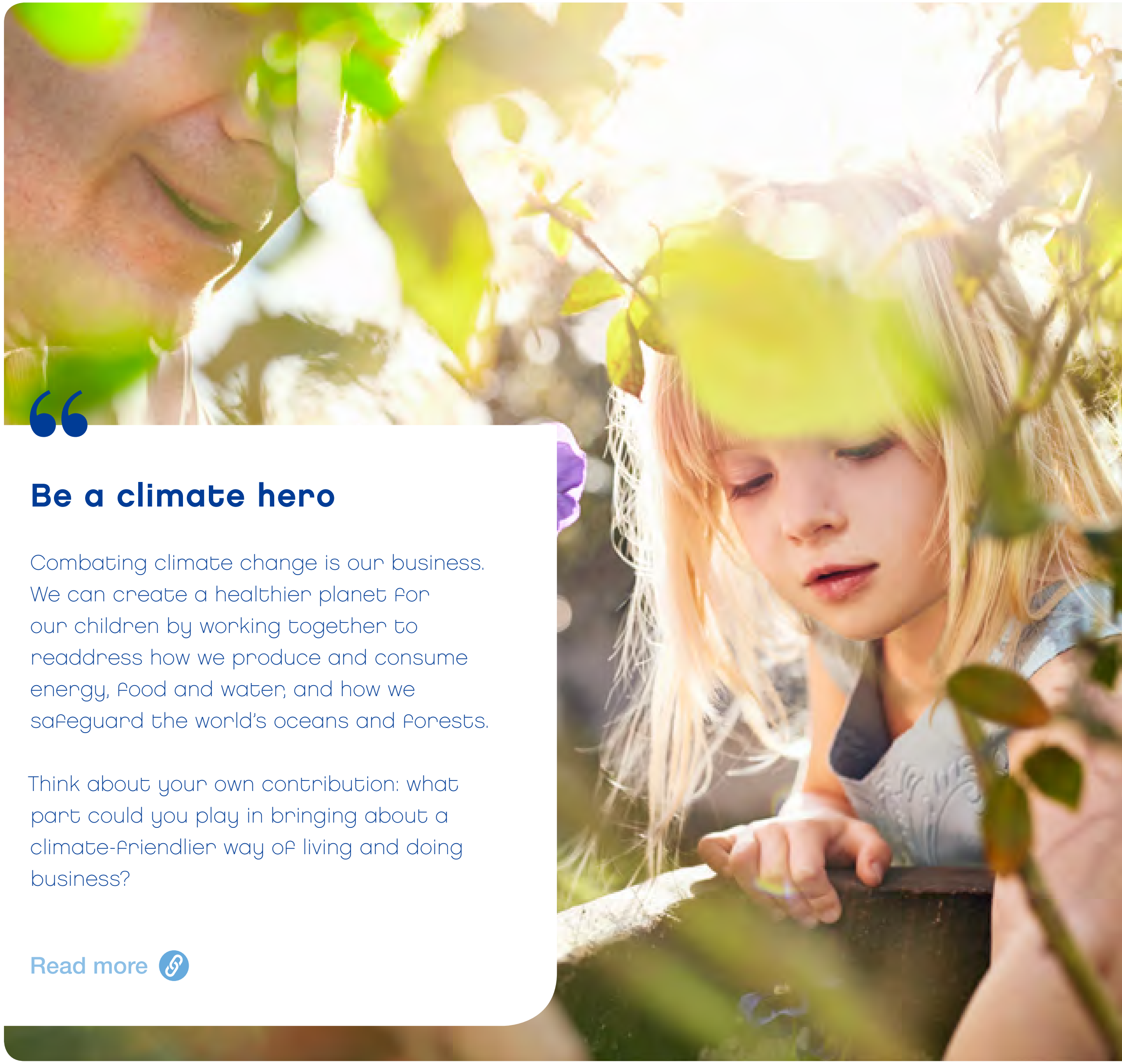
Climate commitments were renewed and targets set around the world, yet climate change was progressing, concluded Intergovernmental Panel on Climate Change (IPPC) in its Special Report on Global Warming of 1.5 °C (SR15) in October 2018. More ambitious efforts were called for to meet the the Paris Agreement targets.

In November, the European Commission published a long-term vision "A Clean Planet for all" for climate neutral economy by 2050. This strengthened the former goal of low-carbon economy.

We support both global and local efforts to reduce climate emissions. We do this with our portfolio of renewable, low-emission and circular solutions for transportation, aviation, and marine uses, as well as for the chemical and plastics industries.

Neste's climate role and positive impact

In 2018, our customers were able to reduce their greenhouse gas (GHG) emissions by a total of 7.9 Mt (8.3 Mt) with our renewable products. This equals the annual carbon footprint of 1.2 million average EU citizens



Be a climate hero

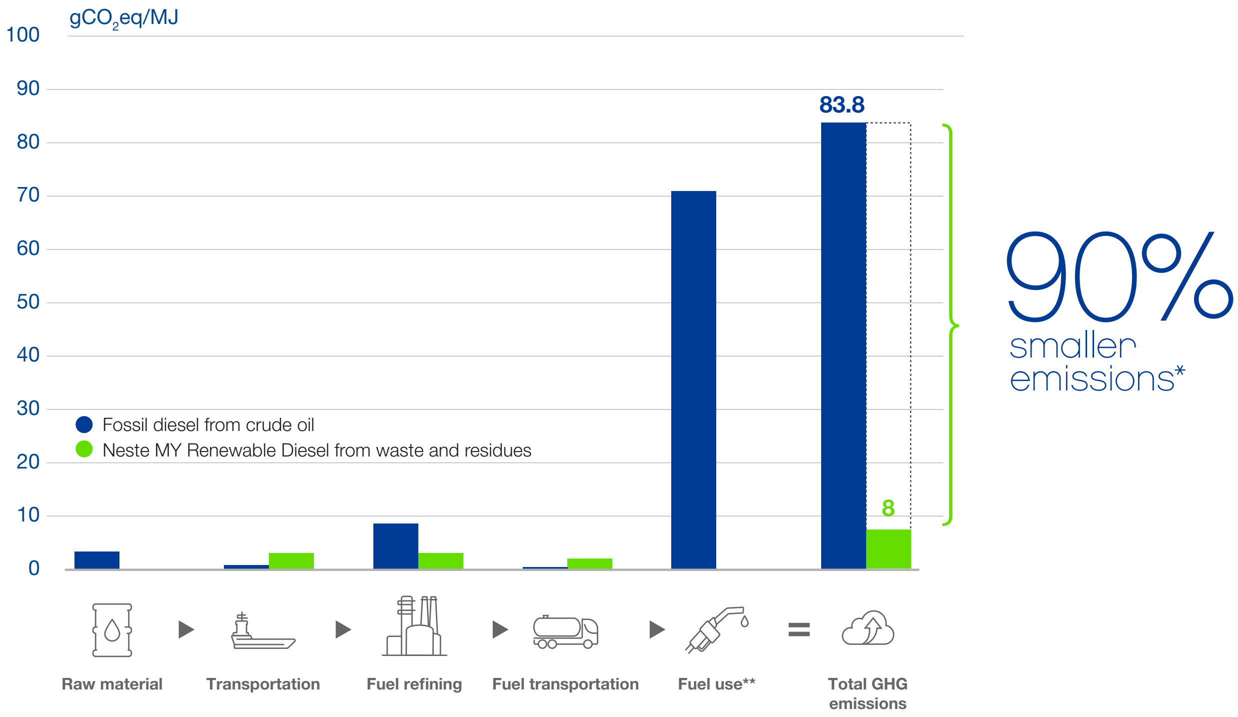
Combating climate change is our business. We can create a healthier planet for our children by working together to readdress how we produce and consume energy, food and water, and how we safeguard the world's oceans and forests.

Think about your own contribution: what part could you play in bringing about a climate-friendlier way of living and doing business?

Read more

Reducing greenhouse gas emissions with Neste MY Renewable Diesel™

Switching from fossil diesel to 100% Neste MY Renewable Diesel™ results in up to 90% smaller greenhouse gas emissions (GHG, gCO_2eq/MJ) when emissions over the life cycles of the fuels are taken into account.



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

** Carbon emissions from the use of renewable diesel amount to zero, as the amount of bio-based carbon dioxide released upon combustion equals the amount that renewable raw material has absorbed earlier.

(source: World Bank) or the removal of 3 million passenger cars from the roads for a full year.

The annual emission reduction provided by Neste's renewable fuels altogether in 2018 was slightly smaller than in previous year due to smaller production volumes resulting from scheduled maintenance at Neste's Singapore and Rotterdam refineries in 2018. The number of passenger vehicles that the emissions reduction corresponds to remained at the previous year's level, as the energy efficiency of passenger cars has improved.

The climate savings that our renewable products offer annually are more than twice as large as the annual emissions from Neste's fossil and renewable refineries' operations and all logistics put together.

Our updated climate targets

Our role in reducing transportation-related climate emissions is already significant on a global scale. As we aim for making an even more significant positive climate impact, we started developing new mid- and long-term climate targets for ourselves.

As part of this work, we renewed our mid-term climate target by setting a more ambitious greenhouse gas emissions savings target for 2023. Instead of 9 Mt savings, we are now aiming for a total of 14 Mt of greenhouse gas emissions saved with our renewable products in 2023.

We continue working on our long-term target and will communicate that and the areas contributing to the emissions saved or prevented in our next year's report.

Reducing emissions from transport and in cities

Neste MY Renewable Diesel, a high quality drop-in fuel for all diesel-powered passenger cars and heavy transport, continued making a significant climate impact. The fuel enabled its users to reduce their greenhouse gas emissions by 50 to 90% compared to emissions from the use of fossil diesel. When produced entirely from waste and residue raw materials, its use results in 90% smaller greenhouse gas emissions on the average.

Neste helped Elfwegentocht event and Dutch fossil-free movement to reduce 1,230,000 kg of CO_2 emissions.

Support for the Dutch fossil-free movement

Neste partnered with the Elfwegentocht event in the Netherlands to support the Fossil-free Friesland project in the country's northeastern part. More than 430,000 liters of Neste-produced renewable diesel was sold during the event, resulting in a CO_2 reduction of approximately 1,230,000 kg, equal to the amount of emissions that 384 average diesel-powered Dutch passenger cars would discharge in one year. Neste MY Renewable Diesel continues being offered in the Friesland province.

When comparing to emissions from fossil diesel usage, Neste MY Renewable Diesel usage can also reduce local emissions, such as fine particulates and nitrogen oxides, particularly in older, less developed diesel engines. This helps improve air quality in urban areas and in applications where diesel-powered engines are, for example, stationary or used in closed environments.

Neste MY Renewable Diesel is used to meet the mandated volumes of bio-based content in fuels and to proactively reduce transport emissions in different markets and sectors. Cities, counties, and various local actors in Europe and in the US provide a good example of this as they continued setting their own climate goals and seeking for cooperation to find alternatives for reducing emissions cost-effectively. The following Californian cities and local actors, for example, were leading the way:

- City of San Leandro's municipal vehicles
- San Diego's Vista Unified School District's school buses
- Pittsburg Unified School District vehicles in CA
- Pasadena, California Fire Department
- Fuel Delivery Services, Inc. (FDS), a bulk transporter of refined petroleum products and its fleet of trucks in Stockton
- WestCAT, a Californian public transportation service
- Ecology, a Californian transport company.

100% Neste MY Renewable Diesel more widely available in the Nordics and Baltics

100% Neste MY Renewable Diesel distribution was made more widely available in Sweden, Latvia, and Finland.

New cities to start using Neste MY Renewable Diesel in Finland included Espoo, where the Public Works Department started using our product in all its diesel-powered machines.

Neste updated its climate partnership pledge with City of Helsinki, supporting the capital of Finland's efforts to become carbon neutral by 2035.

Helsinki city buses and Helsinki City Construction Services Stara's trucks and construction machinery continued reducing their emissions with Neste MY Renewable Diesel as part of Europe's largest coordinated advanced biofuels project BioSata, one of the Smart & Clean Foundation's projects in the Helsinki metropolitan area. Stara's Executive Board decided in May that the primary fuel for all diesel vehicles in the city will be renewable diesel. Stara's trucks and machinery and Helsinki Regional Transport Authority commissioned bus services aim at using only renewable power sources by 2020. This transition is coordinated by the BioSata project, involving also Neste.

Valtra, a manufacturer of tractors, is the world's first to fill all new tractors produced in its factory with Neste MY Renewable Diesel before shipping them to over 75 countries. Approximately 700,000 liters of fossil diesel will be replaced annually by Neste MY Renewable Diesel at Valtra.

High-quality renewable fuels such as Neste MY Renewable Diesel continue to provide a highly cost-effective solution for reducing transportation-related emissions, up to 90% compared to fossil diesel.

In 2019, we will be producing more renewable jet fuel to replace fossil jet fuel than all other suppliers together.

Härmän Liikenne started using Neste MY Renewable Diesel in the city of Seinäjoki's local transport in Finland. Härmän Liikenne's goal is to have its fleet of 75 buses to run on our product by the end of 2019.

Part of the local transportation on the Åland islands in the Baltic Sea started switching to Neste MY Renewable Diesel. The first vehicles to use the product are the local and charter buses of the Viking Line Buss and Williams Buss company, in addition to the Åland Post fleet.

Reducing emissions in aviation

Under the umbrella of Neste Green Hub, we continued efforts to enable reduction of CO_2 emissions in aviation. We support the objectives set by the International Civil Aviation Organization (ICAO) for carbon-neutral growth in aviation from 2020, Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), as well as regional efforts, such as the Norwegian 0.5% biofuel blending mandate for aviation.

Our Neste MY Renewable Jet Fuel provides a solution for decreasing emissions and increasing the proportion of renewable energy used in aviation. To provide a platform for engagement in this area, we produced a website Decarbonizing Aviation for our stakeholders.

The aviation sector, such as airports, airlines, and other connected actors, were even more active than in previous years in searching for partners and solutions to reduce their carbon footprint. These engagements covered our solutions to reduce ground transportation related emissions at the airports and surrounding areas, as well as our joint mission to develop low-emission fuel solutions for airlines. Examples of progress in this area:

- Agreement with Air BP, the international aviation fuel products and services supplier, to explore opportunities to increase the supply and availability of sustainable aviation fuel for airline customers at airports across Air BP's global network.
- Memorandum of Understanding with Alaska Airlines to design, create, and implement solutions to enable wider adoption of renewable fuels in the airline industry.
- Collaboration with Dallas Fort Worth International Airport (DFW) to explore new ways of reducing the airport's carbon footprint as well as emissions from aircraft at DFW.
- Airport operator Finavia in Finland took a step forward in its target to make its airports carbon neutral by 2020, by expanding its current use of Neste MY Renewable Diesel in its vehicles at the Helsinki airport to those at Rovaniemi, Kuusamo, Ivalo and Kittilä airports in Finnish Lapland.

Neste MY Renewable Jet Fuel provides a solution for reducing emissions while increasing the proportion of renewable energy used in aviation.

We continued our collaborative work with other airlines and cargo carriers including American Airlines and UPS.

A pilot project to support Geneva Airport's ambition to replace 1% of the fossil jet fuel used for aircrafts with renewable jet fuel at Geneva Airport was canceled due to not receiving support from the Swiss authorities.

Bio-based alternatives reduce crude oil dependence in chemical and plastics industries

Neste's aim is to become a preferred partner as a provider of sustainable chemicals solutions for forerunner brands. We continued to engage with various chemical and plastics industry players with the aim to replace crude oil usage with bio-based alternatives and to enable development of bio-based, lower-emission end products.

- We continued making preparations to start producing bio-based plastics, such as polypropylene (PP) and polyethylene (PE) with IKEA. Our target is to be the world's first to produce PP plastic at a commercial scale. We conducted carbon footprint calculations for the client to assess the positive climate benefits from replacing fossil-based plastics with those derived from bio-based and recycled raw materials. Bio-based plastics derived from our renewable hydrocarbons are a drop-in replacement for conventional plastics.
- In November, we announced a new partnership with Clariant, a leading specialty chemicals provider. We will start replacing fossil-based ethylene and propylene used in Clariant's hot-melt adhesives, with monomers derived from renewable raw material. Later, we will develop also other sustainable additive solutions for plastics and coatings applications for companies producing furniture, sporting goods, hygiene products, electronics, and automotives, among others.
- We continued offering Neste MY Renewable Isoalkane, a drop-in alternative to traditional mineral oils for a wide range of chemical applications from paints and coatings to lubricants.

Full-scale adoption of bio-based materials requires continuous engagement with stakeholders and education of decision makers and authorities, for example, to discuss characteristics of materials made from bio-based raw materials, as well as the advantages that they offer. For example, the terms "bio-based" and "biodegradable" in relation to plastics need to be clarified to reduce confusion and misinterpretations.

In addition to working towards increasing bio-content in chemicals and plastics, we started exploring ways to start using waste plastics as recycled raw material to replace crude oil usage in traditional oil refining and petrochemical processes.

Read more about our efforts to contribute to circular economy via chemical recycling of plastics

See our section on sustainable raw materials for more

Our aim is to become a preferred partner as a provider of sustainable chemicals solutions for forerunner brands.

Low-sulfur marine fuels

The International Maritime Organization's (IMO) global sulfur regulation coming into force in 2020 limits sulfur content of marine fuels from 3.5% to 0.5% globally. The limit within the current Sulphur Emission Control Areas (SECA) in Northern Europe and North America will remain at 0.1%.

One way for the shipping industry to comply with the new 0.5% regulation will be to switch from high sulfur heavy fuel oil to low-sulfur marine fuels. Our solvent de-asphalting (SDA) unit at the Porvoo refinery enables us to produce heavier sulphur-compliant marine fuel products. We are currently looking into fuel solutions to serve the shipping industry in the future 0.5% global market.

We already offer low-sulphur marine fuels with a sulphur content of less than 0.1% to help the shipping companies to meet the EU provisions requiring lower sulphur emissions in the Baltic Sea, the North Sea, and the English Channel. The 0.1% marine fuel grades are delivered to all Finnish ports and in the larger Stockholm area in Sweden.

Renewable fuels for marine uses

The IMO decided in April to peak GHG emissions as soon as possible and reduce all ship-borne GHG emissions by at least 50% from 2008 levels by 2050 and reduce carbon intensity by at least 40% by 2030 and 70% by 2050 compared to 2008 level.

We started a new R&D project on renewable marine fuels in September. In November, we hosted an international forum for invited guests such as ship owners, engine manufacturers, industry stakeholders, as well as IMO and the International Bunker Industry Association representatives to discuss how the IMO CO_2 regulation will impact shipping and how the shipping industry plans to comply. Our aim is to take a leadership role in this area.

Reduced emissions in other areas of society

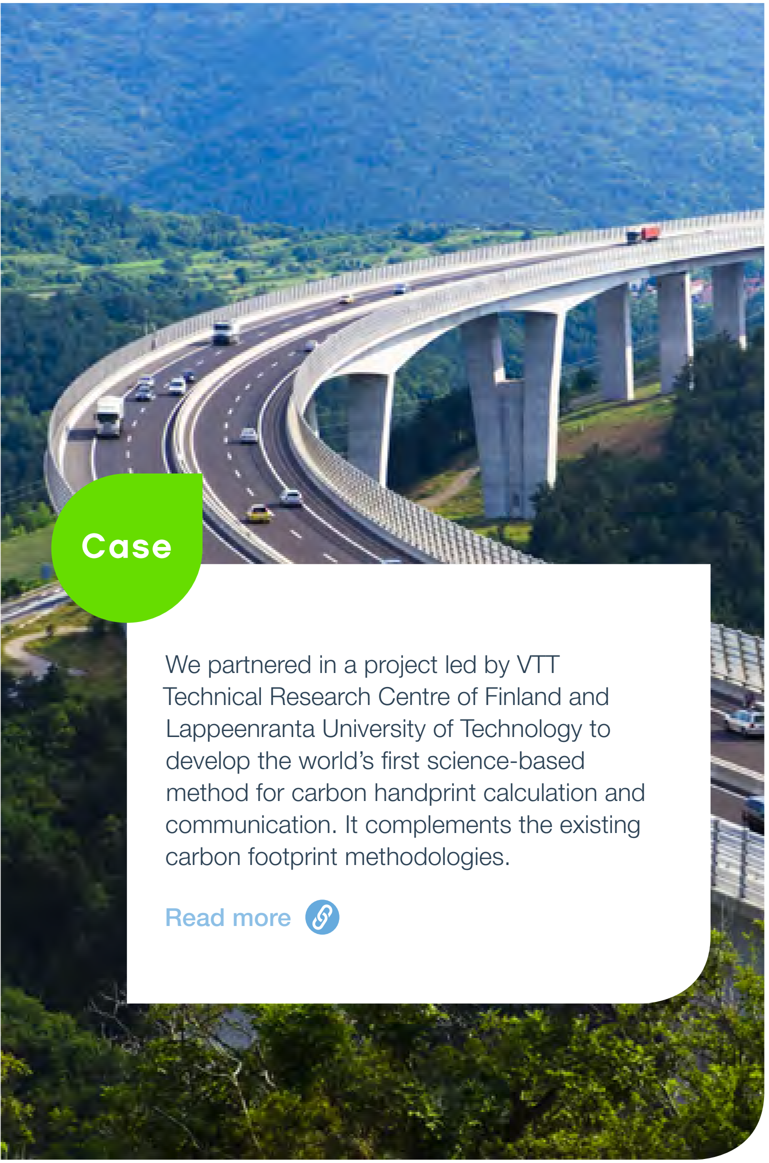
In March, we announced we had delivered our first batch of Neste MY Renewable Propane, i.e. 100% bio-LPG to the European market from our Rotterdam refinery where it is produced from renewable raw materials such as waste and residues. The production is the first of its kind anywhere in the world.

Although the volumes are small, some 40,000 to 50,000 tons annually, recovering this stream from our production process improves our resource efficiency and provides a cleaner alternative to conventional propane. Renewable propane can be used not only as an industrial gas, but also in many different applications such as in cooking and heating. It can also be used as a low-carbon drop-in fuel in LPG cars, already common in some European countries.

Neste MY Renewable Diesel continued providing providing electricity with reduced local emissions and carbon footprint to events such as the Flow Festival and the Neste Rally in Finland. In the Rally, Neste MY Renewable Diesel was used in all of the rally organisation's diesel cars and power generators.

IMO: All ship-borne GHG emissions to be reduced by at least 50% from 2008 levels by 2050.

A sightseeing cruise company Red and White Fleet from the San Francisco Bay Area, California announced that its entire fleet of vessels will switch fossil diesel to 100% Neste MY Renewable Diesel.



Case

We partnered in a project led by VTT Technical Research Centre of Finland and Lappeenranta University of Technology to develop the world's first science-based method for carbon handprint calculation and communication. It complements the existing carbon footprint methodologies.

Read more

New method for calculating carbon handprint

Our researchers took part in a Finnish project on carbon handprint. The project, the first of its kind in the world, involved several stakeholders, including research institutes and businesses, and developed a new method for calculating and demonstrating the positive climate impacts, i.e. prevented emissions, of products and services.

Promoting adoption of a methane emission reduction method

Neste-led collaborative project verified in 2017 that adoption of a belt filter press method in wastewater treatment at palm oil mills can reduce or prevent methane emissions by 50%.

We continued to help accelerate implementation of the method within the palm oil industry by connecting interested parties with the technology provider.

Wide-scale implementation of the method could provide large climate impact, up to 4.5 Mt CO_2e per year, equivalent to removing 1.6 million passenger cars from the roads.

Research article on the method's emission reduction potential was published in May. The method is referred to by e.g. certifying body ISCC. The method is recognized in relevant certification systems, and companies using the belt press method can apply a new emission factor in their greenhouse gas calculations for certification purposes.

Neste among the world's most sustainable companies based on CDP Climate Change assessment

Neste was highlighted as a global leader on corporate climate action by environmental impact non-profit Climate Disclosure Project (CDP), achieving a place on the CDP Climate Change 'A List' in January. Only 126 companies globally were awarded with the 'A List' placement, Neste being the only energy company to reach this level. CDP Climate Change focuses on assessing corporate measures to combat climate risks and take advantage of the business opportunities offered by low-carbon products and services. The 'A List' rating is based on Neste's sustainability performance in 2017.

Wide-scale implementation of the belt press methane reduction method could reduce palm oil industry's climate emissions up to 4.5 Mt CO_2e per year, equivalent to removing 1.6 million passenger cars from the roads.

Sustainable raw materials

We are the world's largest producer of renewable diesel from waste and residue raw materials. In 2018, waste and residues accounted for 83% (76%) of the renewable raw materials we used. Our pretreatment capability and proprietary NEXBTL refining technology ensure that our products have consistent high quality with all raw material mixes, even those consisting of low-quality wastes.

A high share of waste and residue raw materials in the production of our renewable products ensures that the users of our products get the greatest climate benefits, up to 90% smaller greenhouse gas emissions than those resulting from the use of products derived from crude oil.

Focus on lower-quality waste

We are the only company in the world to have already produced renewable fuels from over 10 different raw materials. Our refineries of renewable products are technically capable of running on 100% waste and residues to produce premium-quality renewable products.

We continue investing in pretreatment capacity to enable efficient utilization of lower-quality waste and residues and use the majority of our annual R&D expenditure to research and test future raw materials.

Read more

In 2018, waste and residues accounted for 83% of the renewable raw materials we used.

We source sustainably-produced renewable raw materials only from those suppliers who meet our strict criteria and fully comply with the industry-specific regulatory requirements in our key markets.

Wide variety of sustainable raw materials

We used approximately 10 different renewable raw materials to produce a range of renewable fuels and chemicals to replace those produced from crude oil. We source sustainably-produced renewable raw materials only from those suppliers who meet our strict criteria and fully comply with the industry-specific regulatory requirements in our key markets. Our extensive renewable raw material portfolio and global supply provide us flexibility, as they allow us to respond to the differing needs of various markets and customers.

In 2018, we paid particular attention to monitoring our raw material suppliers' performance to supplement certifications. We conducted targeted, Neste-led supplier audits to supplement our external supplier audits for certifications covering EU RED, EPA RFS and market compliance (e.g. traceability, greenhouse gas emissions, mass balance, required documentation). In addition to these, Neste-led supplier audits covered social performance (e.g. human and labor rights) of the given supplier.

R&D focuses on lower-quality waste and residues

Long-term development of our renewable raw material portfolio continued focusing on lower-quality waste and residues, such as lignosellulosics from forest industry residues. We also developed raw material pretreatment and purification technologies further.

To secure waste and residue raw material availability and the high share of these in our annual renewable raw material usage in the future, we acquired majority ownership in an animal fat trader Demeter in May 2018. Demeter has been one of Neste's waste animal fat providers for years, and the acquisition provides us with more control and visibility into the supply chain to ensure high-level sustainability performance.

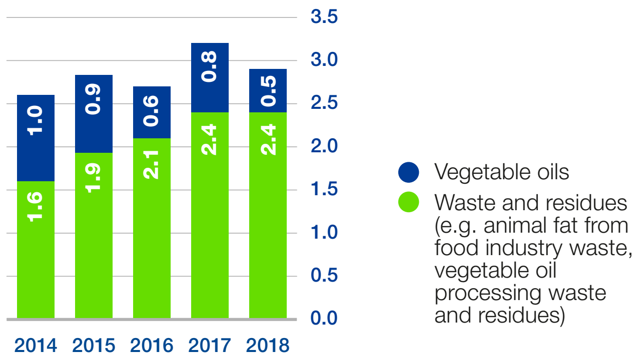
Neste in an European project on contaminated and idle lands

Neste is participating in an EU-funded Bioplat project aiming to promote the market uptake of sustainable bioenergy in Europe derived from contaminated and other unutilized lands. The project started in November 2018 and will continue for three years.

Other project participants include e.g. Food and Agriculture Organization of the United Nations (FAO), and European universities and research organisations from around Europe. Neste's role in the project is to test the tools developed as part of the project and to study its feasibility from sustainability's point of view.

General interest is to decrease bioenergy and biofuel sector's global dependence on raw materials cultivated on agricultural lands suitable for food production. Also Neste is looking into opportunities to utilize contaminated lands in its value chain.

Use of renewable raw materials, million tons



Digitalizing and updating supplier sustainability processes

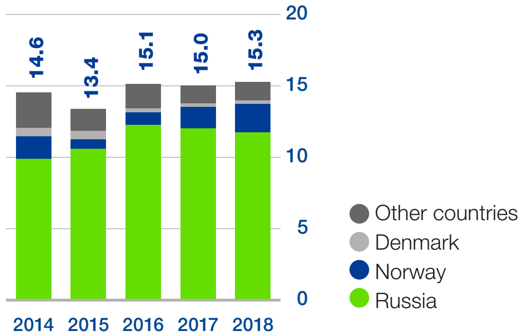
We initiated an evaluation of our renewable raw material suppliers' auditing process. This included updating our supplier self-assessment questionnaire, for example. Our core processes for sustainable sourcing, such as supplier evaluation and engagement, as well as submission of proof of sustainability documents, will be managed with our Supplier Sustainability Portal. We have developed the portal collaboratively with our suppliers since 2017, and launched the first operational version in December 2018.

Read more about our Supplier Sustainability Portal development here

Updating our Supplier Code of Conduct

We will update our Supplier Code of Conduct in 2019 to ensure its correspondence with existing norms and regulations as well as stakeholder expectations and needs. We will set up procedures to ensure that the code is implemented and minimum requirements for suppliers are interpreted similarly in each and every occasion.

Crude oil and fossil feedstock sources by region, million tons



Sustainability in crude oil supply chain

Neste is in the middle of transforming itself from a traditional oil refiner into a company known for its renewable and circular solutions. In addition to these, we continue to produce high-quality oil products from crude oil and condensates that we procure mostly from Russia, but also from other Former Soviet Union countries, the North Sea, and Denmark.

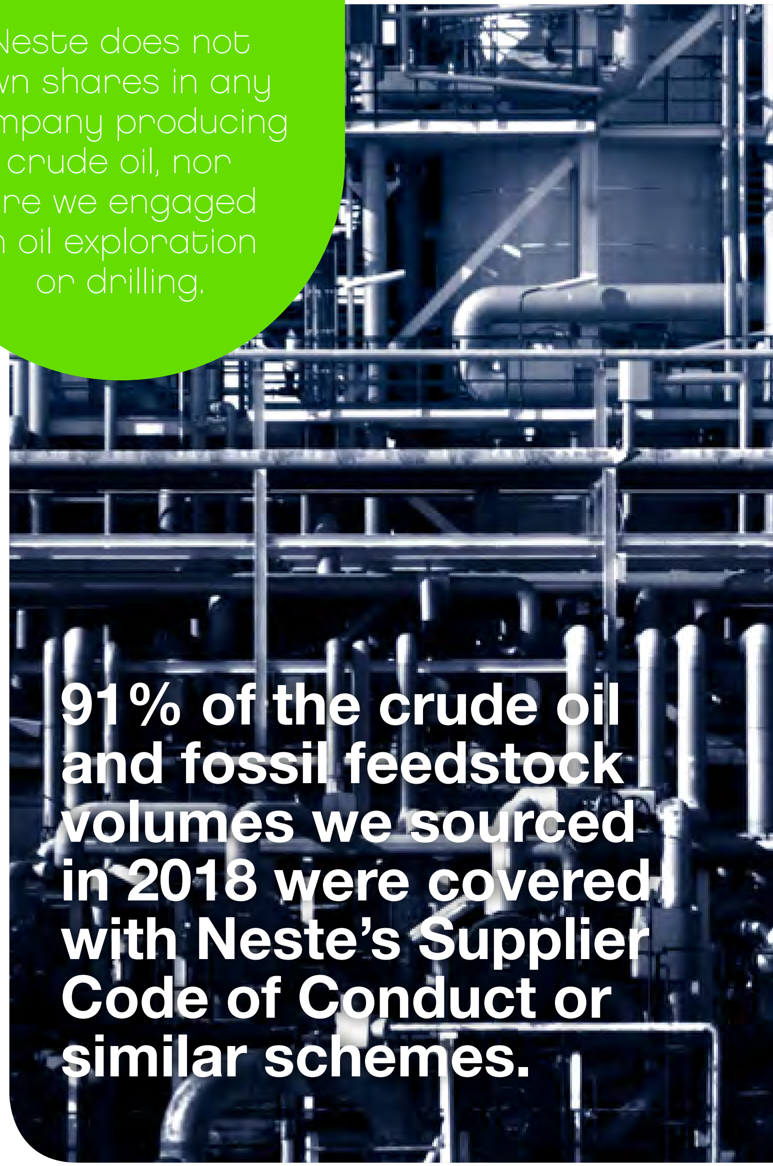
Neste is purely a buyer of crude oil; we do not own shares in any company producing crude oil, nor are we engaged in oil exploration or drilling. Additionally, we do not purchase crude oil from arctic sea areas or conflict areas.

The majority of the crude oil that we use is delivered to the company's refineries from the Primorsk and Ust-Luga oil terminals, where the oil is delivered from oil fields across Russia via a pipeline network. Due to this, tracing back the exact origin of the Russian supply is challenging.

We have continued introducing our Supplier Code of Conduct to companies supplying crude oil to us, with the aim of getting them to commit to compliance. To our knowledge, none of the other oil refiners have engaged in similar work. In 2018, already 91% (75%) of the total supplied volumes of crude oil and fossil feedstocks were covered with Neste's Supplier Code of Conduct or similar schemes.

We monitor sustainability development closely in oil producing countries and collect data, for instance, on associated petroleum gas (APG) flaring and oil leakages. We promote, whenever possible, the adoption of improvement and investment plans in crude oil producing regions.

Neste does not own shares in any company producing crude oil, nor are we engaged in oil exploration or drilling.



We aim to process annually more than 1 million tons of waste plastic from 2030 onwards. Chemically recycled plastic waste can be converted into high-quality raw material for fuels, chemicals and new plastics.

Exploring waste plastics to replace crude oil usage

In addition to our efforts to replace conventional fossil resources with renewables, we started exploring opportunities to reduce society's crude oil dependency also with other sustainable alternatives.

In July, we announced we are exploring ways to introduce liquefied waste plastic as a future raw material for fuels, chemicals, and new plastics. We set a target to process annually more than one million ton of waste plastic from 2030 onwards. This represents nearly 4% of the post-consumer plastic waste currently generated in Europe, for example.

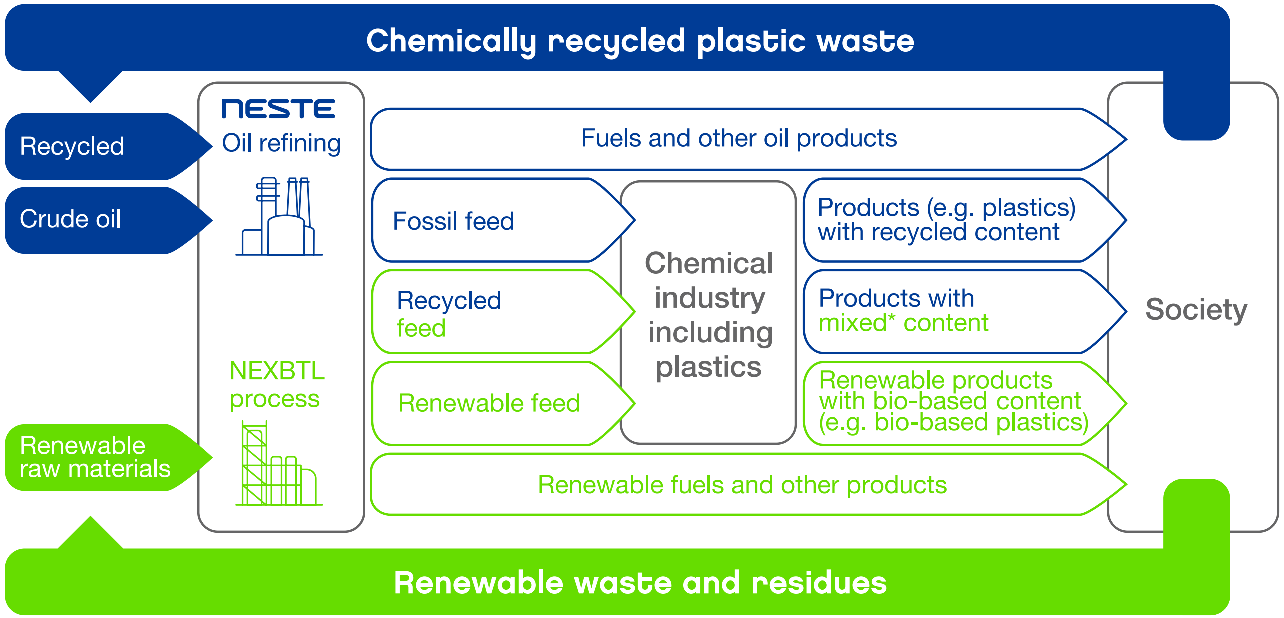
Using liquefied plastic waste as a raw material for the refining and petrochemical industries reduces their dependency on crude oil. This can help reduce the carbon footprint of the end products from this raw material by up to 50%.

Chemical recycling of plastics supports global plastic waste reduction and accelerates circular economy by creating new outlets for plastic waste and enabling high-end product qualities, thereby complementing traditional mechanical recycling, not replacing it.

Read more from our blog

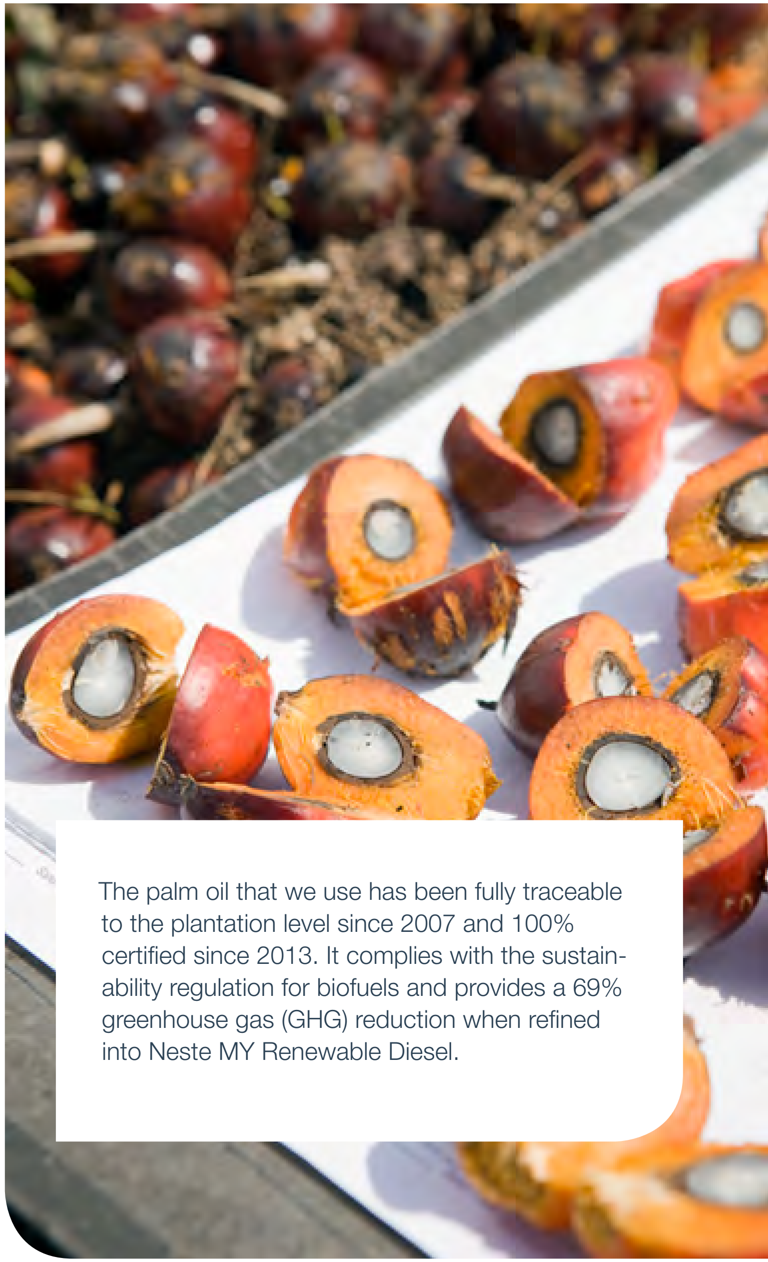
See Stakeholder engagement section for more

Neste accelerating circular economy



* Any mix of fossil, recycled and renewable feeds.

Neste does not own or operate any palm oil plantations, mills or palm oil refineries. All the palm oil we source is supplied by carefully screened responsible producers in Malaysia and Indonesia.



The palm oil that we use has been fully traceable to the plantation level since 2007 and 100% certified since 2013. It complies with the sustainability regulation for biofuels and provides a 69% greenhouse gas (GHG) reduction when refined into Neste MY Renewable Diesel.

Sustainable palm oil as raw material

Despite our focus on waste and residue oils, sustainably produced 100% certified, and fully traceable palm oil remains in our raw material portfolio. It accounted for 17% of our renewable raw material usage in 2018.

The palm oil that we have used has been fully traceable to the plantation level since 2007, and 100% certified since 2013. It fully complies with the sustainability regulation for biofuels and provides a 69% greenhouse gas (GHG) reduction on the average when refined into Neste MY Renewable Diesel. This clearly exceeds the 50% GHG emission reduction requirement for all biofuels defined in the Renewable Energy Directive (EU RED).

Approximately 27% of the palm oil we used came from mills where methane is captured or its formation reduced with other methods. We continued to aim for accelerated implementation of methane avoidance methods within the palm oil industry.

We do not own any oil palm plantations or operate any palm oil refineries. Instead, we source palm oil from carefully screened, responsible producers in Malaysia and Indonesia that are committed to certification and principles of sustainability. We source certified palm oil directly from the producer companies instead of purchasing separate certificates from the world market. We work closely with sustainability specialists to monitor our supply chains, and we regularly engage directly with our suppliers.

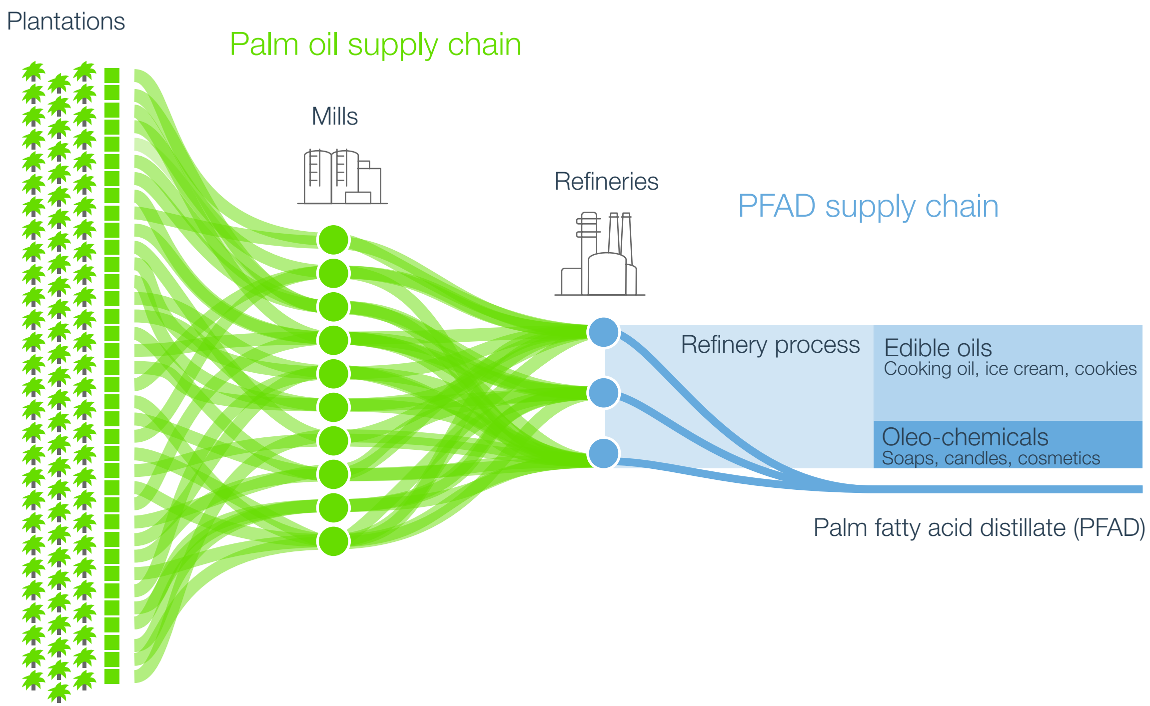
Transparency of our supply chains continues improving

Our palm oil supply chain is fully public at http://nestetraceabilitydashboard.com/. We were the first of the larger palm oil using companies to make our palm oil supply chain fully transparent in 2016, and have since continued publishing an annual update of the companies, mills, and plantations in our supply chain as well as information on their certifications online.

All Neste-sourced renewable raw materials are traceable to the point of origin as the law requires of biofuels producers (e.g. EU RED in Europe). We committed to go beyond this requirement by setting a public target in 2017 to work towards mapping our palm fatty acid distillate (PFAD) supply chain to oil palm plantations by 2020.

Advancing towards reaching our 2020 target has required us to map large parts of previously unmapped food industry's palm oil supply chains. The task is challenging but important: increasing transparency of palm oil and PFAD supply chains beyond the legal requirements helps improve acceptability of these raw materials while also strengthening suppliers' commitment to sustainability.

We have mapped 99% of our PFAD supply chain to the palm oil mills and 44% all the way to the oil palm plantations.



PFAD transparency efforts engage large parts of palm oil industry

By the end of 2017, we had mapped 96% of our PFAD supply chain to the palm oil mills supplying the palm oil refineries where PFAD is extracted from edible oil during vegetable oil refining to meet the food industry's quality standards. In spring 2018, we published the corresponding PFAD supply chain data on our traceability dashboard.

