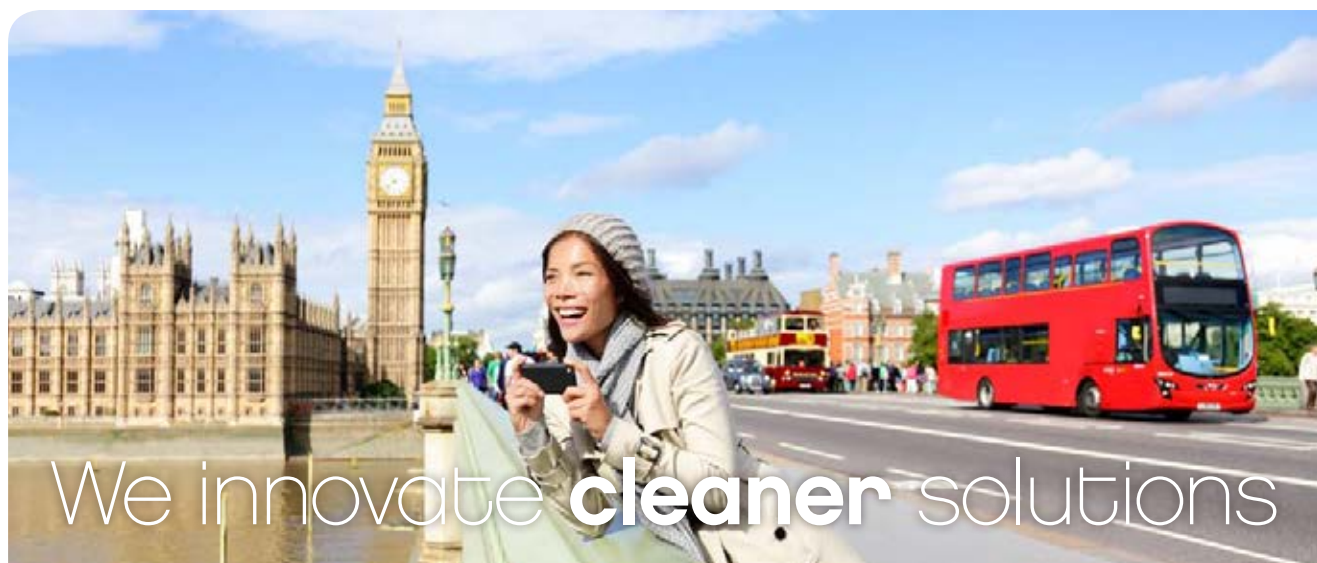


# Annual Report 2013



**NESTE OIL**

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<p>CEO's review: "Hard work in Renewables paid off"</p> 	<p>Over 50% of renewable inputs consisted of waste and residues</p> 	<p>Neste Oil ranked the world's sixth-most sustainable company</p> 
<p>Finland's most respected service station brand</p> 	<p>Target of using 100% certified palm oil achieved!</p>	<p>Mega- trends represent opportunities</p> 
<p>Palm oil sourced from 54,000 smallholders</p> 	<p>Ongoing research on renewable feedstocks</p> 	<p>The world's best diesel fuel</p> 

## Neste Oil in brief

Neste Oil is a refining and marketing company, with a production focus on premium-quality, lower-emission traffic fuels. The company has operations in 15 countries. Neste Oil produces a comprehensive range of major petroleum products and is the world's leading supplier of renewable diesel. The company's customers include oil companies and other businesses in Finland and worldwide, as well as retail customers in Finland, the Baltic countries, and the St.Petersburg region in Russia. Neste Oil's share is listed on NASDAQ OMX Helsinki.

**CEO's review:  
"Hard work in  
Renewables  
paid off"**



[Read more ►](#)

**Neste Oil ranked as  
the world's sixth most  
sustainable company**



[Read more ►](#)