In 2018, we continued our PFAD supply chain mapping efforts in collaboration with palm oil suppliers and sustainability specialists from the Consortium of Resource Experts (CORE). 99% of our PFAD supply chain has now been mapped to the palm oil mills and 44% all the way to the plantations. In the latter, we utilized public data and declarations from our suppliers. Our work in this area continues in 2019.

With CORE, we continued conducting risk assessments of palm oil mills that supply palm oil to refineries supplying PFAD to us. PFAD-supplying palm oil refineries were engaged to ensure that their operations and those of their supplying mills are in compliance with our sustainability policies and principles.

We will update traceability dashboard site with our palm oil and PFAD supply chain data from 2018 in spring 2019. This will renew our commitment to transparency as well as enable monitoring of our supply chain collaboratively with our stakeholders.

Other projects to increase transparency

To drive improved transparency in the palm oil industry as a whole, we have been developing an approach to "traceability to plantations" (TTP) specifically for palm oil based waste and residue raw materials. The target has been to develop a common definition and shared understanding of the concept for all the actors in the industry.

Our risk-calibrated approach towards TTP prioritizes gathering more data of higher risk areas, such as forests, uncultivated peat and protected areas.

We introduced the approach to more than ten palm suppliers in 2018. A commonly shared approach is a key to enabling and speeding up coherent efforts towards improved traceability, including effective data collection and cooperation within the complex palm oil waste and residue supply chains involving several layers of actors from smallholders as palm oil cultivators to various collectors and processors of materials.

Neste is also a steering committee member of the SUSTAIN initiative bringing together oil palm growers, processors, users, sustainability experts, and technology partners to collaboratively drive innovation in addressing region-specific sustainability issues (i.e. "sustainable landscape approach") across the palm oil supply chain. The initiative, founded by Apical and involving also its main downstream partner Asian Agri among others, aims to develop a blockchain-based sustainability assurance platform to facilitate collecting and sharing of sustainability and traceability information, allowing efficient supply chain monitoring through a shared dashboard and reporting system. The initiative benefits all actors in the industry via providing a transparent process that not only improves plantation traceability but also sustainability engagements all the way to the smallholders' level.

Efforts to combat deforestation

Neste has a clear stand against any actions that would cause deforestation. We are committed to preventing deforestation in our own supply chains, and require the same from all our raw material suppliers.

In 2017, we started updating our 2013 No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock together with our partner CORE. Implementation of the guidelines, nowadays known as Neste Responsible Sourcing Principle, will start in the spring of 2019.

We gathered feedback on this principle at our annual supplier workshop in April 2018 and again later in the year to support its efficient implementation. We have arranged similar workshops for our palm oil suppliers since 2015 to foster dialogue, and to hear about our suppliers' concerns. They also provide us an opportunity to clarify our requirements and expectations.

Our supplier workshop in 2018 was organized together with CORE in Singapore, giving us an opportunity to complement the workshop with a visit to our Singapore refinery. In addition to discussing our Responsible Sourcing Principle, topics covered in the workshop included Neste Supplier Code of Conduct and the best practices in traceability, among others.

This was the first time that our palm oil suppliers invited their own suppliers, i.e. "third party suppliers", to join the workshop. Altogether 52 participants from our direct and third party suppliers attended the event. Many others were reached by other types of engagement.

Deforestation risk management in the Leadership class

Disclosing the forest footprint continues being rare in the energy sector. Neste continues to be the only energy sector company that transparently discloses its forest footprint as part of the CDP Forests program. In January 2019, Neste's deforestation risk management performance was evaluated within CDP Forests program as belonging, again, to the leading performers' Leadership-class, reaching 'A-' (Forests, palm oil) and 'B' (Forests, cattle products) lists .

Collaboration with smallholders reduces deforestation risk

In 2018, our supply chain included over 40,000 (36,000) Indonesian palm oil smallholders organized into cooperatives. Our cooperation with palm oil producing smallholders aims at supporting the development of their sustainability awareness and expertise. Adoption of sustainable practices enables smallholders to get certified; Neste requires commitment to certification from all its palm oil suppliers.

Collaboration also helps reduce deforestation risk by introducing sustainable means to increase yields to the smallholders. By sourcing raw material from the certified smallholders, Neste provides them a financial incentive to remain committed to sustainable practices and continuous improvement.

We continued participating in two projects supporting smallholders in Malaysia and Indonesia.

1. Since 2017, we have co-funded the Wild Asia Group Scheme (WAGS) project coordinated by the Malaysian non-governmental organisation Wild Asia, involving smallholders producing palm oil in Malaysia. The goal of the project is to improve sustainability of the smallholders in Sabah region in the northern part of Borneo, Malaysia.

   By 2018, the project had engaged 273 small-holders and three small growers. Nearly 16,000 tons of fresh fruit bunches (FFB, bunches of oil palm fruit from which oil is extracted) has been certified through RSPO Group Certification, which achieved 32% of the target of 50,000 tons of certified FFB by year 2020.

   In 2018, we focused on improving smallholders' practices in farming, chemicals usage and using waste materials as organic fertilisers. These efforts will continue in 2019 with development plans to reach out to more small growers and farmers.

2. Similar cooperation with smallholders in Indonesia continued through a project coordinated by Golden Agri Resources (GAR), Indonesian Palm Smallholders Union (Serikat Petani Kelapa Sawit, SPKS), and World Resources Institute (WRI).

   By the end of 2018, the project had mapped nine out of the 17 villages initially targeted in the project, covering more than 510 Ha of land in Siak, Indonesia. Discussions are ongoing to map smallholders also in other villages, and efforts to conduct certification gap assessment, verification and audit within these will continue in 2019. Such mapping of smallholders will enable the project to organize targeted trainings to prepare the smallholders towards becoming certified (Indonesian Sustainable Palm Oil, ISPO; the International Sustainability and Carbon Certification, ISCC; and Roundtable on Sustainable Palm Oil, RSPO). In 2019, we are looking into how the more advanced smallholders can get certified.

   The project was integrated into a larger, regional project taking a holistic approach to improving sustainability in the entire Siak region (see below).

Read more about our smallholder collaboration

Large-scale cooperation with several companies to achieve transformative sustainability change

Together with several global brands, such as Unilever, Pepsico, Cargill, and Danone, we started collaborating with palm oil giants Golden Agri (GAR) and Musim Mas, as well as non-governmental agencies to aim for a large-scale transformative sustainability impact in the Siak region in Indonesia. The project takes on a regional landscape approach, and aims at sustainability improvements in the production of multiple commodities, such as palm oil, pineapple, and rubber. The regional project involves also the local government with the aim to establish strong local regulations to push for sustainable transformation, as well as other local key actors and civil societies.

The collaboration started in June 2018 with benchmarking to compare the project aims with the ongoing sustainability-related projects and initiatives in the region. The exercise has helped the project identify focus areas that are crucial in terms of achieving transformative impact. These include protecting forests, peat and biodiversity, and supporting sustainability performance of smallholder farmers of the previously-mentioned commodities.

The benchmarking will be completed in 2019, after which this approximately five-year project will set an implementation schedule for improving the region's performance related to the environmental (e.g. conservation) and social issues (e.g. smallholders). Progress will be evaluated annually to track transformation based on the priorities identified.

By adopting sustainable practices smallholders can get certified and increase yields without increasing deforestation risk.

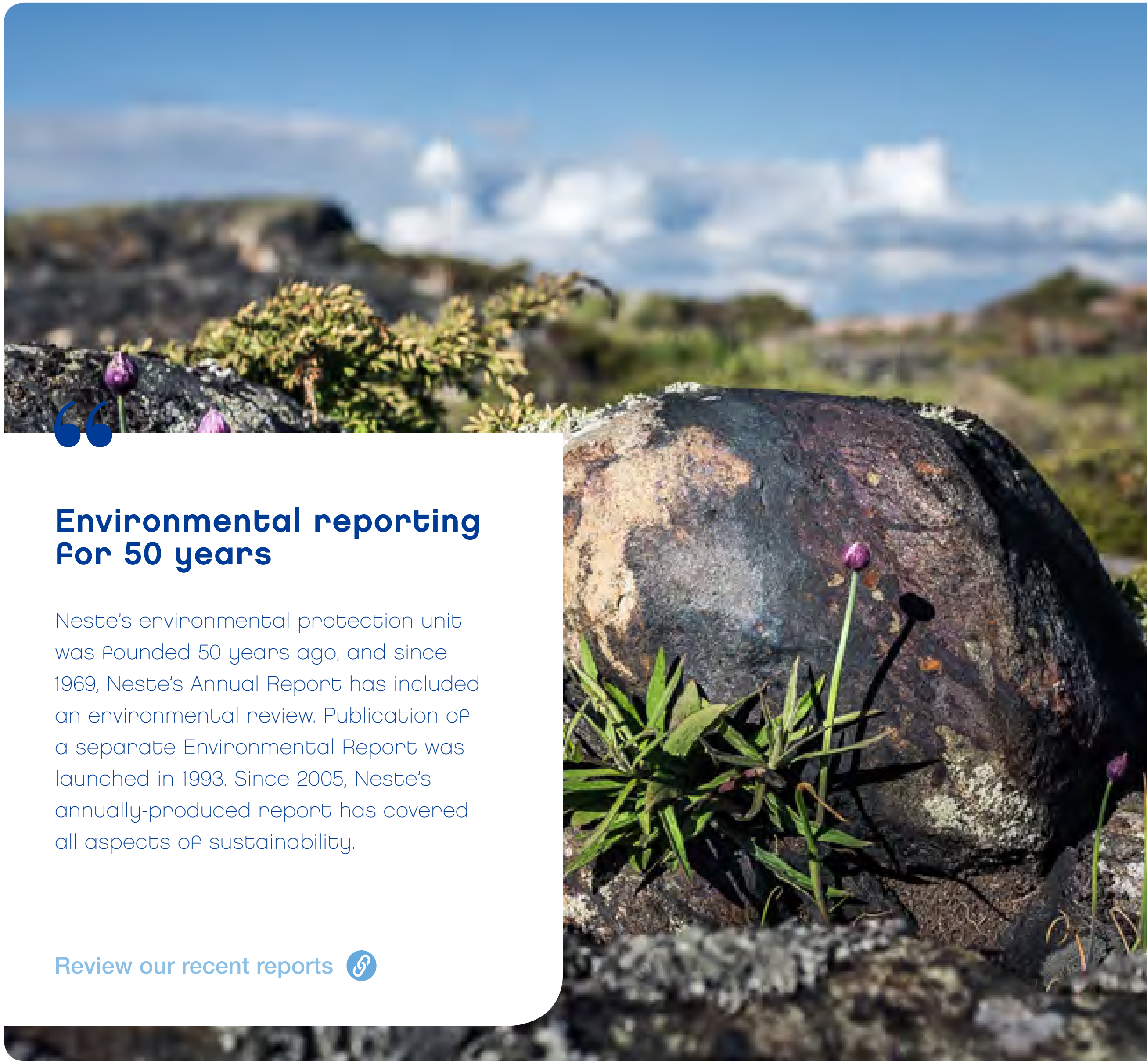
Environmental management

In line with our Sustainability Policy, we aim to ensure that all our operations are safe for our employees, partners, neighbors, customers, and the environment. Our aim is to use energy, as well as other utilities, as efficiently as possible. Energy efficiency plays a key role particularly in our production and logistics.

Material and energy efficiency

Neste has made a commitment to the efficiency program for Finland's energy-intensive industries. During the agreement period 2017–2025, we aim at saving 500 GWh from the 2014 level. In 2018, we contributed 57 GWh of savings.

A new combined heat and power plant is being built in Porvoo by Kilpilahti Power Plant Ltd (KPP), and it is scheduled for commissioning in 2019. The steam generation capacity of the new plant is 450 MW and its electricity generation capacity 30 MW. The total investment value of the power plant is about EUR 400 million. The plant is constructed in accordance with the latest environmental regulations, including the European



Environmental reporting for 50 years

Neste's environmental protection unit was founded 50 years ago, and since 1969, Neste's Annual Report has included an environmental review. Publication of a separate Environmental Report was launched in 1993. Since 2005, Neste's annually-produced report has covered all aspects of sustainability.

Review our recent reports

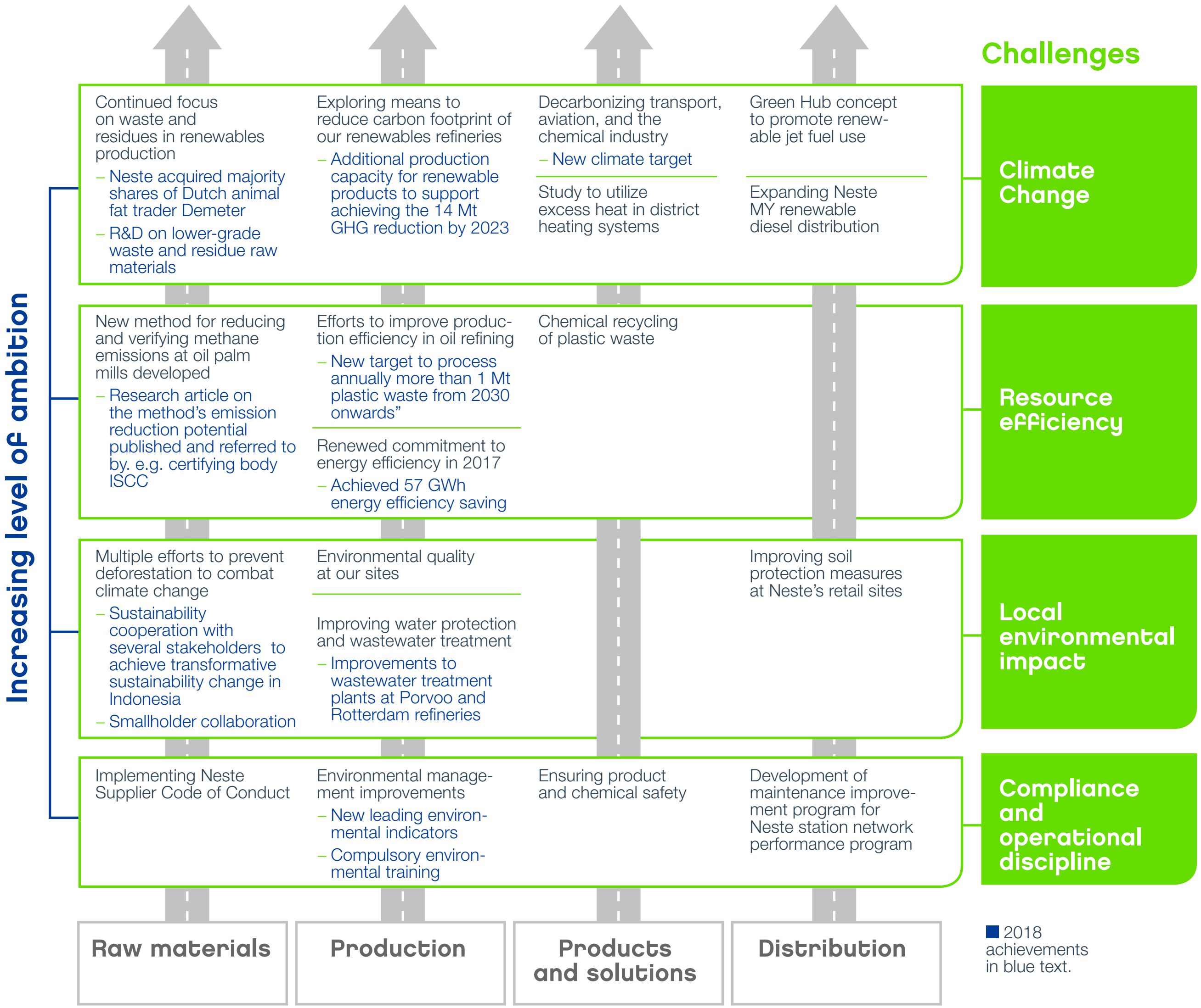
Commission's Industrial Emissions Directive (IED). It is expected to reduce the power-plant CO_2 emissions by approximately 20% compared to the current situation. More than 80% of the fuels for the new power plant will come from side streams of the Neste's Porvoo refinery and Borealis' petrochemical processes. Neste and Veolia Energie International both own 40% of KPP, and Borealis Polymers 20%. The plant will be operated by Veolia.

Neste and Borealis Polymers in co-operation with the energy companies Fortum Power and Heat, Helen, Vantaan Energia, Porvoon Energia – Borgå Energi and Keravan Energia, are conducting a preliminary study on recovering and utilizing excess heat generated at the Neste and Borealis' industrial manufacturing facilities in Kilpilahti. The study is focused on the technical and economic impacts of recovering excess heat at these facilities and recirculating it into district heating systems in Porvoo and the Helsinki metropolitan region. The results of the study will be published in spring 2019.

We continued exploring methods to further reduce greenhouse gas emissions at our refineries of renewable products as suggested in a study by Delft University in 2017. This has lead us to consider switching part of our electricity supply to wind power at our Rotterdam refinery.

In 2017, we introduced a resource efficiency goal to monitor renewable oil loss in the pre-treatment process of our renewable raw materials. The monitoring of the oil loss over 2018 showed that such an oil loss is low in amount and remains constant. Therefore, no opportunities were identified to reduce the renewable oil loss. Now we consider to fermentate the oil to biogas at our Sluiskil site.

Neste's environmental roadmap – examples of progress areas



We updated our environmental target setting by introducing new proactive indicators and business driven targets (Singapore capacity increase and low-carbon strategy for Oil Products business area).

Improvements to wastewater treatment plants at Porvoo and Rotterdam refineries

We have been rebuilding the wastewater treatment plant at our refinery in Porvoo. The project involves renewing the chemical and biological treatment systems of the wastewater plant. The changes will improve the efficiency of wastewater treatment and ensure sufficient processing capacity. The building of the plant is scheduled to be completed in the beginning of 2019, and the plant should be in use in 2020. The investment, EUR 50 million, is being carried out in cooperation with Borealis Polymers, the other user of the plant.

Thanks to the plant, the amount of oil that ends up in the sea with the discharge of treated wastewater will be reduced even further from the current very low level, representing about 10% of the amount permitted for wastewater treatment plants under refinery's environmental permit. The oil discharge at the Porvoo refinery corresponded to 0.06 g (0.12 g) oil per ton of feed.

Oil in waste water discharges at Naantali refinery have also remained at a very low level since the major improvements were made in the wastewater treatment facility in 2005.

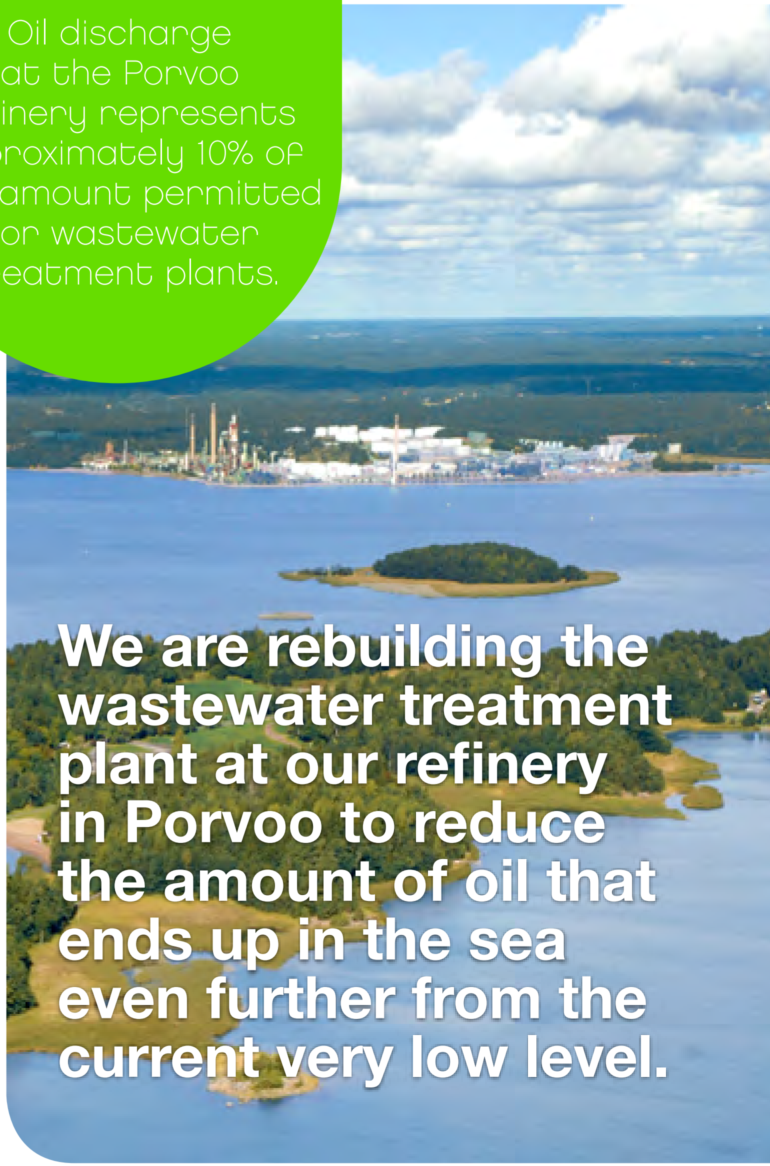
As a result of the increasing production capacity and the changing wastewater characteristics caused by processing more waste and residues as raw material at our Rotterdam refinery, the refinery's current wastewater treatment is being evaluated. We started assessing design options for a new wastewater treatment plant to improve the stability of operation and enable more efficient removal of nitrogen.

Other environmental improvements

During 2018, several environmental performance improvements and further emission reduction measures were completed in Finland:

- 100% of gasoline loadings into sea-going ships can be operated through a vapor recovery unit at Porvoo refinery
- additional dust removal investment at Porvoo refinery
- secondary containment improvements for storage tanks at Porvoo and Naantali refinery
- soil and groundwater protection solutions to our fuel station network sites located at groundwater catchment areas in Finland
- solvent loading connected to a vapor recovery unit at Naantali refinery.

Oil discharge at the Porvoo refinery represents approximately 10% of the amount permitted for wastewater treatment plants.



In 2018, a total of almost 1,900 persons, nearly 100% of our employees working in production, conducted environmental training.

Proactive measures to reduce environmental impact

To ensure compliance with environmental requirements, we use proactive indicators related to compliance and operational discipline, such as “Availability of pollution prevention technology” and “Compliance critical projects”, for our Renewable Products and Oil Products business areas separately.

We made environmental training compulsory for the Neste production personnel. In 2018, a total of almost 1,900 persons, nearly 100% of our employees working in production, conducted the training. This, combined with more thorough proactive environmental management, resulted in fewer permit violations than in the previous year. We had only two minor permit violations with very minor environmental impacts compared to a total of ten cases in 2017. We had two uncontained spills at refineries calling for on-site remediation actions. No serious environmental incidents resulting in liability occurred at Neste refineries or other production sites.

At the Naantali refinery, the SO_2 and NOx emissions decreased by 60% compared to the situation before changes in the production structure were made at the refinery in 2017.

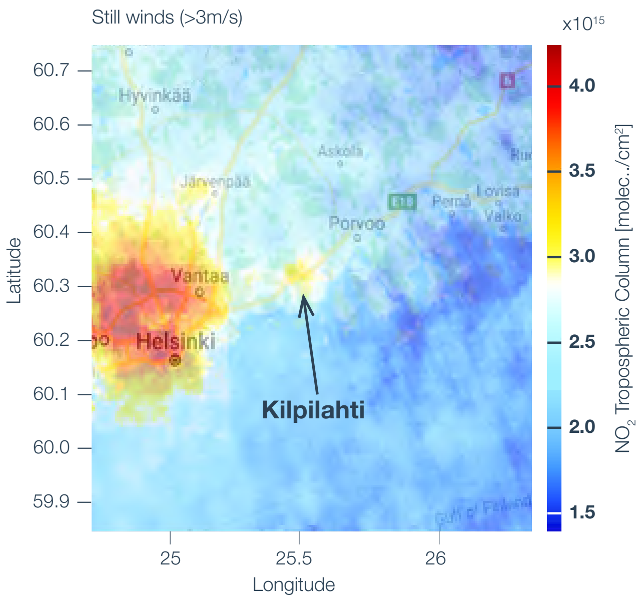
Thanks to the low-NOx burners in our refineries in Rotterdam and Singapore, the overall NOx emissions are low in the production of our renewable products. At the new Sluiskil facility, the burner of the steam boiler will be changed to reduce the NOx emissions from this facility.

The options to reduce the emission of volatile organic compounds (VOC) to air at our production facilities for renewable products are being evaluated based on their technical feasibility and potential to shift impacts to other environmental areas (e.g. energy, waste). This evaluation helps us ensure the overall best environmental performance. The VOC’s are present in the renewable raw materials we use and cannot be decreased from the source. Therefore, the so called “end of pipe” solutions remain as the only feasible options for reducing these emissions to air.

In the beginning of 2018, refinery gas recovery system broke down at our Naantali refinery. We reduced volume of our production to limit emissions into air despite the financial loss resulted. Situation did not lead to any permit violations.

Our refineries are located next to waterways and natural habitats. Our environmental monitoring is particularly systematic at these refineries.

Air quality data provided by a new EU Tropomi satellite.



Red color indicates high NO_2 concentrations over Helsinki Metropolitan area, while yellow color corresponds to relatively lower pollution levels around Kilpilahti industrial area (including Neste refinery).

Picture: H. Virta, I. Ialongo (Finnish Meteorological Institute)

Continuous environmental quality monitoring at our sites

Continuous air quality monitoring continued in the vicinity of our refinery sites in Porvoo and Naantali. The area impacted by air emissions has diminished over the past 20 years, and the ambient air quality in the areas surrounding our refineries remained at a good level during 2018.

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 (FMI) verifies and publishes on its air quality portal.

Together with FMI, Neste evaluated air quality data provided by a new EU Tropomi satellite. Satellite measurement results will be compared with the conventional Neste measurement data by FMI to further develop European-wide services of this air quality satellite monitoring system.

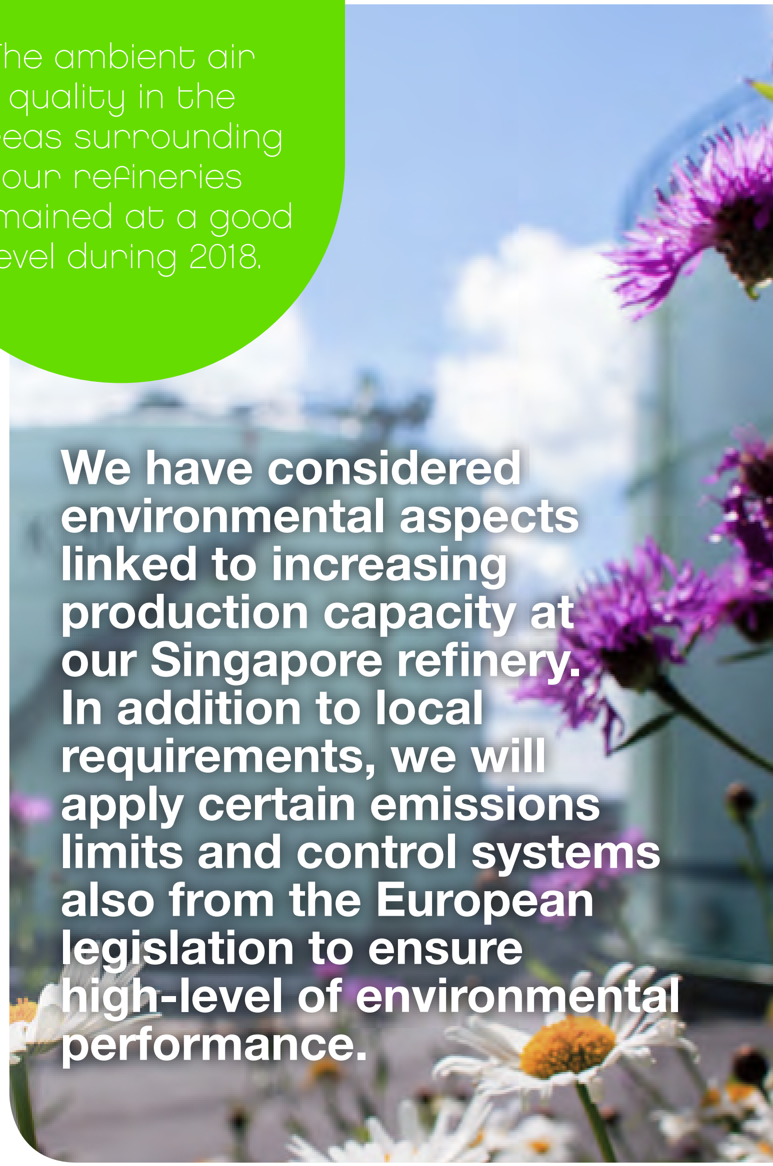
At Naantali refinery, air quality monitoring is implemented in cooperation with the operators and the measurement network of the Turku region.

Preparing for the production capacity increase project at Singapore

We have considered environmental aspects linked to increasing production capacity at our Singapore refinery. In addition to local requirements, we decided to apply certain emissions limits and control systems also from the European legislation for purposes of the new refinery design to ensure improved environmental performance. With this we demonstrate our commitment to operate according to similar Neste standards at all our refineries.

View our Sustainability KPIs here

The ambient air quality in the areas surrounding our refineries remained at a good level during 2018.



We have considered environmental aspects linked to increasing production capacity at our Singapore refinery. In addition to local requirements, we will apply certain emissions limits and control systems also from the European legislation to ensure high-level of environmental performance.

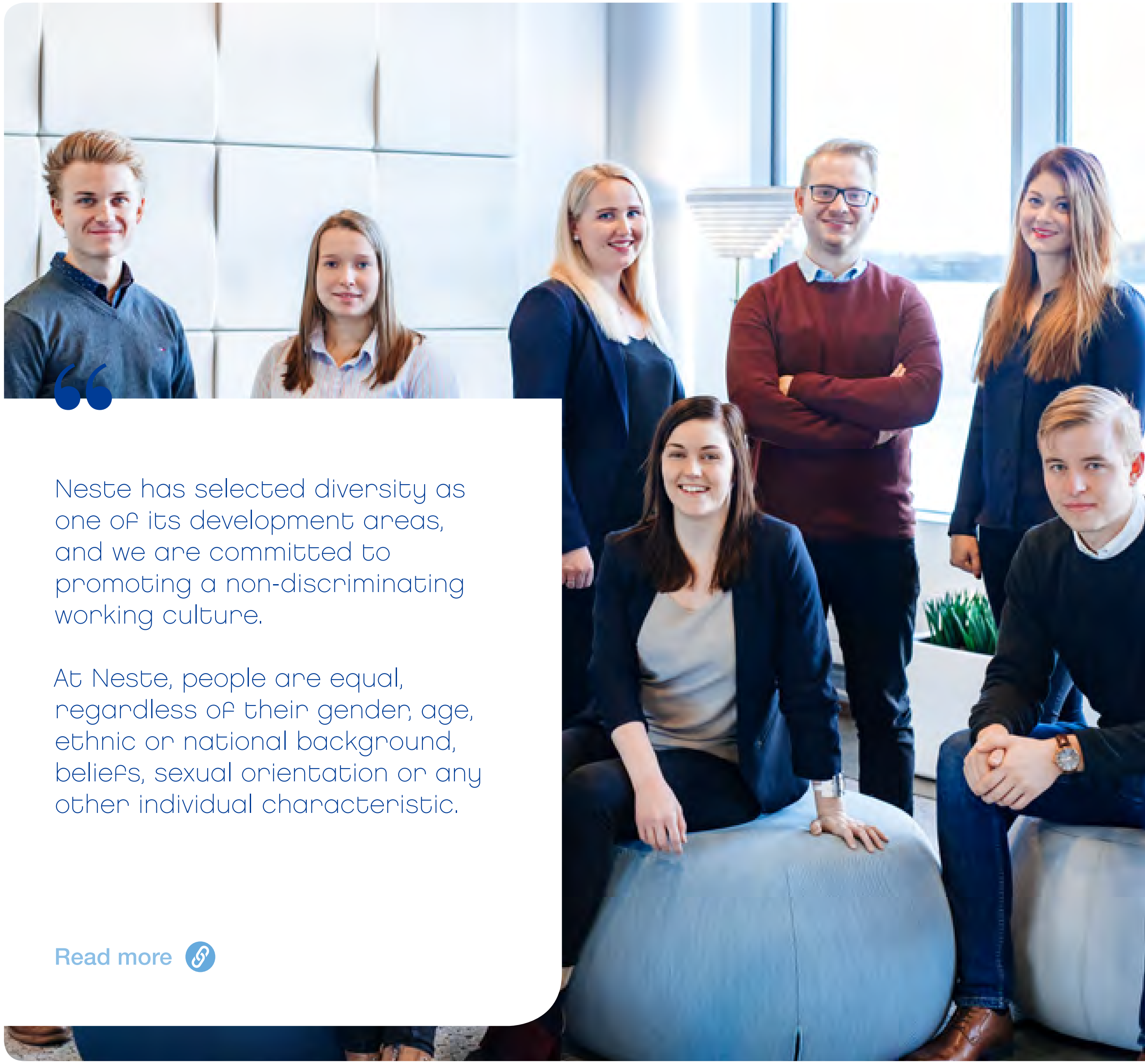
People

In this section, we describe our work in two areas where people are the key focus. First, we discuss our approach and developments in the area of human rights. Second, we cover the key developments related to leadership and our employees at Neste.

Human rights

Strengthening Neste's human rights approach has been one of the key development areas of our sustainability in recent years. With our work, we aim to make positive impacts for our employees and other stakeholders such as workers in our value chains.

We see a strong link between our human rights activities and our role as a developer and producer of renewable and circular solutions to mitigate climate change. Building sustainable solutions to actively contribute towards mitigating climate change can have far reaching impacts on reducing inequalities and poverty in societies.

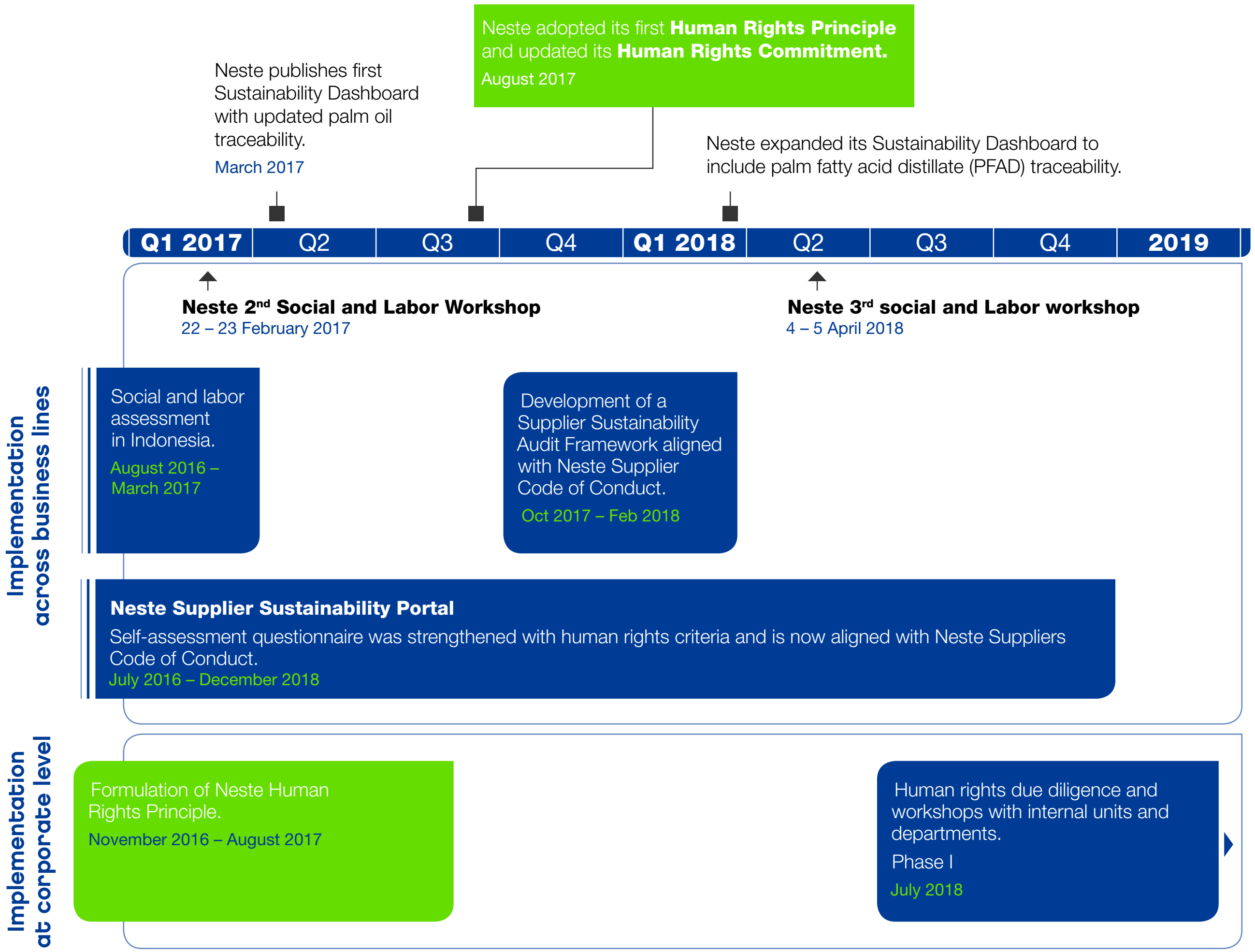


Neste has selected diversity as one of its development areas, and we are committed to promoting a non-discriminating working culture.

At Neste, people are equal, regardless of their gender, age, ethnic or national background, beliefs, sexual orientation or any other individual characteristic.

Read more

Neste's human rights activities 2017–2019



Progress in human rights due diligence process

We conducted a corporate-wide human rights impact assessment in 2016, the findings of which contributed to the adoption of our Human Rights Principles in 2017. Having taken the first steps to find out about our potential human rights impacts and reinforcing our commitment to mitigate those impacts, in 2018 we initiated a human rights due diligence process focusing on relevant internal departments and units to build internal capacity and to evaluate the preparedness of our internal processes in managing the human rights risks related to our business.

The due diligence process was started by organizing internal workshops for three internal groups. This was followed by gap assessments to understand how well our current policies and processes capture and manage identified human rights risks. These analyses help us determine focus areas for improvements to be carried out in the next phase of our human rights work. As our human rights due diligence process on relevant internal departments and units will be carried out in several phases, the process is projected to continue until 2020.

Workforce diversifying

Our business development and recent acquisitions have not only introduced Neste to new stakeholders but also brought new international talent to Neste. These developments have accentuated Neste's need to focus on issues of diversity.

As a result of our global business model, we have more teams in which different genders and countries are widely represented. In 2018, our employees represented more than 50 different countries.

Altogether, 350 summer trainees were employed in 2018, and approximately one hundred of them continued in some kind of employment relationship in Neste. We collected trainees' insights and ideas for development on leadership, safety, agile working, and digitalization. Their findings and suggestions were conveyed to Neste Executive Committee.

Promoting equality and non-discriminative culture

Neste is committed to promoting equality and non-discriminative culture based on Neste's Gender Equality and Non-Discrimination Principles. We promote equality by, e.g. ensuring that we follow non-discriminatory procedures in recruitment, task distribution, access to training, and remuneration.

In 2018, annual Equality Plan implementation focused on pay equity and on setting indicators to measure progress regularly both on the corporate and the business area levels. We continued to expand the monitoring of equality issues also at the sites outside of Finland, for example, by adopting more rigorous methods for statistical analyses. The implementation of the Equality Plan is monitored by Neste's Equality and Non-Discrimination Working Group.

Gender equality continues to improve

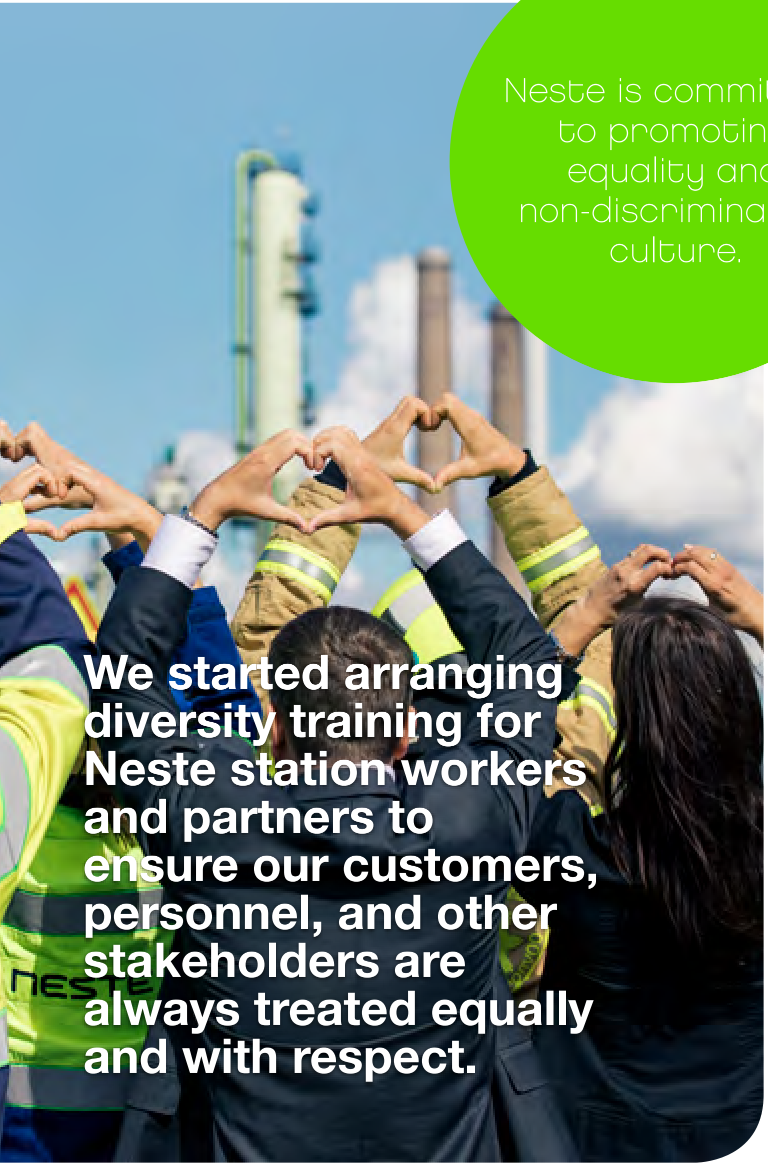
The number of female superiors at Neste has continued to rise steadily globally.

More about our employees

In 2018, our employees represented more than 50 different countries.

The number of female superiors at Neste has continued to rise steadily globally.

Neste is committed to promoting equality and non-discriminative culture.



Neste has implemented systematic measures to diminish the gender pay gap in our operations in Finland since 2006. As a result, no significant gaps exist in salaries in Finland. In 2018, we reviewed the salaries of recent hires and concluded that they do not favor either gender. As the gender pay gap has decreased to an acceptable level, additional pay equality allocations were no longer directed to women in 2018.

The gender pay gap, however, continues to exist in some of our international functions. We are further investigating and setting corrective action plans for interventions during 2019.

Making our stand clear

A discrimination case at one of our service stations in Finland in the spring revealed deficiencies in our station network operations. We took full responsibility and openly communicated about the incidence. We started arranging diversity training for Neste station workers and partners to ensure that our customers, personnel, and other stakeholders are always treated equally and with respect. The incident highlighted the need to promote our clear stand against any type of discrimination, hence diversity became one of our main themes for proactive communication for the rest of 2018.

As a partner, we joined the #EISYRJI equality and non-discrimination campaign coordinated by the Confederation of Finnish Industries. The campaign has no end-date and continues to draw attention to different forms of discrimination in working life also in 2019.

In the summer, we partnered with Helsinki Pride 2018 and made a donation of one euro for each liking of our Pride Facebook post to Finnish non-profit organization Allianssi coordinating work towards preventing hate speech. Altogether, we donated 1,400 euros to this cause.

Employees and employment

We emphasize continuous development of corporate culture and leadership to support strategy execution and development of our businesses. We strive for efficient and resilient way of working, utilizing continuous performance planning, and setting cross-functional and flexible targets. We support our people to seek alignment with the company's values and strategy, and emphasize everyone's own responsibility for development as a means to achieve excellent results.

Renewed leadership model

We renewed our leadership model to support company transformations in a changing business environment and to address challenges and possibilities of flexible and adaptive operational environment. The key aim is to support the company's strategic renewal and growth targets by transforming Neste's ways of working, as well as our company culture.

Our renewed leadership model

1. aims at better *clarity* on the common direction despite fast-pace changes,
2. emphasizes *support* and feedback as the means to achieve change together, and
3. relies on *empowerment* and self-leadership to lead change in an adaptive, flexible manner.

The model was developed based on data-based analyses of several internal people surveys, supplemented with data from line-manager interviews. With these we examined whether or not our leadership behavior supported our business needs and direction. To support our business areas in different development phases, we developed a corporate-level leadership behavior model which each business area can adapt. Feedback culture is an example of behaviors that business areas are encouraged to develop further in 2019.

A total of 140 key persons from all our business areas and common functions completed a strategic business leadership development program "The Future Is Now". The program focused on strengthening outside-in thinking and accelerating development of strategy critical capability areas to enable implementation of Neste's strategy and new ways of working.

Towards harmonized and digitalized ways of working

In 2018, we renewed Neste Management System to ensure it efficiently supports ou strategy implementation. From the leadership and employee engagement point of view, the renewal aimed at harmonizing our ways of working and ensuring clarity of the system. It is built on sharing, collaboration, and transparency.

Corporate-level guidelines will be developed and supplemented with country level instructions to ensure compliance with laws and regulations, and to enable adaptation to cultural differences.

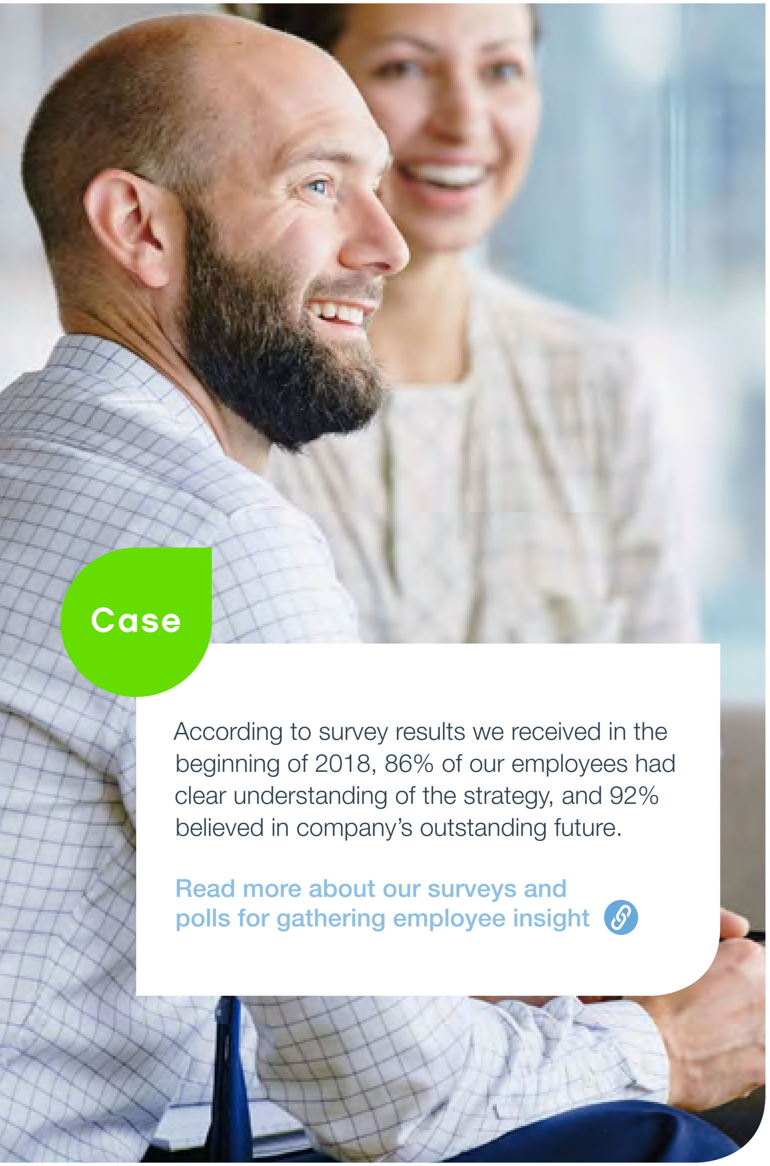
Case

Well-being at work

Together with the Finnish Institute of Occupational Health, we conducted a study on workload factors at Neste headquarters in Espoo, at Porvoo refinery, and at Neste Netherlands. The aim was to identify possibilities to improve cognitive ergonomics to prevent health and safety risks in the agile and fast-paced work life based on self-leadership.

Read more about our study results

The more we know about cognitive demands, the better we can improve productivity and well-being at work.



Case

According to survey results we received in the beginning of 2018, 86% of our employees had clear understanding of the strategy, and 92% believed in company's outstanding future.

Read more about our surveys and polls for gathering employee insight

Sharing and collaboration are also key in our new digital workspace, Cosmos, which replaces our intranet in February 2019. With Cosmos we aim to:

- create a modern online platform for all our employees,
- develop new digital ways of discussing, sharing, and collaborating globally, and
- support the mindset change to agile way of working.

Employees and employee structure

Due to our growth and renewal strategy, our employee needs have increased and become more diverse. We have adjusted both our recruitment and onboarding processes accordingly. Preparations have also been made to prepare for our production capacity increase project in Singapore. As many of our services and ways of working are being digitalized, the need for new skills and digital expertise has increased significantly in several units.

View our employee figures here

Read more about diversity here

We conduct need-based people surveys on demand, as well as flexible and fast pulses to follow-up specific issues and areas. According to the most recent pulse survey results that we received in the beginning of 2018, 86% of our employees had clear understanding of the strategy, and 92% believed in company's outstanding future.

We conduct a more comprehensive personnel survey every other year. The most recent is from January 2019, the results of which will be included in our 2019 report.

Focus areas in 2019

- Leadership model roll-out: clarity of targets and feed-back culture development
- New people surveys program implementation
- Strategy communication
- Business related capability development
- Employer branding development and new recruitment channels for new markets
- Utilization of the new digital collaboration tool Cosmos

As many of our services and ways of working are being digitalized, the need for new skills and digital expertise has increased significantly in several units.

Safety

Improving safety and operational excellence enable us to achieve our strategic targets and. They are also cornerstones of our daily work. We continue aiming at zero injuries and incidents, and want to be among the best compared to the European Downstream Oil Industry in terms of safety. Our long-term activities to improve safety continued according to the corporate-wide safety program focusing on behavior, leadership, operational discipline, process safety, and contractor safety.

The program ended at the end of 2018. Safety development will continue in 2019 according to a new Corporate Operational Excellence Governance model with the aim for continual improvement.

Neste's Human Resources Policy, Sustainability Policy, Life-saving rules, as well as 15 health, safety, and environment (HSE) principles and supplementary detailed instructions set requirements and guidelines for how we manage and improve safety.

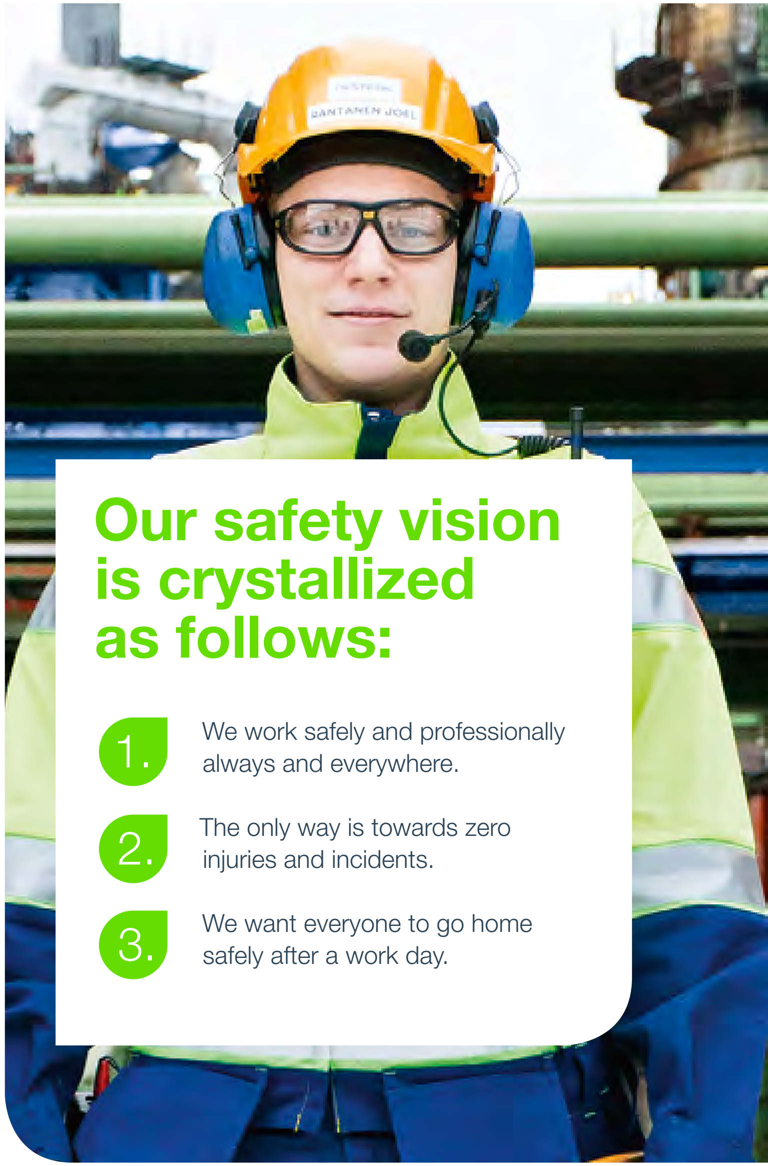
Key development activities in 2018

In 2017, we renewed our corporate-level HSE management system and introduced 15 renewed HSE principles forming the common requirements for our operations. We evaluated the implementation of corporate level principles in local management systems in all of our business areas in 2017. Based on the evaluation, we implementented selected measures to close the identified gaps in business areas and in common functions in 2018. High-priority measures included the management of safety-critical high-risk equipment, management of changes including organizational changes, and incident management. We started conducting audits based on the HSE principles and instructions in 2018.

We continued our integration processes with Neste Jacobs (renamed as Neste Engineering Solutions, NES) to integrate our joint HSE practices into their operations. This work will be completed in 2019.

As part of the improved incident management and learning process, all our business areas adopted a new tool for the operative management: a new incident review board practice. The practice has proven to be an effective way of working. It has improved management awareness, our learning from the incidents, and the implementation of the corrective and preventive actions.

Neste's Rotterdam refinery received the VOMI Safety Award in 2018, based on the feedback from contractors and the assessment by a jury. According to contractors, they felt the safest to work at Neste site.



Our safety vision is crystallized as follows:

1. We work safely and professionally always and everywhere.
2. The only way is towards zero injuries and incidents.
3. We want everyone to go home safely after a work day.

Enhancing safety and operational excellence are enablers of our strategic targets.

We utilize the learnings from previous process safety development projects in the design of the production capacity expansion project at the Singapore refinery.

We developed our safety management by sharing best practices and experiences with other companies and industries, and by introducing external views to improve our operations. We are utilising these experiences and feedback in our safety leadership, hazard analysis and risk assessment practices, investment project and turnaround management and in digitalization development.

Developed safety culture and increased safety awareness

During 2018, we rolled-out a new safety leadership and awareness training “I act safe” to our people and selected contractors. These trainings will continue in 2019 to cover rest of the organisation and larger pool of contractors.

We renewed our Life saving rules by updating and clarifying the description of each rule to facilitate harmonized interpretation and implementation. The rules were discussed in team meetings, and teams renewed their commitment to comply with the Life saving rules. The global induction program applicable to each new Neste employee was fully implemented in 2018, safety being one of the focus areas.

Focus on process safety

Process safety continued being among our key focus areas in 2018. Several process safety related technical improvements were made to at our refineries in Singapore and Rotterdam. We will utilize the learnings from these process safety development projects in the design of the production capacity expansion project at the Singapore refinery.

We developed our risk-based process safety management and decision-making, utilizing improved practices in preparations for the major turnaround project at our Porvoo refinery taking place in 2020. We improved also our practices to manage process equipment and piping. These partices included risk-based inspections, for example

Life saving rules

1. Working at heights
Always protect yourself from falling.

2. Confined spaces
Obtain entry permit and verify gas testing.

3. Equipment isolation
Ensure and verify proper energy isolation.

4. Work permit
Obtain work permit and follow safe work practices described in the permit.

5. Traffic hazards
Use seat belt. Do not use mobile phone without hands-free device while driving.

Safety performance to guide contractor co-operation

As part of our corporate-wide safety program, we aimed at even closer cooperation with our contractors than before. We continued improving our contractors' performance and how we ourselves manage contractors. In this work we relied on an effective contractor assessment practice. We will focus on cooperating with contractors that reach the highest level of safety performance.

Safety in logistics

Neste transports, stores, and handles more than 30 million tons of raw materials and refined products annually. We manage safety in our logistics through selection and auditing of logistics providers transporting or storing our cargoes.

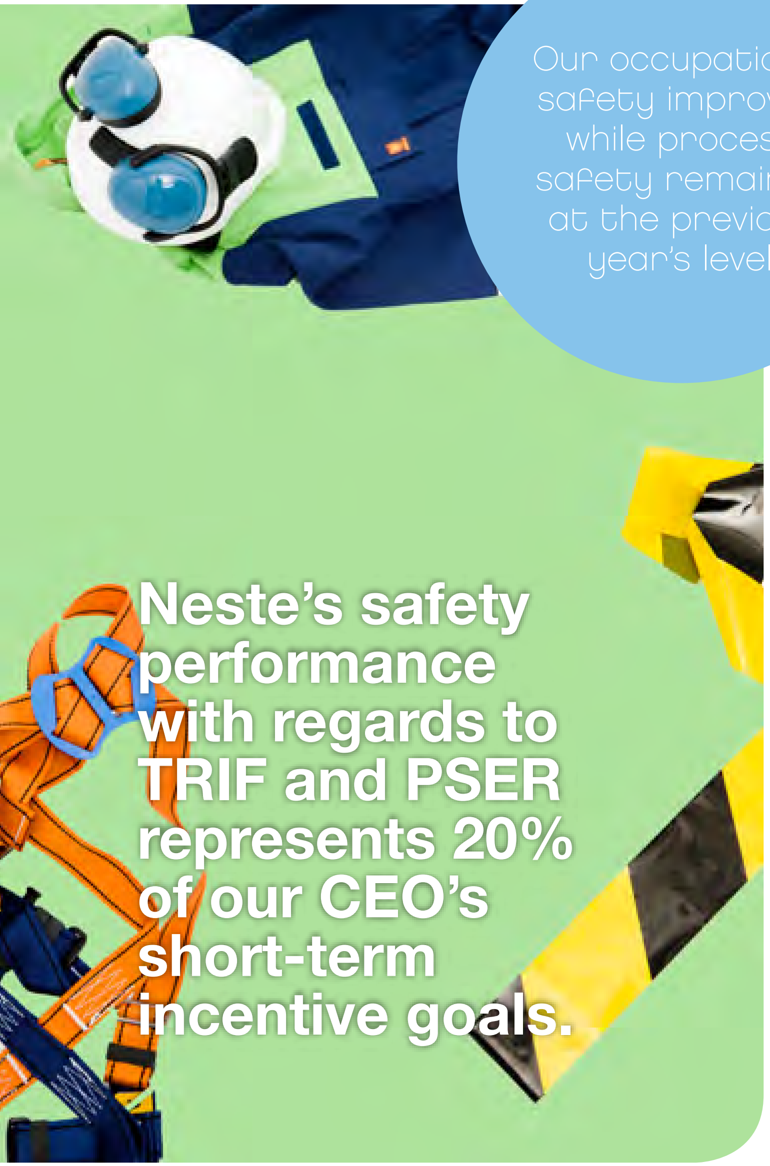
All seagoing vessels carrying Neste cargoes or calling Neste terminals are assessed and approved by Neste Marine Risk Management, an independent body within the group HSE organization ensuring the safety of the marine transportations. All vessels and vessel management companies are required to fulfil Neste's minimum safety criteria (e.g. continuous SIRE inspection history, maximum age restrictions) and are subject to regular audits. All vessels we use have double-hull and are operated by quality ship management and experienced crews. Vessels operated in the Baltic Sea are also ice-strengthened.

Safety in road transportation is managed through contracted suppliers committing themselves to complying with Neste safety guidelines as well as regular quality and safety audits. Terminals rented are required to fulfil Neste's minimum safety criteria and are subject to regular audits.

Read more of our safe transportations
Read more about our product and chemical safety

All seagoing vessels we use have double-hull. In the Baltic Sea area, vessels are also ice-strengthened. They are operated by quality ship management and experienced crews.

Our occupational safety improved, while process safety remained at the previous year's level.



Neste's safety performance with regards to TRIF and PSER represents 20% of our CEO's short-term incentive goals.

Safety performance in 2018

Neste's occupational safety performance, measured with the key indicator "Total recordable injury frequency" (TRIF), improved in 2018 compared to the previous year. Contractor safety, a key focus area of ours, improved in particular as a result of our focus on systematic performance evaluation and management. Another key focus area had to do with improving safety awareness with Life saving rules training.

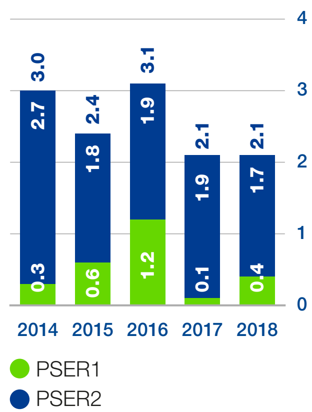
Process safety, measured with "Process safety event rate" or PSER indicator, remained at the previous year's level. We continued focusing on process safety in all of our operations and carried out actions to improve operational performance and asset integrity. We also launched new initiatives to improve asset integrity.

Focus areas in 2019

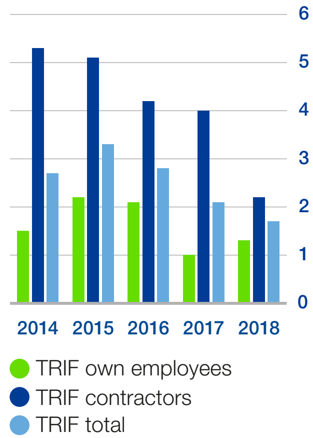
- Contractor safety
- Process safety, with a special focus on developing a process safety competence model and systematic process hazard management
- Effective implementation of HSE principles and guidelines
- Operational excellence governance model implementation as a continuation of the development done in our corporate-wide safety development program
- Full integration of HSE practices with NES and Demeter. with a separately defined program for 2019
- Safe implementation of Singapore production capacity expansion project.

View our Sustainability KPIs here

Process safety event rate (PSER)



Total recordable injury frequency (TRIF)



Performance and reporting

Neste's sustainability reporting in 2018

Our 2018 Sustainability Report was prepared in accordance with the GRI (Global Reporting Initiative) Sustainability Standards where applicable. The selected economic, social, and environmental indicators of the report in English have been assured by an independent third party PricewaterhouseCoopers Oy. The scope of assured information is indicated in the independent practitioner's assurance report. A congruence check has been conducted for the Finnish 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 spring 2018.

View how our nine material topics relate to the three themes that are covered in this report

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

> Our Sustainability Report 2017 was awarded first place in the Climate category in an annual sustainability report competition in Finland. The jury valued the way Neste's sustainability report emphasizes how combating climate change is at the core of Neste's business.

Global Compact Principles are listed in connection with the GRI Content Index.

Our reporting meets the requirements of the EU Directive on disclosure of non-financial and diversity information and the Finnish Accounting Act. The required non-financial information is disclosed in the Corporate Governance Statement and the Review by the Board of Directors whereas with our Sustainability Report, we respond to broader stakeholder expectations and the requirements of several international indices.

We published our 2017 Annual Report and the Sustainability Report it includes on 7 March 2018 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 communicated 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, 2018. The safety and environmental reporting for 2018 covers the refineries in Finland and abroad in which the company has a holding of over 50%. In addition, 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 a minor part of the premises of an office building in its use. Such sites include the company's offices in Houston, Oulu, and Vilnius. The reporting of safety information also covers service providers and contractors. The average number of personnel includes all operations and acquisitions. Currently some of the human resource indicators only partly cover Russia and Demeter.

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 derived from the HR systems. The company also has other reporting tools for collecting information required for sustainability reporting.

Our reporting meets the requirements of the EU Directive on disclosure of non-financial and diversity information.

Performance in figures

People

Educational level of employees as of 31 December 2018, %

- Compulsory education 1.9% (2.3%)
- Vocational degree or high school 32.6% (33.6%)
- Bachelor's degree or equivalent 21.0% (21.8%)
- Master's degree or equivalent 24.8% (25.4%)
- Doctorate/licenciate 2.4% (2.6%)
- Other or information not available 17.2% (14.3%)

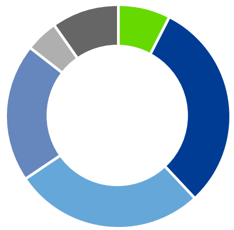
Information covers 79.4% of the employees, not employees in Russia.

Educational backround of employees as of 31 December 2018, %

- Technical or natural sciences 55.4% (56.7%)
- Commercial and law 15.6% (16.6%)
- Social sciences and humanities 1.5% (1.5%)
- Logistics or transport 2.0% (2.2%)
- General education and others 10.5% (11.0%)
- Information not available 15.1% (12.1%)

Information covers 79.4% of the employees, not employees in Russia.

Personnel by segment as of 31 December 2018, %

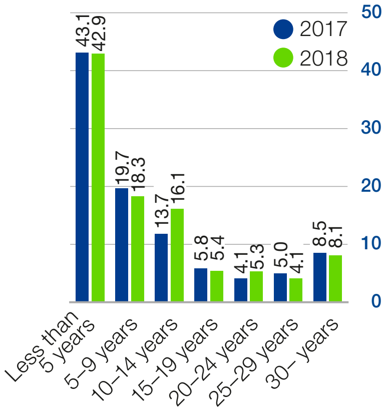


- Renewable Products 7.5% (6.1%)
- Oil Products 30.4% (31.3%)
- Marketing & Services 27.5% (27.6%)
- Neste Engineering Solutions 20.1% (20.4%)
- Research and Technology 4.7% (4.6%)
- Other common functions 9.8% (10.1%)

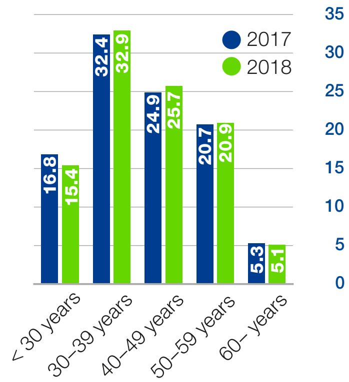
Personnel by personnel group as of 31 December 2018, %

- White-collar and senior management 60.6% (59.6%)
- Blue-collar 39.4% (40.4%)

Length of employment of employees as of 31 December 2018, %



Breakdown by age as of 31 December 2018, %



Gender ratio as of 31 December 2018, %

	Women 2018	Men 2018
All employees	37.5	62.5
Managers	30.8	69.2
Senior management	23.4	76.6
Neste Executive Committee	22.2	77.8
Board of Directors	37.5	62.5

Type of employment according to working hours as of 31 December 2018, %

	Full-time 2018	Full-time 2017	Part-time 2018	Part-time 2017
All employees	98.4	98.2	1.6	1.8

Type of employment contract as of 31 December 2018, %

	Permanent 2018	Permanent 2017	Temporary 2018	Temporary 2017
All employees	95.4	95.2	4.6	4.8

Performance in figures

Climate and the environment

	2018	2017	2016	2015
Emission limits and overruns: Deviations from environmental permits	2	10	8	6
Emissions into the air, tons				
Direct CO_2 emissions (Scope 1)	2,252,000	2,359,000	2,601,000	2,933,000
Indirect CO_2 emissions (Scope 2, location-based)	599,000	634,000	747,000	452,000
Indirect CO_2 emissions (Scope 2, market-based)	853,000	880,000	832,000	
Other indirect GHG emissions (Scope 3)	48,000,000	48,000,000		
Purchased goods and services	3,600,000	3,900,000		
Fuel and energy-related activities [1]	< 50,000	< 50,000		
Upstream transportation and distribution [2]	800,000	300,000		
Waste generated in operations	200,000	100,000		
Downstream transportation and distribution	500,000	400,000		
Use of sold products	41,000,000	42,000,000		
End-of-life treatment of sold products	1,800,000	1,700,000		
VOC	4,210	4,460 [3]	4,120	3,760
NO_x	1,490	1,530	1,900	2,300
SO_2	4,100	4,760	5,900	7,800
Particulate matter	100	220	170	180
Energy use				
Total energy consumption, TWh	12.3	12.7	12.9	10.2
Fuels and natural gas, %	73.4	74.3	77.6	86.5
Purchased electricity, %	11.6	11.2	10.1	7.9
Purchased heat, %	15.0	14.5	12.3	5.6
Energy efficiency, energy saving measures, GWh	57	4	134	
Water, m^3/a				
Water intake	9,460,000	9,110,000	9,142,000	8,378,000
Total water withdrawal by source				
Surface water	8,290,000	7,905,000	8,002,000	
Ground water	6,000	6,000	6,000	
Municipal water supplies	1,165,000	1,199,000	1,134,000	
Other	N/A	N/A	N/A	
Wastewater	8,473,000	9,931,000	9,433,000	9,068,000
Effluents to water, tons				
Effluents of oil to water	1.0	1.8	1.4	1.6
Chemical oxygen demand	300	399	410	398
Effluents of nitrogen to water	70	104	73	62
Effluents of phosphorus to water	1.2	2.7	3	2.4

	2018	2017	2016	2015
Waste, tons				
Ordinary waste for disposal	21,300	7,800	5,800	3,600
Waste for reuse	173,100	58,800	49,800	56,000
Hazardous waste for disposal	75,500	55,100	49,500	20,800
Number and magnitude of significant releases	4 pc/ 1032 m^3	0	0	1 pc/ 1m^3
CO_2 recovered, tons	136 200	133 200 [3]	134,500	115,000
Washing lye sold, tons	10,010	10,970	9,130	7,380
Supply chain and raw materials				
Use of renewable raw materials, million tons	2.9	3.2	2.7	2.8
Share and use of waste and residue raw materials in refining renewables	83% 2.4 Mt	76% 2.4 Mt	78% 2.1 Mt	68% 1.9 Mt
GHG reduction achieved with Neste's renewable products compared to crude oil based diesel, million tons [4]	7.9	8.3	6.7	6.4
GHG emission reduction with Neste's renewable diesel compared to crude oil based diesel	50–90%	50–90%	40–90%	40–90%
Number of all renewable raw material suppliers [5]	53	53	48	43
Share and use of certified palm oil from all palm oil use [5]	100% 445 kt	100% 663 kt	100% 516 kt	100%
Number of palm oil smallholders	43,531	35,984	33,122	53,249
Number of palm oil suppliers	6	7	5	7
Number of palm oil estates	137	143	156	165
Number of palm oil mills	57	55	50	51
Share of palm oil from sources with methane capture or measures to prevent methane formation [5]	27%	36%	35%	28%
The number of renewable raw material suppliers' Due Diligence and their outcome [6]	Total: 87 New approved suppliers: 41 Passed: 52 Ongoing: 35 Failed: 0	Total: 91 Passed: 46 Ongoing: 44 Failed: 1	Total: 49 Passed: 34 Ongoing: 11 Failed: 4	Total: 35 Passed: 30 Ongoing: 5 Failed: 0
Crude oil and fossil feedstock sources by region, million tons	15.3	15.0	15.1	13.4
Russia	11.7	12.0	12.3	10.6
Norway	2.0	1.5	0.9	0.6
Denmark	0.2	0.2	0.3	0.6
Other countries	1.3	1.2	1.7	1.6

[1] Only natural gas related emissions included
[2] Part of upstream transportation emissions are accounted in other categories
[3] Revised
[4] Compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC).
[5] Footnote: Contains the use of crude palm oil (CPO), refined bleached deodorized palm oil (RBDPO) and refined bleached deodorized palm stearin (RBDPS) that we have physically transferred out of our production plants within the year 2018.
[6] Footnote: All figures except "New approved suppliers" include existing suppliers, which undergo a DD process every 5 years.

GRI Content Index and UN Global Compact

COMMUNICATION ON PROGRESS

GRI Standards

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 102: General Disclosures 2016			
1. Organizational profile			
102-1	Name of the organization	pp. 15–16 Information for investors	
102-2	Activities, brands, products, and services	pp. 9–10 Business areas	
102-3	Location of headquarters	Espoo, Finland	
102-4	Location of operations	Finland, Belgium, Estonia, Italy, Latvia, Lithuania, the Netherlands, Russia, Singapore, Sweden, Switzerland, the United States	
102-5	Ownership and legal form	pp. 15–16 Information for investors	
102-6	Markets served	pp. 9–10 Business areas	
102-7	Scale of the organization	p. 13 Key figures 2018	
102-8	Information on employees and other workers	p. 62 Performance in figures p. 67 Principles for calculating the key indicators	6
102-9	Supply chain	p. 37 Sustainable raw materials p. 22 Neste creates value p. 50 Human Rights	
102-10	Significant changes to the organization and its supply chain	In 2018 Neste acquired sole control and 51% of the shares of the Dutch animal fats and proteins trader IH Demeter B.V.	
102-11	Precautionary Principle or approach	pp. 19–21 Managing sustainability pp. 88–92 Risk management Materiality assessment Risk Management	
102-12	External initiatives	Sustainability policies and principles Certificates Involvement in organizations and joint projects	7
102-13	Membership of associations	Involvement in organizations and joint projects	
2. Strategy			
102-14	Statement from senior decision-maker	pp. 4–6 CEO's review	
3. Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	Our values Way Forward	10

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
4. Governance			
102-18	Governance structure	pp. 71–75 Corporate Governance Statement 2018 pp. 78–79 Board Committees pp. 82–84 Neste Executive Management Board	
5. Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholder collaboration	
102-41	Collective bargaining agreements	3,661 persons, 67.8 %	3
102-42	Identifying and selecting stakeholders	Stakeholder collaboration	
102-43	Approach to stakeholder engagement	p. 21 Materiality assessment pp. 24–27 Stakeholder engagement	
102-44	Key topics and concerns raised	pp. 24–27 Stakeholder engagement p. 21 Materiality assessment	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	p. 60 Neste's sustainability reporting 2018 p. 67 Principles for calculating the key indicators Financial Statements 2018	
102-46	Defining report content and topic Boundaries	p. 21 Materiality assessment Materiality assessment	
102-47	List of material topics	p. 21 Materiality assessment Materiality assessment	
102-48	Restatements of information	No major changes during the reporting period. Possible changes in the previously disclosed key figures are disclosed in connection with the figure in question. p. 60 Neste's sustainability reporting 2018 p. 67 Principles for calculating the key indicators	
102-49	Changes in reporting	No major changes during the reporting period. p. 60 Neste's sustainability reporting 2018 p. 67 Principles for calculating the key indicators Materiality assessment	
102-50	Reporting period	p. 60 Neste's sustainability reporting 2018	
102-51	Date of most recent report	p. 60 Neste's sustainability reporting 2018	
102-52	Reporting cycle	p. 60 Neste's sustainability reporting 2018	
102-53	Contact point for questions regarding the report	Sustainability, Safety, and Environment contacts	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
102-54	Claims of reporting in accordance with the GRI Standards	p. 60 Neste's sustainability reporting 2018	
102-55	GRI content index	pp. 64–66 GRI Content Index and UN Global Compact	
102-56	External assurance	pp. 68–69 Independent Practitioner's Assurance Report	
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its Boundary	p. 21 Materiality assessment Managing sustainability Linking Neste's sustainability topics and G4 material aspects	
103-2	The management approach and its components	p. 21 Materiality assessment Managing sustainability Linking Neste's sustainability topics and G4 material aspects	
103-3	Evaluation of the management approach	p. 21 Materiality assessment Managing sustainability Linking Neste's sustainability topics and G4 material aspects	
GRI 200: Economic topics			
GRI 201: Economic Performance 2016			
201-1	Direct economic value generated and distributed	p. 22 Neste creates value	
201-4	Financial assistance received from government	p. 150 Financial Statements 2018, Other income	
GRI 203: Indirect Economic Impacts 2016			
203-2	Significant indirect economic impacts	p. 22 Neste creates value	
GRI 205: Anti-corruption 2016			
205-2	Communication and training about anti-corruption policies and procedures	p. 19–21 Managing sustainability p. 119 Anti-corruption and bribery matters	
205-3	Confirmed incidents of corruption and actions taken	13 suspected misconducts were reported. p. 19–21 Managing sustainability p. 119 Anti-corruption and bribery matters	
GRI 206: Anti-competitive Behaviour 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	a. 1 completed b. No official investigation process started by the competition authority.	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 300: Environmental topics			
GRI 302: Energy 2016			
302-1	Energy consumption within the organization	p. 45 Environmental management p. 63 Performance in figures p. 67 Principles for calculating the key indicators	7, 8, 9
302-4	Reduction of energy consumption	p. 28 Sustainability KPIs p. 45 Environmental management p. 63 Performance in figures p. 67 Principles for calculating the key indicators	8, 9
GRI 303: Water 2016			
303-1	Water withdrawal by source	p. 63 Performance in figures	7, 8
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	p. 63 Performance in figures p. 67 Principles for calculating the key indicators	7, 8
305-2	Energy indirect (Scope 2) GHG emissions	p. 63 Performance in figures p. 67 Principles for calculating the key indicators	7, 8
305-3	Other indirect (Scope 3) GHG emissions	p. 63 Performance in figures p. 67 Principles for calculating the key indicators	7, 8
305-5	Reduction of GHG emissions	p. 28 Sustainability KPIs pp. 30–31 Climate p. 63 Performance in figures	8, 9
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	p. 48 Proactive measures to reduce environmental impact p. 63 Performance in figures	7, 8
GRI 306: Effluents and Waste 2016			
306-1	Water discharge by quality and destination	p. 63 Performance in figures p. 67 Principles for calculating the key indicators	8
306-2	Waste by type and disposal method	p. 63 Performance in figures	8
306-3	Significant spills	p. 63 Performance in figures	8
GRI 307: Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	a. No significant fines or non-monetary sanctions. b. 2 environmental permit violations.	8

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 308: Supplier Environmental Assessment 2016			
308-1	New suppliers that were screened using environmental criteria	100% of Neste's renewable raw material suppliers screened using environmental criteria. Sustainability policies and principles Supplier requirements	8
GRI 400: Social topics			
GRI 401: Employment			
401-1	New employee hires and employee turnover	p. 29 Sustainability KPIs The total turnover rate is increased by the mobility of the service station personnel in Russia.	6
GRI 403: Occupational Health and Safety 2016			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Sick leave percentage 2.3%. There has not been any fatalities since 2011. pp. 56–59 Safety	
GRI 404: Training and Education 2016			
404-2	Programs for upgrading employee skills and transition assistance programs	p. 22 Neste creates value p. 54 Renewed leadership model pp. 54–55 Towards harmonized and digitalized ways of working	
GRI 405: Diversity and Equal Opportunity			
405-1	Diversity of governance bodies and employees	p. 52 Workforce diversifying, Promoting equality and non-discriminative culture, Gender equality continues to improve p. 53 Making our stand clear pp. 73–74, 76–77, 80–82 Corporate Governance Statement 2018 p. 62 Performance in figures p. 67 Principles for calculating the key indicators	6
405-2	Ratio of basic salary and remuneration of women to men	Women's mean basic salary in relation to men's by pay grade and employee category in Finland 85%–114%. p. 52 Promoting equality and non-discriminative culture, Gender equality continues to improve	6
GRI 407: Freedom of Association and Collective Bargaining 2016			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	We have put in place firm policy to mitigate this potential impact in our supply chain and the policy is being implemented with improved monitoring criteria in our due diligence processes. pp. 50–51 Human Rights Neste Human Rights Principles	
GRI 408: Child Labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	We have put in place firm policy to mitigate this potential impact in our supply chain and the policy is being implemented with improved monitoring criteria in our due diligence processes. pp. 50–51 Human Rights Neste Human Rights Principles	5
GRI 409: Forced or Compulsory Labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	We have put in place firm policy to mitigate this potential impact in our supply chain and the policy is being implemented with improved monitoring criteria in our due diligence processes. pp. 50–51 Human Rights Neste Human Rights Principles	4
GRI 412: Human Rights Assessment 2016			
412-1	Operations that have been subject to human rights reviews or impact assessments	A corporate-wide human rights impact assessment was conducted in 2016. In 2018, we started carrying out gap assessments of our business areas and internal functions as part of the requirement in human rights due diligence. pp. 50–51 Human Rights	1
GRI 414: Supplier Social Assessment 2016			
414-1	New suppliers that were screened using social criteria	100% of Neste's renewable raw material suppliers screened using social criteria p. 28 Sustainability KPIs pp. 50–51 Human Rights	2
GRI 415: Public Policy 2016			
415-1	Political contributions	Neste does not make political contributions.	10
GRI 416: Customer Health and Safety 2016			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No cases.	
GRI 417: Marketing and Labeling 2016			
417-3	Incidents of non-compliance concerning marketing communications	No cases.	

Principles for calculating the key indicators

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)

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 (Scope 2). Scope 2 covers emissions from indirect purchased electricity, steam and heat production. Market-based Scope 2 emissions are based mainly on energy supplier specific emission factors. Location-based Scope 2 emissions are based on country specific emission factors.The calculation of Scope 3 emissions is based on internal data sources (e.g. 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). Only relevant scope 3 categories are included in the report.

Safety

Total recordable injury frequency (TRIF): Accidents at work resulting in absence from work, restriction to work, 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. Workplace accidents: Accidents that occur at work/while performing work duties.

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, restriction to work or medical treatment.

Process safety event rate (PSER): Rate of process safety events per million hours worked.

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.

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

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

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 selected sustainability disclosures for the reporting period 1 January to 31 December 2018, disclosed in the "Sustainability" section of Neste Corporation's Annual Report 2018. In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered selected economic, social and environmental sustainability disclosures listed within the Topic-Specific Disclosures and General Disclosures 102-8 and 102-41 as well as information presented in the "Neste creates value" and "Performance in figures" pages in Neste Corporation's Annual Report 2018 (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 GRI Sustainability Reporting Standards 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 of inclusivity, materiality and responsiveness as set out in the AccountAbility's AA1000 AccountAbility Principles Standard 2008.

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. 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, this Standard requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters has 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 iIformation is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement the evidence-gathering 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 Information 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 two sites in Finland and the Netherlands.

- 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 2018 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.

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.

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.

- Inclusivity: Neste Corporation has processes in place for continuous stakeholder inclusivity and engagement. The Company has also engaged stakeholders to receive feedback on its materiality assessment and engages proactively with stakeholders on material topics. We recommend that the Company maintains proactive stakeholder dialogue practices with all stakeholders.

- 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 during the reporting year 2018, incorporated its material topics into its value creation assessment and evaluated Company's most material impacts. We recommend that the Company further develop the assessment and measurement of most material impacts.

- Responsiveness: Neste Corporation has processes in place for identifying and communicating stakeholder needs to the decision making process of the Company. The Company has responded to investors' expectations and developed its reporting practices on environmental, social and governance (ESG) aspects. We recommend that the Company further develops reporting and communication in line with the increased investor expectations for ESG reporting.

Practitioner's independence, qualifications 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.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as the relevant industry knowledge, to undertake this assurance engagement.

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.

Helsinki, 4 March 2019
PricewaterhouseCoopers Oy

Sirpa Juutinen Partner Sustainability & Climate Change	Jussi Nokkala Director Sustainability & Climate Change

AA1000
Licensed Assurance Provider
000-29

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.

Governance

Corporate Governance Statement 2018

Corporate Governance Statement 2018

This Corporate Governance Statement has been prepared pursuant to the 2015 Corporate Governance Code, Chapter 7, Section 7 of the Securities Markets Act, as well as 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 it can be found at www.neste.com/investors.

Regulatory framework

Neste Corporation ("Neste" or the "Company") 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 cgfinland.fi/en/. 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 Auditors, 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 Market 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 Board of Directors, and the President and Chief Executive Officer. Ultimate decision-making authority lies with shareholders at the AGM which appoints the members of the Board of Directors and the Auditor. 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 and CEO. The President and CEO, assisted by the Neste Executive Board (NEB)* and Neste Executive Management Board (NEMB), is responsible for managing the Company's business and implementing its strategic and operational targets.

Neste's headquarters are located in Espoo, Finland.

* 1 January 2019 onwards Neste Executive Board (NEB) is referred to as Executive Committee.

Neste's Governance Bodies

Annual General Meeting

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

Shareholders at the AGM make 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 and CEO from liability, and
- the election and remuneration of the Chair, the Vice Chair, and the members of the Board of Directors and the Auditor.

The AGM is held annually before the end of June. An Extraordinary General Meeting of Shareholders 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 a General Meeting of Shareholders 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.

2018

The 2018 AGM was held in Helsinki on Thursday, 5 April 2018 and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2017, and discharged the Board of Directors, and the President and CEO from liability for 2017. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2017, sanctioning payment of a dividend of EUR 1.70 per share. The dividend was paid in two installments.

The first installment of dividend, EUR 0.85 per share, was paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for first dividend installment, which was Monday, 9 April 2018. The first dividend installment was on Monday, 16 April 2018.

The second installment of dividend, EUR 0.85 per share, was paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for second dividend installment, which was Wednesday, 10 October 2018. The second dividend installment was paid on Wednesday, 17 October 2018.

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 Auditor.

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 members of the Shareholders' Nomination Board has been appointed, 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 appointed annually and their term of office shall end when new members are appointed 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 of Shareholders 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 2019 AGM

On 12 September 2018, the following members were appointed to Neste's Shareholders' Nomination Board: The Chair, Senior Financial Counsellor Jarmo Väisänen of the Ownership Steering Department in the Prime Minister's

Office of Finland; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company; Executive Vice-President and Chief Investment Officer Reima Rytsölä of Varma Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors.

The Shareholders' Nomination Board convened 6 times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 18 January 2019.

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

Jarmo Väisänen

Lic.Pol.Sc. (Economics), Chair of the Shareholders' Nomination Board since 12 September 2018.
Born in 1951.
Senior Financial Counsellor of the Ownership Steering Department in the Prime Minister's Office of Finland. Chairman of the Board of State Security Networks Ltd. Member of the Board of Gasum Ltd. Member of the Board of State Development Company VAKE Ltd. Member of the Board of Baltic Connector Ltd.

Holdings in Neste Corporation on 31 December 2018: 0 shares. [1]
Prime Minister's Office: 93,438,038 shares. [2]

Jouko Pölönen

eMBA, M.Sc. (Econ. & Bus. Adm.), Member of the Shareholders' Nomination Board.
Born in 1970.
President and CEO, Ilmarinen Mutual Pension Insurance Company. Finance Finland FFI, Member of the Board and Chairman of the Employment Pension Executive Committee. Vice Chairman of The Finnish Pension Alliance TELA. Member of the Board of The Finnish Foundation for Share Promotion.

Holdings in Neste Corporation on 31 December 2018: 0 shares. [1]
Ilmarinen Mutual Pension Insurance Company: 4,077,877 shares. [2]

Reima Rytsölä

M.Soc.Sc., CEFA, AMP, Member of the Shareholders' Nomination Board.
Born in 1969.
Executive Vice-President and Chief Investment Officer, Varma Mutual Pension Insurance Company. Member of the Board of Oy HYY-Yhtiöt Ab. Member of the Board of Kojamo Plc. Member of the Board of Nordea Funds Oy. Member of the Board of Foundation for the Finnish Cancer Institute.

Holdings in Neste Corporation on 31 December 2018: 0 shares. [1]
Varma Mutual Pension Insurance Company 3,450,486 shares. [2]

Matti Kähkönen

M.Sc. (Engineering), Member of the Shareholders' Nomination Board.
born in 1956
Senior Advisor, Metso Corporation. Chair of the Board of Neste Oyj. Member of the Board of The Research Institute of the Finnish Economy (EVA/ETLA), Chair of the TT fund of the Confederation of Finnish Industries, and Chair of the super advisory board of the Ilmarinen Mutual Pension Insurance Company. Chair of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2018: 2,270 shares [1]

Holdings in Neste Corporation on 31 December 2018:
[1] Own holdings and controlled entities.
[2] Shareholder's holdings represented by the member of the Shareholders' Nomination Board.

The members of the Shareholders' Nomination Board appointed on 12 September 2018 attended meetings in 2018–2019 as follows:

	Attendance
Jarmo Väisänen	6/6
Jouko Pölönen	6/6
Reima Rytsölä	5/6
Matti Kähkönen	6/6

The meeting on 18 January 2019 which accepted the proposals for the 2019 AGM was attended by all members of the Shareholders' Nomination Board.

Composition of the Shareholders' Nomination Board prior to the 2018 AGM

The Shareholders' Nomination Board responsible for preparing the 2018 AGM comprised of Pekka Timonen, Director General of the Ministry of Economic Affairs and Employment; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Elli Aaltonen, Director General of Kela and Jorma Eloranta, the Chair of Neste's Board of Directors.

The Shareholders' Nomination Board convened four times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 30 January 2018.

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 the following 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 2018 Board of Directors was composed of 8 members, all of whom hold a university-level degree, and two of whom have 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. Three 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 five different countries and speak five different native languages. Women comprise 38% of all members of the Board of Directors. With regard to age, the members of the Board of Directors are divided evenly between 52 and 70 years of age. The duration of the terms of office of the Board members is divided as follows: four members have been on the Board of Directors for more than four 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 eight regular meetings annually, all scheduled in advance, with extraordinary meetings when necessary. Extraordinary meetings, if requested by a Board Member or the President and 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.

2018

The 2018 AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Ms. Martina Flöel, Mr. Matti Kähkönen, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. The following were elected as new members: Ms. Elizabeth (Elly) Burghout and Mr. Jari Rosendal. Mr. Matti Kähkönen was elected as Chair and Ms. Laura Raitio was elected as new Vice Chair.

The Board convened 13 times in 2018. The attendance rate at the meetings was 100%. The Board focused in 2018, pursuant to an agenda approved by the Board, on the development of the Company's long-term strategy and ensuring continued performance development. An important milestone was reached on 8 February 2018 when the appointment of a new President and CEO of the Company was announced as the outcome of the related successor planning which had been another important focus area of the Board and the Personnel and Remuneration Committee. The final investment decision concerning additional production capacity in Singapore was announced on 12 December 2018, and the Board has closely monitored the preparations for such decision, including also certain related initiatives, such as increase of flexibility of the renewable product material base and development of the business in various renewable product solutions, including renewable aviation fuel and renewable polymers and chemicals. In addition to such agenda and matters set out in the Board Charter, the Board has monitored the company's operational and financial performance and risk control, engaged in discussions with management on developing the business strategy and approved their base strategic approach, overseen strategy execution and evaluated the changes in the long-term operational environment and their impact on the Company's business operations from e.g. a sustainability perspective. The Board also paid continued attention to the development of the Company's safety culture, including close monitoring of safety initiatives and indicators.