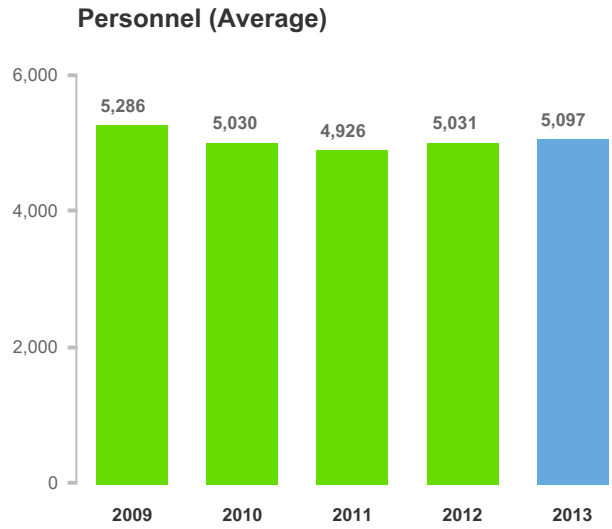
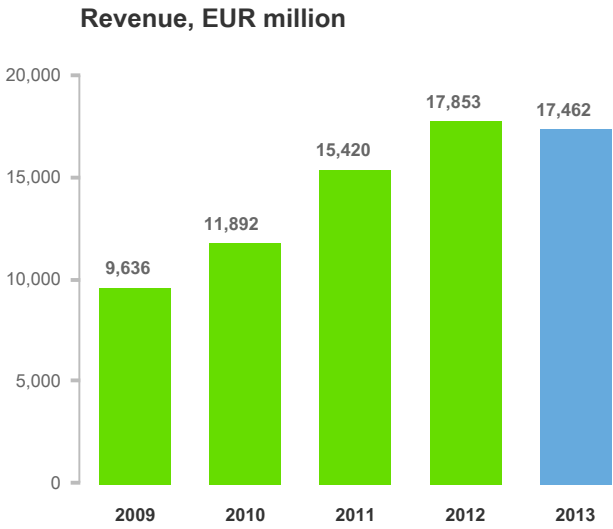
**2013  
in figures**



[Read more ►](#)

**70%  
increase in  
comparable  
operating profit**

[Read more ►](#)



## Business areas in brief

Business area	Oil Products and Renewables		Oil Retail
Reporting segment	Oil Products	Renewable Fuels	Oil Retail
Business	<ul style="list-style-type: none"> <li>Sales of petroleum products to wholesale customers</li> </ul>	<ul style="list-style-type: none"> <li>Sales of NExBTL renewable diesel, NExBTL renewable aviation fuel, and NExBTL renewable naphtha to B-to-B and wholesale customers</li> </ul>	<ul style="list-style-type: none"> <li>Sales of petroleum and renewable products to end-users and distributors</li> </ul>
Revenue	<ul style="list-style-type: none"> <li>EUR 13,271 million</li> </ul>	<ul style="list-style-type: none"> <li>EUR 2,493 million</li> </ul>	<ul style="list-style-type: none"> <li>EUR 4,528 million</li> </ul>
Comparable operating profit	<ul style="list-style-type: none"> <li>EUR 280 million</li> </ul>	<ul style="list-style-type: none"> <li>EUR 273 million</li> </ul>	<ul style="list-style-type: none"> <li>EUR 76 million</li> </ul>
Share of Neste Oil's revenue	<ul style="list-style-type: none"> <li>61%</li> </ul>	<ul style="list-style-type: none"> <li>13%</li> </ul>	<ul style="list-style-type: none"> <li>26%</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>2,025</li> </ul>	<ul style="list-style-type: none"> <li>255</li> </ul>	<ul style="list-style-type: none"> <li>1,331</li> </ul>
Main market areas	<ul style="list-style-type: none"> <li>Europe and North America</li> </ul>	<ul style="list-style-type: none"> <li>Europe and North America</li> </ul>	<ul style="list-style-type: none"> <li>Finland and the Baltic Rim</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Oil companies and businesses marketing oil, lubricants and fuel products</li> </ul>	<ul style="list-style-type: none"> <li>Oil companies and other wholesale customers</li> </ul>	<ul style="list-style-type: none"> <li>Consumers via the Neste Oil station network and fleet users, industrial and agricultural customers, heating customers, and distributors</li> </ul>
Capacity	<ul style="list-style-type: none"> <li>15 million t/a</li> </ul>	<ul style="list-style-type: none"> <li>2 million t/a</li> </ul>	<ul style="list-style-type: none"> <li>790 outlets in Finland</li> <li>237 outlets in Northwest Russia, Estonia, Latvia and Lithuania *</li> </ul>
Strategic role	<ul style="list-style-type: none"> <li>To maximize the cash flow provided by selling the products of Neste Oil refines</li> <li>To generate profitable growth on the expanding market for premium-quality base oil</li> </ul>	<ul style="list-style-type: none"> <li>To generate profitable growth on the expanding market for premium-quality renewable fuels</li> </ul>	<ul style="list-style-type: none"> <li>To act as a marketing channel for Neste Oil's products</li> <li>To maximize cash flow generated by product sales</li> <li>To leverage market potential in the countries around the Baltic</li> </ul>