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 2018

	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
Matti Kähkönen	Chair	1956	M.Sc. (Eng.)	Non-Executive Director	•	•	•		13/13	11/11
Elizabeth (Elly) Burghout	Member	1954	BSc (Chem.Eng.)	Non-Executive Director	•	•	•		10/10	11/11
Martina Flöel	Member	1960	PhD (Chem.)	Non-Executive Director	•	•		•	13/13	6/6
Laura Raitio	Vice Chair	1962	Lic.Tech.	Non-Executive Director	•	•	•		13/13	9/11
Jean-Baptiste Renard	Member	1961	M.Sc. (Eng.)	Non-Executive Director	•	•	•		13/13	11/11
Jari Rosendal	Member	1965	M.Sc. (Eng.)	President and CEO of Kemira		•		•	10/10	5/5
Willem Schoeber	Member	1948	Dr. (Tech.)	Non-Executive Director	•	•		•	13/13	6/6
Marco Wirén	Member	1966	M.Sc. (Econ.)	President of Wärtsilä Energy and Executive Vice President of Wärtsilä	•	•		•	13/13	6/6

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

Matti Kähkönen

(born in 1956)
M.Sc. (Engineering)
Chair of the Board since 2018
Member of the Board of Directors since 2017
Independent member

Senior Advisor, Metso Corporation 2017–. President and CEO, Metso Corporation 2011–2017. Executive Vice President and Deputy to the CEO, Metso Corporation 2010–2011. President, Mining and Construction Technology, Metso Corporation 2008–2011. President, Metso Minerals 2006–2008. President, Metso Automation 2001–2006. President, Metso Automation, Field Systems Division 1999–2001. Prior to year 1999, various managerial and development positions in Neles-Jamesbury and Rauma-Repola.

Mr. Kähkönen also holds various positions of trust. He is board member of The Research Institute of the Finnish Economy (EVA/ETLA), Chair of the TT fund of the Confederation of Finnish Industries, and Chair of the super advisory board of the Ilmarinen Mutual Pension Insurance Company, among others. Chair of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2018: 2,270 shares [1]

Elizabeth (Elly) Burghout

(born in 1954)
BSc, Chemical Engineering
Member of the Board since 2018
Independent member

Senior Director of Global Technology and Innovation, Specialties at Sabic in 2016–2017. Various General Manager positions at Sabic in 2007–2016. Various managerial positions at GE Plastics in 1996–2007. Prior to year 1996, various managerial and specialist positions in different organizations. Member of the Board of Sabic Petrochemicals BV, 2010–2014. Member of the Board of Sabic Fibre Reinforced Thermoplastics, 2014–2017. Member of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2018: 0 shares [1]

Martina Flöel

(born in 1960)
M.Sc. (Chemistry), PhD (Chemistry)
Member of the Board of Directors since 2017
Independent member

CEO of Oxea 2007–2016. Managing Director and EVP, Europe of European Oxo in 2003–2007. Vice President Oxo Chemicals, Celanese Chemicals 2000–2003. Plant Manager Böhlen, Celanese Chemicals 1998–2000. Prior to year 1998, various managerial and directorial positions in the Hoechst Group. Independent member of the Sasol Board of Directors 2018-. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2018: 0 shares [1]

Laura Raitio

(born in 1962)
M.Sc. (Chem. Eng.), Lic. Tech. (forest products technology)
Vice Chair of the Board since 2018
Member of the Board of Directors since 2011
Independent member

CEO of Diacor Medical Services 2014–2017. 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 Board of Suominen Corporation and Raute Corporation and Chair of the Board of Helsinki Deaconess Institute. Member of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2018: 1,500 shares [1]

[1] Holdings in Neste Corporation: own holdings and controlled entities.

Jean-Baptiste Renard

(born in 1961)
M.Sc. (Eng) and an engineering diploma in petroleum economics from the French Petroleum Institute (IFP)
Member of the Board of Directors 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 Dec 2018: 7,650 shares [1]

Jari Rosendal

(born in 1965)
M.Sc. (Eng.)
Member of the Board of Directors since 2018
Independent of major shareholders. Not independent of the company based on an interlocking control relationship set out in Recommendation 10.f of the Finnish Corporate Governance Code: Jari Rosendal is the President and CEO of Kemira Corporation, and Kaisa Hietala is a member of the Board of Directors of Kemira Corporation, member of the Neste Executive Board and Executive Vice President, Renewable Products

President and CEO at Kemira since 2014. Various President and directorial positions, including as Member of the Executive Board, at Outotec Oyj in 2003–2014. Various managerial and expert positions in the Outokumpu's Technology Group in Finland and the United States 1989–2003. Member of the Board of Directors and Audit Committee, Uponor Oyj, 2012–2018. Member of the Board of Directors since 2015– and Chairman of the Board of Directors, Chemical Industry Federation of Finland, 2017–2018. Member of the Board of Directors, CEFIC, 2014–. Member of the Board of Directors, Confederation of Finnish Industries (EK), 2017–2018. Member of the Board of Directors, 2011– and Chairman of the Board of Directors, Finnish Association of Mining and Metallurgical Engineers, 2017–. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2018: 0 shares [1]

Willem Schoeber

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

Independent business consultant. 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 (Bremen) 2007–2011. Several positions at Royal Dutch Shell Group's companies 1977–2007, in particular in oil refining. Member of the Supervisory Board of Gasunie N.V. (Groningen) since 2013 and Member of the Board of Directors of Societatea Energetica "Electrica" S.A. (Bucharest) since 2016. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2018: 2,000 shares [1]

Marco Wirén

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

President, Wärtsilä Energy & Executive Vice President, Wärtsilä Corporation, since October 2018. Wärtsilä Corporation, Executive Vice President and Chief Financial Officer Wärtsilä 2013–2018. SSAB, Executive Vice President and CFO 2008–2013; SSAB, Vice President Business control 2007–2008; Eltel Networks, CFO and Vice President Business Development 2002–2007; NCC, Vice President Business Development and Group Controller 1995–2001. Member of the Board of Management of Wärtsilä Corporation since 2013. Chair of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2018: 1,000 shares [1]

[1] Holdings in Neste Corporation: 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 four 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.

In addition, the Board of Directors can appoint committees as needed, for instance, for significant investment projects or other special tasks.

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.

2018

Starting from 5 April 2018, the Audit Committee comprises Marco Wirén (Chair), Martina Flöel, Jari Rosendal and Willem Schoeber.

The Audit Committee convened 6 times, and the attendance rate was 100%. In addition to the tasks specified in its Charter, the Audit Committee focused on financial reporting and risk management, including in relation to market risks and certain other risk areas, such as IT systems, segregation of duties, privacy regulation and cyber security. In such context, the Company's program for reforming its ERP system continued to be a specific focus area of the Audit Committee. Moreover, the Audit Committee also monitored the introduction of non-financial reporting as well as compliance matters.

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.

2018

Starting from 5 April 2018, the Personnel and Remuneration Committee comprises Matti Kähkönen (Chair), Elly Burghout, Laura Raitio and Jean-Baptiste Renard.

The Personnel and Remuneration Committee convened 11 times in 2018, and the attendance rate was 95%. The Personnel and Remuneration Committee focused during 2018 on reviewing and updating Neste's long-term incentive program for 2019 and onwards to strengthen the alignment with long-term shareholder value creation, simplify overall plan structure and introduce additional flexibility. In line with duties coming from its Charter, the Personnel and Remuneration 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. Both the follow-up the ongoing performance period and outcomes of the rewarding based on 2017 results were in the scope. In addition, the Committee focused on talent management and organisational development of the Company.

President and CEO

Neste's President and CEO since 1 November 2018, Peter Vanacker (b.1966, MSc, Chemical Engineering, Polymers Engineering), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President and 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.

Neste's former President and CEO (2008–2018) Matti Lievonen (b.1958, B.Sc. (Eng.), eMBA) retired as Vanacker started in his position as Neste's President and CEO.

The President and CEO is appointed by the Board of Directors, which evaluates the performance of the President and 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 and CEO can be found in the 2018 Remuneration Statement.

Neste Executive Board

The Neste Executive Board (NEB) assists the President and 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 2018 Remuneration Statement.

2018

The Neste Executive Board comprised eleven members during the months of January to August, and nine members during the months of September to December. The NEB had 13 meetings during 2018, and also met outside such meetings in relation to specific themes. Peter Vanacker was appointed President and CEO of the Company on 8 February 2018 and assumed such duties as of 1 November 2018. He joined Neste in September 2018 as a Senior Executive and since then familiarized himself with Neste's business and operations. In addition to supporting the President and CEO in the fulfillment of his general duties, the NEB focused on the implementation of the strategy by advancing the company's growth program for renewable products, including preparations for the final investment decision concerning additional production capacity in Singapore, which was announced on 12 December 2018, as well as initiatives to develop the flexibility of the renewable raw material base and renewable solutions, such as renewable aviation fuels and renewable polymers and chemicals. Alongside with strategy execution, the NEB also continued its work to improve the Company's financial performance and operational excellence. In addition, safety development, cyber security matters, R&D matters, development of investment processes as well as the program for reforming the Company's ERP system were given special attention during the year.

Members of the Neste Executive Board 2018

Peter Vanacker

(born 1966)
President and CEO, Chair of the Neste Executive Board
MSc, Chemical Engineering, Polymers Engineering
President and CEO since 1 November 2018

Joined the company in 2018. Served as CEO of the CABB Group GmbH 2015–2018 as well as CEO of the Treofan Group GmbH 2012–2015. Worked as Executive Vice President and Member of the Executive Board of Bayer MaterialScience (today Covestro AG) 2003–2012 with responsibility for the global Polyurethanes business and as Chief Marketing and Innovation Officer. Before that had several directorial and managerial positions in Belgium, Brazil, US and Germany at Bayer since 1990.

Holdings in Neste Corporation on 31 Dec 2018: 0 shares. [1]

Kaisa Hietala[2]

(born 1971)
Executive Vice President, Renewable Products
M.Sc. (Physics), Finland and M.Phil. (Env.Sc.), UK
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. Member of Sustainability Supervisory Board of Aalto University and Supervisory Board of Oulu University.

Holdings in Neste Corporation on 31 Dec 2018: 5,543 shares. [1]

Matti Lehmus

(born 1974)
Executive Vice President, Oil Products
M.Sc. (Eng.), eMBA
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 Chemical Industry Federation of Finland. Member of Confederation of Finnish Industries.

Holdings in Neste Corporation on 31 Dec 2018: 11,922 shares. [1]

Panu Kopra

(born 1972)
Executive Vice President, Marketing & Services
BBA, MBA
Member of the Neste Executive Board since 2016

Joined the company in 1996. Responsible for Marketing & Services business area. 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 Dec 2018: 3,989 shares. [1]

[2] Left the company 19 February 2019

[1] Holdings in Neste Corporation: own holdings and controlled entities.

Simo Honkanen

(born 1958)
Senior Vice President,
Sustainability and Public Affairs
M.Sc. (Econ.)
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. Member of the Board of the Smart & Clean Foundation, Member of the Board of Maj and Tor Nessling Foundation.

Holdings in Neste Corporation on 31 Dec 2018: 9,586 shares. [1)]

Hannele Jakosuo-Jansson

(born 1966)
Senior Vice President,
Human Resources and Safety
M.Sc. (Eng.)
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 Laboratory and Research Manager at the Technology Center 1998–2004. Member of the Board of Directors of Ahlstrom-Munksjö, Neste Engineering Solutions (NES), Nynas, and LUKE (Natural Resources Institute Finland).

Holdings in Neste Corporation on 31 Dec 2018: 13,193 shares. [1)]

Lars Peter Lindfors

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

Joined the company in 2007. Responsible for Research & Development, 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 various other positions. Member of the Board of the Fortum Foundation, Finnish Foundation for Technology Promotion, Svenska Tekniska Vetenskapsakademin, Treesearch and Neste Engineering Solutions.

Holdings in Neste Corporation on 31 Dec 2018: 9,663 shares. [1)]

Jyrki Mäki-Kala

(born 1961)
Chief Financial Officer
M.Sc. (Econ.)
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 1988–2005. Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. Member of Board of Nynas AB.

Holdings in Neste Corporation on 31 Dec 2018: 11,000 shares. [1)]

[1)] Holdings in Neste Corporation: own holdings and controlled entities.

Christian Ståhlberg

(born 1974)
General Counsel
LL.M.
Member of the Neste Executive Board since 2017

Joined the company in 2017. Responsible for the Group's legal affairs. Secretary to the Neste Executive Board, the Board of Directors, the Audit Committee, the Shareholders' Nomination Board and to the Stakeholder Advisory Panel. Served previously as General Counsel of Rettig Group Ltd 2015–2017, Director, Legal in Pohjola Bank plc 2011–2014, Senior Legal Counsel in Neste Oil Corporation 2007–2011 and Senior Associate in Roschier Attorneys Ltd 1998–2007.

Holdings in Neste Corporation on 31 Dec 2018: 0 shares. [1)]

Matti Lievonen

– retired 31 December 2018

(born 1958)
President and CEO, Chair of the Neste Executive Board until the end of October 2018
B.Sc. (Eng.), eMBA
D.Sc. (Tech.) h.c.
President and CEO between 2008–2018

Osmo Kammonen

– retired in August 2018

(born 1959)
Senior Vice President, Communications and Brand Marketing until August 2018
M.Sc. (Laws)
Member of the Neste Executive Board between 2004–2018

Tuomas Hyyryläinen

– moved to another company after August 2018

(born 1977)
Senior Vice President, Emerging Businesses business unit until August 2018
M.Sc. (Econ.)
Member of the Neste Executive Board between 2012–2018

[1)] Holdings in Neste Corporation: 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.

2018

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 10 times in 2018.

Company Auditor

The AGM elects the Auditor annually. The Auditor's term of office ends at the end of the next AGM following election.

The Auditor 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.

Fees charged by the statutory auditor

EUR 1,000	2018	2017
Audit fees	1,310	1,326
Other	594	419
Total	1,904	1,745

2018

Audit Firm PricewaterhouseCoopers Oy served as Neste's Auditor until 5 April 2018, with Authorized Public Accountant Mr. Markku Katajisto as the principally responsible auditor. The AGM re-elected PricewaterhouseCoopers Oy as the Audit Firm on 5 April 2018, with Authorized Public Accountant Mr. Markku Katajisto continuing to serve as the principally responsible auditor, until the end of the next AGM.

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 adds 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 on its website a new whistle-blowing system to all Neste's internal and external stakeholders, including various actors in its supply chains. Ethics Online serves as a grievance mechanism and enables Neste's stakeholders to raise possible concerns on Neste's practices without fear of reprisals. Internal Audit and Compliance function 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 and 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.

2018

Internal Audit function continued cooperation with other Neste assurance functions such as compliance, risk management and internal controls 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 2018, including for example supply and sales processes, major turnarounds, IT projects (ongoing ERP project) and other investment projects. In all process audits and in SAP review the SoD (segregation of duties) aspect was part of the audit.

Compliance function

Neste conducts its business and operates in compliance with applicable laws, regulations and generally accepted practices for good corporate governance. Neste's Code of Conduct sets the framework for Neste's global business operations, and establishes core principles to guide Neste employees in their day-to-day business activities and decisions in the areas of ethical business practices, sustainable operations and protecting people's health and safety. Neste requires commitment to these principles from its suppliers and business partners, as expressed in the Neste Supplier Code of Conduct.

The purpose of Neste's Compliance function is to develop, establish, facilitate and oversee compliance procedures and programs aimed to ensure that Neste's global organisations have effective systems and processes in place for identifying, preventing, detecting and correcting non-compliance with applicable laws, regulations and Neste's internal rules. The function supports Neste's management in their responsibility for overall compliance risk management, as well as Neste's business area and function management in their responsibilities to identify and manage compliance risks related to their operations. Compliance function works in close collaboration with Neste's business areas, common functions and other internal assurance organizations, in particular the Risk Management, Internal Controls and Internal Audit functions.

Compliance function is headed by the Chief Compliance Officer (CCO), who reports to Neste's General Counsel. The CCO reports on compliance activities on a regular basis to Neste Executive Board and to the Audit Committee. Neste has also an Ethics and Compliance Committee, which oversees and steers the management of the ethics and compliance program in Neste. Reports on suspected misconducts received via company's whistleblowing and other channels are investigated in Neste's Investigation Group.

Insider administration procedures

Neste complies with the EU Market Abuse Regulation (596/2014), including related regulation, as well as Nasdaq Helsinki Ltd's Insider Guideline 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 General Counsel is responsible for the coordination and supervision of insider matters, along with the insider register manager, the insider communication manager and individuals responsible as heads of project-specific registers. 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 Company arranges training related to the insider guidelines.

The creation and maintenance of a project-specific insider register is the responsibility of the head of such register, who is named in the relevant project-specific insider register.

The Company has defined, as persons discharging managerial responsibilities, the members of the Board of Directors and its secretary, the President and CEO, as well as the members of the Neste Executive Board and its secretary. These managerial persons and their closely associated persons 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.

The Company has also named certain other persons as core persons as they have better or more information about the Company than the market. 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.

Persons discharging managerial responsibilities and core persons 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 a minimum period of 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 at 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 and CEO, who is required to ensure that the Company's accounts are in compliance with the law and that its financial management has 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 common 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 function has centralized control responsibility. Neste has established an Internal Control function to drive the development and implementation of the internal controls corporate wide. Neste has prepared and established its own Internal Controls Principles in accordance with COSO framework which emphasize the importance of the internal controls and clarify the responsibilities for establishing effective controls in business processes.

Neste's values and management system containing formal Code of Conduct are the foundation of the control environment. President and 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.

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 most important guidelines related to financial reporting systems and practices are documented in the Finance Instructions.

Neste's control activities with respect to reliable financial reporting are described in the Internal Controls Principles statement and in 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

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 Finance Instructions containing accounting principles and guidelines for forecasting and reporting. To increase the transparency of the processes, both business and finance processes are described by using a tool where Neste personnel has access. Both Finance Instructions and process documentation work will continue in 2019. Neste Controllers' network has regular meetings and trainings to ensure up-to-date knowledge.

Neste's business areas make regular financial and management reports to the management review, including analysis and comments of financial performance.

Neste Executive Board receives financial reports monthly. Interim Reports are reviewed in Audit Committee meetings, and thereafter by the Board of Directors.

Monitoring

Management regularly monitors the effectiveness of the controls, 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 at all levels of the organization. The Audit Committee oversees the Company's finances, financial reporting, risk management, as well as the Internal Controls and Internal Audit functions, 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.

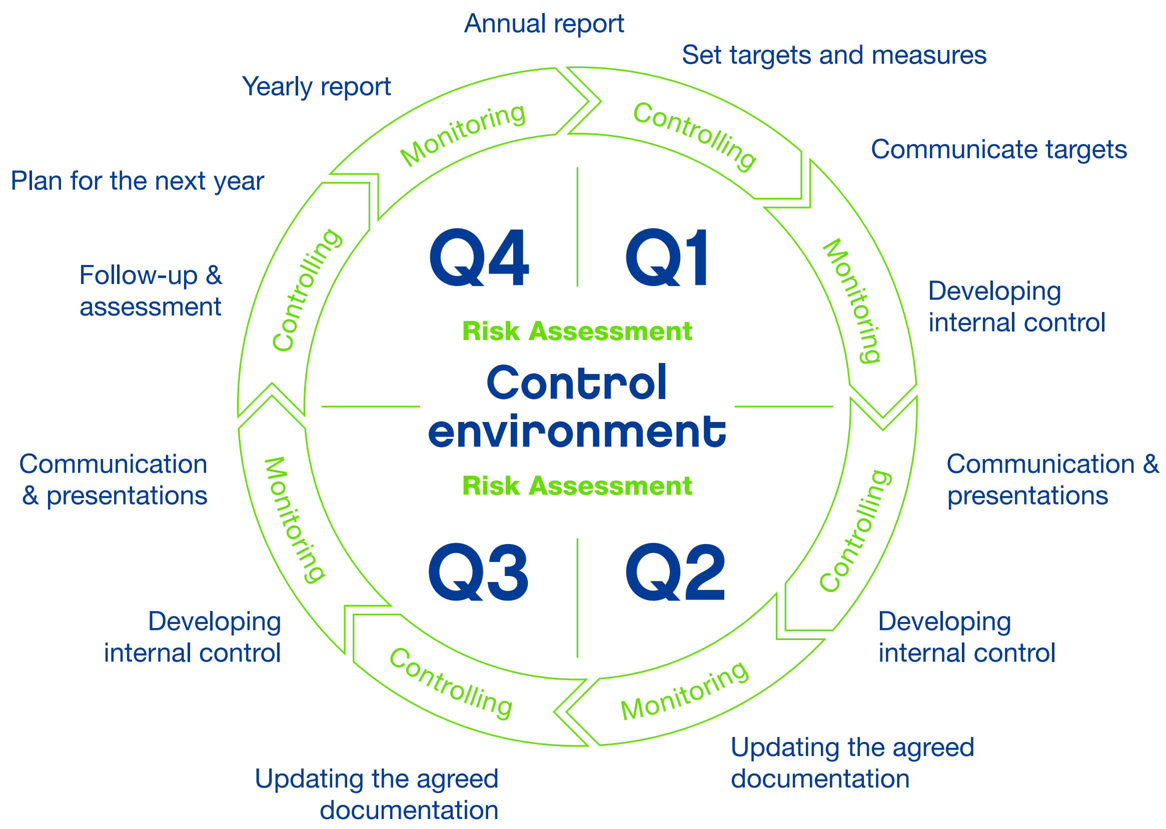
2018

Neste Corporation further strengthened its focus on internal controls by establishing a dedicated Internal Controls team that will lead the development of the internal controls corporate wide. Neste Executive Board established the Internal Control Principles that clarify the roles and responsibilities related to the components of internal control framework.

During 2018, development of effective controls in business processes run in SAP has been the focal point of internal control development, as the roll out of SAP ERP was deployed for Neste Oyj in May and it was extended to Sales and Supply operations of two additional units, Neste Suisse and Neste Shipping, in November.

Deployment of SAP embedded Smart Close for finance enhanced and modernized the financial closing process, hence making the close more efficient and transparent.

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.

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.

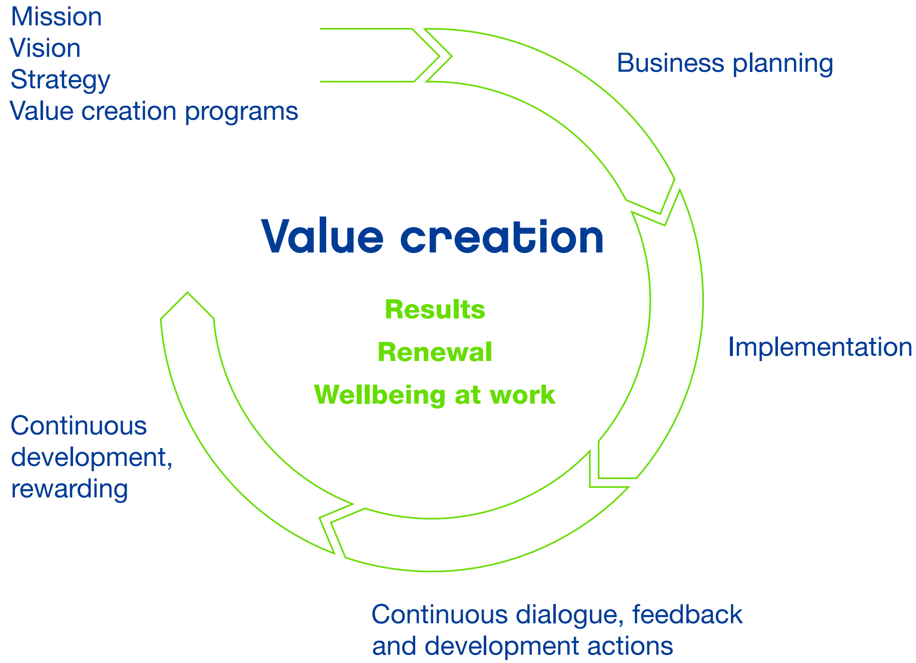
Performance management comprises daily leadership, through which individuals, teams, units and the Company can reach selected strategic priorities and develop organizational capability. Performance leadership is used to ensure that everyone knows the values and objectives of the Company, and their short 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 framework and processes are aligned with the internationally recognized best practices for risk management (COSO: Enterprise Risk Management – Integrating with Strategy and Performance; and ISO 31000:2009 standard).

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 accountability for risk oversight. Among other duties the Board is in this role responsible 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 the defense model. The model distinguishes between:

1st Line of Defense

The first line of defense is responsible for setting the objectives, managing day-to-day performance and reinforcing risk responses in order to reach the set targets. At Neste, the first line actors include Business Areas and Common Functions in their first-line roles. As a part of the first line of defense, Neste's President and CEO and the Neste Executive Board have the overall accountability for appropriate risk management practices.

In practice, Business Areas and Common Functions are owning and managing risks with the help from a dedicated network of risk champions and coordinators. The role of the risk champions/coordinators 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 second line of defense is to provide guidance, support, facilitation, and consultation for risk management. Second line of defense needs to have some degree of independence from the first line of defense in order to be able to challenge the first line in managing performance and making risk informed decisions.

At Neste, second line of defense includes Common Functions in their second-line roles and specialist teams (corporate risk management, compliance and internal controls). In addition, Neste has established a separate Ethics and Compliance Committee that aims at increasing management oversight on compliance and ethics related issues within the Group. The Committee also ascertains adequacy of mitigation actions in higher risk compliance areas.

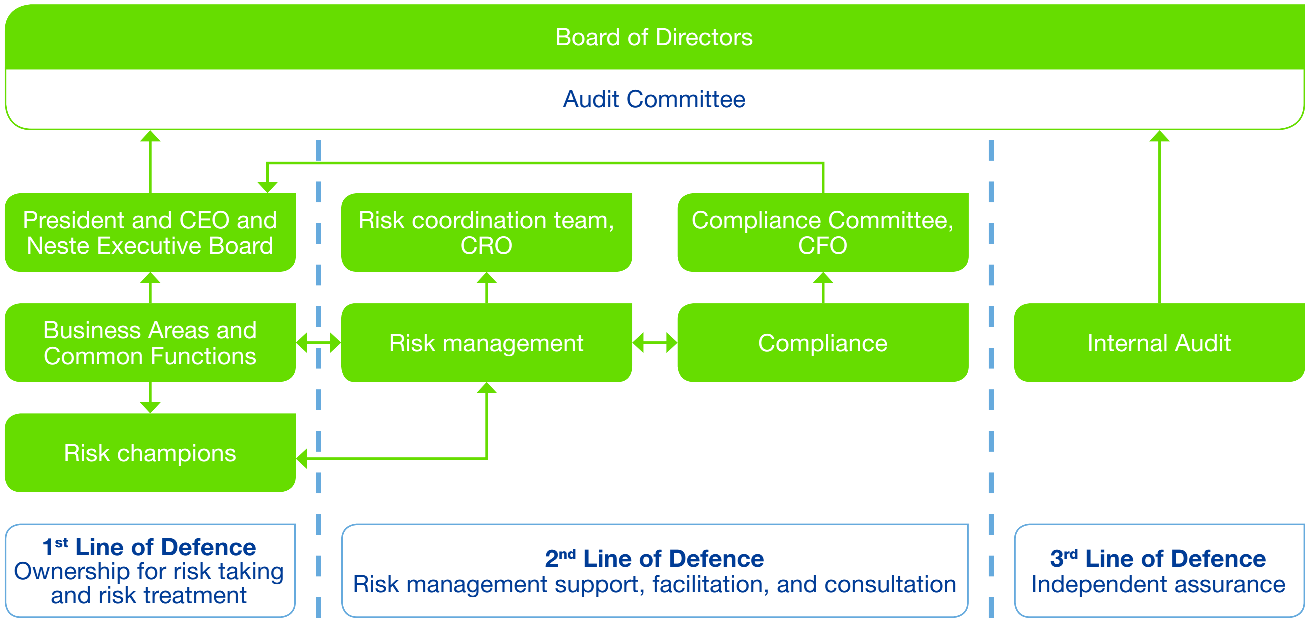
The corporate risk management team has the overall responsibility to confirm that risk management activities are carried out consistently throughout Neste Group and all risk classes. Corporate risk management also drives overall development of risk management practices and tools.

The team is supported by the network of risk champions and coordinators; and a risk coordination team that acts as a working group focusing on effective and efficient risk management practices within Neste.

3rd Line of Defense

Internal Audit as an independent team 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 Area and Common Function management teams, Neste Executive Board, Audit Committee, and the 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.

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 – Economic conditions, Geopolitics

During the last few years, the uncertain world economy and geopolitics have had an effect on Neste's key markets and the oil market in general. Also during 2018, geopolitical risks remained at high levels.

In the European Union, Brexit and other economic and political developments may impact the market conditions for supply of feedstock and sales of refined products. In the United States, discussion around the continuation of biofuel programs and potential import tariffs create business uncertainty for Neste.

Trade restrictions like international sanction regimes may have an adverse impact on Neste's business. For example, additional trade sanctions or similar actions against Russia could limit Neste's access to Russian crude oil and other raw materials.

External risks – Environment

A global trend is that consideration of environmental threats has extended from mapping of natural catastrophes to a holistic modeling of scenarios that relate to climate change and extreme weather events.

Stakeholders' increased interest and commitment into combating climate change is primarily a positive driver for Neste's business. However, indirect economic and political consequences from climate change may contribute to the general uncertainty in the business environment and hence have an adverse effect on Neste's business. On a shorter term, especially initiatives and statements on EU, US or individual member state level may have a significant effect on Neste's business.

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 (for example environmental, health & safety, sustainability). Constantly increasing regulatory pressure in areas like commodity trading, data protection, and traceability is a challenge for the whole industry. For the renewable products, a significant source of uncertainty is fragmented regulation around use of waste & residue feedstock. The risk is that regulatory changes impact the pool of acceptable feedstock.

On the other hand, especially the Renewable Products business is benefiting from increased support for biofuels and renewable fuels (for example requirements that relate to renewable content in diesel and gasoline). Changes in regulation especially in the European Union and the United States 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.

Neste's competitive position in the selected key markets is good. Neste's proprietary NEXBTL production technology is a proven technology for production of 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

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

Continued contributions of Neste's senior management, personnel and partners are vital for the company's success.

technologies, the evolution of engine technologies and introduction of alternative powertrains can be faster than expected.

Staying ahead of competition requires ability to challenge current business models, strong focus on new innovations and willingness to develop operations further. In addition, Neste's products and services must continuously meet evolving customer requirements relating e.g. to product quality and sustainability. Evolving customer requirements together with more complex sourcing networks and production methods increase the exposure to quality risks that need to be managed well in order to maintain the high quality brand image. In order to manage the risks Neste has implemented systematic quality management measures both in its own operations and in partner networks.

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. There is also a risk that Neste is not able to build and manage strategic partnerships that are contributing to future success.

Project risks

Successful projects play a key role in Neste's strategy deployment, operational development, and digitalization of processes. Significant delays in project planning or execution may reduce operational efficiency or impair Neste's ability to secure its competitive position.

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. In addition to these, for example disruptions in the supply of utilities or breakdown of critical machinery may cause unexpected shutdowns that affect Neste's ability to fulfil demand for end products.

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.

Sustainability risks

The most significant sustainability risks that relate to Neste's own operations or to the extended enterprise have been reported in line with the requirements of the Non-Financial Reporting Directive as a part of the review by the Board of Directors.

Cyber risks

Digitalization and emerging technologies (for example use of artificial intelligence and robotics) 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 like individual risks have a major negative impact on Neste's reputation or continuity of business operations.

Risk management focus in 2018

During 2018, special risk management initiatives focused on the major investments, system transitions and business model changes. As a part of corporate level development projects, risk team participated in the renewal of company's management system structures and supported alignment of roles in Neste's three lines of defense.

In the end of 2018, Neste's risk management tools were strengthened through implementation of a new web based risk management software that increases flexibility in risk tracking and monitoring of risk management actions.

During 2018, special risk management initiatives focused on major investments, system transitions and business model changes.

Neste Remuneration Statement 2018

Chair's annual statement

On behalf of the Neste's Personnel and Remuneration Committee (the 'Committee') I am pleased to present our 2018 Remuneration Statement.

How we structure remuneration at Neste

The remuneration programs at Neste reflect our longstanding remuneration principles of supporting the business strategy, paying for performance, encouraging value-based behavior and individual accountability, and paying competitively and fairly.

We have designed our remuneration policies, practices and processes to ensure that we are able to compete and retain the best workforce, talents and senior management in the diverse markets in which we operate. Performance-based remuneration programs together with selecting the right individuals for key positions, job rotation, proactive succession planning and appropriate market competitive rewarding of the entire personnel are key to our success – now and in the future.

For our President and CEO, Neste Executive Board (NEB) 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 execution of our business strategy as well as creating long-term shareholder value.

Further, through the delivery of rewards under the long-term incentive scheme in shares and the requirement for the President and CEO and NEB members to build and maintain a minimum shareholding in Neste, our remuneration policy supports alignment of interest between management and our shareholders. At the end of 2018, all members of the NEB, with the exception of the most recent members, the company's General Counsel, who started working in 2017, and our new President and CEO, who started at Neste in September 2018, held a number of company shares that exceeded their fixed annual earnings.

We also want to reward all our employees for good performance, believing that performance based remuneration motivates our people to strive for excellence. All our employees are therefore able to participate in short-term incentive programs. In 2018, we paid out EUR 32 million through short-term incentive programs and profit sharing fund based on our results in 2017. This sum represents approximately 3% of our comparable EBIT for 2018.

Remuneration paid in 2018

Year 2017 was very successful for Neste with the Group delivering record-high comparable EBIT of EUR 1,101 million. Solid profits and a well-managed balance sheet lead to a healthy ROACE for Neste's business, 17.5%. We also reached our safety targets. This good financial and safety performance is reflected in our short-term incentive (STI) plan pay-out – on average the 2017 STI program paid out in 2018 between target and maximum level. Neste's excellent financial performance continued in 2018 with comparable EBIT of EUR 1,422 million and ROACE of 21.1%. Our free cash flow was EUR 628 million in 2017 and EUR 870 million in 2018 – above our set maximum performance level. The excellent

Key highlights of 2018:

- Neste's strong financial performance in 2018
- Peter Vanacker appointed as President and CEO
- New Long-term Incentive Plan for 2019 and onwards

In this section

Neste Personnel and Remuneration Committee

Matti Kähkönen
Chair of the Personnel and Remuneration Committee

Committee members:

- Elizabeth (Elly) Burghout
- Laura Raitio
- Jean-Baptiste Renard

financial performance was reflected in our record high Total Shareholder Return (TSR) – we have outperformed our peer group of 10 oil industry peers in the 2015-2017 LTI program, and Europe Stoxx 600 market index in the 2016-2018 LTI program. Therefore, both LTI plans vested at maximum level.

Neste's Board of Directors has deemed it correct to take into consideration the Government Resolution on State-ownership Policy, issued in 2016, regarding executive remuneration in state-owned companies in Finland. In 2019 as well as in 2018, the long-term share incentive rewards paid out to the President and 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.

The salary increases for NEB members in 2018 were selected and modest. At the Annual General Meeting of 2018, we presented the main structure of the company's remuneration policy and the grounds for the realized performance pay of the President and CEO as well as the NEB, as a whole. At the Annual General Meeting of 2019, we will provide the same update for 2018.

In addition, in 2018 we welcomed our new President and the CEO – Peter Vanacker – following the retirement of Matti Lievonen after successful long-term tenure at Neste.

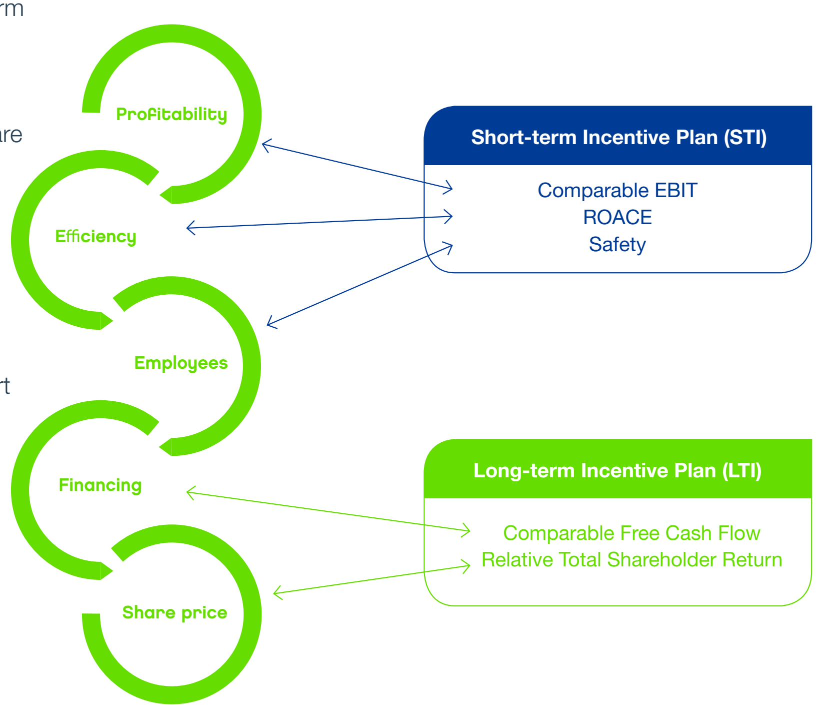
Remuneration policy for 2019

In 2018, we reviewed and updated our long-term incentive program for 2019 to strengthen the alignment with long-term shareholder value creation, simplify overall plan structure and introduce additional flexibility. Performance Share Plan 2019–2021 is based only on share-price related measure: Relative Total Shareholder Return compared to Stoxx 600 Market Index. In addition Restricted Share Plan is introduced as a complementary structure for specific situations.

Neste is also mindful of upcoming amendments to remuneration disclosure that form part of the EU Shareholder Rights Directive (SRD), which will be implemented into Finnish law in the near future. These changes, intended to drive greater shareholder engagement and transparency around executive remuneration, will result in updates to Neste's executive remuneration policy and disclosure as well as its shareholder voting framework.

Matti Kähkönen
Chair of the Personnel and Remuneration Committee

Measuring performance at Neste in 2018



Neste Executive Remuneration Policy Report

Our approach to remuneration

We regularly review the Company's guiding remuneration principles. The performance and reward main principles introduced in the beginning of 2014 continue to apply as no changes were found necessary in 2018.

The four guiding principles that underpin the remuneration programs across the Company are:

- **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.

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 NEB 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.
- 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.

Ensure the execution of our strategy	Drive performance and value-based behavior
We aim to chart a clear path forward by executing our corporate strategy and sharing our business objectives.	We aim to drive results on the individual, the team and business-unit level by rewarding excellence, development and value based behavior.

Encourage individual and team accountability	Be fair and transparent
We promote clear targets and a focus on continuous improvement of our performance. We make this possible by maintain ongoing dialogue with our personnel and welcoming their feedback.	We run our performance and total rewards process ethically and with integrity, and support this with clear communication.

Summary of Remuneration Policy for the Neste Executive Board

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

Base salary	To provide a core level of reward for the role	Fixed salary which includes taxable fringe benefits (car and telephone). Peter Vanacker EUR 75,020 per month.
Insurances	To protect Neste Executive Board (NEB) members in the performance of their duties	The NEB members have private accident, life and disability insurance, business travel, directors' and officers' liability insurances. 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	Peter Vanacker: The retirement age according to the Finnish Employee's Pension Act (TyEL), no additional pension scheme. 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 based on the average monthly salary and related statutory pension insurance contributions over the ten years prior to retirement. DC pension allocation is 16% of annual fixed base salary. New additional pension schemes 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. President and CEO: KPIs are group financial targets (comparable Group EBIT, comparable Free Cash Flow and group safety targets [Total Recordable Injury Frequency per million hours worked, TRIF, including contractors] and Process Safety Event Rate per million hours worked [PSER]). NEB members with business area responsibility: a combination of group and business area specific financial and safety measures (for example comparable EBIT, comparable Free Cash Flow, TRIF and/or PSER). For NEB members with common function responsibility based on Group comparable EBIT, comparable Free Cash Flow, TRIF, PSER and specific strategic measures of the function in question.
Long-term share-based incentives	To drive long-term sustainable growth and align the interests of executives with shareholders	LTI 2016: Based on the attainment of three-year financial and share price performance targets for Neste. For award cycles commencing in 2017 and 2018, 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. 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. The award for President and 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 and CEO and NEB members are 30% of salary. 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. LTI 2019: Based on the attainment of three-year share price performance targets for Neste. For award cycle commencing in 2019, 100% of the awards are based on the total return of Neste shares compared to the STOXX Europe 600 Index. 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. 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.
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.

Remuneration element	Purpose and link to strategy	Description and operation
Share ownership guidelines	To encourage executives to build a meaningful shareholding in Neste	President and 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 50% of vested incentive shares after tax.
Service contracts and loss of office payments	To ensure clear contractual terms are followed	Peter Vanacker: Both parties have a six-month period of notice. Should the Company terminate the President and CEO's agreement, the Company is required to pay six month's salary and a separate severance pay equivalent to six month's salary. NEB members are entitled for 6 months' severance payments. 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 President and 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 Government Resolution on State-ownership Policy 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

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

Short-term incentives (STI)

STI for 2017 (paid in 2018)

The STI program for 2017 was based on:

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

Year 2017 was very successful for Neste with the Group delivering record-high comparable EBIT of EUR 1,101 million and free cash flow of EUR 628 million. Solid profits and a well-managed balance sheet lead to a healthy ROACE for Neste's business, 17.5%. In 2017 we also reached the set two targets for safety: TRIF, including contractors (Total Recordable Incident Frequency per million hours worked) with result of 2.1 and for PSER (Process Safety Event Rate per million hours worked) with result of 2.1. We continued to implement the development actions of our strategic program Way Forward to Safety program involving all personnel.

Taking the business and unit-level performance and safety targets into account, the Board of Directors awarded the President and CEO and the NEB rewards, on average, at above-target levels for performance year 2017. Details of the short-term incentive plan award for the President and CEO for 2017 are set out on this page.

STI for 2018 (payable in 2019)

The STI performance measures for 2018 were based on:

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

President and CEO 2017 STI (paid in March 2018)		2017 results
Weighting	Measures	Level of achievement
60%	Group comparable EBIT	At maximum
20%	Group ROACE	Between target and maximum
10%	Group Safety (TRIF)	On target
10%	Group Safety (PSER)	Between target and maximum
	Total	**Between target and maximum**

President and CEO 2018 STI (payable in March 2019)		2018 results
Weighting	Measures	Level of achievement
60%	Group comparable EBIT	At maximum
20%	Group ROACE	At maximum
10%	Group Safety (TRIF)	Between target and maximum
10%	Group Process Safety (PSER)	Between threshold and target
	Total	**Between target and maximum**

Neste's good performance continued in 2018 comparable operating profit being EUR 1,422 million and ROACE being 21.1%.

Neste's occupational safety performance, measured by the TRIF indicator, improved compared to 2017. The annual TRIF result 1.7 was the best ever at Neste, and the target for 2018 was reached. PSER, the main indicator for process safety, remained at the 2017 level. However, during the fourth quarter it was worse than in the comparable period of 2017, and we did not meet our PSER target for 2018. Making substantial improvements in process safety remains a top priority for Neste.

Taking the business and unit-level performance and safety targets into account, the Board of Directors awarded the President and CEO and the NEB rewards, on average, at above-target levels for performance year 2018 and remained within the maximum limits of the short-term incentives (40% of annual salary).

Long-term incentives (LTI)

Neste's 2013 long-term incentive program ran in three-year plan cycles from 2013–2015, 2014–2016 and 2015–2017. The 2016 long-term incentive program runs in three-year plan cycles from 2016–2018, 2017–2019 and 2018–2020.

LTI plan cycle 2015–2017 (paid in 2018)

For the 2015–2017 LTI plan cycle, the maximum targets set in December 2014 for group cumulative comparable free cash flow 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 2018 corresponds to 95,779 company shares, of which 33,515 gross shares were awarded to President and CEO and NEB members. The shares are subject to a 3-year lock-up period for the President and CEO and NEB members.

	LTI 2013			LTI 2016		
Earnings period	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019	2018–2020
Total number of participants at the delivery or grant	86	92	81	85	95	116
Earnings criteria	75% comparable cashflow and 25% comparable operating profit of the Renewable Products business	75% comparable cashflow and 25% relative TSR*	75% comparable cashflow and 25% relative TSR*	75% comparable cashflow and 25% relative TSR*	75% comparable cashflow and 25% relative TSR*	75% comparable cashflow and 25% relative TSR*
Extent to which criteria achieved	100%	100%	100%	100%	–	–
Number of shares delivered after tax:						
– to President and CEO	10,458	7,791	4,068	3,171	–	–
– to other members of NEB	25,856	18,241	10,271	7,835	–	–
Year of vesting	2016	2017	2018	2019	2020	2021
Lock-up period on vested shares	3 years for the President and CEO and the NEB (1 year for others)			3 years	1 year	1 year

* Total Shareholder Return

LTI plan cycle 2016–2018 (payable in 2019)

For the 2016–2018 LTI plan cycle, the maximum targets set in December 2015 for group cumulative comparable free cash flow were exceeded and Neste generated a total shareholder return clearly out performing the Europe Stoxx 600 Market Index. As a result, 11,006 shares after tax will be awarded to the President and CEO (Matti Lievonen) and NEB. The shares delivered are subject to a 3-year lock-up period.

Remuneration paid to the President and CEO and the NEB members

	President and CEO			NEB members (in aggregate)	
EUR	2018 Peter Vanacker (1.11.2018–)	2018 Matti Lievonen (–31.10.2018)	2017 Matti Lievonen	2018	2017
Annual remuneration					
Base salary [1)]	150,000	582,234	667,328	1,980,085	1,973,276
Taxable benefits [2)]	40	18,050	21,660	108,089	106,501
Annual incentive (STI plan) [3)]	–	251,945	237,521	641,434	593,753
Total annual remuneration	**150,040**	**852,229**	**926,509**	**2,729,607**	**2,673,530**
Vested long-term remuneration [4)]					
LTI 2016: 2015–2017 plan		553,504		1,245,352	
LTI 2013: 2014–2016 plan	–		597,228		1,398,859
Additional pension (see page 96)	**–**	**1,092,041**	**1,191,415**	**443,582**	**490,707**
Total remuneration	**150,040**	**2,497,774**	**2,715,152**	**4,418,541**	**4,563,096**

[1)] Base salary amount includes vacation pay.