Strengths	<ul style="list-style-type: none"> <li>• Premium-quality products</li> <li>• Ability to supply customers with traffic fuel solutions flexibly and reliably</li> <li>• Strong position in the wholesale market around the Baltic</li> <li>• One of Europe's most advanced refineries at Porvoo; feedstock flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Premium-quality products that are suitable for existing distribution systems and vehicles and offer cost-effective, flexible solutions for fulfilling biomandates</li> <li>• Reliable production technology that offers a high degree of feedstock flexibility and enables the use of a wide range of sustainably produced rawmaterials</li> <li>• Global customer base and supply chain</li> </ul>	<ul style="list-style-type: none"> <li>• Premium-quality products</li> <li>• Strong brand</li> <li>• Extensive station network</li> <li>• Competitive unit costs</li> <li>• Value-added customer solutions</li> </ul>
Key drivers for business	<ul style="list-style-type: none"> <li>• Economic growth</li> <li>• Growing demand for energy</li> <li>• Growing demand for petroleum products</li> <li>• Tougher lubricant requirements and the shift to premium-quality base oil</li> <li>• Developments in engine technology</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change and emissions reduction</li> <li>• Mandated use of renewable energy, especially in Europe and the US</li> <li>• Energy security and reducing society's dependence on crude oil</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in traffic and transport</li> <li>• Motorists' growing service-related expectations</li> <li>• Growing number of cars on the road</li> <li>• Developments in engine technology</li> <li>• New cars and fuels (e.g. biofuels and electric cars)</li> </ul>
Market position	<ul style="list-style-type: none"> <li>• Leading global supplier of Group III base oils</li> </ul>	<ul style="list-style-type: none"> <li>• The leading producer of renewable diesel</li> <li>• Significant market share in Europe and North America</li> </ul>	<ul style="list-style-type: none"> <li>• Leading position in traffic fuels in Finland</li> <li>• One of the largest operators in the field in Estonia, Latvia, Lithuania and the St. Petersburg area in Northwest Russia</li> </ul>
Most significant competitors	<ul style="list-style-type: none"> <li>• Other advanced refiners in Russia, Northwest Europe, and the Middle East</li> </ul>	<ul style="list-style-type: none"> <li>• US-based Dynamic Fuels and Diamond Green Diesel</li> <li>• In Europe; ENI and UPM, when it begins production</li> <li>• Producers of conventional biodiesel</li> </ul>	<ul style="list-style-type: none"> <li>• In Finland: ABC, St1, and Lukoil (operates in Finland as Teboil)</li> <li>• In the Baltic countries and Northwest Russia: Statoil and Lukoil</li> </ul>

\* Neste Oil sold its retail operations in Poland in the first half of 2013.

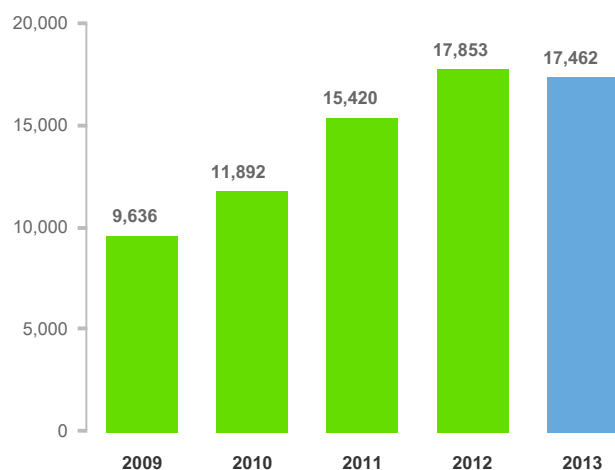


## Key figures

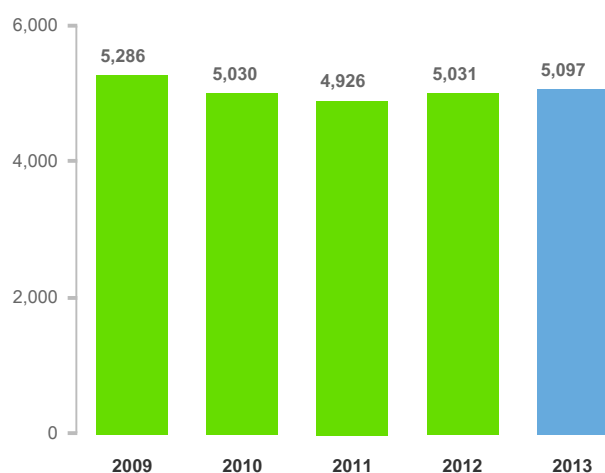
	2013	2012	Change, %
<b>Income statement, EUR million</b>			
Revenue	17,462	17,853	-2
Operating profit	632	324	95
Comparable operating profit	604	355	70
Profit before income tax	561	233	141
<b>Profitability, %</b>			
Return on equity (ROE)	19.2	6.3	205
Return on capital employed, pre-tax (ROCE)	13.4	6.6	103
Return on average capital employed, after tax (ROACE)	11.8	5.0	141
<b>Financing and financial position</b>			
Total equity, EUR million	2,924	2,540	15
Interest-bearing net debt, EUR million	1,252	1,935	-35
Capital employed, EUR million	4,681	4,885	-4
Equity-to-assets ratio, %	41.6	34.4	21
Leverage ratio, %	30	43.2	-31
Net cash from operating activities, EUR million	839	468	79
<b>Share-related indicators</b>			
Earnings per share (EPS), EUR	2.04	0.61	234
Dividend per share, EUR	0.65 <sup>1)</sup>	0.4	71
Dividend payout ratio, %	31.8 <sup>1)</sup>	62.1	-45
Share price at the end of the year, EUR	14.37	9.77	47
Average share price, EUR	13.06	9.08	44
Highest share price, EUR	17.33	11.11	56
Lowest share price, EUR	10.13	7.28	39
Market capitalization at the end of the year, EUR million	3,685	2,505	47
<b>Other indicators</b>			
Equity per share, EUR	11.36	9.86	13
Investments, EUR million	214	292	-27
Average number of personnel	5,097	5,031	1
R&D expenditure, EUR million	40	42	-5
Refining margin, USD/bbl	9.6	10.17	-6
Total Recordable Injury Frequency per million hours worked (TRIF)	4.2	3.6	19