[2)] Members of the NEB receive taxable car and mobile phone benefits as part of their fixed salary.

[3)] 2018 figures relate to performance in 2017. 2017 figures relate to performance in 2016. 2019 payments, based on performance in 2018: the President and CEO EUR 256,471 (Matti Lievonen) and NEB members EUR 516,125.

[4)] Total taxable value of LTI payments awarded (including transfer tax).

Vested share incentive awards for the Neste Executive Board

Name	Position	NEB member since	2018 [1] (paid 2019)	2017 [2] (paid 2018)
Matti Lievonen	The President and CEO	2008	3,171	4,068
Kaisa Hietala	EVP, Renewable Products	2014	1,238	1,402
Panu Kopra	EVP, Marketing & Services	2016	1,005	740
Matti Lehmus	EVP, Oil Products	2009	1,399	1,612
Simo Honkanen	SVP, Sustainability and Public Affairs	2009	785	771
Hannele Jakosuo-Jansson	SVP, Human Resources and Safety	2006	1,024	1,121
Lars Peter Lindfors	SVP, Technology	2009	1,008	1,121
Jyrki Mäki-Kala	CFO	2013	1,376	1,612
Christian Ståhlberg	General Counsel	2017	–	–

[1] The 2018 column refers to share incentives to be paid in spring 2019 for the earning period 2016–2018. The figures indicate the net amount of shares after tax and other statutory payments.

[2] The 2017 column refers to share incentives paid in 2018 for the earning period 2015–2017. The figures indicate the net amount of shares after tax and other statutory payments.

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 shareholders. Our executive share ownership policy requires that the President and CEO and the members of the NEB build up and maintain shareholdings which are equivalent to their annual fixed base salary. The following table shows the current shareholdings of members of the Neste Executive Board.

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. STI schemes are in place in all countries, and incentives are paid on the basis of the set goals.

For the 2017 performance year, Neste was able to fund a payout of EUR 27.8 million (EUR 30.7 million) in performance-based incentives for senior managers and employees in the spring of 2018 (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 annual basic salary at a target 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 performance.

Shareholdings[1] of the Neste Executive Board 31 December 2018

Name	Position	NEB member since	2018	2017
Peter Vanacker	The President and CEO (1.11.2018–)	2018	–	–
Kaisa Hietala	EVP, Renewable Products	2014	5,543	10,000
Panu Kopra	EVP, Marketing & Services	2016	3,989	5,849
Matti Lehmus	EVP, Oil Products	2009	11,922	16,810
Simo Honkanen	SVP, Sustainability and Public Affairs	2009	9,586	19,519
Hannele Jakosuo-Jansson	SVP, Human Resources and Safety	2006	13,193	17,072
Lars Peter Lindfors	SVP, Technology	2009	9,663	14,063
Jyrki Mäki-Kala	CFO	2013	11,000	14,013
Christian Ståhlberg	General Counsel	2017	–	–

[1] The figure also includes the shares personally acquired by the executive (if any). In case of an executive leaving the Company during restriction period, the Board of Directors may, at its discretion, decide to recover the shares. On 31 December 2018 all NEB members exceeded the ownership requirement, except Christian Ståhlberg, who started in 2017 and Peter Vanacker, who started in 2018.

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. The employees who participate in LTI plans are not entitled to profit share awards during the earning period of the plan.

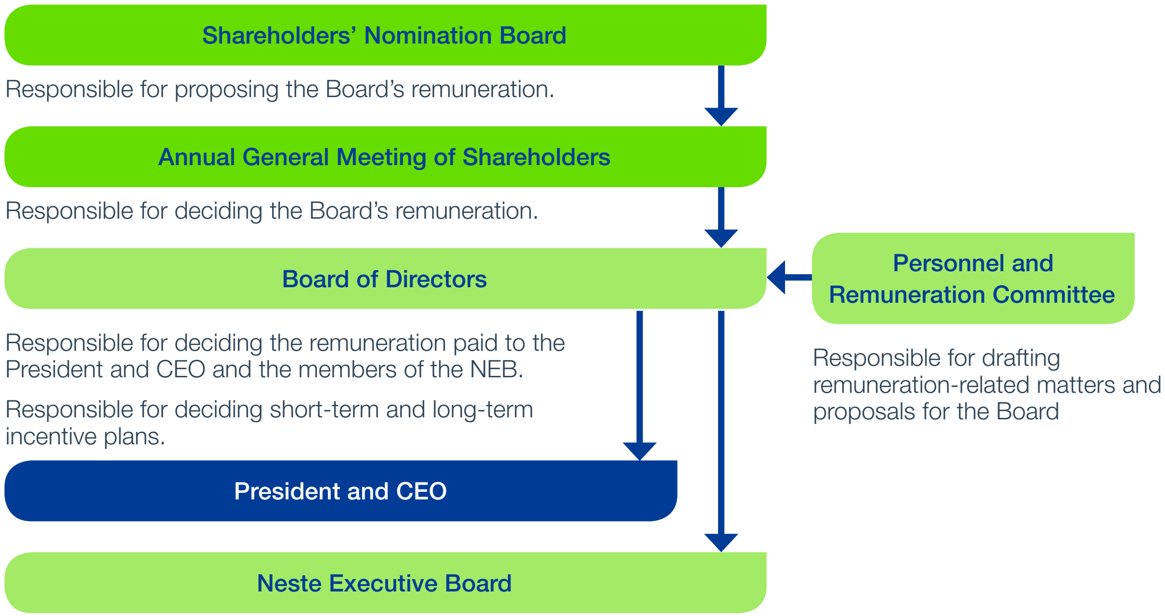
The Board of Directors sets the earning criteria for the profit share award annually. The award is tied to Neste's comparable operating profit. In 2018, the Company's personnel fund contribution was EUR 3.7 million (EUR 4.4 million) based on the comparable operating profit result achieved in 2017.

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, 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 2018, 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

	Annual board fees (EUR)		Meeting attendance fees (EUR)	
	2018	2017	2018	2017
Jorma Eloranta	16,500	66,000	4,200	11,400
Matti Kähkönen	61,800	36,900	15,600	10,200
Elizabeth (Elly) Burghout	26,550	–	18,600	–
Martina Flöel	35,400	26,550	25,800	14,400
Jari Rosendal	26,550	–	10,200	–
Laura Raitio	45,750	35,400	15,600	12,000
Jean-Baptiste Renard	35,400	35,400	25,200	18,600
Willem Schoeber	35,400	35,400	25,800	16,200
Marco Wirén	35,400	35,400	19,800	12,000

The meeting attendance fees include also meeting fees paid due to special tasks set by the Board of Directors, but not travel expenses.

Details of the shareholdings of the Board of Directors are shown in the Annual Report on pages 76-77. These shares are personally acquired.

Review by the Board of Directors

Review by the Board of Directors 2018

Neste had a very strong year in 2018. We posted a record-high comparable operating profit of EUR 1,422 million compared to EUR 1,101 million in the previous year. The Group's operating profit was EUR 1,025 million (1,171 million). We generated a strong cash flow and reached a low leverage ratio at the end of the year. The return on average capital employed reached 21.1%, which exceeds our long term target of 15%. Renewable Products exceeded the previous year's high performance as result of a favorable market and successful sales margin optimization. The segment's sales volumes were lower than in 2017 due to the scheduled maintenances at our Rotterdam and Singapore facilities. Implementation of the renewables growth strategy continued successfully. As an example, the share of 100% renewable diesel delivered to end-users increased from 25% to 30% of total volumes, and the average proportion of waste and residue inputs increased to 83% in 2018. We also took an important step in implementation of the growth strategy, when the final investment decision on the Singapore production capacity expansion was taken in December. In 2018 Oil Products' performance was impacted by a less supportive refining margin environment and a weaker dollar compared to 2017. Marketing & Services were able to maintain their sales volumes at the previous year's level and improve the unit margins in a competitive market. The Board of Directors will propose a dividend of EUR 2.28 per share (1.70) for 2018, totaling EUR 583 million (435 million).

Figures in parentheses refer to the financial statements for 2017, unless otherwise noted.

The Group's results for 2018

Neste's revenue in 2018 totaled EUR 14,918 million (13,217 million). The revenue increase resulted from higher sales prices, which had a positive impact of approx. EUR 2,100 million, and lower sales volumes, which had approx. EUR 100 million negative impact on the revenue. A weaker USD exchange rate had a negative impact of approx. EUR 300 million on the revenue. The Group's comparable operating profit was EUR 1,422 million (1,101 million). Renewable Products' sales margin was significantly higher compared to 2017, and the retroactive US Blender's Tax Credit decision for 2017 supported the first quarter result. Oil Products' result was lower than in 2017, mainly due to a weaker USD exchange rate and lower reference margin. Marketing & Services was able to increase its unit margins and other income, which lead to a higher comparable operating profit than in the previous year. The Others segment's comparable operating profit was lower than in the year 2017, mainly due to Nynas' weaker result.

Renewable Products' full-year comparable operating profit was EUR 983 million (561 million), Oil Products' EUR 397 million (495 million), and Marketing & Services' EUR 77 million (68 million). The comparable operating profit of the Others segment totaled EUR –36 million (–24 million); Nynas accounted for EUR –12 million (–2 million) of this figure.

The Group's operating profit was EUR 1,025 million (1,171 million), which was impacted by inventory valuation losses of EUR 269 million (gains of 31 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 117 million (24 million), mainly related to margin hedging. In addition there were asset writedowns totaling EUR 198 million regarding our minority shareholding in Nynas AB during the third quarter and in Neste Oil Bahrain W.L.L. during the fourth quarter. Neste is currently engaged in arbitration with the Bahrain base oil joint operation partners concerning a contractual dispute. Profit before income taxes was EUR 951 million (1,094 million), and net profit EUR 779 million (914 million). Comparable earnings per share were EUR 4.50 (3.33), and earnings per share EUR 3.04 (3.56).

Group key figures, MEUR

	2018	2017
Comparable operating profit	1,422	1,101
– inventory valuation gains/losses	–269	31
– changes in the fair value of open commodity and currency derivatives	117	24
– capital gains/losses	2	3
– insurance and other compensations	0	0
– impairments	–198	0
– other adjustments [1)]	–48	12
Operating profit	1,025	1,171

[1)] Includes provisions for legal proceedings.

Revenue

	2018	2017
Renewable Products	3,241	3,243
Oil Products	10,105	8,490
Marketing & Services	4,315	3,912
Others	264	237
Eliminations	–3,007	–2,666
Total	14,918	13,217

Comparable operating profit

	2018	2017
Renewable Products	983	561
Oil Products	397	495
Marketing & Services	77	68
Others	–36	–24
Eliminations	2	0
Total	1,422	1,101

Operating profit

	2018	2017
Renewable Products	899	476
Oil Products	170	650
Marketing & Services	77	69
Others	–122	–24
Eliminations	2	0
Total	1,025	1,171

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 below 40%. At the end of December, ROACE calculated over the last 12 months was strong at 21.1%, and leverage ratio remained well below the 40% target.

	31 Dec 2018	31 Dec 2017
Return on average capital employed after tax (ROACE) [1], %	21.1	17.5
Leverage ratio (net debt to capital), %	–1.5	8.7

[1] Last 12 months

Cash flow, investments, and financing

The Group's net cash generated from operating activities totaled EUR 1,452 million (1,094 million) in 2018. The difference mainly resulted from cash released from net working capital and a higher EBITDA of the businesses compared to the previous year. Cash flow before financing activities was EUR 870 million (628 million). The Group's net working capital in days outstanding was 21.4 days (26.9 days) on a rolling 12-month basis at the end of 2018.

	2018	2017
EBITDA	1,639	1,542
Capital gains/losses	–3	–3
Other adjustments	–96	–82
Change in net working capital	99	–104
Finance cost, net	–37	–90
Income taxes paid	–151	–169
Net cash generated from operating activities	1,452	1,094
Capital expenditure	–395	–502
Other investing activities	–187	36
Free cash flow (Cash flow before financing activities)	870	628

Cash-out investments were EUR 395 million (502 million) in 2018. Maintenance investments accounted for EUR 253 million (214 million) and productivity and strategic investments for EUR 142 million (288 million). Renewable Products' investments were EUR 139 million (92 million), mainly related to the Singapore capacity expansion project and refinery catalyst changes and maintenance. Oil Products' investments amounted to EUR 178 million (299 million), with the largest project being the wastewater treatment plant at the refinery in Porvoo. Marketing & Services' investments totaled EUR 23 million (40 million) and were focused on the retail station network. Investments in the Others segment were EUR 55 million (72 million), concentrating on IT and business infrastructure upgrade.

Interest-bearing net debt was EUR –70 million at the end of December 2018, compared to EUR 412 million at the end of 2017. Net financial expenses for the year were EUR 75 million (77 million). The average interest rate of borrowing at the end of December was 3.4% (3.3%) and the average maturity 3.7 (4.5) years. At the end of the year the Net debt to EBITDA ratio was 0.0 (0.3) over the last 12 months.

The leverage ratio was –1.5% (31 Dec 2017: 8.7%), and the gearing ratio –1.5% (31 Dec 2017: 9.5%) at the end of December 2018. The Group's strong financial position enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

The Group's liquid funds and committed, unutilized credit facilities amounted to EUR 2,860 million at the end of December 2018 (31 Dec 2017: 2,433 million). There are no financial covenants in the Group companies' current loan agreements.

In accordance with the 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 2018 the Group's foreign currency hedging ratio was approx. 50% of the sales margin for the next 12 months.

US dollar exchange rate

	2018	2017
EUR/USD, market rate	1.18	1.13
EUR/USD, effective rate[1]	1.19	1.12

[1] The effective rate includes the impact of currency hedges.

Segment reviews

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

Renewable Products

Key financials

	2018	2017
Revenue, MEUR	3,241	3,243
EBITDA, MEUR	1,026	586
Comparable operating profit, MEUR	983	561
Operating profit, MEUR	899	476
Net assets, MEUR	2,018	1,863
Return on net assets[1], %	48.0	25.6
Comparable return on net assets[1], %	52.4	30.2

[1] Last 12 months

Key drivers

	2018	2017
FAME – Palm oil price differential[1], USD/ton	330	242
SME – Palm oil price differential[2], USD/ton	231	225
Reference margin, USD/ton	400	291
Additional margin[3], USD/ton	310	184
Comparable sales margin, USD/ton	600	365
Biomass-based diesel (D4) RIN, USD/gal	0.53	1.01
California LCFS Credit, USD/ton	168	89
Palm oil price[4], USD/ton	572	629
Palm oil's share of total feedstock, %	17	24

[1] FAME seasonal vs. CPO BMD 3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month futures price) + 70 $/t freight to ARA (Amsterdam–Rotterdam–Antwerp)

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

[3] Based on standard variable production cost of USD 110/ton

[4] CPO BMD 3rd

Vegetable oil prices were under downward pressure during 2018. Palm oil (CPO) was leading the overall vegetable oil complex down as CPO inventories were increasing. This was mainly due to stronger than expected production growth in Indonesia and a major demand reduction induced by increased import tax in India. Even the acceleration of Indonesian biodiesel mandate implementation during the fourth quarter was not able to curb the decline, and CPO price reached a new record low level in November. Soybean oil (SBO) price was also brought down as SBO competes directly with CPO in the food sector. China's implementation of 25% imports tariffs on US soybeans amid trade war escalation triggered a downward move in SBO price by mid-year. During the second half of 2018, SBO price remained relatively stable. While dropping in early 2018, rapeseed oil (RSO) price resisted the downward pressure during the second half of the year as RSO supply was limited by the summer drought and logistics problems due to low water levels in Central European rivers and channels. However, towards the end of year RSO started to decline.

European FAME biodiesel producers' margins were very low in early 2018, but recovered to healthy levels for the rest of the year. The margins were boosted by larger than normal spring maintenance in biodiesel production, and by strong demand combined with limited availability, particularly during the winter period in the fourth quarter. US SME biodiesel producers' margins remained positive throughout the year, supported by the end of SME imports from Argentina. SME producers' margins declined in the fourth quarter as anticipation of a retroactive BTC implementation lead to overproduction.

The US Renewable Identification Number (RIN) D4 price peaked in February at 84 cents per gallon before turning on a continuous downtrend through October. That was impacted by the gradual decline in SBO price, and the negative impact of the biofuel mandate waivers granted to small refineries. D4 RIN price started to rebound just before the year end as crude oil and oil product prices came down. On the other hand, the California Low Carbon Fuel Standard (LCFS) price increased during the year reflecting the difficulty to fulfill the increasingly stringent GHG reduction targets in the state.

Renewable Products' full-year comparable operating profit was EUR 983 million (561 million). The comparable sales margin was significantly higher than in 2017, and had a positive impact of EUR 512 million on the comparable operating profit year-on-year. Additionally, the retroactive US Blender's Tax Credit decided for the full year 2017 had a positive impact of EUR 140 million on the comparable operating profit in the first quarter. Sales volumes were 2.26 million tons in 2018, approx. 12% lower than in previous year, mainly due to the scheduled maintenance at the Rotterdam and Singapore refineries. Lower sales volumes had a negative impact of EUR 169 million on the segment's comparable operating profit year-on-year. During 2018 approximately 72% (74%) of sales volume went to Europe and 28% (26%) to North America. The share of 100% renewable diesel delivered to end-users increased to 30% (25%) of total volumes in full-year 2018. Renewable diesel production had a capacity utilization rate of 84% (98%) in 2018, impacted by the scheduled maintenance. Feedstock mix optimization continued successfully, and the average proportion of waste and residue inputs was 83% (76%). A weaker USD had a negative impact of EUR 21 million on the segment's comparable operating profit compared to the year 2017. During 2018 the segment's fixed costs were EUR 24 million higher than in the previous year, mainly related to strategic growth projects.

Production

	2018	2017
Neste MY Renewable Diesel, 1,000 ton	2,368	2,587
Other products, 1,000 ton	214	196
Utilization rate, %	84	98

Sales

	2018	2017
Neste Renewable Diesel, 1,000 ton	2,261	2,567
Share of sales volumes to Europe, %	72	74
Share of sales volumes to North America, %	28	26

Oil Products

Key financials

	2018	2017
Revenue, MEUR	10,105	8,490
EBITDA, MEUR	515	863
Comparable operating profit, MEUR	397	495
Operating profit, MEUR	170	650
Net assets, MEUR	2,257	2,497
Return on net assets [1], %	6.7	25.6
Comparable return on net assets [1], %	15.7	19.5

[1] Last 12 months

Key drivers

	2018	2017
Reference refining margin, USD/bbl	5.01	5.68
Additional margin, USD/bbl	6.17	5.39
Total refining margin, USD/bbl	11.18	11.08
Urals-Brent price differential, USD/bbl	–1.51	–1.39
Urals' share of total refinery input, %	69	69

Crude oil prices were volatile during 2018, and Brent traded in a range between USD 50/bbl and USD 86/bbl. Crude price trended up from the first quarter until the end of the third quarter. During that period crude oil market was supported by the agreement between OPEC and non-OPEC countries to cut oil production, and also geopolitical tensions impacted the crude oil price. Towards the end of the third quarter the coming sanctions against Iran played a key role in crude oil price increasing further to USD 85/bbl level. However, during the fourth quarter crude oil price came under heavy pressure as the crude oil demand growth outlook became more uncertain, higher price was boosting investments in crude supply, and the global equity markets were weakening. In December the OPEC and non-OPEC countries made a decision to continue the supply cuts, but it was not sufficient to stabilize crude prices. In 2018 Brent price averaged USD 71.7/bbl.

The Russian Export Blend (REB) crude averaged USD 1.5/bbl lower than Brent in 2018, and USD 0.9/bbl lower during the fourth quarter. The OPEC production cuts in heavier crude qualities, lower REB export volumes through the Baltic Sea ports compared to 2017, and sanctions against Iran were the key drivers of REB price during 2018. Towards the end of the fourth quarter the sanctions against Iran drove REB price differential to Brent to very narrow levels.

Reference margin trended upwards during the first half of 2018 driven by good product demand and global spring refinery maintenance season. During the summer season high US refinery runs, rising gasoline inventories, and concerns of higher crude oil price negatively impacting gasoline demand, had a dampening effect on the reference margin. Reference margin spiked in August driven by the hot and dry weather conditions, which caused cooling limitations for many European refineries. Weather related factors played a role also later in the year as low water levels in the river Rhine boosted reference margin in November. Reference margin weakened towards the end of the year as high refinery utilization rates in the US and seasonally weaker gasoline demand drove lower gasoline cracks, and narrowing REB differential negatively impacted refining margins. On average diesel was the strongest part of the barrel in 2018. Neste's reference margin averaged USD 5.0/bbl in 2018, and USD 4.3/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 397 million (495 million). During 2018 the reference margin was approx. USD 0.7/bbl lower than in 2017, which had a negative impact of EUR 61 million on the comparable operating profit. The additional margin averaged at USD 6.2/bbl, and had a positive impact of 81 million compared to the previous year. A weaker USD exchange rate had a negative impact of EUR 41 million on the comparable operating profit compared to 2017. During the year 2018 the segment's fixed costs were EUR 53 million higher than in the previous year, mainly due to increased costs for maintenance activities, and planning of the Porvoo refinery major turnaround in 2020.

Production

	2018	2017
Refinery		
– Production, 1,000 ton	13,959	13,916
– Utilization rate, %	89	89
Refinery production costs, USD/bbl	4.9	4.4
Bahrain base oil plant production (Neste's share), 1,000 ton	190	210

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

	2018	%	2017	%
Middle distillates[1]	7,119	49	7,154	50
Light distillates[2]	4,732	33	4,630	33
Heavy fuel oil	1,177	8	1,137	8
Base oils	483	3	449	3
Other products	922	6	823	6
Total	14,433	100	14,193	100

[1] Diesel, jet fuel, heating oil, low sulphur marine fuels
[2] Motor gasoline, gasoline components, LPG

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

	2018	%	2017	%
Baltic Sea area[1]	8,770	61	8,268	58
Other Europe	3,930	27	4,606	32
North America	1,016	7	746	5
Other areas	717	5	572	4

[1] Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark

Marketing & Services

Key financials

	2018	2017
Revenue, MEUR	4,315	3,912
EBITDA. MEUR	101	93
Comparable operating profit, MEUR	77	68
Operating profit, MEUR	77	69
Net assets, MEUR	249	280
Return on net assets[1], %	29.1	28.7
Comparable return on net assets[1], %	29.1	28.5

[1] Last 12 months

Marketing & Services segment's full-year comparable operating profit was EUR 77 million (68 million). Sales volumes were maintained at the previous year's level. Average unit margins improved, which had a positive impact of EUR 5 million year-on-year. Also the other income was higher than in 2017, which had a positive impact of EUR 5 million on the comparable operating profit. The segment's fixed costs were EUR 1 million higher compared to the full-year 2017.

Sales volumes by main product categories, million liters

	2018	2017
Gasoline, station sales	1,049	1,080
Diesel, station sales	1,764	1,739
Heating oil	669	615

Net sales by market area, MEUR

	2018	2017
Finland	3,149	2,820
Northwest Russia	299	290
Baltic countries	867	802

Others

	2018	2017
Comparable operating profit, MEUR	–36	–24
Operating profit, MEUR	–122	–24

The Others segment consists of Neste Engineering Solutions, Nynas, a joint venture owned by Neste (49.99% share) and Petróleos de Venezuela, and common corporate costs. The full-year comparable operating profit of the Others segment totaled EUR –36 million (–24 million); Nynas accounted for EUR –12 (–2 million) of this figure. Nynas' result was impacted by lower sales volumes and higher production costs compared to the previous year. As a result of normal impairment testing, we booked an asset writedown of EUR 86 million regarding our shareholding in Nynas AB during the third quarter.

Shares, share trading, and ownership

Neste's shares are mainly traded on NASDAQ Helsinki Ltd. The share price closed the year at EUR 67.36, up by 26.3% compared to the end of 2017. The total shareholder return (TSR) was 29.4% (49.7%) in 2018. At its highest during 2018, the share price reached EUR 76.54, while the lowest price was EUR 52.12. Market capitalization was EUR 17.3 billion as of 31 December 2018. An average of 0.51 million shares were traded daily, representing 0.2% of the company's shares.

Neste's share capital registered with the Company Register as of 31 December 2018 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 2018, Neste held 573,662 treasury shares purchased under this authorization. As resolved by the AGM held on 5 April 2018, the Board of Directors was authorized to take one or more decisions on the conveyance of treasury shares held by the company totaling a maximum of 1,000,000 shares. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

As of 31 December 2018, the State of Finland owned directly 36.4% (50.1% at the end of 2017) of outstanding shares, foreign institutions 37.6% (31.5%), Finnish institutions 18.3% (9.6%), and Finnish households 7.7% (8.7%).

Largest shareholders as of 31 December 2018

Shareholder	Shares	% of shares
State of Finland / Prime Minister's Office	93,438,038	36.44%
Valtion Kehitysyhtiö Vake Oy (State Business Development Company)	21,298,041	8.31%
Ilmarinen Mutual Pension Insurance Company	4,077,877	1.59%
Varma Mutual Pension Insurance Company	3,450,486	1.35%
The Finnish Social Insurance Institution	2,648,424	1.03%
The State Pension Fund	1,600,000	0.62%
City of Kurikka	1,550,875	0.60%
Elo Mutual Pension Insurance Company	1,399,000	0.55%
OP-Finland	1,153,152	0.45%
Schweizerische Nationalbank	716,734	0.28%
Neste Oyj	573,662	0.22%
Sigrid Jusélius Foundation	370,000	0.14%
Alhopuro Eero Sakari	362,600	0.14%
Finnish Cultural Foundation	303,113	0.12%
Säästöpankki Kotimaa Mutual Fund	287,500	0.11%
Nordea Pro Finland Fund	286,675	0.11%
XACT Nordic 30 (UCITS ETF)	266,912	0.10%
Seligson & Co OMX Helsinki 25 Exchange Traded Fund (ETF)	257,933	0.10%
Evli Finland Select Fund	225,000	0.09%
Danske Finnish Institutional Equity Fund	223,000	0.09%
20 largest owners total	134,489,022	52.45%
Nominee registered	95,059,518	37.07%
Others	26,855,146	10.48%
Number of shares, total	256,403,686	100.00%

Breakdown of share ownership as of 31 December 2018

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1–100	28,142	46.1%	1,362,053	0.5%
101–500	23,727	38.9%	5,737,818	2.2%
501–1,000	5,077	8.3%	3,831,861	1.5%
1,001–5,000	3,633	6.0%	7,224,365	2.8%
5,001–10,000	271	0.4%	1,922,907	0.8%
10,001–50,000	160	0.3%	3,347,656	1.3%
50,001–100,000	25	0.0%	1,916,430	0.8%
100,001–500,000	20	0.0%	4,379,537	1.7%
500,001–	16	0.0%	226,681,059	88.4%
Total	61,071	100.0%	256,403,686	100.0%
of which nominee registrations	11		95,059,518	37.1%

By the owner sector

	% of shares
Central government [1]	44.7%
Non-Finnish shareholders	37.6%
Households	7.7%
General government	5.9%
Financial and insurance companies	1.8%
Corporations	1.0%
Non-profit organizations	1.3%
Total	100.0%

[1] Includes both State of Finland and Valtion Kehitysyhtiö Vake Oy.

Corporate governance

The control and management of Neste Corporation is divided between shareholders, the Board of Directors, and the President and Chief Executive Officer (CEO). The General Meeting of Shareholders appoints the Board of Directors based on a proposal made by the Shareholders' Nomination Board. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting of Shareholders (AGM) following its election. Neste's President and 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 Corporation's Annual General Meeting (AGM) was held in Helsinki on 5 April 2018. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2017, and discharged the Board of Directors and the President and CEO from liability for 2017. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2017, authorizing payment of a dividend of EUR 1.70 per share in two installments. The first dividend installment, EUR 0.85 per share, was paid on 16 April 2018, and the second installment, EUR 0.85 per share, was paid on 17 October 2018.

In accordance with the proposal made by the Shareholders' Nomination Board, the AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Ms. Martina Flöel, Mr. Matti Kähkönen, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. The following were elected as new members: Ms. Elizabeth (Elly) Burghout and Mr. Jari Rosendal. Mr. Kähkönen was elected as Chair and Ms. Raitio as new Vice Chair.

Convening right after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Matti Kähkönen was elected Chair and Elly Burghout, Laura Raitio, and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Martina Flöel, Jari Rosendal and Willem Schoeber 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.

The AGM approved the Board of Directors' proposal on authorizing the Board to decide on the conveyance of the treasury shares held by the company under the following terms:

Under the authorization, the Board shall be authorized to take one or more decisions on the conveyance of treasury shares held by the company, provided that the number of shares thereby conveyed totals a maximum of 1,000,000 shares, equivalent to approximately 0.39% of all the company's shares.

The treasury shares held by the company may be conveyed to the company's shareholders in proportion to the shares they already own or through a directed share issue that bypasses shareholders' pre-emptive rights if the company has a weighty financial reason for doing so, such as using the shares in question as consideration in possible acquisitions or in other arrangements that are part of the company's business, to finance investments, or as part of the company's incentive program.

The treasury shares held by the company may be conveyed against payment or free of charge. A directed share issue may only be made free of charge if there is a particularly weighty financial reason, in respect of the company's interests and those of all its shareholders, for doing so.

The Board shall decide on other terms and conditions of share issue. The authorization shall remain in force until 30 June 2021.

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

Research and development

Neste's R&D expenditure totaled EUR 48 million (44 million) in 2018. Expansion of the feedstock portfolio was continued, feedstock pretreatment and purification technologies further developed, and operations of the feedstock hub in Sluiskil, the Netherlands, supported. Research on waste plastic based feedstock for chemical recycling made progress with the ambition level concretized to use more than 1 Mton/a of liquefied waste plastic as refinery feedstock by 2030. Broadening of the product portfolio was done with special focus on renewable aviation fuel, low sulphur marine fuels, and new bio-based chemicals and chemically recycled plastics. Neste's patent portfolio in renewable feedstock, fuels and chemical applications was further strengthened with record high number of new patents and patent applications.

R&D supported activities for further expanding the feedstock portfolio in Renewable Products production towards higher share of lower quality waste and residue feedstock such as used cooking oils. It also supported capacity debottlenecking and maintenance cycle optimization at the production sites. Key priority was to provide validation information on the NEXBTL technology improvements included into the design of the Singapore capacity expansion project. Technology development for utilizing waste plastic as refinery feedstock was enhanced with selected external partners along the waste plastics to fuels and chemicals value chain.

R&D pursued to establish more strategic co-operations with external partners, key universities and institutes. For example, a strategic research co-operation with Aalto University was announced in the autumn.

Main events published during 2018

On 4 January, Neste announced that it had received an announcement pursuant to Chapter 9, Section 5 of the Securities Markets Act regarding a change in its shareholding. Prime Minister's Office had announced that its aggregate holding of shares and votes in Neste Corporation had decreased below the 50% threshold and was currently 49.74%.

On 9 February, Neste announced that Neste's Board of Directors had appointed Peter Vanacker President and CEO of Neste as of 1 November 2018. He will join Neste on 1 September 2018 as a Senior Executive and start familiarizing himself with Neste's business and operations. Matti Lievonen, who has served as Neste Corporation's President and CEO since 2008, acted as the President and CEO of Neste until 31 October 2018 and retired at the end of the 2018 after reaching his retirement age.

On 9 February, Neste announced that the US Blender's Tax Credit (BTC) had been approved retroactively for the year 2017. The retroactive reinstatement of the BTC for 2017 will have a positive impact on Neste's comparable operating profit in the first quarter of 2018. The impact is estimated to be somewhat lower than it was in the full year 2016. The respective cash flow is expected to be received during the first half of 2018.

On 19 March, Neste announced that it had started up the world's first large-scale renewable propane production facility in Rotterdam in the Netherlands. The first cargo of renewable propane had been delivered to SHV Energy, who will market and sell the product to its customers across Europe as BioLPG. Neste's new facility has a production capacity of 40,000 tons per year.

On 25 May, Neste announced that it had agreed to acquire the sole control and 51% of the shares of IH Demeter B.V., a Dutch trader of animal fats and proteins. The current owners shall remain as co-owners. The transaction was subject to regulatory approvals.

On 7 June, Neste announced that Neste and IKEA are now able to utilize renewable residue and waste raw materials as well as sustainably-produced vegetable oils in the production of plastic products. The pilot at commercial scale starts during the fall 2018. It will be the first large-scale production of renewable, bio-based polypropylene plastic globally.

On 14 June, Neste announced that it was satisfied with the preliminary agreement on the EU Renewable Energy Directive (RED II). The trialogue negotiations between the European Council, the European Parliament and the European Commission on the post–2020 EU Renewable Energy Directive (RED II) took place in Strasbourg.

On 18 June, Neste announced that it will be collaborating with Dallas Fort Worth International Airport (DFW) in an effort to reduce air pollution, especially carbon dioxide emissions, from aircraft at DFW. Both parties share the view that environmental awareness is growing globally and actions to combat climate change are needed in aviation, the fastest growing means of transport in the world today.

On 27 June, Neste announced that it welcomes the US EPA's proposal on renewable fuel volume requirements. The US Environmental Protection Agency (EPA) announced its proposal covering the renewable fuel volume requirements for 2019 under the Renewable Fuel Standard (RFS) program on 26 June. The proposal calls for an almost 600 million gallon increase in the advanced biofuel category in 2019, from the current 4.29 billion gallons to 4.88 billion gallons in 2019. The biomass-based diesel standard for 2019 was already set in 2017. However, the EPA proposes an over 15% increase in the biomass-based diesel category in 2020 from 2.1 billion gallons to 2.43 billion gallons.

On 18 July, Neste announced that it is exploring ways to introduce liquefied waste plastic as a future raw material for fossil refining. The aim of the development project is to proceed to industrial scale trial during 2019. The company's target is to process annually more than one million tons of waste plastic by 2030.

On 3 September, Neste announced that its acquisition of the share majority of the Dutch animal fat trader Demeter has been approved by the regulatory authorities, and the deal has been closed. Neste now owns 51% of the shares of IH Demeter B.V., making Neste the controlling shareholder. The former owners remain as co-owners.

On 11 September, Neste announced that it had signed a Memorandum of Understanding (MOU) with Alaska Airlines. In addition to Alaska Airlines' efforts to increase fuel-efficiency and adopt innovative flight technology, the agreement will allow Neste and Alaska to work more closely together to design, create and implement solutions that lay the groundwork for the wider adoption of renewable fuels within the airline industry.

On 12 September, Neste announced that the following members had been appointed to Neste's Shareholders' Nomination Board: The Chair, Senior Financial Counsellor Jarmo Väisänen of the Ownership Steering Department in the Prime Minister's Office of Finland; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company; Executive Vice-President Reima Rytsölä of Varma Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors.

On 11 October, Neste announced that Neste and Air BP, the international aviation fuel products and services supplier, had entered into an agreement to explore opportunities to increase the supply and availability of sustainable aviation fuel for airline customers.

On 1 November, Neste announced that Peter Vanacker had started as the President and CEO. He joined Neste in September 2018 as a Senior Executive and since then had familiarized himself with Neste's business and operations.

On 6 November, Neste announced that Neste and Clariant, a world leader in specialty chemicals, have signed an agreement for a new partnership to join forces in developing and making new sustainable material solutions accessible to a variety of industries. In the first phase of the partnership, companies will start replacing fossil-based ethylene and propylene used in Clariant's top-quality hot-melt adhesives, with monomers derived from renewable feedstock. In a later phase, the companies will also develop other sustainable additive solutions derived from renewable raw materials for plastics and coatings applications.

On 7 November, Neste announced that it is launching Neste MY Renewable Diesel for the Swedish transport market. It is made from 100% renewable raw materials and emits up to 90% less greenhouse gas emissions compared to conventional fossil diesel. Neste MY Renewable Diesel in Sweden is aimed initially at the transport industry and other business customers and is sold via the distributors Swea Energi, Biofuel Express, Ecobränsle, Colabitoil and Energifabriken. The fuel can easily replace traditional diesel in private cars as well.

On 13 November, Neste announced that it was satisfied with the European Parliament's voting on the EU post–2020 Renewable Energy Directive (RED II). As expected, the Parliament supports the EU-wide overall target of 32% for renewables in 2030, and the binding target of minimum 14% for renewables in transport in 2030. The Renewable Energy Directive creates a predictable investment environment for biofuels. The proposal needs to be formally approved by the Council before final publication.

On 3 December, Neste announced that the US Environmental Protection Agency (EPA) had published the final ruling covering renewable fuel volume requirements under the Renewable Fuel Standard (RFS) program for 2019, and biomass-based diesel for 2020. The final ruling increases requirements for biomass-based diesel from the 2019 standard by 330 million gallons for 2020. Neste MY Renewable Diesel also competes for the additional advanced biofuel volumes for 2019 which will increase by 630 million gallons over the 2018 standard.

On 5 December, Neste announced that it had received a notification under Chapter 9, Section 5 of the Finnish Securities Markets Act, according to which the total holding of Valtion kehitysyhtiö Vake Oy (State Business Development Company) of the shares and votes of Neste Corporation had risen above the threshold of 5% and was 8.31%. To Neste Corporation's knowledge, Valtion kehitysyhtiö Vake Oy is 100% controlled by the State of Finland.

On 11 December, Neste announced that the Board of Directors of Neste Corporation had decided on the establishment of new share-based long-term incentive schemes for selected members of the Company's management and selected key employees. The decision includes a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure for specific situations.

On 12 December, Neste announced that it had made the final investment decision on additional renewable products production capacity in Singapore. The decision is based on a growing global market demand for low-carbon solutions in transport and cities, aviation, polymers and chemicals. The investment worth approximately EUR 1.4 billion will extend Neste's renewable product overall capacity in Singapore by up to 1.3 million tons per annum, bringing the total renewable product capacity close to 4.5 million tons annually in 2022. The company's target is to start up the new production line during the first half of 2022.

Events after the reporting period

On 18 January, 2019, Neste announced that the Shareholders' Nomination Board proposes to the AGM to be held on 2 April 2019 that the company's Board of Directors shall comprise the following members: The Shareholders' Nomination Board proposes that Mr. Matti Kähkönen shall be re-elected as the Chair of the Board of Directors. In addition, the current Board members Ms. Elly (Elizabeth) Burghout, Ms. Martina Flöel, Mr. Jean-Baptiste Renard, Mr. Jari Rosendal, Mr. Willem Schoeber, and Mr. Marco Wirén are proposed to be re-elected for a further term of office. The Nomination Board further proposes that Mr. Wirén shall be elected as the Vice Chair of the Board. The Shareholders' Nomination Board further proposes that the Board shall have eight members and that Ms. Sonat Burman-Olsson shall be elected as a new member.

Risk Management

Neste considers risk management as an integral part of daily management processes and good corporate governance. 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 framework and processes are aligned with the internationally recognized best practices: COSO Enterprise Risk Management framework and the International Standard for risk management ISO 31000:2009. Framework and principles for risk management have been defined in Neste Corporate risk management policy that has been approved by the Board of Directors.

Risk management policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines. 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 the Board of Directors.

Risks relating to Neste's business

There have not been any significant changes in Neste's short-term risks or uncertainties since the end of 2017.

Key risks affecting Neste's financial results for the next 12 months include political and geopolitical risks, possible trade war, changes in the biofuel regulation, unexpected changes in the market prices, changes in the competitive situation and any scheduled or unexpected shutdowns at Neste's refineries. Outcome of legal proceedings may have an impact 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.

Sustainability risks

Neste's most significant sustainability risks can be categorized as follows:

Risk of adverse environmental impact from emissions to air and water

Neste is subject to a wide array of laws and regulations aiming at safe operations and reduced environmental footprint. In addition, transitioning to a lower-carbon economy entails additional requirements that affect Neste's way to manage refining assets and puts more emphasis on efficient use of different utilities, such as water and energy. In order to ensure continuous compliance with the applicable laws and regulations, Neste has implemented certified management systems that reflect the international standards issued by ISO and OHSAS.

Risk of leaks, explosions and other chemical hazards

Due to their nature, Neste's operations carry an inherent risk of fires, explosions, leaks or other hazards that can result into soil, groundwater or seawater contamination. Especially maritime accidents would at worst have a catastrophic impact on the surrounding environment. Neste has implemented systematic risk management actions to minimize the probability of chemical hazards. Actions taken include ship vetting, systematic safety procedures, partner selection and performance management, and training in own operations.

Risk of adverse environmental footprint from procurement of raw materials for refining

Main raw materials used in Neste's refineries include various vegetable oils, waste and residue fats and diverse crude oils. During the past years, use of palm oil has created a reputational risk as sustainability of palm oil sourcing has caused public discussion and concerns both from NGOs' and customers' side. Neste is committed to ensuring sustainable palm oil sourcing and has implemented several measures to improve transparency in its supply chain.

Risk of process safety incidents or accidents

Neste has implemented comprehensive safety rules and procedures, and is committed to continuously develop the safety practices covering leadership, competence development, performance management and learning from experience.

Potential adverse human rights impacts

Neste has made policy commitments in the form of Neste Human Rights Commitment and Human Rights Principles and taken several initiatives to ensure proper management of human rights related risks. During 2015–2017 Neste conducted social and labour studies of the palm oil industry in Malaysia and Indonesia. In 2016, a corporate-wide human rights impact assessment was conducted. Assessment identified health and safety issues as a salient human rights risk in Neste's operations. In the supply chain, forced labor, conditions of employment, as well as social and economic development especially regarding land issues are the most at risk. Neste started a group-wide implementation program on human and labor rights to fulfil compliance to its Human Rights Commitment and Principles. In 2018, a human rights due diligence process was initiated to evaluate the strength of internal policies, management processes and operating procedures in selected functions.

Suppliers are subject to due diligence procedures, and are required to comply with Neste Supplier Code of Conduct. Neste has improved and strengthened criteria in self-assessment questionnaire and audit checklists for evaluating and understanding human rights risk in renewable raw material supply chain. Neste has strengthened the understanding risks related to human rights during planning and execution of projects.

Risk of corruption and bribery

Risks of corruption and bribery are typically treated as inherent risks of the oil and gas sector due to its global nature, contractual relationships with local governments, and involvement in complex networks with various suppliers and contractors. Neste has stated a zero tolerance to any form of corruption and bribery. As a preventive measure, Neste has developed a compliance program which includes policy statements (Code of Conduct, Anti-corruption Principle), dedicated eLearning packages, as well as Ethics Online for reporting of suspected misconduct. Neste's counterparties are required to comply with Supplier Code of Conduct and compliance clearance. The Compliance clearance covers the following: trade sanctions, politically exposed persons, money laundering, corruption and bribery.

Environment, Social and Governance (ESG)

Neste fulfills the requirements in the EU Directive on disclosure of non-financial and diversity information, and the changes made in the Finnish Accounting Act. In addition, Neste reports according to the GRI (Global Reporting Initiative) Standards where applicable. For more on Neste's sustainability, see Neste's Annual Report and Neste's website.

Business model

Neste employed an average of 5,468 (5,297) employees in 2018, of which 1,787 (1,693) were based outside Finland. At the end of December, the company had 5,413 employees (5,339), of which 1,820 (1,758) were located outside Finland. Neste produces a wide variety of traditional oil products and is the world's largest producer of renewable diesel. Our target is to become the preferred partner as a provider of sustainable chemicals and plastics solutions for forerunner brands, and we are exploring ways to utilize liquefied plastic waste to replace crude oil in the production of fuels, chemicals, and new plastics.

Neste's business areas are Renewable Products, Oil Products, and Marketing & Services. Neste has integrated sustainability into its business strategy in order to secure long-term success of its business. Neste's purpose is to leave a healthier planet for future generations, and its vision is to create responsible choices every day.

Our sustainably-produced solutions are our most significant contribution to the implementation of the Paris Agreement, as well as, the United Nations' Sustainable Development Goals (SDG) on “Climate Action” (SDG 13) and “Sustainable Cities and Communities” (SDG 11). Neste creates value for society by helping its customers reduce climate emissions by developing cleaner solutions for transportation, aviation, and marine uses, as well as bio-based solutions from renewable raw materials for the chemical and plastics industries. Neste's NEXBTL refining technology enables flexible use of various renewable raw materials including low-quality waste and residue oils and fats. We believe that a strong focus on circular economy, particularly our smart utilization of waste and residue raw materials continue to provide us a steady basis for business growth also in the future. Securing the supply of renewable raw materials is considered essential for the success of Neste's growth strategy. Neste is also focused on providing excellent customer service, as well as flexible and reliable customer solutions.

Neste's value creation is also based on its global business model for raw material sourcing and product sales, in-depth knowledge of regulations and customer requirements for both fossil and renewable products, as well as continuous innovation and development of products and solutions. Non-financial assets, e.g. production, sales and sourcing expertise, are an essential part of Neste's value creation. Substantial effort is put into maintaining and developing the skills base within the company. We are investing in developing our corporate culture to deeply ingrain customer satisfaction, safety and operational efficiency into our day-to-day operations. Please see Neste's value creation map in our Sustainability report.

See also: Outlook

Materiality

This ESG report focuses on the most material sustainability topics for Neste and its stakeholders in relation to value creation and risk management. Neste conducts a materiality assessment once every two years. The most recent assessment was conducted in spring 2018 with altogether 161 responses received from internal and external stakeholders via interviews and a web-based survey. We selected 28 representatives of our key stakeholders to be interviewed. The materiality assessment identified nine material topics that provide the framework for our sustainability agenda. The materiality matrix describes the significance of these key sustainability topics from the point of view of our business operations and stakeholders.

Neste's nine material topics relate to the following four themes of the non-financial reporting requirements: *Environmental matters* identified as material for Neste include Protecting biodiversity and preventing deforestation, Resource efficiency, as well as Safety and incident-free operation. Material issues relating to the following three themes *Social and employee matters*, *Respect for human rights*, and *Anti-corruption and anti-bribery* are Human rights, Fair and equal employment, as well as Safety and incident-free operation. The following material topics are linked to all four themes: Economic responsibility, Good corporate citizenship and ethics, Low-carbon solutions, as well as Sustainability of raw materials.

Policies and principles

Neste's key sustainability policies and principles are Code of Conduct, Sustainability Policy, Supplier Code of Conduct, No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock, Anti-Corruption Principle, and Human Rights Principle.

Environmental matters

All of Neste's 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 Neste's renewable products refineries have EU compliant International Sustainability and Carbon Certification (ISCC), as well as Roundtable on Sustainable Palm Oil (RSPO) and Hydrotreated Vegetable Oil (HVO) Scheme certificates. In the United States, the sustainability of Neste's renewable fuels is monitored based on the Environmental Protection Agency's (EPA) sustainability requirements. We procure renewable raw materials only from suppliers who meet our strict criteria and fully comply with the regulatory requirements for biofuels in our key markets. All suppliers of renewable raw materials must pass a due diligence process related to sustainability of the raw material production.

Potential crude oil suppliers undergo a two-phase assessment that includes a financial review and a compliance assessment based on risk review. Neste's Supplier Code of Conduct defines the basic requirements Neste requires its suppliers to adhere to. Neste's supplier contracts contain strict audit terms. Neste's key policies and principles concerning environmental matters related to sourcing of renewable raw materials are No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock, as well as Sustainability Principles for Biofuels. In 2017, Neste started to renew its No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock and renamed them as Neste Responsible Sourcing Principle. The implementation of the guidelines will start in 2019. All of Neste's palm oil suppliers are committed to no deforestation policies, and extended those to cover also their third party suppliers, since 2015. All the palm oil we have used has been fully traceable to the plantation level since 2007, and 100% certified since 2013.

Social and employee matters

Neste's Gender Equality and Non-Discrimination Principles, and Neste's Equality Plan follow the Finnish legislation on equality. Neste promotes equality e.g. by ensuring that it follows non-discriminatory procedures in recruitment, task distribution, access to training, and remuneration. Implementation of the Equality Plan is monitored by the company's Equality and Non-Discrimination Working Group.

Neste aims at zero accidents and incidents. We believe that all accidents and incidents can be prevented. We continuously develop people safety and the safety of our assets through improving working conditions and asset integrity, and by improving the knowledge and awareness of Neste's, its contractors', and other partners' personnel on aspects affecting safety. Following the renewal of our corporate-level Health, Safety and Environment (HSE) management system and 15 HSE principles, Neste developed an audit model for the HSE principles and instructions, and started the audit processes in the second half of 2018.

Neste's key policies and principles concerning social and employee matters are Human Resources Policy, Gender Equality and Non-Discrimination Principle, Neste Global Pay Principles, Senior Management Remuneration Principles, Global Employee Benefits Principle, and Recruitment Principles.

See also: Diversity of the Board of Directors

Respect for human rights

Neste is committed to respect human rights and requires the same from all partners. Neste committed to the United Nations Guiding Principle (UNGP) by publishing our Human Rights Commitment in 2015. Following the 2016 corporate-wide human rights impact assessment, in 2018 Neste initiated a human rights due diligence (HRDD) process across relevant internal departments and units to evaluate their preparedness to follow and promote internal policies, management processes and operating procedures. Neste's key policies and principles concerning human rights are Neste Human Rights Commitment and Neste Human Rights Principle.

Anti-corruption and bribery matters

Neste and its management are committed to conducting company's global operations ethically and with integrity. As stated in the company's Code of Conduct, Neste has zero tolerance for corruption of any kind in connection with Neste's operations, whether committed by Neste employees or third parties acting on behalf of Neste. Neste also requires that its external business partners acting for or on behalf of the company are aware of and share the commitment to zero tolerance for corruption. Neste's key policies and principles concerning anti-corruption and bribery are Code of Conduct, Anti-Corruption Principle, and Supplier Code of Conduct.

Outcomes and key performance indicators

Neste's sustainability policies, and principles apply to the company as a whole and guide all its operations. In addition, international conventions and commitments underlie Neste's work. In 2018, Neste was included in the Dow Jones Sustainability World Index for the 12th consecutive time. Neste was included both in the DJSI World and DJSI Europe. The industry's best scores in climate strategy, environmental reporting, and water-related risks contributed to the company's inclusion among the top performers. In January 2018, Neste was ranked the second most sustainable company in the world on the Global 100 list. This was the company's highest-ever ranking. In 2019, Neste placed 3rd on the Global 100 list while also reaching the leading performers' A List based on the CDP Climate Change assessment.

Environmental matters

In 2018, we updated our Neste Traceability Dashboard to provide exact coordinates to the palm oil plantations in Neste's supply chain. We also introduced data on our palm fatty acid distillate (PFAD) supply chain. By the end of 2017, we had mapped 96% of our PFAD supply chain to the palm oil mills supplying the palm oil refineries where PFAD is extracted during vegetable oil refining. In 2018, we continued our PFAD supply chain mapping efforts in collaboration with palm oil suppliers and sustainability specialist from the Consortium of Resource Experts (CORE). With CORE, we continued conducting risk assessments of palm oil mills that supply palm oil to refineries where PFAD is extracted as a processing residue. We continued developing a new Supplier Sustainability Portal to digitalize renewable raw material supplier evaluation, monitoring, and engagement, and released its first version in December 2018.

Emissions from operations at Neste's refineries were in substantial compliance at all sites during 2018. A total of two minor non-compliance cases occurred in Neste's operations with very limited local environmental impact. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. Efforts to improve environmental management during 2018 contributed to the performance improvement.

Key figures	2018	2017
Emission limits and overruns: All deviations from environmental permits. Target: Halve the number of incidents within Oil Products (OP) in 2018 compared to the average number of incidents in 2016–2017. Long-term target for OP and Renewable Products (RP): zero permit violations.	Permit violations: 2, of which 2 in OP	Permit violations: 10, of which 7 in OP (2016 all: 8, OP: 6)
Energy efficiency, energy saving measures GWh Target: Reduce Neste's energy consumption by 500 GWh during 2017–2025	57	4
GHG reduction achieved with Neste's renewable fuels compared to crude oil based diesel, million tons.[1] Target: To reach 14 Mt GHG reduction by 2023.	7.9	8.3
The number of potential renewable raw material suppliers' Due Diligence (DD) and their outcome. [2]	Total: 87 New approved suppliers: 41 All approved: 52 Pending: 35 Failed: 0	Total: 91 Approved: 46 Ongoing: 44 Failed: 1

[1] Cumulative greenhouse gas (GHG) reduction achieved with Neste's renewable fuels compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC). Neste updates regularly its GHG emission factors according to the updates in legislation and in the certification schemes.

[2] All figures except "New approved suppliers" include existing suppliers, which undergo a DD process every 5 years.

Social and employee matters

Neste selects a specific focus area each year for its annual Equality Plan implementation. In 2018, we focused on pay equity and on setting indicators to regularly measure progress related to equality both at the corporate and business area levels. We additionally started using more rigorous statistical analysis methods to measure progress related to equality also at the sites outside of Finland.

A discrimination case at one of our service stations in Finland revealed deficiencies in our station network operations. In addition to taking full responsibility and openly communicating about the incidence, we started arranging diversity training for Neste station workers and partners to ensure that our customers, personnel, and other stakeholders are always treated equally and with respect.

Neste's occupational safety performance (TRIF, or rate of accidents requiring medical treatment per million hours worked, including contractors) improved compared to 2017. The annual TRIF result 1.7 was the best ever at Neste, and the target for 2018 was reached.

Process safety performance (PSER, or rate of process safety events per million hours worked) remained at the 2017 level. However, we did not meet our PSER target for 2018. Making substantial improvements in process safety remains a top priority for Neste.

Our long-term safety development activities continue focusing on behavior, leadership, operational discipline, process safety, and contractor safety. The key items in process safety are investments in asset integrity, ensuring comprehensive and effective process hazard analysis and actions in all operations, and continuous development of safety-critical operations.

Key figures	2018	2017
TRIF [1] target: 2.0 for 2018 and 1.5 for 2019 Long-term target: Zero accidents	1.7	2.1
PSER [2] target: 1.7 for 2018 and 1.5 for 2019 Long-term target: Zero safety deviations	2.1	2.1
New employee hires and employee turnover.	Leaving rate of permanent employees 11.4%. Hiring rate of permanent employees 10.9%.	Leaving rate of permanent employees 9.8%. Hiring rate of permanent employees 13.8%.
Employee engagement Target: Maintain a good level of employee engagement.	Neste-level employee engagement survey scheduled for early 2019.	In a brief internal pulse survey conducted in 2017, 86% of employees had clear understanding of Neste's strategy and 92% of employees believed in company's outstanding future. Strategy results remained strong, 13 percentage points above global benchmark. Safety results also exceeded global benchmark and improved by 3 percentage points from 2016 survey.

[1] Total Recordable Incident Frequency, number of cases per million hours worked. The figure includes both Neste's and contractors' personnel. Hours worked for own personnel in December is an estimate based on actual working hours from January to November 2018. Estimation error is irrelevant.

[2] Process Safety Event Rate, number of cases per million hours worked. Hours worked for own personnel in December is an estimate based on actual working hours from January to November 2018. Estimation error is irrelevant.

Respect for human rights

Following the 2016 corporate-wide human rights impact assessment, Neste initiated a human rights due diligence (HRDD) process across relevant internal departments and units to evaluate their preparedness to follow and promote internal policies, management processes, and operating procedures. The HRDD process was kickstarted with three internal groups, beginning with human rights workshops. This is followed by gap assessments to evaluate internal capacity and preparedness to mitigate potential human rights impacts.

For supply chain, we improved and strengthened the human rights criteria in the self-assessment questionnaire and audit checklists for evaluating human rights risks and supplier's sustainability performance in general. This will allow us to gain a deeper understanding of the risk areas to be managed. It also helps suppliers to gain insights and improve their sustainability performance.

Neste has organized annual supplier workshops since 2015 to share key observations from the human rights impact assessments in the palm oil supply chain, for capacity building, to communicate Neste's expectations, and to engage with Neste's suppliers and other key stakeholders. In April 2018, in addition to our raw material suppliers, also their suppliers, so-called third-party suppliers, attended the workshop for the first time. The suppliers visited our Singapore refinery and we shared information regarding Neste's requirements regarding human rights, traceability, and Neste Responsible Sourcing Principle.

Key figures	2018	2017
Managing human rights risks in renewable raw material supply chain Target: To strengthen the human rights criteria in monitoring and measuring suppliers' performance on social (and other sustainability) issues with the digital supplier management system, Supplier Sustainability Portal	Improved and strengthened criteria in self-assessment questionnaire and audit checklists for evaluating human rights risk in supply chain.	Gaps were identified in the management of human rights risks in supply chain.
Internal capacity to manage human rights risks Target for 2019: Most critical functions have initiated human rights due diligence process to evaluate and strengthen internal capacity to mitigate potential negative human rights impacts.	Three internal groups attended human rights workshops and we are in the process of conducting gap assessments.	Planning and preparation work to implement recommendations from the corporate-level human rights impact assessment in 2016 in relevant internal groups.

Anti-corruption and bribery matters

During 2018, employees were reminded about and encouraged to use Neste's whistleblowing system Ethics Online. Ethics Online is available both for employees' and external stakeholders. A total of 13 suspected misconducts were reported during 2018, and a majority of these reports came via the whistleblowing system. Proven misconduct leading to legal actions and process improvements was identified in two of the completed investigations, while no misconduct was found in eight completed investigations. Three cases are still under investigation. Three reports concerned a suspected misconduct by a third party in connection with Neste's operations. Neste's Ethics Committee (later named as Investigations Group) investigated the received reports and reported the number of cases per category to the Board of Directors' Audit Committee and to the Ethics and Compliance Committee consisting of Neste Executive Group members, Chief Compliance Officer, and Head of Internal Audit. During 2018, all new employees were required to complete Code of Conduct online training. Trainings on anti-corruption, competition law compliance, and trade sanction compliance were conducted with defined target groups, such as sales and procurement teams. Prevention of corruption by Neste's business partners was strengthened by the acquisition of a counterparty screening tool, Counterparty Catalyst, which will be implemented in all Neste's operations during 2019.

Key figures	2018	2017
Number of suspected misconducts reported in person or via the whistleblowing system to the Investigations Group. Target: To further encourage employees and external stakeholders to report observed or suspected misconducts.	A total of 13 suspected misconducts were reported, in the following categories: Discrimination and harassment 2, asset misuse 1, tax misconduct 2, fraud 4, conflict of interest 1, human resources related 2, and 1 belongs to category "other". Two misconducts lead to legal actions and process improvements and three cases are still under investigation.	A total of 13 suspected misconducts were reported.

Read more about the topics on Neste's website.

Outlook

Developments in the global economy have been reflected in the renewable fuel, feedstock and oil markets; and volatility in these markets is anticipated to continue. Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Global oil product demand growth is expected to continue at a lower rate than in 2018, while global refining capacity additions are expected to grow driven by large projects in Asia and the Middle East. Based on our current estimates and a hedging rate of 80%, Neste's effective EUR/US dollar rate is expected to be within a range 1.17–1.19 in the first quarter of 2019.

Renewable Products' first-quarter sales volumes are expected to be higher than in the fourth quarter of 2018, with no major changes in the sales allocation. Utilization rates of our renewable production facilities are expected to be high in the first quarter. The scheduled Singapore refinery turnaround, which was completed during the fourth quarter, is estimated to have a negative EBIT impact of EUR 15 million in the first quarter 2019.

Oil Products' reference margin is expected to be low in the first quarter, driven by a weak gasoline market, but to strengthen towards the end of the quarter. Utilization rates of our production facilities are anticipated to be high in the first quarter.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern in the first quarter.

Dividend distribution proposal

Neste's dividend policy is to distribute at least 50 percent of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2018 amounted to EUR 2,181 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 2.28 per share (1.70) for 2018, totaling EUR 583 million (435 million) based on the number of outstanding shares. The Board of Directors will also propose that the annual dividend shall be paid in two installments. The first installment of dividend, EUR 1.14 per share, would be paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for the first dividend installment, which shall be Thursday, 4 April 2019. The Board proposes to the AGM that the first dividend installment would be paid on Thursday, 11 April 2019.

The second installment of the dividend shall be paid in October 2019. The Board of Directors will propose to the Annual General Meeting a share issue without payment (share split). If the Board's proposal is approved, the second installment will be divided between one old and two new shares so that EUR 0.38 will be paid for each share. If the AGM does not approve the share issue without payment proposed by the Board, the second installment will be paid in the same manner as the first, i.e. EUR 1.14 per share. The second installment of dividend would be paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for the second dividend installment, which shall be Friday, 4 October 2019. The Board proposes to the AGM that the second dividend installment would be paid on Friday, 11 October 2019. The Board of Directors is authorized to set a new dividend record date and payment date for the second installment of the dividend, in case the rules and regulations on the Finnish book-entry system would be changed, or otherwise so require.

The proposed dividend represents a yield of 3.4% (at year-end 2018 share price of EUR 67.36) and 51% of the comparable net profit in 2018, and an increase of 34% compared to the dividend distributed in the previous year.

Key figures

Income statement		2018	2017	2016
Revenue	EUR million	14,918	13,217	11,689
Operating profit	EUR million	1,025	1,171	1,155
– of revenue	%	6.9	8.9	9.9
Comparable operating profit	EUR million	1,422	1,101	983
Profit before income taxes	EUR million	951	1,094	1,075
– of revenue	%	6.4	8.3	9.2
EBITDA	EUR million	1,639	1,542	1,521
Comparable net profit	EUR million	1,150	851	793
Profitability				
Return on equity (ROE)	%	17.3	22.7	28.1
Return on average capital employed, after tax (ROACE)	%	21.1	17.5	16.9
Financing and financial position				
Interest-bearing net debt	EUR million	–70	412	683
Leverage ratio	%	–1.5	8.7	15.4
Gearing	%	–1.5	9.5	18.2
Equity-to-assets ratio	%	56.5	55.8	50.6
Other indicators				
Capital employed	EUR million	5,770	5,533	5,226
Capital expenditure and investments in shares	EUR million	438	536	422
– of revenue	%	2.9	4.1	3.6
Research and development expenditure	EUR million	48	44	41
– of revenue	%	0.3	0.3	0.4
Average number of personnel		5,468	5,297	5,013

Share-related indicators		2018	2017	2016
Earnings per share (EPS)	EUR	3.04	3.56	3.67
Comparable earnings per share	EUR	4.50	3.33	3.10
Equity per share	EUR	18.09	16.96	14.60
Cash flow per share	EUR	5.68	4.28	4.67
Price/earnings ratio (P/E)		22.15	14.99	9.94
Dividend per share	EUR	2.28 [1]	1.70	1.30
Dividend payout ratio	%	75.0 [1]	47.8	35.4
Dividend yield	%	3.4 [1]	3.2	3.6
Share prices				
Closing share price	EUR	67.36	53.35	36.50
Average share price	EUR	65.17	38.34	32.25
Lowest share price	EUR	52.12	31.15	25.42
Highest share price	EUR	76.54	54.05	40.78
Market capitalization	EUR million	17,271	13,679	9,359
Trading volumes				
Number of shares traded	1,000	127,161	160,467	200,351
– of weighted average number of shares	%	50	63	78
Weighted average number of shares outstanding		255,822,047	255,775,535	255,696,935
Number of shares outstanding at the end of the period		255,830,024	255,790,141	255,717,112

[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 is presented in Note 4, Segment information.

Reconciliation between comparable operating profitand comparable net profit

EUR million	2018	2017	2016
Comparable operating profit	1,422	1,101	983
IS Total financial income and expenses	–75	–77	–79
IS Income tax expense	–172	–180	–133
IS Non-controlling interests	0	–3	–4
Tax on items affecting comparability	–25	11	26
Comparable net profit	1,150	851	793

Reconciliation of return on average capital employed, after tax (ROACE), %

EUR million	2018	2017	2016
Comparable operating profit, last 12 months	1,422	1,101	983
IS Financial income	7	4	4
IS Exchange rate and fair value gains and losses	–34	–2	–17
IS Income tax expense	–172	–180	–133
Tax on other items affecting ROACE	–32	–1	16
Comparable net profit, net of tax	1,191	921	853
Capital employed average	5,657	5,266	5,047
Return on average capital employed, after tax (ROACE), %	21.1	17.5	16.9

Reconciliation of equity-to-assets ratio, %

EUR million	2018	2017	2016
BS Total equity	4,630	4,338	3,755
BS Total assets	8,224	7,793	7,443
Advances received	–28	–21	–18
Equity-to-assets ratio, %	56.5	55.8	50.6

Reconciliation of net working capital in days outstanding

EUR million	2018	2017	2016
Operative receivables	1,140	1,093	996
BS Inventories	1,482	1,563	1,416
Operative liabilities	–1,750	–1,683	–1,552
Net working capital	873	973	859
IS Revenue	14,918	13,217	11,689
Net working capital in days outstanding	21.4	26.9	26.8

Calculation of key figures

Calculation of key figures

EBITDA	=		Operating profit + depreciation, amortization and impairments
Comparable operating profit[1)]	=		Operating profit –/+ inventory valuation gains/losses –/+ changes in the fair value of open commodity and currency derivatives –/+ capital gains/losses – insurance and other compensations + impairments –/+ other adjustments
Items affecting comparability	=		Inventory valuation gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations, impairments 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 ×	Profit before income taxes – income tax expense, last 12 months / Total equity average, 5 quarters end values
Return on average capital employed, after-tax (ROACE), %	=	100 ×	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 / 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 – current investments
Leverage ratio, %	=	100 ×	Interest-bearing net debt / Interest-bearing net debt + total equity
Gearing, %	=	100 ×	Interest-bearing net debt / Total equity
Equity-to-assets ratio, %	=	100 ×	Total equity / Total assets – advances received
Net working capital in days outstanding	=	365 ×	Net working capital / Revenue, last 12 months
Net Debt to EBITDA	=		Interest-bearing net debt / EBITDA, last 12 months
Return on net assets, %	=	100 ×	Segment operating profit, last 12 months / Average segment net assets, 5 quarters end values
Comparable return on net assets, %	=	100 ×	Segment comparable operating profit, last 12 months / 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

Calculation of share-related indicators

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the owners of the parent}}{\text{Weighted average number of shares outstanding during the period}}$
Comparable earnings per share	=	$\frac{\text{Comparable net profit}}{\text{Weighted average number of shares outstanding during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the owners of the parent}}{\text{Number of shares outstanding at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Weighted average number of shares outstanding during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Closing share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	= 100 ×	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	= 100 ×	$\frac{\text{Dividend per share}}{\text{Closing share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization	=	Number of shares at the end of the period × 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)	=	$\frac{\text{Comparable sales margin × average EUR/USD exchange rate for the period × standard refinery yield}}{\text{Refined sales volume × standard barrels per ton}}$
Oil Products additional margin (USD/bbl)	=	Oil Products total refining margin – Oil Products reference margin
Renewable Products reference margin (USD/ton)	=	70% (Europe's share of sales volume) × (FAME – CPO) [2] + 30% (North America's share of sales volume) × (SME – CPO + LCFS × 2) [2]
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 operating profit. Comparable operating profit eliminates both the inventory valuation 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 operating profit caused by inventory valuation is mostly compensated by changing net 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] FAME = Fatty Acid Methyl Ester biodiesel RED seasonal, CPO = Crude Palm Oil Bursa Malaysia 3rd month + USD 70/ton freight to ARA (Amsterdam–Rotterdam–Antwerp), SME = US Gulf Coast Soy Methyl Ester biodiesel mid-price, LCFS = California Low Carbon Fuel Standard Credit price

Financial Statements

Consolidated Statement of Income

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Revenue	4, 5	14,918	13,217
Other income	6	17	22
Share of profit (loss) of joint ventures	15	–9	1
Materials and services	7	–12,459	–10,927
Employee benefit costs	8	–400	–372
Depreciation, amortization and impairments		–614	–371
Other expenses	9	–429	–399
Operating profit		1,025	1,171
Financial income and expenses	10		
Financial income		7	4
Financial expenses		–48	–79
Exchange rate and fair value gains and losses		–34	–2
Total financial income and expenses		–75	–77
Profit before income taxes		951	1,094
Income tax expense	11	–172	–180
Profit for the period		779	914
Profit attributable to:			
Owners of the parent		778	911
Non-controlling interests		0	3
		779	914
Earnings per share from profit attributable to owners of the parent (in euro per share)	12		
Basic earnings per share		3.04	3.56
Diluted earnings per share		3.03	3.55

Consolidated Statement of Comprehensive Income

EUR million	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Profit for the period	779	914
Other comprehensive income net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements on defined benefit plans	4	2
Items that may be reclassified subsequently to profit or loss		
Translation differences	–16	–15
Cash flow hedges		
recorded in equity	–53	69
transferred to income statement	7	–15
Share of other comprehensive income of investments accounted for using the equity method	–4	2
Total	–65	40
Other comprehensive income for the period, net of tax	–61	42
Total comprehensive income for the period	718	956
Total comprehensive income attributable to:		
Owners of the parent	717	952
Non-controlling interests	0	3
	718	956

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	13	124	100
Property, plant and equipment	14	3,737	3,856
Investments in joint ventures	15	106	213
Non-current receivables	17	87	51
Deferred tax assets	11	34	35
Derivative financial instruments	16, 19	3	4
Other financial assets	17	5	5
Total non-current assets		4,095	4,262
Current assets			
Inventories	18	1,482	1,563
Trade and other receivables	17	1,231	1,097
Derivative financial instruments	16, 19	206	86
Current investments	17	74	0
Cash and cash equivalents	17	1,136	783
Total current assets		4,129	3,530
Total assets		8,224	7,793

EUR million	Note	31 Dec 2018	31 Dec 2017
EQUITY			
Capital and reserves attributable to the owners of the parent	20		
Share capital		40	40
Other equity		4,588	4,298
Total		4,628	4,338
Non-controlling interests		2	0
Total equity		4,630	4,338
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	21	849	1,032
Deferred tax liabilities	11	260	269
Provisions	22	100	55
Pension liabilities	23	124	131
Derivative financial instruments	16, 19	0	0
Other non-current liabilities	21	14	17
Total non-current liabilities		1,347	1,504
Current liabilities			
Interest-bearing liabilities	21	291	163
Current tax liabilities		59	36
Derivative financial instruments	16, 19	149	72
Trade and other payables	21	1,749	1,679
Total current liabilities		2,247	1,951
Total liabilities		3,594	3,455
Total equity and liabilities		8,224	7,793

The notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flows from operating activities			
Profit before income taxes		951	1,094
Adjustments for			
Share of profit (loss) of joint ventures	4, 15	9	–1
Depreciation, amortization and impairments	4	614	371
Other non-cash income and expenses		–105	–81
Financial expenses – net	10	75	77
Profit / loss from disposal of fixed assets and shares	6	–3	–3
Cash flow before change in net working capital		1,541	1,457
Change in net working capital			
Decrease (+) / increase (–) in trade and other receivables		–44	–111
Decrease (+) / increase (–) in inventories		83	–155
Decrease (–) / increase (+) in trade and other payables		60	162
Change in net working capital		99	–104
Cash generated from operations		1,640	1,353
Interest and other finance cost paid		–47	–93
Interest income received		5	5
Realized foreign exchange gains and losses		6	–3
Income taxes paid		–151	–169
Finance cost and income taxes paid		–188	–259
Net cash generated from operating activities		1,452	1,094

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flows from investing activities			
Purchases of property, plant and equipment		–347	–447
Purchases of intangible assets	13	–34	–28
Acquisitions of subsidiaries, net of cash acquired	27	–15	0
Transactions with non-controlling interests		0	–27
Proceeds from sales of property, plant and equipment		2	5
Proceeds from sales of shares in joint arrangements		2	0
Changes in long-term receivables and other investments		–191	31
Cash flows from investing activities		–583	–467
Cash flow before financing activities		870	628
Cash flows from financing activities			
Payment of (–) / proceeds from (+) current interest-bearing liabilities		–18	8
Proceeds from non-current interest-bearing liabilities		0	401
Repayments of non-current interest-bearing liabilities		–64	–692
Dividends paid to the owners of the parent		–435	–332
Dividends paid to non-controlling interests		0	–15
Cash flows from financing activities		–517	–631
Net decrease (–) / increase (+) in cash and cash equivalents		353	–3
Cash and cash equivalents at beginning of the period		783	788
Exchange gains (+) / losses (–) on cash and cash equivalents		0	–2
Cash and cash equivalents at end of the period	17	1,136	783

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

EUR million	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 2017		40	20	4	–10	–62	–75	–52	3,867	**3,733**	22	**3,755**
Profit for the period									911	**911**	3	**914**
Other comprehensive income for the period, net of tax						56	2	–15		**42**		**42**
Total comprehensive income for the period		0	0	0	0	56	2	–15	911	**952**	3	**956**
Transactions with the owners in their capacity as owners												
Dividend decision									–332	**–332**	–15	**–347**
Transactions with non-controlling interests									–17	**–17**	–11	**–27**
Share-based compensation				2	1				–1	**2**		**2**
Transfer from retained earnings			–1						1	**0**		**0**
Total equity at 31 December 2017	20	40	20	7	–9	–6	–73	–68	4,428	**4,338**	0	**4,338**

EUR million	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 2018		40	20	7	–9	–6	–73	–68	4,428	**4,338**	0	**4,338**
Change in accounting policy, IFRS 2									6	**6**		**6**
Change in accounting policy, IFRS 9						1			–2	**–1**		**–1**
Change in accounting policy, IFRS 15									0	**0**		**0**
Restated total equity at 1 January 2018		40	20	7	–9	–5	–73	–68	4,432	**4,343**	0	**4,343**
Profit for the period									778	**778**	0	**779**
Other comprehensive income for the period, net of tax						–49	4	–16		**–61**	0	**–61**
Total comprehensive income for the period		0	0	0	0	–49	4	–16	778	**717**	0	**718**
Transactions with the owners in their capacity as owners												
Dividend decision									–435	**–435**		**–435**
Transactions with non-controlling interests										**0**	2	**2**
Share-based compensation				3	1				–1	**2**		**2**
Transfer from retained earnings			0					0	0	**0**		**0**
Total equity at 31 December 2018	20	40	19	10	–9	–55	–69	–84	4,774	**4,628**	2	**4,630**

The notes are an integral part of these consolidated financial statements.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Notes to the Consolidated Financial Statements

IS
OCI
BS
CF
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

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 Helsinki Oy. 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) create sustainable solutions for transport, business, and consumer needs. Our wide range of renewable products enable our customers to reduce climate emissions. We are the world's largest producer of renewable diesel refined from waste and residues, introducing renewable solutions also to the aviation and plastics industries. We are also a technologically advanced refiner of high-quality oil products. We want to be a reliable partner with widely valued expertise, research, and sustainable operations.

Neste's customers benefit not only from the high-quality products, but also from the comprehensive supply and logistics services that Neste can provide in Finland and abroad. The Group's refineries are located in Finland, the Netherlands and Singapore and Neste is also a co-owner of a base oil plant in Bahrain. The Company has a network of service stations and other retail outlets in Finland, the Baltic countries and Northwest Russia.

The Board of Directors has approved these consolidated financial statements for issue on 5 February 2019.

2 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 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.

Neste discloses the accounting policies in conjunction with each note to provide enhanced understanding of each accounting area. The following symbols **IS, OCI**, **BS**, and **CF** are used to show which amounts in the notes can be reconciled to consolidated statement of income (**IS**), consolidated statement of comprehensive income (**OCI**), consolidated statement of financial position (**BS**) or consolidated cash flow statement (**CF**)

New standards, significant amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the financial year beginning on 1 January 2018:

IFRS 9 Financial instruments

The Group started to apply IFRS 9 from 1 January 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. In accordance with the IFRS 9 transitional provisions, comparative information provided continues to be presented in accordance with the Group's previous accounting policy.

Financial assets are classified in the following measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on used business model for managing the financial assets and the contractual terms of the cash flows. Amortized cost category consist of cash and cash equivalents, trade receivables and loan receivables where the business model is to hold the asset to collect the contractual cash flows which represent only payments of principal and interest. For assets measured at fair value, gains and losses will be recorded either in income statement or other comprehensive income. At the moment Neste does not have any instruments measured through other comprehensive income. Assets at fair value through profit or loss consist of unlisted equity investments and derivatives, which are held for trading or do not meet criteria for hedge accounting. There were no changes relating to classification and measurement of financial liabilities.

For trade receivables Neste applies the simplified expected credit loss model. Every business area uses a specific provision matrix for the trade receivables due to the different nature of the businesses. The general expected credit loss model is used for debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been significant increase in credit risk.

For certain currency derivatives the Group applies cash flow hedge accounting and for certain interest rate derivatives cash flow or fair value hedge accounting. IFRS 9 requires documentation of economic relationship between the hedged item and hedging instrument, and the hedged ratio to be the same as the one management actually uses for risk management purposes. The concrete change for hedge accounting is the time value of foreign exchange options, which is recognized into other comprehensive income in equity together with the options' intrinsic value instead of being recognized directly into income statement. Otherwise the application of hedge accounting within existing hedge accounting relationships (cash flow and fair value hedges within foreign exchange and interest rate derivatives) continues under IFRS 9 as earlier.

IFRS 15 Revenue from contracts with customers

The Group started to apply IFRS 15 from 1 January 2018, and applies the modified retrospective model. 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 preceding requirements (IAS 18 Revenue and IAS 11 Construction contracts and related interpretations).

The implementation of IFRS 15 does not 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 which are mostly standard in nature, and the delivery terms have been investigated, with no major impact compared to the revenue recognition prior to the implementation of IFRS 15. 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 do not have an impact on Neste's revenue recognition compared to the previous accounting policy.

Some 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 transportation (including other costs, insurance and freight). The sales price allocated to the product is recognized upon shipment, before delivery. The sales price for the transportation is 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 the postponed revenue would have been EUR 0.8 million on 31 December 2017. After the related costs the impact on the opening balance is EUR 0.0 million.

Subsidiary Neste Engineering Solutions' current revenue recognition based on the percentage of completion method is 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 earlier revenue recognition.

Amendments to IFRS 2 Share-based payments

In June 2016, the IASB made amendments to IFRS 2 Share-based payments which clarified the effect of vesting conditions on the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features and the accounting for a modification of the terms and conditions that changes the classification of the transaction from cash-settled to equity-settled. The IFRS 2 amendments were endorsed by EU in February 2018.

The Group started to apply IFRS 2 amendments from 1 January 2018. As permitted by the transitional provisions, the Group has applied the new policy from that date and comparative information provided continues to be presented in accordance with the Group's previous accounting policy.

From 1 January 2018, the entire share-based payment transaction is accounted for as an equity-settled share-based payment transaction. Under the previous accounting policy, the expected tax liability to be paid to the tax authority was measured at fair value at each reporting date and recognized as a liability like a cash-settled share-based payment transaction. Under the new accounting policy, the entire transaction is measured at fair value prevailing at grant date of share-based incentive plan and the difference realized upon the settlement date is recognized in equity. On 1 January 2018 the share-based payments' taxes of EUR 6 million were reclassified from liabilities to Equity: EUR 4 million from Other non-current liabilities and EUR 2 million from Trade and other payables. There were no other changes in Neste Group due to IFRS 2 amendments.

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 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 has been endorsed by EU in November 2017 and is effective for annual periods beginning on or after 1 January 2019.

Neste will implement IFRS 16 with modified retrospective approach. The Group has reviewed its leasing, service and utility purchase contracts to calculate the effects of IFRS 16. The assets and liabilities increase approximately EUR 200–250 million on 1 January 2019 consisting mainly of leases related to land areas, tanks, containers and facilities. Singapore expansion project will increase the amount in 2019 and the coming years. The balance sheet impact is considered insignificant proportional to the Group's total assets. Adoption has also impact on Neste's financial statements and specific key figures as most of the long-term operating leases (presented in Note 28) will be in the balance sheet.

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 sources of uncertainty which have been identified as most significant estimates by Group are presented in connection to the items considered to be affected.

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. Other 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control, and in which the sharing of control has been contractually agreed between the 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.

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.

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.

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 recognized 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.

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 principles and key risk areas, 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. For Neste, the main types of market risk are commodity price risk, foreign exchange risk and interest rate risk. These are specified in more detail in the following sections. In accordance with the Corporate risk management policy, various derivatives transactions are executed to manage the risk exposure. The positions are monitored and managed on a daily basis.

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 Renewable Products and Oil 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 that 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.

In Renewable Products base inventory level is approximately half of the annual renewables refining capacity used. In Oil Products the base inventory is approximately one tenth of the total annual fossil fuel refining capacity of roughly 14 million tons per annum.

The base inventory creates a risk in Neste's income statement and balance sheet since in Renewable Products Neste applies the FIFO method and in Oil Products weighted average 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 or end products for which derivative financial instruments can be sold and purchased and the actual quality of Neste's feedstocks and end products, 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.

If crude or oil product markets are in contango where current forward prices are higher than current spot prices Neste has the capability to build physical contango storages from time to time. These storages are excluded from the transaction position and are hedged separately.

Refining margin risk

Neste is exposed to a greater margin volatility in the Renewable Products' business compared with that in fossil fuel refining. In the Renewables business, the refining margin is mainly an outcome of the renewable product sale price received and the cost of feedstocks used. The underlying indices used in renewable diesel pricing are primarily related to oil products or conventional biodiesel. Product prices fluctuate regionally depending on the nature of bio mandates and incentives, local supply and demand, and fossil fuel prices. 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). 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 Renewable Products business area, operational activities and margin hedges are the primary means of mitigating margin volatility.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Refining margin is an important determinant of Oil Products business area's earnings. Its fluctuations constitute a significant risk. The refining margin risk is a result 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.

With the aim of securing its margin and cash flow, Neste has defined margin hedging principles for its main refining businesses. The hedge ratio for Renewable Products business is measured and monitored as a percentage of the quarterly sales volumes and for Oil products as percentage of annual production volume. In the Renewable Products' business the targeted hedge ratios are typically higher and can be expected to fluctuate over time. In fossil fuel business the hedge ratios are typically moderate.

In hedging the refining margin, commodity derivatives are used. Hedging transactions are targeted at the components of Neste's refining margin, based on its forecast or committed sales and refinery production, which are exposed to international market price fluctuations. As in transaction hedging, also when hedging the refining margin, the business will remain exposed to certain degree of basis risk that comes from the differences between actual qualities of feedstocks and products and qualities of available hedging arrangements.

The exposure to open positions of commodity derivative contracts is summarized in Note 19.

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 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-euro-based 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 70% for the first six months and 30% of the next six months for the renewable business and on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses. 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. In addition to the above mentioned foreign currency hedging programs the Group has started to hedge the Singapore expansion project related currency exposures up to 36 months. Both currency forwards and currency options can be used in order to manage this position.

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. 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 2018, the daily balance sheet exposure fluctuated between approximately EUR 942 million and 1,711 million (2017: EUR 769 million and 1,538 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 exposure to open positions of foreign exchange derivative contracts is summarized in Note 19.

Translation exposure

Group Treasury & Risk Management is responsible for managing Neste's translation exposure. This consists of net investments in foreign subsidiaries and joint ventures. 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. Any hedging decisions are made by Group Treasury & Risk Management. In the end of 2018 the most important translation exposures were Swedish Crown EUR 182 million, Russian Rouble EUR 52 million and U.S. dollar EUR 28 million (2017: Swedish Crown EUR 189 million, Russian Rouble EUR 54 million, U.S dollar EUR 22 million). The Group has not hedged the exposures.

3. Interest rate risk

Neste is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the 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 96 months. As of 31 December 2018, the

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duration was 41 months (2017: 47 months). In addition to duration, Neste has defined a 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 exposure to open positions of interest rate derivative contracts is summarized in Note 19.

The re-pricing period of interest-bearing debt occurs	Within 1 year	1 year – 5 years	> 5 years	Total
Financial instruments with floating interest rate				
Loans from financial institutions	119	0	0	119
Other loans	3	0	0	3
Effect of interest rate swaps	0	0	0	0
Financial instruments with fixed interest rate				
Bonds	148	320	399	867
Finance lease liabilities	3	24	73	101
Other loans	21	0	29	50
	294	344	501	1,140

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 2019 (2018), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

Approximate impact on operating profit, excluding hedges		2019	2018
+/– 10% in the EUR/USD exchange rate	EUR million	–255/+311	–145/+177
+/– USD 1.00/barrel in total refining margin	USD million	+/–110	+/–110
+/– USD 10/barrel in crude oil price[1)]	USD million	+/–115	+/–100
+/– USD 100/t in Renewable Products raw material price[1)]	USD million	+/–130	+/–125
+/– USD 50/t in Renewable Products refining margin[2)]	USD million	+/–135	+/–130

[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 2018 (2017). Financial instruments affected by the above market risks include net working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, liquid funds, 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 +/– 20%
- 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 payables, and liquid funds, 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.

		2018		2017	
Sensitivity to market risk arising from financial instruments as required by IFRS 7		Income Statement	Equity	Income Statement	Equity
+/– 20% change in oil price [1]	EUR million	–/+ 6	+/– 0	+/– 5	+/– 0
+/– 10% change in EUR/USD exchange rate	EUR million	+84/–103	+94/–104	+100/–124	+62/–61
+/– 10% change in USD/MYR exchange rate	EUR million	+/–0	+/–0	–/+9	+/–0
+/– 1% parallel shift in interest rates	EUR million	–/+2	+/–0	–/+1	+/–0

[1] Includes crude oil, refined oil products and vegetable oil derivatives

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. Amount of short-term financing is limited to the greater of the following: EUR 500 million or 30% of total interest-bearing liabilities. 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.

The average loan maturity as of 31 December 2018 was 3.7 years (2017: 4.5 years). The most important financing programs in place are committed revolving multicurrency credit facility of EUR 1,500 million, committed overdraft facilities of EUR 150 million and uncommitted domestic commercial paper program of EUR 400 million.

Liquid funds and committed unutilized credit facilities	31 Dec 2018	31 Dec 2017
Liquid funds	1,210	783
Overdraft facilities, expiring within one year	150	150
Revolving credit facility, expiring beyond one year	1,500	1,500
Total	2,860	2,433
In addition: unused commercial paper program (uncommitted)	400	400

Maturity profile of financial liabilities based on contractual payments 31 Dec 2018

	2019	2020	2021	2022	2023	2024–	Total
Trade payables	1,033	0	0	0	0	0	1,033
Interest-bearing liabilities							
Bonds	147	0	0	321	0	400	868
Loans from financial institutions	119	0	0	0	0	0	119
Finance lease liabilities	3	6	6	6	7	73	101
Other loans	21	1	1	0	0	30	53
Interest	35	31	30	30	21	93	240
Total	1,358	38	37	357	28	596	2,414
Commodities	114	0	0	0	0	0	114
Interest rate swaps: inflow (–)	–2	0	0	0	0	0	–2
Gross settled forward foreign exchange contracts							
– inflow (–)	–2,541	–202	–139	0	0	0	–2,882
– outflow	2,564	202	138	0	0	0	2,904
Derivatives total	135	0	–1	0	0	0	134

Maturity profile of financial liabilities based on contractual payments 31 Dec 2017

	2018	2019	2020	2021	2022	2023–	Total
Trade payables	1,163	0	0	0	0	0	1,163
Interest-bearing liabilities							
Bonds	50	147	0	0	321	400	918
Loans from financial institutions	102	14	0	0	0	0	116
Finance lease liabilities	3	3	4	4	4	83	101
Other loans	8	22	1	1	1	28	61
Interest	36	35	28	27	25	121	272
Total	1,362	221	33	32	351	632	2,631
Commodities	70	0	0	0	0	0	70
Interest rate swaps: inflow (–)	0	–2	0	0	0	0	–2
Gross settled forward foreign exchange contracts							
– inflow (–)	–2,399	0	0	0	0	0	–2,399
– outflow	2,348	0	0	0	0	0	2,348
Derivatives total	19	–2	0	0	0	0	17

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 Corporate 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, 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 three categories according to contract type: physical sales contracts, derivative contracts and investments. 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) master agreement with the main counterparties concerning commodity, emission allowance, 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 (CSA) 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. At the end of December 2018 Neste had received EUR 0 million (2017: EUR 0 million) due to CSA agreements and paid EUR 31 million (2017: EUR 2 million) due to CSA agreements.

Financial impact of netting for instruments subject to an enforceable master netting agreement (or similar)

31 Dec 2018	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	209	62	147
Trade receivables	2	1	1
Financial liabilities			
Derivatives	149	62	87
Trade payables	19	1	18

31 Dec 2017	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	90	36	54
Trade receivables	4	3	1
Financial liabilities			
Derivatives	72	36	36
Trade payables	7	3	4

Neste reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties have a minimum credit rating that is defined in Corporate 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, minimum credit rating requirement for companies providing insurance for Neste Group is defined in 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.

Counterparties to contracts comprising derivative financial instruments exposure on 31 December 2018, near to 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 2018 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 group assesses expected credit losses and calculates impairment loss from trade receivables based to historical credit loss experience combined with current conditions and forward looking macroeconomic analysis. The receivables have been divided in aging buckets and segments depending on business area and geographic region. Impairment loss from trade receivables for the period is EUR 8 million (2017: EUR 2 million). Recognized credit loss of trade receivables amounts to EUR 1 million (2017: EUR 1 million).

Analysis of trade receivables by age	31 Dec 2018	Probability of Credit Loss, %	31 Dec 2017
Undue	890	0–0.04%	912
1–30 days overdue	63	0.01–5%	72
31–60 days overdue	8	5–42%	1
61–90 days overdue	10	10–55%	1
91–180 days overdue	1	25–100%	4
more than 180 days overdue	7	100%	6
Trade receivables total	979		996
Impairment loss	–8		–2
Trade receivables – Net	972		994

Of the trade receivables portfolio exposure, 43% is from counterparties or their parent companies having an investment grade credit rating; 57% 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.

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 liquid funds. Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio below 40%.

The leverage ratio	31 Dec 2018	31 Dec 2017
Total interest-bearing liabilities	1,140	1,195
Liquid funds	1,210	783
Interest-bearing net debt	–70	412
Total equity	4,630	4,338
Interest-bearing net debt and total equity	4,560	4,750
Leverage ratio	–1.5%	8.7%

Reconciliation of net debt 31 Dec 2018

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	Liquid investments	Finance leases	Borrowings	Total
Net debt as at 1 January 2018	783	0	–101	–1,095	–412
Cash flows	346	74	3	68	491
New finance leases	0	0	0	0	0
Foreign exchange differences and other valuations	7	0	–3	8	11
Other non-cash movements	0	0	0	–20	–20
Net debt as at 31 December 2018	1,136	74	–101	–1,039	70

Reconciliation of net debt 31 Dec 2017

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	Liquid investments	Finance leases	Borrowings	Total
Net debt as at 1 January 2017	788	0	–90	–1,381	–683
Cash flows	–3	0	3	281	281
New finance leases	0	0	–19	0	–19
Foreign exchange differences and other valuations	–2	0	5	6	10
Other non-cash movements	0	0	0	0	0
Net debt as at 31 December 2017	783	0	–101	–1,095	–412

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

4 Segment information

Accounting policy

The Group's operations are divided into four operating segments: Renewable Products, Oil Products, Marketing & Services 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 reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

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. 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 commodity derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the consolidated statement of income.

Segment operating assets and liabilities consists 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 consists of 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.

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: Renewable Products, Oil Products, and Marketing & Services. 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

Operating segments are engaged in the following key business activities:

Renewable Products segment produces, markets and sells renewable diesel, renewable jet fuels and solutions, renewable solvents as well as raw material for bioplastics based on Neste's proprietary technology to domestic and international wholesale markets. Renewable diesel is produced at the Porvoo, Singapore, and Rotterdam refineries with total capacity of 2.7 million tons per year.

Oil Products segment produces, markets and sells an extensive range of low carbon solutions that are based on high-quality oil products and related services to a global customer base. The product range includes diesel fuel, gasoline, aviation and marine fuels, light and heavy fuel oils, base oils, gasoline components, special fuels, such as small engine gasoline, solvents, liquid gases and bitumens. Oil products are refined in Neste Finland Refineries in Porvoo and Naantali. Base oils are also produced by joint arrangement production plant in Bahrain. Oil refining capacity is 14 million tons per year. Neste Shipping's chartering operations are included in the Oil Products segment.

Marketing & Services egment 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 the engineering and technology solutions company Neste Engineering Solutions; Nynas, a joint-venture owned by Neste (49.99% share) and Petróleos de Venezuela, and common corporate costs. Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs. Neste Jacobs Oy company name was changed to Neste Engineering Solutions Oy on 1 January 2018.

The operating segments presented above do not include any segments which are formed from aggregating two or more smaller segments.

The 'other expenses' included in the consolidated statement of income for each business segment includes the following major items:

Renewable Products: repairs and maintenance, planning and consulting services, rents, other property costs, travel-, HSE- and marketing costs and insurance premiums
Oil Products: repairs and maintenance, planning and consulting services, rents, other property costs, HSE costs and insurance premiums
Marketing & Services: repairs and maintenance, rents, other property costs and marketing costs

Group's customer structure in 2018 and 2017 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 2018 and 2017 is presented in the following tables.

2018	Renewable Products 1)	Oil Products 2)	Marketing & Services	Others 3)	Eliminations	Group	Note
IS External revenue	2,943	7,601	4,279	95	0	14,918	
Internal revenue	298	2,504	36	169	–3,007	0	
IS Total revenue	3,241	10,105	4,315	264	–3,007	14,918	5
IS Other income	1	7	6	18	–15	17	6
IS, **CF** Share of profit (loss) of joint ventures	0	3	0	–12	0	–9	15
IS Materials and services	–2,033	–9,140	–4,097	–78	2,890	–12,459	7
IS Employee benefit costs	–47	–147	–35	–174	3	–400	8
IS, **CF** Depreciation, amortization and impairments	–128	–345	–25	–116	0	–614	
IS Other expenses	–137	–312	–88	–24	131	–429	9
IS Operating profit 1)	899	170	77	–122	2	1,025	
IS Financial income and expense						–75	10
IS Profit before income taxes						951	
IS Income tax expense						–172	11
IS Profit for the period						779	
Comparable operating profit	983	397	77	–36	2	1,422	
inventory valuation gains/losses	–162	–108	0	0	0	–269	
changes in the fair value of open commodity and currency derivatives	82	35	0	0	0	117	
capital gains and losses	0	2	0	0	0	2	
insurance and other compensations	0	0	0	0	0	0	
impairments 2), 3)	0	–112	0	–86	0	–198	
other adjustments	–4	–44	0	0	0	–48	
IS Operating profit	899	170	77	–122	2	1,025	

1) The retroactive US Blender's Tax Credit (BTC) decision for 2017 has a positive impact of EUR 140 million on the Renewable Products' operating profit in Q1 2018.
2) Neste Oil Bahrain W.L.L.'s assets EUR 112 million were written down due to a disadvantageous tax judgement in December 2018.
3) An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018.

2018	Renewable Products	Oil Products	Marketing & Services	Others)	Eliminations	Group	Note
Capital expenditure and investments in shares	159	196	28	55	0	438	
Segment operating assets	2,475	3,727	551	318	–384	6,687	
BS Investments in joint ventures	0	23	0	83	0	106	15
BS Deferred tax assets						34	11
Unallocated assets						1,397	
BS Total assets	2,475	3,750	551	401	–384	8,224	
Segment operating liabilities	457	1,492	302	215	–380	2,087	
BS Deferred tax liabilities						260	11
Unallocated liabilities						1,247	
BS Total liabilities	457	1,492	302	215	–380	3,594	
Segment net assets	2,018	2,257	249	186	–4	4,706	
Return on net assets, %	48.0	6.7	29.1	–73.7			
Comparable return on net assets, %	52.4	15.7	29.1	–21.7			

2017	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
IS External revenue	2,865	6,384	3,879	89	0	13,217	
Internal revenue	379	2,106	33	148	–2,666	0	
IS Total revenue	3,243	8,490	3,912	237	–2,666	13,217	5
IS Other income	2	13	4	17	–14	22	6
IS, **CF** Share of profit (loss) of joint ventures	0	3	0	–2	0	1	15
IS Materials and services	–2,500	–7,237	–3,699	–70	2,579	–10,927	7
IS Employee benefit costs	–35	–144	–36	–157	0	–372	8
IS, **CF** Depreciation, amortization and impairments	–110	–213	–25	–24	0	–371	
IS Other expenses	–124	–262	–88	–25	101	–399	9
IS Operating profit	476	650	69	–24	0	1,171	
IS Financial income and expense						–77	10
IS Profit before income taxes						1,094	
IS Income tax expense						–180	11
IS Profit for the period						914	
Comparable operating profit	561	495	68	–24	0	1,101	
inventory valuation gains/losses	–80	111	0	0	0	31	
changes in the fair value of open commodity and currency derivatives	–5	29	0	0	0	24	
capital gains and losses	0	3	0	0	0	3	
insurance and other compensations	0	0	0	0	0	0	
impairments	0	0	0	0	0	0	
other adjustments	0	12	0	0	0	12	
IS Operating profit	476	650	69	–24	0	1,171	
Capital expenditure and investments in shares	122	307	37	70	0	536	
Segment operating assets	2,255	3,803	585	310	–308	6,646	
BS Investments in joint ventures	0	24	0	189	0	213	15
BS Deferred tax assets						35	11
Unallocated assets						899	
BS Total assets	2,255	3,827	585	499	–308	7,793	
Segment operating liabilities	392	1,330	306	206	–295	1,939	
BS Deferred tax liabilities						269	11
Unallocated liabilities						1,247	
BS Total liabilities	392	1,330	306	206	–295	3,455	
Segment net assets	1,863	2,497	280	292	–12	4,920	
Return on net assets, %	25.6	25.6	28.7	–8.7			
Comparable return on net assets, %	30.2	19.5	28.5	–8.7			

Geographical information

The Group operates production facilities in Finland, Singapore, the 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 which is allocated based on the country in which the customer is located, irrespective of the origin of the goods or services, and non-current assets and capital expenditure which are allocated based on where the assets are located.

Non-current assets consists 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 consists mainly of retail activities in the mentioned countries.

2018	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	5,124	2,685	1,268	3,726	1,612	503	14,918
Non-current assets	2,513	124	99	670	0	560	3,967
Capital expenditure	281	0	12	58	0	85	438

2017	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	4,545	2,561	1,226	3,038	1,411	435	13,217
Non-current assets	2,664	188	105	682	0	529	4,168
Capital expenditure	419	0	17	78	0	22	536

5 Revenue

Accounting policy

Revenue from the sale of goods is recorded in the consolidated statement of income when the control and significant risks and rewards related to the ownership of the goods have been transferred to the buyer. 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 from services is recorded when services have been provided.

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.

Blender's Tax Credit (BTC), Low Carbon Fuels Standard credits (LCFS) and Renewable Identification Numbers (RINs) are recognized in revenue. Blender's Tax Credit is recognized if the Government of the United States will make decision to grant it. The decision 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.

	2018	2017
Sale of goods	14,645	13,060
Revenue from services	266	152
Royalty income	6	4
Other	2	1
IS Revenue	14,918	13,217

Sale of goods includes 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 1,452 million (2017: EUR 1,485 million) are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and Services', in Note 7.

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 –9 million (2017: EUR 25 million).

Revenue from services mainly comprises revenue from the chartering services and Neste Engineering Solutions, which is included in the Others segment.

Revenue by category

External revenue	2018 Renewable Products	2018 Oil Products	2018 Marketing & Services	2018 Others	2018 Total	2017 Renewable Products	2017 Oil Products	2017 Marketing & Services	2017 Others	2017 Total
Fuels [1]	2,943	6,691	4,147	0	13,781	2,862	5,396	3,752	0	12,010
Light distillates	130	2,930	1,110	0	4,170	113	2,370	1,106	0	3,589
Middle distillates	2,812	3,227	3,032	0	9,071	2,749	2,688	2,628	0	8,065
Heavy fuel oil	0	534	5	0	539	0	338	18	0	356
Other products	2	790	119	0	911	2	919	116	3	1,040
Other services	0	121	12	95	228	1	69	11	86	167
IS Total	2,943	7,601	4,279	95	14,918	2,865	6,384	3,879	89	13,217

[1] Light distillates comprise motor gasoline, gasoline components, LPG, renewable naphtha and biopropane. Middle distillates comprise diesel, jet fuels, low sulphur marine fuels, heating oil, renewable fuels and renewable jet fuels. RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) are included in the corresponding fuel categories in Renewable Products segment.

Timing of revenue recognition

External revenue	2018 Renewable Products	2018 Oil Products	2018 Marketing & Services	2018 Others	2018 Total	2017 Renewable Products	2017 Oil Products	2017 Marketing & Services	2017 Others	2017 Total
Goods transferred at point in time	2,943	7,481	4,266	0	14,691	2,864	6,315	3,868	3	13,050
Services transferred at point in time	0	121	12	2	134	1	69	11	17	97
Services transferred over time	0	0	0	93	93	0	0	0	70	70
IS Total	2,943	7,601	4,279	95	14,918	2,865	6,384	3,879	89	13,217

Revenue by operating segment

2018	Renewable Products	Oil Products	Marketing & Services	Others	Elimnations	Total
External revenue	2,943	7,601	4,279	95	0	14,918
Internal revenue	298	2,504	36	169	–3,007	0
IS Total revenue	3,241	10,105	4,315	264	–3,007	14,918

2017	Renewable Products	Oil Products	Marketing & Services	Others	Elimnations	Total
External revenue	2,865	6,384	3,879	89	0	13,217
Internal revenue	379	2,106	33	148	–2,666	0
IS Total revenue	3,243	8,490	3,912	237	–2,666	13,217

Revenue by operating destination

	2018					2017				
External revenue	Renewable Products	Oil Products	Marketing & Services	Others	Total	Renewable Products	Oil Products	Marketing & Services	Others	Total
Finland	1	1,983	3,069	70	5,124	–4	1,738	2,751	60	4,545
Other Nordic countries	1,642	999	34	10	2,685	1,651	871	27	11	2,561
Baltic Rim	0	95	1,173	0	1,268	0	128	1,099	0	1,226
Other European countries	364	3,351	2	9	3,726	368	2,658	2	10	3,038
North and South America	914	698	0	0	1,612	833	578	0	0	1,411
Other countries	22	476	0	6	503	17	411	0	8	435
IS Total	2,943	7,601	4,279	95	14,918	2,865	6,384	3,879	89	13,217

6 Other income

Accounting policy

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.

	2018	2017
Capital gains on disposal of other non-current assets	3	3
Rental income	3	7
Government grants	4	6
Insurance compensations	1	0
Other	6	7
IS Other income	17	22

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation.

7 Materials and services

	2018	2017
Materials and supplies	12,279	11,007
Change in inventories	90	–150
External services	89	70
IS Materials and services	12,459	10,927

Materials and supplies include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,452 million (2017: EUR 1,485 million). The corresponding amount is included in 'Revenue' in Note 5.

The net result of non-hedge accounted commodity and foreign exchange derivatives amounted to EUR –69 million (2017: EUR 85 million). Net gains/losses on derivative instruments related to purchases designated as cash flow hedges amounted to EUR 0 million (2017: EUR 0 million). Both above-mentioned items are included in Materials and supplies.

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

8 Employee benefit costs

	2018	2017
Wages and salaries	316	290
Social security costs	19	23
Pension costs – defined contribution plans	47	45
Pension costs – defined benefit plans	8	9
Other costs	10	5
IS Employee benefit costs	400	372

Number of personnel (average)	2018	2017
Renewable Products	372	301
Oil Products	1,709	1,718
Marketing & Services	1,482	1,432
Others	1,905	1,846
	5,468	5,297

9 Other expenses

	2018	2017
Repairs and maintenance	154	137
Services	118	120
Operating leases and other property costs	49	47
Insurances	18	17
Other	89	78
IS Other expenses	429	399

Operating leases include rents for land, premises and machinery and equipment. Services include planning and consulting services, IT services, research and lab services and other services. Other expenses include travel expenses, HSE and advertising costs.

Research expenditure is recognized as an expense as incurred and included in other expenses in the consolidated statement of income.

Fees charged by the statutory auditor, PricewaterhouseCoopers, EUR thousands	2018	2017
Audit fees	1,310	1,326
Tax advisory	5	66
Other advisory services	589	352
	1,904	1,745

PricewaterhouseCoopers Oy has provided non-audit services to entities of Neste Group in total 562 thousand euros (2017: 361 thousand euros) during the financial year 2018. These services included tax advisory 5 thousand euros (2017: 33 thousand euros) and other advisory services 557 thousand euros (2017: 328 thousand euros).

10 Financial income and expenses

	2018	2017
Financial income		
Interest income from financial assets at amortized cost	7	4
	7	4
Financial expenses		
Interest expenses for financial liabilities at amortized cost	–43	–42
Interest rate derivatives, non-hedge accounted	0	1
Interest rate derivatives, cash flow hedge accounted	0	1
Other financial expenses [1]	–5	–38
	–48	–79
Exchange rate and fair value gains and losses		
Financial instruments at amortized cost	11	–2
Financial instruments at fair value through profit or loss	–45	0
	–34	–2
IS Total financial income and expenses	–75	–77

[1] 2017 'Other financial expenses' include one-off costs related to the partial repurchase of existing bonds in Q2/2017.

Net gains/losses on financial instruments included in operating profit and fixed assets	2018	2017
Foreign exchange derivatives, hedge accounted [1]		
Included in revenue	–9	25
Included in material and services	0	0
Included in fixed assets	0	0
Foreign exchange derivatives and commodity derivatives, non-hedge accounted		
Included in material and services	–69	85
	–78	110

[1] During the reporting period the recognized ineffectiveness was EUR 0 million (2017: EUR 0 million).

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

11 Income taxes

Accounting policy

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.

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.

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.

Estimates and judgements requiring management estimation

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 consolidated statement of income and their tax basis.

The major components of income tax expense in the consolidated statement of income:

	2018	2017
Current tax	172	166
Adjustments recognized for current tax for prior periods	–2	0
Change in deferred taxes	2	14
IS Income tax expense	172	180

The reconciliation of income taxes at the statutory tax rate in Finland and income tax expense recognized in the consolidated statement of income:

	2018	2017
IS Profit before income taxes	951	1,094
Hypothetical income tax calculated at Finnish tax rate 20%	–190	–219
Differences in tax rates in other countries	69	38
Change in Estonian income tax rate	0	1
Non-deductible expenses	–1	–1
Impairment of assets of Neste Oil Bahrain W.L.L.	–22	0
Impairment of assets of Nynas AB	–17	0
Tax exempt income	1	0
Tax on undistributed earnings	0	0
Taxes for prior periods	1	0
Net results of joint ventures	–2	0
Realisability of deferred tax assets	–9	0
Other	–1	1
IS Income tax expense	–172	–180

The Group's effective tax rate was 18% (16%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Estonia, 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 increase in the effective tax rate in 2018 is explained by the impairments related to Neste Oil Bahrain W.L.L. and joint venture Nynas AB, and by the losses in Neste Oil Bahrain W.L.L. for which no deferred tax asset has been recognized.

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Changes in deferred tax assets and liabilities:

2018	On 1 Jan 2018	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	On 31 Dec 2018
Deferred tax assets					
Tax loss carried forward	2	–1	0	0	1
Provisions	4	0	0	0	4
Pensions	26	0	–1	0	25
Fixed assets	25	2	0	0	27
Financial instruments	0	0	5	0	5
Other temporary differences	6	0	0	0	6
Total deferred tax assets	62	2	4	0	68
Netting against liabilities	–27	–8	0	0	–35
BS Deferred tax assets	35	–6	4	0	34
Deferred tax liabilities					
Depreciation difference and untaxed reserves	244	0	0	0	244
Tax on undistributed earnings	11	0	0	0	11
Finance leases	0	0	0	0	0
Other fixed assets	34	4	0	0	38
Financial instruments	5	0	–4	0	1
Other temporary differences	1	0	0	0	1
Total deferred tax liabilities	295	4	–4	0	295
Netting against assets	–27	–8	0	0	–35
BS Deferred tax liabilities	269	–4	–4	0	260

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

2017	On 1 Jan 2017	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	On 31 Dec 2017
Deferred tax assets					
Tax loss carried forward	6	–4	0	0	2
Provisions	3	1	0	0	4
Pensions	27	–1	0	0	26
Fixed assets	12	13	0	0	25
Financial instruments	8	–8	0	0	0
Other temporary differences	4	2	0	0	6
Total deferred tax assets	59	3	0	0	62
Netting against liabilities	–20	–7	0	0	–27
BS Deferred tax assets	39	–4	0	0	35
Deferred tax liabilities					
Depreciation difference and untaxed reserves	234	10	0	0	244
Tax on undistributed earnings	11	0	0	0	11
Finance leases	0	0	0	0	0
Other fixed assets	19	14	0	0	34
Financial instruments	0	–7	12	0	5
Other temporary differences	2	–1	0	0	1
Total deferred tax liabilities	267	16	12	0	295
Netting against assets	–20	–7	0	0	–27
BS Deferred tax liabilities	246	9	12	0	269

There are altogether EUR 52 million (2017: EUR 3 million) tax loss carry forwards and other unused tax credits for which no deferred tax asset is recognized, majority of them relating to Neste Oil Bahrain W.L.L. Expiry dates are between 2019 and 2027 for EUR 2 million and no expiry for EUR 50 million.

A deferred tax liability has been recognized for undistributed earnings of subsidiaries where income taxes would be payable upon distribution.

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Deferred tax recognized relating to components of other comprehensive income:

2018	Before tax	Tax (charge) / credit	After tax
OCI Remeasurements of defined benefit plans	6	–1	4
OCI Translation differences	–16	0	–16
Cash flow hedges			
OCI recorded in equity	–64	11	–53
OCI transferred to income statement	9	–2	7
OCI Share of other comprehensive income of investments accounted for using the equity method	–4	0	–4
OCI Other comprehensive income	–70	9	–61

2017	Before tax	Tax (charge) / credit	After tax
OCI Remeasurements of defined benefit plans	2	0	2
OCI Translation differences	–15	0	–15
Cash flow hedges			
OCI recorded in equity	84	–15	69
OCI transferred to income statement	–19	3	–15
OCI Share of other comprehensive income of investments accounted for using the equity method	2	0	2
OCI Other comprehensive income	54	–13	42

12 Earnings per share and dividend per share

Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to owners of the parent by the weighted average number of shares outstanding during the year. The average number of shares has been adjusted with treasury shares, 573,662 shares (2017: 613,545), as described in Note 20. Diluted earnings per share reflect the impact of the share-based incentive plans. The company has not granted any options.

	2018	2017
IS Profit for the period attributable to owners of the parent, EUR million	778	911
Weighted average number of shares outstanding during the year (thousands)	255,822	255,776
IS Basic earnings per share (euro per share)	3.04	3.56
Weighted average number of shares during the year, including treasury shares (thousands)	256,404	256,404
IS Diluted earnings per share (euro per share)	3.03	3.55

Dividend per share

The dividends paid in 2018 were EUR 1.70 per share, totalling EUR 435 million (2017: EUR 1.30 per share, totalling EUR 332 million). A dividend of EUR 2.28 per share will be proposed at the Annual General Meeting on 2 April 2019, corresponding to total dividends of EUR 583 million for 2018. This dividend is not reflected in the financial statements.

13 Intangible assets

Accounting policy

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 for impairment and carried at cost, less accumulated impairment losses. The impairment testing is done annually and whenever there is an indication that the asset may be impaired. 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.

The discount rates used in impairment testing of goodwill 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 below. WACC% and growth rate are used purely for the impairment testing.

The key assumptions used for the plans in Renewable Products are margin level and sales volumes and in Oil Products the demand and the margin level for oil products. The key assumptions used for the plans in Neste Engineering Solutions 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.

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 consolidated statement of income 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.

Estimates and judgements requiring management estimation

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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

2018	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2018	11	228	240
Exchange rate differences	0	0	0
Acquisitions	13	2	15
CF Additions	0	34	34
Disposals	0	–1	–1
Reclassifications	0	1	1
Gross carrying amount at 31 December 2018	24	264	289
Accumulated amortization and impairment losses at 1 January 2018	0	140	140
Exchange rate differences	0	0	0
Disposals	0	–1	–1
Reclassifications	0	1	1
Amortization for the period	0	25	25
Accumulated amortization and impairment losses at 31 December 2018	0	165	165
BS Carrying amount at 1 January 2018	11	88	100
BS Carrying amount at 31 December 2018	24	99	124

2017	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2017	11	204	216
Exchange rate differences	0	0	0
CF Additions	0	28	28
Disposals	0	–4	–4
Reclassifications	0	0	0
Gross carrying amount at 31 December 2017	11	228	240
Accumulated amortization and impairment losses at 1 January 2017	0	129	129
Exchange rate differences	0	0	0
Disposals	0	–4	–4
Reclassifications	0	0	0
Amortization for the period	0	15	15
Accumulated amortization and impairment losses at 31 December 2017	0	140	140
Carrying amount at 1 January 2017	11	76	87
BS Carrying amount at 31 December 2017	11	88	100

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: Renewable Products segment, Traffic Fuels within Oil Products segment and Neste Engineering Solutions sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

	WACC%	2018	2017
Renewable Products	6.1	13	0
Oil Products	5.7	2	2
Other	5.1	9	9
		24	11

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. Cash flows beyond the three-year period are extrapolated by using 1.0% nominal growth rate.

BS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

14 Property, plant and equipment

Accounting policy

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 and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. 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 consolidated statement of income during the financial period in which they are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory and precious metals in catalysts used in production process are included in other tangible assets and are depreciated according to possible usage. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings and structures, including terminals	20–40 years
Production machinery and equipment	15–20 years
Marine fleet	15–20 years
Retail station network 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.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, a major initial investment, such as a new production facility, form part of the cost of that asset. Other borrowing costs are recognized as an expense.

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.

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 consolidated statement of income 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.

Determining whether an arrangement is, or contains, a lease is based on IFRIC interpretation 4 in such cases where an arrangement 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.

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) relating to property, plant and equipment are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

2018	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2018	76	2,288	4,563	267	274	7,468
Exchange rate differences	–1	–8	–4	0	0	–13
Additions	1	56	184	49	98	388
Disposals	0	–3	–66	–26	–1	–97
Reclassifications	0	109	109	–4	–216	–2
Gross carrying amount at 31 December 2018	75	2,442	4,787	286	154	7,745
Accumulated depreciation and impairment losses at 1 January 2018	0	971	2,557	84	0	3,612
Exchange rate differences	0	–4	–2	0	0	–7
Disposals	0	8	–76	–1	0	–70
Reclassifications	0	0	7	–8	0	–1
Depreciation for the period [1]	0	95	373	3	1	473
Accumulated depreciation and impairment losses at 31 December 2018	0	1,069	2,858	78	1	4,007
BS Carrying amount at 1 January 2018	76	1,317	2,006	182	274	3,856
BS Carrying amount at 31 December 2018	75	1,373	1,929	207	153	3,737

[1] Property plant & equipment was written down by EUR 82 million in Neste Oil Bahrain W.L.L. in addition to other assets EUR 30 million, totalling an impairment of EUR 112 million in the income statement.

2017	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2017	75	2,215	4,045	318	366	7,019
Exchange rate differences	–1	–5	–2	0	0	–8
Additions	2	73	455	16	–64	481
Disposals	–1	5	–14	–8	–4	–22
Reclassifications	0	0	79	–59	–24	–3
Gross carrying amount at 31 December 2017	76	2,288	4,563	267	274	7,468
Accumulated depreciation and impairment losses at 1 January 2017	0	899	2,266	108	0	3,272
Exchange rate differences	0	–2	–1	0	0	–4
Disposals	0	2	–11	–3	0	–12
Reclassifications	0	0	24	–25	0	–1
Depreciation for the period	0	73	279	4	0	356
Accumulated depreciation and impairment losses at 31 December 2017	0	971	2,557	84	0	3,612
Carrying amount at 1 January 2017	75	1,316	1,779	210	366	3,747
BS Carrying amount at 31 December 2017	76	1,317	2,006	182	274	3,856

Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table:

	2018	2017
Gross carrying amount	132	130
Accumulated depreciation	48	40
Carrying amount	84	90

Capitalized borrowing costs

During 2018 borrowing costs amounting to EUR 0.9 million (2017: EUR 6.5 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 3.2% (2017: 3.3%).

15 Investments in joint ventures

Carrying amount	2018	2017
On 1 January	213	216
IS, **CF** Share of profit (loss) of joint ventures	–9	1
Translation differences	–8	–8
OCI Share of other comprehensive income of investments accounted for using the equity method	–4	2
Impaiments [1)]	–86	0
Other changes	0	2
BS On 31 December	106	213

[1)] Neste's share in Nynas AB was tested for impairment and as a result an impairment loss of EUR 86 million was recognized. Background for this impairment was the current US sanctions and unstable situation in Venezuela impacting Nynas' business. The carrying amount after the impairment is EUR 83 million.

The Group's interest in its principle joint ventures at 31 December, all of which are unlisted, are listed in the following table:

			2018	2017
	Country of incorporation	Nature of the relationship	% interest held	% interest held
Glacia Limited	Bermuda	Note 1	50.00	50.00
Nynas AB (publ)	Sweden	Note 2	49.99	49.99
Kilpilahti Power Plant Ltd	Finland	Note 3	40.00	40.00

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.

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 Ltd 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 joint venture 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.

IS BS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

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)	
	2018	2017	2018	2017	2018	2017
Non-current assets	370	328	25	27	599	582
Current assets						
Cash and cash equivalents	56	42	20	15	96	84
Other current assets (excl. cash and cash equivalents)	56	43	0	0	745	676
Total current assets	112	85	21	15	840	760
Non-current liabilities						
Non-current financial liabilities (excl. trade payables and provisions)	384	345	0	0	683	462
Other non-current liabilities	0	0	0	0	119	116
Total non-current liabilities	384	345	0	0	802	579
Current liabilities						
Current financial liabilities (excl. trade payables and provisions)	0	0	0	0	28	113
Other current liabilities	82	56	0	1	271	274
Total current liabilities	82	56	0	1	299	387
Net assets	15	11	46	41	338	376
Revenue	146	124	8	9	1,589	1,522
Depreciation, amortization and impairments	5	8	3	4	61	59
Interest income	0	0	0	0	3	7
Interest expense	3	2	0	0	34	20
Income tax expense	0	0	0	0	–4	–1
Profit/loss	1	2	2	2	–24	–4

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)	
	2018	2017	2018	2017	2018	2017
Opening net assets 1 January	10	0	41	42	376	388
Investment in joint venture	3	8	0	0	0	0
Profit for the period	1	2	2	2	–24	–4
Other comprehensive income	–12	0	1	–4	–14	–8
Closing net assets 31 December	2	10	44	41	338	376
Impairments	0	0	0	0	–173	0
Interest in joint venture	1	4	22	20	83	188
Carrying value	1	4	22	20	83	188

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2018 and 2017 financial information above is based on 30 September 2018 and 30 September 2017 published interim reports. The share of profits of Glacia Limited and Kilpilahti Power Plant Ltd for 2018 are consolidated based on the companys' preliminary results for the financial period.

Transactions carried out with joint arrangements are disclosed in Note 25.

Contingent liabilities relating to the Group's interest in the joint arrangements are disclosed in Note 28.

16 Financial assets and liabilities by measurement categories

The Group classifies financial assets and liabilities according to IFRS 9 (2017 figures according to IAS 39). Accounting policies, classification criterias and other information relating to financial assets and liabilities can be found in Notes 17 and 21.

2018 Balance sheet item	Derivatives, hedge accounting	Fair value through profit or loss	Amortized cost	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
BS Non-current receivables			87	87	87			
BS Derivative financial instruments	1	2		3	3		3	
BS Other financial assets		5		5	5			5
Current financial assets								
Trade and other receivables [1]			1,224	1,224	1,224			
BS Derivative financial instruments	3	203		206	206	11	194	
BS Current investments			74	74	74			
BS Cash and cash equivalents			1,136	1,136	1,136			
Financial assets	4	209	2,521	2,735	2,735			
Non-current financial liabilities								
BS Interest-bearing liabilities			849	849	870	740	130	
BS Derivative financial instruments	0	0		0	0			
BS Other non-current liabilities			14	14	14			
Current financial liabilities								
BS Interest-bearing liabilities			291	291	295	151	143	
BS Derivative financial instruments	33	116		149	149	1	147	
BS Trade and other payables			1,749	1,749	1,749			
Financial liabilities	33	116	2,902	3,052	3,076			

[1] excluding non-financial assets

Financial instruments that are measured at fair value in the balance sheet and the interest-bearing liabilities are presented according to 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).

Interest-bearing liabilities at level 1 consist of listed bonds. Derivative financial instruments at level 1 consist of commodity derivatives which are directly valued based on exchange quatations. The fair values of other financial instruments are not materially different from their carrying amounts. Other financial assets in Fair value trough profit and loss -category include unlisted shares of EUR 5 million for which the fair value cannot be reliably determined.

During the year 2018 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. During the financial period there were no financial assets classified in Fair value through other comprehensive income -category.

On the date of initial application of IFRS 9 standard, 1 January 2018, the financial instruments of the company were the following, with any reclassifications noted:

			Carrying Amount		
Balance sheet item	IAS 39 Measurement Category	IFRS 9 Measurement Category	IFRS 9	IAS 39	Diff.
Non-current financial assets					
Non-current receivables	Loans and receivables	Amortized cost	**51**	51	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**2**	2	
Derivative financial instruments	Assets at fair value through income statement	Fair value through profit or loss	**2**	2	
Other financial assets	Available-for-sale financial assets	Fair value through profit or loss	**5**	5	
Current financial assets					
Trade and other receivables [1)]	Loans and receivables	Amortized cost	**1,093**	1,094	1
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**29**	29	
Derivative financial instruments	Assets at fair value through income statement	Fair value through profit or loss	**58**	58	
Cash and cash equivalents	Loans and receivables	Amortized cost	**783**	783	
Non-current financial liabilities					
Interest-bearing liabilities	Financial liabilities measured at amortized cost	Amortized cost	**1,032**	1,032	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**0**	0	
Derivative financial instruments	Liabilities at fair value through income statement	Fair value through profit or loss	**0**	0	
Other non-current liabilities	Financial liabilities measured at amortized cost	Amortized cost	**17**	17	
Current financial liabilities					
Interest-bearing liabilities	Financial liabilities measured at amortized cost	Amortized cost	**163**	163	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**2**	2	
Derivative financial instruments	Liabilities at fair value through income statement	Fair value through profit or loss	**70**	70	
Trade and other payables	Financial liabilities measured at amortized cost	Amortized cost	**1,679**	1,679	

[1)] excluding non-financial assets

On 1 January 2018 the time value of foreign exchange options EUR 1 million was reclassified from retained earnings to other comprehensive income.

2017 Balance sheet item	Derivatives, hedge accounting	Assets/ liabilities at fair value trough income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets										
BS Non-current receivables			51			51	51			
BS Derivative financial instruments	2	2				4	4		4	
BS Other financial assets				5		5	5			5
Current financial assets										
Trade and other receivables [1)]			1,094			1,094	1,094			
BS Derivative financial instruments	29	58				86	86	1	86	
BS Cash and cash equivalents			783			783	783			
Financial assets	30	60	1,928	5	0	2,023	2,023			
Non-current financial liabilities										
BS Interest-bearing liabilities					1,032	1,032	1,065	900	165	
BS Derivative financial instruments	0	0				0	0			
BS Other non-current liabilities					17	17	17			
Current financial liabilities										
BS Interest-bearing liabilities					163	163	163		163	
BS Derivative financial instruments	2	70				72	72	8	64	
BS Trade and other payables					1,679	1,679	1,679			
Financial liabilities	2	70	0	0	2,892	2,964	2,997			

[1)] excluding non-financial assets

During the financial period 2017 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.

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

17 Financial assets

Accounting policy

Financial assets are classified in the following measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on used business model for managing the financial assets and the contractual terms of the cash flows. Assets are classified as current assets, except for maturities over 12 months after balance sheet date, which are classified as non-current assets. Purchases and sales of financial assets are recognized on the settlement date (excluding derivatives, Note 19). 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.

Amortized cost category consists of liquid funds, trade receivables and loan receivables where the business model is to hold the asset to collect the contractual cash flows which represent only payments of principal and interest. Financial assets recognized at amortized cost are valued using the effective interest method. In year 2017 these items were classified as loans and receivables and valued at amortized cost according to IAS 39.

Assets at fair value through profit or loss consists of equity investments (and derivatives which do not meet criteria for hedge accounting). The investments in unlisted companies can be measured at cost if their fair value cannot be realiably measured. Gains or losses of the equity investments are included in financial income and expenses. Equity investments were classified as available-for-sale financial assets and valued through income statement in 2017 according to IAS 39.

Liquid funds

Liquid funds consists of cash and cash equivalents and current investments. Cash and cash equivalents includes cash in hand, deposits held at banks, and other highly liquid investments with original maturities of three months or less. Current investments includes deposits held at banks and other highly liquid investments with original maturities from three to 12 months.

Impairment

The general expected credit loss model is used for debt instruments carried at amortized cost and the impairment is recognized through profit or loss if there is evidence of deterioration in credit quality. The credit loss is recognized based on individual assessment of receivable. The simplified expected credit loss model is applied for trade receivables. Every business area uses a specific provision matrix for the trade receivables due to the different nature of the businesses. The business area impairment process is based on historical credit loss experience combined with current conditions and forward looking macroeconomic analysis. The impairment or credit loss is recognized in the consolidated statement of income within other expenses. In 2017 the provision for impairment was recognized for receivables over 90 days overdue.

Liquid funds

	2018	2017
BS Current investments	74	0
BS, **CF** Cash and cash equivalents	1,136	783
Liquid Funds	1,210	783

The maximum exposure to credit risk is the carrying amount of the liquid funds. Note 3 sets out more information about credit risk. The impairment of liquid funds has not been recognized because the amount is immaterial.

Trade and other receivables

	2018	2017
Trade receivables	972	994
Other receivables	228	70
Advances paid	9	10
Accrued income and prepaid expenses	23	23
BS Trade and other receivables	1,231	1,097
Trade and other receivables excluding non-financial items	1,224	1,094

Due to the nature of short-term trade and other receivables their carrying amount is expected to be equal to their fair value. The maximum exposure to credit risk is the carrying amount of the trade and other receivables. Analysis of trade receivables by age, information about the impairment and credit losses are presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

Non-current financial assets

	2018	2017
Non-current interest-bearing receivables	86	44
Other non-current receivables	1	7
BS Non-current receivables	87	51
BS Other financial assets	5	5

The fair value of non-current financial receivables is not materially different from the carrying amount which is also the maximum exposure to credit risk. The impairment has not been recognized because the amount is immaterial. Other financial assets consist of unlisted shares.

BS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

18 Inventories

Accounting policy

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 in all other operating segments except Oil Products segment where inventory valuation policy has been amended during the second quarter in 2018. The weighted average method has been applied for determining Oil Products' inventory cost whereas first-in, first-out (FIFO) method was used previously. The change had an immaterial impact on Neste's consolidated financial statements (approximately EUR 1 million). 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. RINs (Renewable Identification Number) and LCFS (Low Carbon Fuels Standard) credits are treated as inventory items in Renewable Products segment and are included in Finished products and goods -category.

Estimates and judgements requiring management estimation

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.

	2018	2017
Materials and supplies	529	659
Finished products and goods	946	897
Other inventories	7	7
BS Inventories	1,482	1,563

Cumulative inventory valuation losses due to oil price changes amounted EUR 269 million (2017: gains EUR 31 million) of which EUR 191 million (2017: EUR 19 million) consisted of inventory write-downs recorded at the end of the period.

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

19 Derivative financial instruments

Accounting policy

Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently re-measured at their fair value on the balance sheet date. The fair values of the foreign exchange forward and the interest rate swap contracts are calculated as the present values of the future cash flows and the fair values of foreign exchange options by using the Black and Scholes option pricing model. The fair value of the exchange traded commodity derivatives is based on exchange market quotations and the fair value of over-the-counter commodity derivative contracts is based on the net present value of cash flows. The fair value of all derivatives is calculated using the observable market inputs for currency and interest rates, volatilities and commodity price quotations on the closing date. Derivative contracts are included in current assets or liabilities, except derivatives maturities greater than 12 months after the balance sheet date, which are classified as non-current assets or liabilities.

Most of the derivatives do not qualify for hedge accounting, allthough these instruments are mainly held for economic hedging purposes. Changes in the fair value of the derivatives, for which hedge accounting is not applied, are recognized in the income statement either in operating profit or financial income and expences, depending on the underlying hedged item. Impact to the income statement from the derivatives is presented in Note 10.

When hedge accounting is applied to the derivative contracts, the method of recognizing any resulting gain or loss depends on the nature of the item being hedged. The Group designates certain derivative financial instruments as either hedges of highly probable forecast transactions (cash flow hedges); or hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Company also documents its assessment, both at hedge inception and on an ongoing basis quarterly, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated and qualified as cash flow hedges are recognized in equity. Forward points in currency forwards and time value of options are transaction related and thus recognized in equity and reclassified either to the income statement or adjusting the hedged item according to hedging relationship. In 2017 the changes in time value of currency options were recognized in the income statement according to hedge accounting under IAS 39. In cash flow hedges the critical terms in hedged item and hedging instruments are the same and hedge ratio is 1:1. Any potential gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity hedging future sales are recorded within revenue when the hedged item affects the income statement or in case of capital expenditures as part of acquistion cost. Accured interest of interest rate swaps hedging floating rate interest-bearing liabilities is recognized in the income statement within financial expenses. If a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of interest rate swaps that are designated and qualified as fair value hedges are recorded in the income statement 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. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement.

	2018					2017				
Foreign exchange and interest rate derivatives	Nominal value < 1 y	Nominal value > 1 y	Positive fair value	Negative fair value	Fair value net	Nominal value < 1 y	Nominal value > 1y	Positive fair value	Negative fair value	Net fair value
Interest rate swaps	0	0	0	0	0	50	0	0	1	–1
Foreign exchange derivatives, forwards	1,297	340	3	27	–24	714	0	22	0	22
Foreign exchange options										
– Purchased	320	0	0	3	–3	339	0	3	1	2
– Written	320	0	1	3	–2	339	0	3	0	3
Derivatives designated as cash flow hedges	1,936	340	3	33	–29	1,442	0	29	2	27
Interest rate swaps	74	0	1	0	1	0	74	2	0	2
Derivatives designated as fair value hedges	74	0	1	0	1	0	74	2	0	2
Interest rate swaps	26	0	0	0	0	0	26	1	0	1
Foreign exchange derivatives, forwards	1,269	0	4	2	2	1,634	0	29	0	29
Non-hedge accounting derivatives	1,295	0	5	2	2	1,634	26	30	0	30
Commodity derivatives										
Oil and vegetable oil derivatives										
– Sold forwards, million bbl	18	0	184	2	182	17	0	1	60	–59
– Purchased forwards, million bbl	18	0	1	112	–111	15	0	25	10	15
Electricity and gas derivatives										
– Purchased forwards, GWh	2,258	823	15	0	15	1,981	884	3	0	3
Non-hedge accounting derivatives			200	114	86			30	70	–41

The Group uses foreign exchange, interest rate and commodity derivatives to manage market risks (Note 3). Hedge accounting is not applied to commodity derivatives, although these are mainly held for economic hedging purposes. Commodity derivatives include oil, vegetable oil, freight, electricity and gas contracts. Group uses forwards as hedging instruments for commodities.

The Group has designated certain foreign currency and interest rate derivatives as hedges of future transactions i.e. as cash flow hedges. Such contracts are, e.g. foreign exchange derivatives hedging USD- and SEK-sales for the next twelve months according to the Corporate risk management policy or hedging investment costs in Singapore refinery (Note 3). Group uses currency forwards and options as hedging instruments. Interest rate swap, which was classified as cash flow hedge matured in 2018. In 2018 and 2017 there has not been ineffectiveness concerning cash flow hedges. Certain interest rate swaps are designated as fair value hedges. The result of these hedging instruments recognized in the income statement was EUR –1 million (2017: EUR –2 million) and of hedged item EUR 1 million (2017: EUR 3 million).

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20 Equity

Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2018 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 2018 or 2017.

	Number of shares, 1,000	Treasury shares, 1,000	Outstanding shares, 1,000
1 January 2018	256,404	–614	255,790
Transfer of treasury shares		40	40
31 December 2018	256,404	–574	255,830
1 January 2017	256,404	–687	255,717
Transfer of treasury shares		73	73
31 December 2017	256,404	–614	255,790

Treasury shares

On 15 March 2018 a total of 39,883 treasury shares of Neste Corporation has been conveyed without consideration to the key persons participating in the Long-term Incentive Plan 2013 according to the terms and conditions of the plan. The directed share issue is based on the authorization of the Annual General Meeting on 1 April 2015. The number of treasury shares after the directed share issue is 573,662 shares. The acquisition cost including transaction costs, has been deducted from equity.

On 15 March 2017 a total of 73,029 treasury shares was conveyed without consideration to the key persons participating in the Long-term Incentive Plan 2013 according to the terms and conditions of the plan. The directed share issue was based on the authorization of the Annual General Meeting on 1 April 2015. The number of treasury shares after the directed share issue was 613,545 shares. The acquisition cost including transaction costs, has been deducted from equity.

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 other financial assets, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the consolidated statement of income.

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.

21 Financial liabilities

Accounting Policy

Financial liabilities are classified at amortized cost (except derivative financial liabilities whose accounting policy is presented at Note 19). Financial liabilities measured at amortized are recognized initially at fair value, net of transaction costs, on the settlement date and subsequently measured at amortized cost using the effective interest method. Any difference between net proceeds and nominal amount is recognized as interest cost over the period of the borrowing using the effective interest method. Financial liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date, which are included in current liabilities. A financial liability is derecognized when the related obligation is discharged, cancelled or expires.

Bank overdrafts are recorded in current liabilities on the balance sheet. Fees of revolving credit facility are capitalized and amortized over the period of the facility.

The fair values of the listed bonds are driven from market quatations. The fair values of other interest-bearing liabilities at amortized cost are determined by using the discounted cash flow method employing market interest rates at the balance sheet date.

Non-current financial liabilities	2018	2017
Bonds	719	867
Loans from financial institutions	0	14
Finance lease liabilities	98	98
Other loans	32	53
Other non-current liabilities	13	14
Accruals and deferred income	1	4
Total	863	1,050
BS of which interest-bearing	849	1,032

Current financial liabilities	2018	2017
Bonds	148	50
Loans from financial institutions	119	102
Finance lease liabilities	3	3
Other loans	21	8
Advances received	15	13
Trade payables	1,033	1,163
Other current liabilities	588	398
Accruals and deferred expenses	113	104
Total	2,040	1,842
BS of which interest-bearing	291	163

The fair values of financial liabilities can be found in Note 16. Re-pricing periods of interest-bearing liabilities are 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 EUR million
2012/2019	Fixed	4.0000	4.0780	EUR	147	148
2015/2022	Fixed	2.1250	2.2080	EUR	321	320
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total					868	867

The future minimum lease payments of finance lease liabilities and their present value in the balance sheet

	2018			2017		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Within one year	17	13	3	16	13	3
Between one and five years	83	59	24	80	60	20
More than 5 years	158	85	73	171	93	78
Total amounts payable	258	157	101	267	166	101

Finance lease liabilities arise from contracts related to Singapore refinery. The agreements are made with two local companies that provide utility and terminalling services. Major assets under these agreements are tanks and jetty used for storing, loading and discharging of products and feedstock and facilities used for recycling of refinery by-products. Lengths of the contracts are from 15 to 30 years.

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22 Provisions

Accounting policy

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.

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.

Estimates and judgements requiring management estimation

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 or transfer to a third party. 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. 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 most significant provisions in the consolidated 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.

	Environmental provisions	Provision to return emission allowances	Other provisions	Total
BS On 1 January 2018	54	0	1	55
Additions	8	2	40	49
Amounts used during the period	–2	0	–1	–3
Reversed unused provisions	–1	0	0	–1
BS On 31 December 2018	58	2	40	100

	Environmental provisionst	Provision to return emission allowances	Other provisions	Total
On 1 January 2017	50	2	1	53
Additions	12	0	1	12
Amounts used during the period	–7	–2	0	–9
Reversed unused provisions	–1	0	0	–1
BS On 31 December 2017	54	0	1	55

Environmental provisions consists mostly of the Group's asset retirement obligations (ARO) that are related to retail stations and refineries which are expected to be realised in 1–50 years. 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 provisions are to be discounted, where the effect of the time value of money is material.

The exchange rate difference relating to the Group's provisions is immaterial.

Emission allowances

Neste Finland Refineries in Porvoo and Naantali come under the European Union's greenhouse gas emission trading system, and were granted a total of 20.4 million tons emission allowances for the period 2013–2020. In addition to refinery operations Neste purchases allowances to cover certain emissions of the local partners who provide utility services to Neste. 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. 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.

As at 31 December 2018 estimated obligation to purchase emission allowances were reflected in the balance sheet of Neste in provision amounting to EUR 1,9 million (31.12.2017 EUR 0 million). The actual amount of CO_2 emissions in 2018 were 3.2 million tons (2017: 3.4 million tons). The Group has traded emission allowances for net amount of 0.4 million tons during the financial period ended 31 December 2018 (2017: 0.8 million tons).

23 Employee benefit obligations

Accounting policy

The Group has pension arrangements in different countries, which are generally funded through insurance companies. Pension cover is based on the legislation and agreement in force in each country. Pension schemes consist of both defined benefit and defined contribution plans. Finnish statutory pensions are accounted for as a defined contribution plan in the consolidated financial statements.

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 in the consolidated statement of income.

The liability (or asset) recognized in the consolidated 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.

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.

Estimates and judgements requiring management estimation

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 Group has defined benefit pension plans in Finland, Belgium, Switzerland and the Netherlands. The largest plans are in Finland, which account for 97% (2017: 97%) 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 was a pension reform in Finland starting 1 January 2017. The Group did not compensate the changes in a majority of the defined benefit pension plans and thus the benefits of the plan did 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 during 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.

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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 in used discount rates increase the defined benefits obligations. However, a decrease in the used discount rate yield also increases 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	2018	2017
Service cost	8	9
Net interest (+expense/–income)	2	2
Remeasurements related to other long-term remunerations	0	0
Defined benefit cost recognized in the consolidated statement of income	10	11

Remeasurements of defined benefit plans	2018	2017
Actuarial gains/losses:		
Changes in demographic assumptions	0	–1
Changes in financial assumptions	15	4
Return on plan assets, excluding amounts included in net interest expense	–13	–9
Experience adjustments	4	7
Total remeasurements recognized in other comprehensive income	7	2

Amounts recognized in the consolidated statement of financial position	2018	2017
Present value of funded defined benefit obligations	464	493
Present value of unfunded defined benefit obligations	8	9
Fair value of plan assets	–349	–370
BS Net defined benefit liability	124	131

Changes in fair value of plan assets	2018	2017
January 1	370	381
Interest income	5	5
Return on plan assets (excluding amounts included in net interest expense)	–13	–9
Employer contributions	11	14
Benefits paid	–25	–20
December 31	349	370

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	2018		2017	
	Funded	Unfunded	Funded	Unfunded
January 1	493	9	508	8
Current service cost	7	1	8	1
Interest cost	7	0	7	0
Actuarial gains (–)/ losses (+)	–19	0	–11	0
Settlements	0	0	0	0
Benefits paid	–24	–1	–19	–1
December 31	464	8	493	9

The expected contributions to be paid to the defined benefit plans in 2019 are EUR 9 million.

Significant actuarial assumptions (presented as weighted average)	2018	2017
Discount rate, %		
Finland	1.57%	1.43%
Other countries	1.19%	0.96%
Future salary increase, %		
Finland	3.0%	3.0%
Other countries	2.0%	2.0%
Insurance company's bonus index, %		
Finland	0.0%	0.0%
Other countries	0.0%	0.0%
Future benefit increase, %		
Finland	1.7%	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:

			Impact on the defined benefit pension obligation	
Assumptions	Change in assumption		2018	2017
Discount rate				
	0.50% increase	EUR million	–31	–34
	0.50% decrease	EUR million	34	36
Future salary increase				
	0.50% increase	EUR million	4	9
	0.50% decrease	EUR million	–4	–9
Future benefit increase				
	0.50% increase	EUR million	28	29
	0.50% decrease	EUR million	–25	–28

- 0.50% increase/decrease in the discount rate would lead to a decrease/increase of 6.5%/7.3% in the defined benefit obligation.
- 0.50% increase/decrease in the rate of salary increase would lead to a increase/decrease of 0.9%/0.8% in the defined benefit obligation
- 0.50% increase/decrease in the rate of pension index would lead to a increase/decrease of 5.8%/5.3% 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	2018
Within the next 12 months	2
Between 1 and 5 years	9
Between 5 and 10 years	11
Beyond 10 years	36
Total	58

The average duration of the defined benefit pension obligation at the end of the reporting period is 14 years.

24 Share-based payments

Accounting policy

The share-based incentive plans are accounted for as a share-based transaction. The portion of the earned reward 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, 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 equity-settled part is measured at fair value prevailing at grant date. 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.

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 2019

The Board of Directors of Neste Corporation decided on 12 December 2018 to establish a new share-based long-term incentive scheme for selected members of the Company's management and key employees. The decision included a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure for specific situations.

The Performance Share Plan consists of three annually commencing individual performance share plans, each with a three-year performance period, followed by the payment of the potential share reward. The three plans commence in the years 2019, 2020 and 2021. The commencement of each individual plan is, however, subject to a separate Board approval.

The first plan (PSP 2019–2021) commences effective as of the beginning of 2019 and the potential share reward thereunder will be paid in the spring 2022 provided that the performance target set by the Board of Directors is achieved. The potential reward will be paid in shares of Neste. The performance target based on which the potential share reward under PSP 2019–2021 is to be paid is the relative total shareholder return of the Company's share compared to STOXX Europe 600 index.

The combined amount of variable compensation paid to an individual participant any given year, including the long-term incentive scheme and the annual short-term incentive scheme, may not exceed 120% of the individual' annual gross base salary. If the individual's

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employment with Neste terminates before the payment date of the share reward, the individual is not, as a main rule, entitled to any reward based on the plan. The plan does not include a separate restriction period after the performance period of 2019–2021.

The Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year retention period after which the share rewards granted within the plan will be paid to the participants in shares of Neste. The commencement of each individual plan is subject to a separate Board approval. A precondition for the payment of the share reward based on the Restricted Share Plan is that the employment relationship of the individual participant with Neste continues until the payment date of the reward.

The first plan (RSP 2019–2021) within the Restricted Share Plan structure commences effective as of the beginning of 2019 and the potential share reward thereunder will be paid in the spring 2022.

Neste applies a share ownership policy to the members of the Neste Executive Committee. According to the policy each member of the Neste Executive Committee is expected to retain in his/her ownership at least half of the shares received under the share-based incentive programs of the company until the value of his/her share ownership in Neste corresponds to at least his/her annual gross base salary.

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 plans have started in 2016, 2017 and 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 earning criteria for the earning periods 2016–2018, 2017–2019 and 2018–2020 are the Group's cumulative comparable free cash flow (75%) and total return by the Group's share compared 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 plans 2017–2019 and 2018–2020 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 is three years in the 2016–2018 plan. In 2017–2019 and 2018–2020 plan the restriction period is one year.

Earnings period of share-based incentive plan 2015–2017 ended 31 December 2017. The earning criteria was met fully resulting in the delivery of shares to the participants in 2018. A gross reward of 95,779 shares equaling to EUR 5.5 million was delivered to the participants. The net amount of shares delivered totalled 39,883 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 57.8 euros. The members of company's Executive Board received a gross reward equaling to 33 515 shares.

There is Ownership requirement for all participants for shares earned from the long-term incentive plan 2016. 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 earning criteria for the earning period 2013–2015 have been 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 have been the Group's cumulative comparable free cash flow (75%) and total return by the Group's share compared to a peer group of 10 oil industry peers (25%). The combined amount of incentives to be paid based on maximum-level earnings under the short-term program and this 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 is three years in respect of the President and CEO and the other members of the NEB, and one year in respect of other participants.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan:

Plan	Long-Term Incentive Plan 2016		Long-Term Incentive Plan 2013		
Type	Share allocation		Money Allocation		
Instrument	Plan 2017–2019	Plan 2016–2018	Plan 2015–2017	Plan 2014–2016	Plan 2013–2015
Grant dates	19 Jan 2017	1 Feb 2016	11 Feb 2015	1 Feb 2014	10 Feb 2013
Grant prices, euros	30.18	26.09	–	–	–
Share price as at grant date, euros	34.22	28.74	–	–	–
Beginning of earnings period	1 Jan 2017	1 Jan 2016	1 Jan 2015	1 Jan 2014	1 Jan 2013
End of earnings period	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
End of restriction period	31 Mar 2021	30 Apr 2022	31 Mar 2019 / 31 Mar 2021	31 Mar 2018 / 31 Mar 2020	31 Mar 2017 / 31 Mar 2019

Changes during the period, share allocation[1]	Shares	Shares			
Outstanding at the beginning of the reporting period, pcs	155,808	238,742			
Granted during the period	8,178	16,000			
Forfeited during the period	4,934	10,290			
Outstanding at the end of the period, pcs	159,052	244,452			
Number of persons at the end of the reporting year	81	85	69	9	6
Share price at the end of the reporting period, euros	67.36	67.36	53.35	33.96	26.52
Estimated rate of realization of the earnings criteria, %	88%	88%	100%	100%	100%
Estimated termination rate before the end of the restriction period, %	10%	5%	0%	0%	0%

[1] Changes during the period, money allocation: 21,564 shares excercised from plan 2013–2015, 148,244 shares excercised and 4,475 shares forfeited from plan 2014–2016, 13,601 shares excercised and 5,641 shares forfeited and one 60,000 euro allocation returned from plan 2015–2017.

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:

	2018	2017
Expense arising from equity-settled share-based payment transactions	2	3
Expense arising from cash-settled share-based payment transactions	2	5
Total expense arising from share-based payment transactions	5	7

The expense to be recognized during the financial periods 2019–2022 is estimated on 31 December 2018 to amount to EUR 9 million. The actual amount may differ from this estimate.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

25 Related party transactions

The Group is controlled by the State of Finland, which owns 44.8% of the company's shares. The remaining 55.2% of shares are widely held.

The Group has a related party relationship with its subsidiaries, joint arrangements (Note 26) 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

2018	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	224	165	156	3	5
Other related parties	39	118	11	0	2
	263	283	167	3	6

2017	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	158	135	81	1	4
Other related parties	33	46	4	0	0
	191	182	84	1	4

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 AB and Kilpilahti Power Plant Ltd. Transactions with Nynas AB comprises of sales of bitumen production from Neste Finland refinery in Naantali based on a long-term agreement and sales of process oils from Neste Finland refinery in Porvoo. 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	2018	2017
Salaries and other short-term employee benefits	4,211	4,026
Statutory pensions	676	660
Supplementary pensions	1,536	1,682
Share-based payments	1,799	1,996
Total (Including statutory pensions)	8,222	8,364

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 2018 or 31 December 2017.

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 24, Share based payments.

Compensation to President and CEO and members of the Neste Executive Board

	President and CEO	Former President and CEO		Members of the Neste Executive Board	
EUR thousand	2018	2018	2017	2018	2017
Annual remuneration					
Base salary	150	582	667	1,980	1,973
Taxable benefits	0	18	22	108	107
Annual incentive (STI plan)	0	252	238	641	594
Total annual remuneration	150	852	927	2,730	2,674
Vested long term remuneration					
Supplementary pension (insurance contributions)	0	1,092	1,191	444	491
Share-based incentive plan	0	554	597	1,245	1,399
Total remuneration	150	2,498	2,715	4,419	4,563

Compensation to the Board of Directors

EUR thousand	2018	2017
Board of Directors at 31 December 2018		
Matti Kähkönen, as of 5 April 2017	77	47
Elizabeth Burghout, as of 5 April 2018	45	0
Martina Flöel, as of 5 April 2017	61	41
Laura Raitio	61	47
Jean-Baptiste Renard	61	54
Jari Rosendal, as of 5 April 2018	37	0
Willem Schoeber	61	52
Marco Wirén	55	47
Former Board members		
Jorma Eloranta, until 5 April 2018	21	77
Maija-Liisa Friman, until 5 April 2017	0	14
Kirsi Sormunen, until 5 April 2017	0	10
Heike van de Kerkhof, as of 5 April 2017, until 30 November 2017	0	37
Board of Directors, all members total	480	426

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 6 months' salary. The retirement age of the President and CEO is according to the Finnish Employee's Pension Act (TyEL).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2018 were EUR 1,376 thousand (2017: EUR 1,517 thousand).

26 Group companies

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 Demeter B.V. (new)	51.00%	The Netherlands
Neste Insurance Limited	100.00%	Guernsey
Neste Italy S.R.L. (new)	100.00%	Italy
Neste Engineering Solutions AB	100.00%	Sweden
Neste Engineering Solutions AS	100.00%	Norway
Neste Engineering Solutions B.V.	100.00%	The Netherlands
Neste Engineering Solutions Oy	100.00%	Finland
Neste Engineering Solutions Pte. Ltd.	100.00%	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
NSE Biofuels Oy Ltd	100.00%	Finland
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

Associated companies	Group holding %	Country of incorporation
Neste Arabia Co. Ltd. (inactive)	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
Nynas AB (publ)	49.99%	Joint Venture	Sweden
Oy Innogas Ab	50.00%	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 Demeter B.V.	Navidom Oy	
	2018	2018	2017
Proportion of shares held by non-controlling interests	49.00%	50.00%	50.00%
Current assets	34	0	0
Non-current assets	0	0	0
Current liabilities	31	0	0
Non-current liabilities	0	0	0
Revenue	109	1	1
Profit for the period	1	0	0
Dividends paid to non-controlling interests	0	0	0
Cash flows from operating activities	6	0	0
Cash flows from investing activities	6	0	0
Cash flows from financing activities	–11	0	0

Unconsolidated structured entities

In 2015, Neste sold its shares of Aurora Kilpilahti 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 the company. Aurora Kilpilahti Oy is responsible for high- and medium-voltage electricity distribution in the Kilpilahti industrial area where Neste Finland Refinery in Porvoo is situated. In addition to Neste, Aurora Kilpilahti 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 Aurora Kilpilahti Oy Neste has been supplying small and decreasing part of the operating services needed in electricity distribution. It can be considered that Neste has the possibility to influence only limited development investments made by Aurora Kilpilahti Oy. Aurora Kilpilahti Oy distributes electricity to Neste and Neste remains to be the main user of the capacity of the electricity distribution network. Aurora Kilpilahti Oy operates on land leased from Neste for 30 years with an option to extend the lease. Neste has not provided any financial support or other significant support to Aurora Kilpilahti Oy without contractual obligation.

Based on the factors described above Neste has determined that it has limited influence though no control over Aurora Kilpilahti Oy and treats the company 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 Aurora Kilpilahti Oy, and the company's significance to Neste from an operative perspective. Neste's exposure is mainly dependent upon the efficient 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

27 Acquisitions and disposals

Acquisitions

In May 2018 Neste and Demeter Holding B.V. agreed that Neste acquires sole control and 51% of the shares of the Dutch animal fats and proteins trader IH Demeter B.V. (Internationale Handelmaatschappij 'Demeter' B.V.), making Neste the controlling shareholder. The acquisition was closed on 31 August 2018 after regulatory approvals. The previous owners remained as co-owners with non-controlling interest, which have been measured at proportionate share of the net assets. The new company is called Neste Demeter B.V. and has been consolidated into Renewable Products segment.

The acquisition is an important step for Neste in its strategy of building a global waste and residue raw material platform to secure raw material availability and competitiveness. IH Demeter B.V. has a long history, and a solid track record of cooperating with Neste. With an efficient European-wide logistical setup, the company is well-positioned to serve Neste in delivering future raw material volumes to Neste's renewable product refineries.

The fair value of acquired net assets include supplier relations that have been recognized as intangible assets. The goodwill is non-deductible for income tax purposes. Transactions costs of the acquisition have been recognized as other expenses in the consolidated statement of income. The acquisition does not have material impact on Group's net sales nor result. In Q4/2018 the pension liabilities have been recognized according to IAS 19 which slightly affected to the fair value of the net assets. The purchase price was also fully settled in Q4/2018.

Values of acquired assets and liabilities at time of acquisition:	Recognized values
Intangible assets	2
Property, plant and equipment	0
Deferred tax assets	0
Inventories	28
Trade and other receivables	6
Cash and cash equivalents	0
Total assets	37
Interest bearing liabilities	12
Deferred tax liabilities	1
Pension liabilities	0
Current tax liabilities	2
Trade and other payables	19
Total liabilities	33
Fair value of net assets total	3
Consideration transferred	15
Proportionate share of net assets of non-controlling interests	2
Fair value of acquired net assets	–3
Goodwill	13

Cash flows of acquisition:	2018
Consideration, paid in cash	–15
Cash and cash equivalents in acquired company	0
Transaction costs of the acquisition	–1
Net cash flow on acquisition	–16

Disposals

During the financial period 2018, the Group sold its 33.33% interest in joint arrangement Porvoon Alueverkko Oy. The transaction was completed on 1 February 2018 and no material capital gains was recognized in the consolidated financial statements. No disposals took place in financial period 2017.

28 Contingencies and commitments

Contingent liabilities	Value of collateral 2018	Value of collateral 2017
On own behalf for commitments		
Real estate mortgages	26	17
Pledged assets	116	116
Other contingent liabilities	34	40
Total	177	174
On behalf of joint arrangements		
Pledged assets	45	45
Guarantees	0	1
Total	45	46
On behalf of others		
Guarantees	1	1
Total	1	1
	223	221

The pledged assets on own behalf for commitments are granted to finance parties as security for the timely and complete payment, performance and discharge by single ship company (SSC) of the secured obligations. The pledged assets mean the ship mortgage notes, all rights and interest of the SSC in and relating to the insurances, the receivables and the blocked account. The security period ends on the date upon which all the secured obligations have been unconditionally and irrevocably paid and discharged in full.

The pledged assets on behalf of joint arrangements are granted to the secured creditors as continuing security for due and punctual payment, discharge and performance of all or any part of the secured obligations of Kilpilahti Power Plant Ltd. The pledged assets mean all shareholder loan receivables, all contribution loan receivables and the shares of Kilpilahti Power Plant Ltd. The security period ends on the date on which all the secured obligations have been unconditionally and irrevocably paid and discharged in full.

Operating leases

Total future minimum lease payments under non-cancellable operating leases

Operating lease liabilities	2018	2017
Due within one year	81	74
Due between one and five years	86	61
Due later than five years	68	71
Total	235	206

The Group's operating lease commitments primarily relate to time charter vessels, land and office space. Lease rental expenses amounted to EUR 103 million (2017: EUR 121 million).

Capital commitments

Commitments	2018	2017
Commitments for purchase of property, plant and equipment	138	32
	138	32

Take-or-pay contracts

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 2018 are presented in the table below.

Fixed fees payable under take-or-pay contracts	2018	2017
Payable	17	17
Payable after the financial period	114	132
Total payable	131	149

29 Disputes and potential litigations

Neste had a 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). Neste has received in January 2019 a decision by the Finnish Tax Authority in favor of Neste concerning a pending excise tax dispute of EUR 13 million, which will affect year 2019 results positively. Regardless of the given decision in the main issue, the Tax Authority did not decide the relating interest and additional tax of EUR 3 million in favor of Neste. Neste will appeal in this respect to the Administrative Court of Helsinki. The payment was charged to the income statement in 2016.

Neste Oil Bahrain W.L.L. has obtained a disadvantageous tax judgement in December 2018 and has appealed against it. As part of an impairment process, Neste has written down all Neste Oil Bahrain W.L.L.'s assets of EUR 112 million.

Neste is currently engaged in arbitration with the Bahrain base oil joint operation partners concerning a contractual dispute.

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.

30 Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.

Parent Company Income Statement

EUR million	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Revenue	2	9,100	7,595
Change in product inventories		–8	18
Other operating income	3	12	15
Materials and services	4	–8,136	–6,397
Personnel expenses	5	–221	–207
Depreciation, amortization and write-downs	6	–205	–185
Other operating expenses	7	–374	–306
Operating profit/loss		168	533
Financial income and expenses	8	87	–47
Profit/loss before appropriations and taxes		255	486
Appropriations	9	564	252
Income tax expense	10	–141	–143
Profit for the year		678	595

Parent Company Balance Sheet

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Fixed assets and other long-term investments	11, 12		
Intangible assets		91	78
Tangible assets		1,904	1,914
Other long-term investments		2,092	2,122
		4,088	4,114
Current assets			
Inventories	13	703	788
Long-term receivables	14	9	4
Short-term receivables	15	2,098	1,403
Cash and cash equivalents		1,113	705
		3,924	2,900
Total assets		8,012	7,013
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Share capital		40	40
Other reverses		–1	26
Retained earnings		1,512	1,352
Profit for the year		678	595
		2,229	2,013
Accumulated appropriations	17	1,003	979
Provisions for liabilities and charges	18	38	2
Liabilities	19		
Long-term liabilities		1,090	1,034
Short-term liabilities		3,651	2,985
		4,741	4,019
Total equity and liabilities		8,012	7,013

Parent Company Cash Flow Statement

EUR million	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flows from operating activities		
Profit/loss before approriations and taxes	255	486
Depreciation, amortization and write-downs	205	185
Other non-cash income and expenses	–105	–83
Financial income and expenses	–87	47
Divesting activities, net	–2	–3
Operating cash flow before change in working capital	266	632
Change in working capital		
Decrease (+) / increase (–) in interest-free receivables	–137	–161
Decrease (+) / increase (–) in inventories	84	–41
Decrease (–) / increase (+) in interest-free liabilities	401	533
Change in working capital	348	331
Cash generated from operations	613	963
Interest and other financial expenses paid, net	–19	–62
Dividends received	242	26
Income taxes paid	–121	–121
Realized foreign exchange gains and losses	–6	0
Net cash from operating activities	709	805
Cash flows from investing activities		
Capital expenditure	–216	–310
Proceeds from sale of fixed assets	2	4
Investments in shares in subsidiaries	0	–27
Investments in shares in other shares	0	0
Proceeds from shares in subsidiaries	0	0
Procedds from other shares	0	0
Change in other investments, increase (–) / decrease (+)	–46	31
Net cash used in investing activities	–260	–302
Cash flow before financing activities	449	504

EUR million	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Cash flows from financing activities		
Sale of treasury shares	0	0
Proceeds from long-term liabilities	450	399
Payments of long-term liabilities	–301	–681
Change in short-term liabilities	–60	10
Dividends paid	–435	–332
Group contributions, net	305	79
Cash flow from financing activities	–41	–526
Net increase (+) / decrease (–) in cash and cash equivalents	409	–23
Cash and cash equivalents at the beginning of the period	705	727
Cash and cash equivalents at the end of the period	1,113	705
Net increase (+) / decrease (–) in cash and cash equivalents	409	–23

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.

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.

Derivatives without hedge accounting status are recognized to profit and loss. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Derivatives are recognized on the trade date at fair value and other financial assets on the settlement date. Later derivatives are re-measureded at their fair value each reporting date and any subsequent change is recognized at profit and loss if hedge accounting is not used.

Derivative financial instruments

The company uses derivative financial instruments mainly to hedge commodity price, foreign exchange and interest rate exposures. Derivatives without hedge accounting are recognized in the income statement in operating profit material and services or alternatively in financial income and expenses if they are relate to financial activities.

Hedge accounting

The company applies hedge accounting on certain forward foreign exchange contracts, options and interest rate derivatives.

Cash flow hedges

The company applies cash flow hedge accounting to reduce exposure of currency and interest rates. Currency derivative contracts hedging future currency cash flows and qualifying for hedge accounting are booked once matured and the underlying exposure occurs. Gains or losses for interest rate swaps 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.

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 are stated at either cost or net realizable value, whichever is the lowest. Cost was determined using the first-in, first-out (FIFO) during first quarter. Inventory valuation policy has been amended during the second quarter in 2018. The weighted average method has been applied for determining cost whereas first-in, first-out (FIFO) method was used previously. The change had an immaterial impact on financial statement (approximately EUR 1 million). 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.

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	2018	2017
Oil Products	8,986	7,529
Renewable Products	38	4
Marketing & Services	0	0
Other	76	62
Eliminations	0	0
	9,100	7,595

Revenue by market area	2018	2017
Finland	3,797	3,305
Other Nordic countries	997	713
Baltic countries, Russia and Poland	555	506
Other European countries	3,571	2,934
North and South America	2	2
Other countries	178	134
	9,100	7,595

3 Other operating income

	2018	2017
Rental income	6	9
Gain on sale of intangible and tangible assets	0	3
Gain on sale of shares	2	0
Insurance compensations	0	0
Government grants	1	1
Other	3	2
	12	15

4 Materials and services

	2018	2017
Materials and supplies		
Purchases during the period	8,052	6,412
Change in inventories	76	–24
	8,128	6,389
External services	9	9
	8,136	6,397

5 Personnel expenses

	2018	2017
Wages, salaries and remunerations	176	163
Indirect employee costs		
Pension costs	38	39
Other indirect employee costs	8	7
Wages and salaries capitalized in fixed assets	–2	–3
	221	207

Salaries and remuneration

Key management compensations are presented in Note 28 in the Neste Group consolidated financial statements.

Average number of employees	2018	2017
White-collar	1,387	1,393
Blue-collar	968	1,031
	2,355	2,424

6 Depreciation, amortization and write-downs

	2018	2017
Depreciation according to plan	204	183
Write-offs	1	3
Write-offs of fixed assets in progress	0	–1
	205	185

7 Other operating expenses

	2018	2017
Operating leases and other property costs	22	23
Repairs and maintenance	141	132
Other	210	151
	374	306

Fees charged by the statutory auditor, PricewaterhouseCoopers

EUR thousands	2018	2017
Audit fees	615	664
Tax advisory	5	28
Other advisory services	297	238
	917	930

8 Financial income and expenses

	2018	2017
Dividend income		
From Group companies	242	26
From associated companies	0	0
From others	0	0
Dividend income total	242	26
Interest income from long-term loans and receivables		
From Group companies	3	4
From others	1	1
Interest income from long-term loans and receivables total	4	5
Other interest and financial income		
From Group companies	0	0
Other	4	1
Other interest and financial income total	4	1
Write-downs on long-term investments	–100	0
Interest expenses and other financial expenses		
To Group companies	–2	–2
Other	–25	–62
Interest expenses and other financial expenses total	–27	–63
Exchange rate differences	–36	–16
Financial income and expenses total	87	–47

Total interest income and expenses	2018	2017
Interest income	8	6
Interest expenses	–22	–26
Net interest expenses	–14	–19

9 Appropriations

	2018	2017
Change in depreciation difference		
Difference between depreciation according to plan and depreciation in taxation	–25	–53
Group contributions		
Group contributions received	589	305
Appropriations total	564	252

10 Income tax expense

	2018	2017
Income taxes on regular business operations	143	143
Taxes for prior periods	–2	0
Change in deferred tax assets	0	0
	141	143

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11 Fixed assets and long-term investments

Change in acquisition cost 2018

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2018	1	178	178
Increases	0	32	32
Decreases	0	0	0
Transfers between items	0	0	0
Acquisition cost as of 31 December 2018	1	210	211
Accumulated amortization and write-downs as of 1 January 2018	1	100	101
Accumulated amortization and write-downs of decreases and transfers	0	0	0
Amortization for the period	0	19	19
Accumulated amortization and write-downs as of 31 December 2018	1	119	119
Balance sheet value as of 31 December 2018	0	91	91

Change in acquisition cost 2017

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2017	1	151	152
Increases	0	27	27
Decreases	0	–1	–1
Transfers between items	0	0	0
Acquisition cost as of 31 December 2017	1	178	178
Accumulated amortization and write-downs as of 1 January 2017	1	87	88
Accumulated amortization and write-downs of decreases and transfers	0	–1	–1
Amortization for the period	0	13	13
Accumulated amortization and write-downs as of 31 December 2017	1	100	101
Balance sheet value as of 31 December 2017	0	78	78

Change in acquisition cost 2018

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 2018	26	1,206	2,809	90	129	4,260
Increases	0	15	76	4	82	177
Decreases	0	0	–15	0	0	–15
Transfers between items	0	49	50	2	–101	0
Acquisition cost as of 31 December 2018	26	1,271	2,920	96	109	4,421
Accumulated depreciation and write-downs as of 1 January 2018	0	626	1,708	39	0	2,374
Accumulated depreciation and write-downs of decreases and transfers	0	0	–15	0	0	–15
Depreciation and write downs for the period	0	34	149	2	0	186
Accumulated depreciation and write-downs as of 31 December 2018	0	660	1,842	41	0	2,544
Revaluations	6	21	0	0	0	27
Balance sheet value as of 31 December 2018	31	631	1,078	55	109	1,904
Balance sheet value of machinery and equipments used in production						1,078

Change in acquisition cost 2017

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 2017	26	1,164	2,442	119	260	4,011
Increases	0	51	359	2	287	699
Decreases	0	–8	–19	–4	–418	–450
Transfers between items	0	0	26	–26	0	0
Acquisition cost as of 31 December 2017	26	1,206	2,809	90	129	4,260
Accumulated depreciation and write-downs as of 1 January 2017	0	600	1,587	47	0	2,234
Accumulated depreciation and write-downs of decreases and transfers	0	–8	–14	–9	0	–31
Depreciation and write downs for the period	0	33	135	2	0	171
Accumulated depreciation and write-downs as of 31 December 2017	0	626	1,708	39	0	2,374
Revaluations	6	21	0	0	0	27
Balance sheet value as of 31 December 2017	31	602	1,101	51	129	1,914
Balance sheet value of machinery and equipments used in production						1,101

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 2018	2,000	72	3	43	3	0	2,122
Increases	0	154	1	7	0	0	162
Decreases	0	–171	0	–20	0	0	–191
Acquisition cost as of 31 December 2018	2,000	54	5	30	3	0	2,092
Accumulated depreciation and write-downs as of 1 January 2018	0	0	0	0	0	0	0
Accumulated depreciation and write-downs as of 31 December 2018	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2018	2,000	54	5	30	3	0	2,092

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 2017	1,973	73	0	46	3	0	2,096
Increases	27	0	3	0	0	0	30
Decreases	0	–1	0	–3	0	0	–4
Acquisition cost as of 31 December 2017	2,000	72	3	43	3	0	2,122
Accumulated depreciation, amortization and write-downs as of 1 January 2017	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2017	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2017	2,000	72	3	43	3	0	2,122

Interest-bearing and interest-free receivables	2018	2017
Interest-bearing receivables	84	114
Interest-free receivables	0	0
	84	115

12 Revaluations

	Revaluations as of Jan 1 2018	Increases	Decreases	Revaluations as of Dec 31 2018
Land areas	6	0	0	6
Buildings	21	0	0	21
Total	27	0	0	27

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

	2018	2017
Raw materials and supplies	319	396
Products/finished goods	378	386
Advance payments on inventories	7	6
	703	788
Replacement value of inventories	719	796
Book value of inventories	703	788
Difference	16	8

14 Long-term receivables

	2018	2017
Long-term advance payments	0	1
Receivables from Group companies		
Other long-term receivables	3	4
Deferred tax assets	5	0
	9	4

15 Short-term receivables

	2018	2017
Trade receivables	377	337
Receivables from Group companies		
Trade receivables	480	386
Other receivables	725	458
Accrued income and prepaid expenses	118	59
Total	1,324	902
Receivables from associated companies		
Trade receivables	42	28
Other receivables	14	1
Total	56	29
Other receivables	144	44
Accrued income and prepaid expenses	197	90
	2,098	1,403

Short-term accrued income and prepaid expenses	2018	2017
Accrued interest	1	1
Derivative financial instruments	305	156
Other	10	8
	315	164

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16 Changes in shareholders' equity

	2018	2017
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Fair value reserve at 1 January	15	–22
Increases	800	1,585
Decreases	–830	–1,547
Fair value reserve at 31 December	–14	15
Invested non-restricted equity fund at 1 January	10	8
Transfer of treasury shares	2	2
Invested non-restricted equity fund at 31 December	13	10
Retained earnings at 1 January	1,947	1,685
Dividends paid	–435	–332
Profit for the year	678	595
Retained earnings at 31 December	2,191	1,947
Capitalized development expenditure	9	–10
Distributable equity	2,212	1,948

17 Accumulated appropriations

	2018	2017
Depreciation difference	1,003	979

18 Provisions for liabilities and charges

	2018					2017			
	Restructuring provisions	Provision for environment	Liability to return emission rights	Other provisions	Total	Restructuring provisions	Provision for environment	Liability to return emission rights	Total
Provisions as of 1 January	0	2	0	0	2	0	3	2	5
Increase	0	0	2	35	37	0	0	0	0
Decrease	0	1	0	0	1	0	1	2	3
Provisions as of 31 December	0	1	2	35	38	0	2	0	2

19 Liabilities

Long-term liabilities	2018	2017
Bonds	719	867
Loans from financial institutions	0	0
Advanced payments	13	8
Liabilities to Group companies		
Other long-term liabilities	351	150
Deferred tax liabilities	0	2
Other long-term liabilities	2	3
Accruals and deferred income	5	4
	1,090	1,034

Interest-bearing liabilities due after five years	2018	2017
Bonds	399	719

The fair values of non-current liabilities 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 740 million (2017: EUR 900 million) of which EUR 740 million belong to level 1. The fair values of other non-current liabilities are not materially different from their carrying amounts.

Short-term liabilities	2018	2017
Bonds	148	50
Loans from financial institutions	0	0
Advances received	0	0
Trade payables	711	797
Liabilities to Group companies		
Advances received	0	0
Trade payables	197	89
Other short-term liabilities	1,614	1,504
Accruals and deferred income	153	35
Total	1,964	1,627
Liabilities to associated companies		
Trade payables	4	4
Total	4	4
Other short-term liabilities	514	332
Accruals and deferred income	310	175
	3,651	2,985

The fair values of current interest-free liabilities 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 151 million (2017: EUR 50 million) of which EUR 151 million belong to fair value hierarchy level 1. The fair values of other current liabilities are not materially different from their carrying amounts.

Short-term accruals and deferred income	2018	2017
Salaries and indirect employee costs	63	50
Accrued interests	11	11
Accrued taxes	51	31
Derivative financial instruments	339	117
Other short-term accruals and deferred income	0	1
	463	210

Interest-bearing and interest-free liabilities	2018	2017
Long-term liabilities		
Interest-bearing liabilities	1,071	1,020
Interest-free liabilities	19	15
	1,090	1,034
Short-term liabilities		
Interest-bearing liabilities	1,756	1,490
Interest-free liabilities	1,895	1,495
	3,651	2,985

Listed bond issues

Issue/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2012/2019	Fixed	4.0000	4.0780	EUR	147	148
2015/2022	Fixed	2.1250	2.2080	EUR	321	320
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total outstanding carrying amount 31 December 2018						867

20 Contingent liabilities

Contingent liabilities	2018	2017
Operating lease liabilities		
Due within a year	2	3
Due after a year	3	3
	5	6
Contingent liabilities given on own behalf		
Real estate mortgages	26	17
Pledged assets	0	0
Other contingent liabilities	21	21
	47	38
Contingent liabilities given on behalf of Group companies		
Guarantees	53	105
	53	105
Contingent liabilities given on behalf of associated companies		
Guarantees	0	1
	0	1
Contingent liabilities given on behalf of others		
Guarantees	1	1
	1	1
Contingent liabilities total	106	150

21 Derivative financial instruments

Nominal values of interest rate and currency derivative contracts	2018			2017		
	Remaining maturities			Remaining maturities		
	< 1 year	1–2 years	Total	< 1 year	1–3 years	Total
Derivative financial instruments						
Interest rate swaps	0	0	0	50	0	50
Forward foreign exchange contracts	592	0	592	518	0	518
Currency options						
– Purchased	126	0	126	120	0	120
– Written	126	0	126	120	0	120
	844	0	844	808	0	808
Derivative financial instruments designated as fair value hedges						
Interest rate swaps	74	0	74	0	74	74
	74	0	74	0	74	74
Non-hedge accounting derivative financial instruments						
Interest rate swaps	26	0	26	0	26	26
Forward foreign exchange contracts	1,971	340	2,312	1,830	0	1,830
Intra-group forward foreign exchange contracts	753	340	1,093	574	0	574
Currency options						
– Purchased	194	0	194	219	0	219
– Written	194	0	194	219	0	219
Intra-group currency options						
– Purchased	194	0	194	219	0	219
– Written	194	0	194	219	0	219
	3,526	681	4,207	3,280	26	3,306

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Volumes of commodity derivative contracts	2018			2017		
	Volume million bbl			Volume million bbl		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives[1]						
Futures and forwards						
– Sales contracts	19	0	19	17	0	17
– Purchase contracts	19	0	19	16	0	16
Intra-group Futures and forwards						
– Sales contracts	18	0	18	15	0	15
– Purchase contracts	17	0	17	15	0	15
	73	0	73	63	0	63

	Volume GWh			Volume GWh		
	Remaining maturities			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	2,258	823	3,081	1,981	884	2,865
Intra-group Futures and forwards						
– Sales contracts	1,018	439	1,457	832	372	1,204
– Purchase contracts	0	0	0	0	0	0
	3,276	1,262	4,538	2,813	1,256	4,069

[1] 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 2018				Fair value 2017			
	Positive		Negative		Positive		Negative	
Interest rate and currency derivative contracts	< 1 year	1–2 years	< 1 year	1–2 years	< 1 year	1–3 years	< 1 year	1–3 years
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps	0	0	0	0	0	0	1	0
Forward foreign exchange contracts	1	0	15	0	17	0	0	0
Currency options								
– Purchased	0	0	1	0	2	0	0	0
– Written	0	0	2	0	1	0	0	0
	1	0	18	0	20	0	1	0
Derivative financial instruments designated as fair value hedges								
Interest rate swaps	1	0	0	0	0	2	0	0
	1	0	0	0	0	2	0	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps	0	0	0	0	0	1	0	0
Forward foreign exchange contracts	5	1	14	0	35	0	0	0
Intra-group forward foreign exchange contracts	11	0	1	0	1	0	12	0
Currency options								
– Purchased	0	0	1	0	1	0	1	0
– Written	1	0	1	0	2	0	0	0
Intra-group currency options								
– Purchased	1	0	0	0	0	0	1	0
– Written	1	0	1	0	0	0	2	0
	19	1	18	0	39	1	16	0

Commodity derivative contracts	Fair value 2018 Positive < 1 year	Fair value 2018 Positive 1–3 years	Fair value 2018 Negative < 1 year	Fair value 2018 Negative 1–3 years	Fair value 2017 Positive < 1 year	Fair value 2017 Positive 1–3 years	Fair value 2017 Negative < 1 year	Fair value 2017 Negative 1–3 years
Non-hedge accounting commodity derivative contracts[1)]								
Futures and forwards								
– Sales contracts	194	0	2	0	5	0	60	0
– Purchase contracts	14	2	123	0	28	1	14	0
Intra-group Futures and forwards								
– Sales contracts	121	0	3	0	14	0	21	0
– Purchase contracts	2	0	175	0	49	0	5	0
	331	2	302	0	96	1	100	0

[1)] 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.

Balance sheet reconciliation	2018 Assets Current	2018 Assets Non-current	2018 Liabilities Current	2018 Liabilities Non-current	2017 Assets Current	2017 Assets Non-current	2017 Liabilities Current	2017 Liabilities Non-current
Derivative financial instruments	352	3	338	1	156	4	117	0

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 financial year.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Fair value hierarchy of derivatives, MEUR	2018				2017			
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	3	0	3
Currency derivatives	0	1	0	1	0	0	0	0
Commodity derivatives	0	2	0	2	0	1	0	1
Other financial assets	0	0	3	3	0	0	5	5
Current derivative financial instruments								
Interest rate derivatives	0	1	0	1	0	0	0	0
Currency derivatives	0	20	0	20	0	59	0	59
Commodity derivatives	34	297	0	331	7	89	0	96
Financial liabilities								
Non-current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	0	0	0
Currency derivatives	0	1	0	1	0	0	0	0
Commodity derivatives	0	0	0	0	0	0	0	0
Current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	1	0	1
Currency derivatives	0	36	0	36	0	14	0	14
Commodity derivatives	24	278	0	302	13	87	0	100

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 2018 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 Engineering Solutions Oy	Finland	2,100	100.00	27,780
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste AB	Sweden	2,000,000	100.00	23,972
Neste Components B.V.	Netherlands	40	100.00	8,022
Neste Affiliate B.V.	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
				2,000,194
Associated companies				
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Kilpilahti Powerplant Ltd.	Finland	20,000	40.00	4,509
Neste Arabia Co. Ltd.	Saudi Arabia	480	48.00	0
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	5
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	7
				4,645

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2018 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				2,008,244

24 Disputes and potential litigations

Neste had a 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). Neste has received in January 2019 a decision by the Finnish Tax Authority in favor of Neste concerning a pending excise tax dispute of EUR 13 million, which will affect year 2019 results positively.

Regardless of the given decision in the main issue, the Tax Authority did not decide the relating interest and additional tax of EUR 3 million in favor of Neste. Neste will appeal in this respect to the Administrative Court of Helsinki. The payment was charged to the income statement in 2016.

Neste is currently engaged in arbitration with the Bahrain base oil joint operation partners concerning a contractual dispute.

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 2018 stood at EUR 2,181 million. The Board of proposes Neste Corporation to pay a dividend of EUR 2.28 per share for 2018, totalling EUR 583 million, and that any remaining ditributable funds be allocated to retained earnings.

Espoo, 5 February 2019

Matti Kähkönen	Laura Raitio
Martina Flöel	Jari Rosendal
Marco Wirén	Willem Schoeber
Elizabeth Burghout	Jean-Baptiste Renard

Peter Vanacker
President and CEO

Helsinki, 5 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorized Public Accountant

Auditor’s Report (Translation of the Finnish Original)

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 position and financial performance and cash flows 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.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Neste Oyj (business identity code 1852302-9) for the year ended 31 December 2018. The financial statements comprise:

- the consolidated statement of financial position, statement of income, statement of comprehensive income, statement of changes in equity, cash flow statement 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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 9 to the Financial Statements.

Our Audit Approach

Overview

Materiality

- Overall group materiality: € 50 million (previous year € 50 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
- System environment and internal controls
- Disputes and potential litigations
- Biofuel credits in the USA

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 table below. 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	€ 50 million (previous year € 50 million)
How we determined it	Approximately 5% of profit before tax (previous year approximately 5% 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 5% 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, Sweden and the USA, covering the most significant companies in the Renewable Products, Oil Products and Marketing & Services 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 *Refer to note 5 in the financial statements* The group has several different revenue streams, under the Renewable Products, Oil Products, and Marketing & Services segments. In both the Renewable Products and Oil 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 Marketing & Services 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. Accordingly, we focused our work on cut-off in the Renewable Products and Oil Products segments.	In order to address the risk of misstatement related to cut-off in revenue recognition, we tested balances recognised in the company's balance sheet and, tested individual transactions occurring either immediately before or after the year end. We performed tests of details on the accrued revenue and accounts receivable balances recognised in the balance sheet at the year end. Our tests of detail focused on transactions occurring within proximity of the year end in the Renewable Products and Oil 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.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
The valuation of inventories Refer to note 18 in the financial statements The company has significant inventory balances in both the Renewable Products and Oil Products segments. The inventory is valued at the lower of cost or net realisable value. While the Renewable Products' main finished product, Renewable Diesel, is produced using a wide range of different feedstocks, the finished products in the Oil Products segment are refined from one type of input, being crude oil. We focused on the valuation of Renewable Products given the higher degree of complexity involved in the underlying inventory valuation calculations, as this introduces a higher risk of error. 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. The net realisable 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.	We focused our procedures around the Renewable Products inventories. The valuation of Renewable Products 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). 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. 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. Our testing of the net realisable value covered raw materials, pre-treated products and finished products. We compared raw materials and pre-treated products to relevant market prices where these were available. 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 verified that the principle of valuing inventory at the lower of cost or net realisable value was appropriately applied.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
System environment and internal controls The group has a fragmented system environment, reflecting the different nature of the different operating segments. The group is in the process of implementing a new ERP system, with significant system rollouts occurring during 2018 and forward. The ERP rollout together with the fragmented system environment introduce 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. Management has mitigated this risk by means of manual controls.	Our response to testing the ERP rollout included both the testing of the controls surrounding implementation as well as testing the migration of income statement and balance sheet balances between legacy systems and the new system. 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. We tested the company's controls around access and change management related to key IT systems. The scope of testing included the new ERP system. We also tested the company's controls around system interfaces, and the transfer of data from one system to another. 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 Refer to notes 4 and 29 in the financial statements As reported in note 31, the group is involved in a few legal proceedings. The accounting treatment of, and amounts to be recorded for claims depend on the merits of the claim as well as if a court judgement exists. In the case or arbitrations, management assesses whether the group will be liable to compensate the opponent. Provisions are recorded for cases, where management considers it likely that the group will be liable to compensate the opponent. Following a court judgement in a tax case, the group has in 2018 recorded an impairment, which has been disclosed in notes 4 and 29. 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.	We obtained external confirmations directly from Neste's legal advisors in order to evaluate the disclosures and provisions recorded. We discussed the cases with management. We read the minutes of the board meetings, and inspected the company's legal expenses, in order to ensure that all cases have been identified. We tested the recorded impairment by reviewing the group's calculations and consolidation adjustments. We reviewed the disclosures for completeness based on our procedures detailed above.

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Key audit matter in the audit of the group	How our audit addressed the key audit matter
Biofuel credits in the USA *Refer to notes 5 and 18 in the financial statements* Neste has sales operations in the USA, which are mainly focused in California. Neste earns biofuel credits related to the import and sale of renewable fuels in the US and California in the form of RINs (Renewable Identification Number) and LCFSs (California Low Carbon Credit). RINs and LCFSs are accounted for as government grants upon receipt of the product inventory in the USA, and are accounted for as inventory to the extent they have been separated from the physical goods, which happens when renewable fuel is blended with fossil fuel. We identified the biofuel credits in the USA as an area of focus in the audit as there is a risk related to the valuation of these.	Our testing of the biofuel credits included verification of the balances against the systems administered by the EPA (Environmental Protection Agency) and verification of balances against purchase and sales contracts. Our testing of the valuation of these included: • Comparing the valuation of RINs and LCFSs accounted for as inventory to quoted market prices, assessing the reasonability of the difference taking into account market conditions • Comparing the value of RINs and LCFSs against historical sales prices obtained by Neste In addition, we agreed the calculated balances to the accounting records, verifying that these had been accounted for in line with Neste's accounting policy.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or 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 a 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 to 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 about 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 with 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

Appointment

We were first appointed as auditors by the annual general meeting on 3 April 2014. Our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have 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 other information that we obtained prior to the date of this auditor's report, 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 Statements

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 5 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)

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