<sup>1)</sup> Board of Directors' proposal to the Annual General Meeting

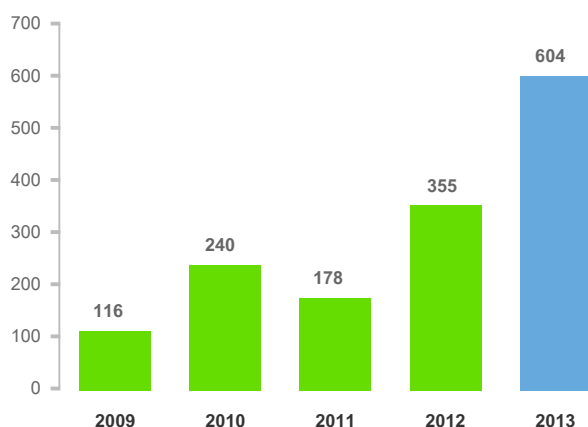
**Revenue, EUR million**



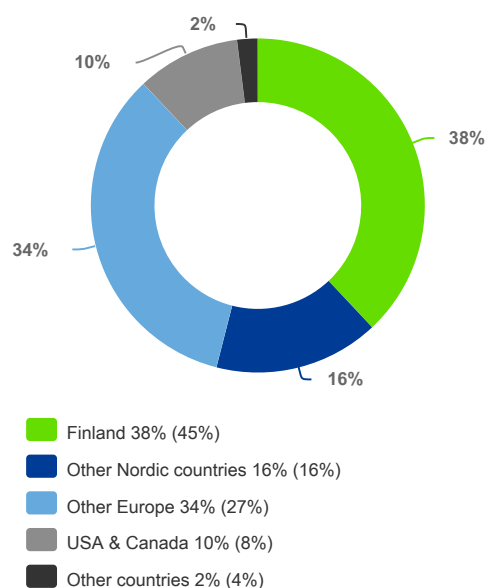
**Personnel (average)**



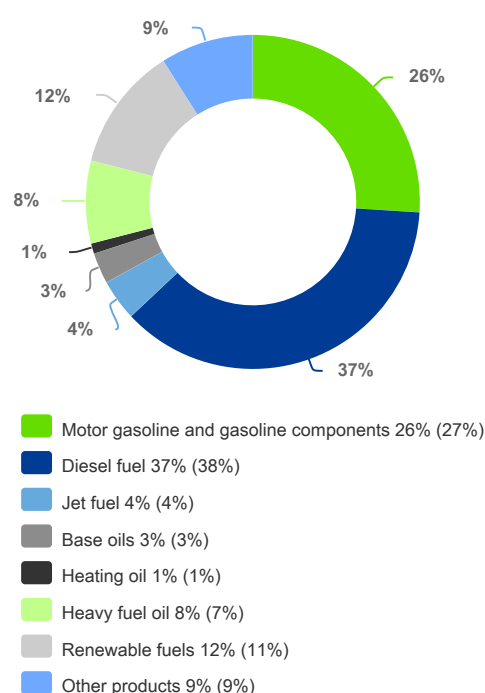
**Comparable operating profit, EUR million**



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



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



## CEO's review



### Dear reader,

the longer I have served as Neste Oil's President & CEO, the more I have come to understand the extent of our people's commitment to continuous improvement. Following the economic downturn that set in during 2008, we have systematically developed our operations, and in 2013 we were able to enjoy some of the fruits of this work. The success of Renewable Fuels in making its business profitable was one of our key achievements during the year.

### Hard work by Renewable Fuels has paid off

The progress made by our Renewable Fuels business enabled us to concentrate on the markets and the customers that most valued our products and solutions during 2013. To reach this point had called for more focused sales, a better understanding of the ground rules shaping different markets, and well-timed advocacy work in the regulatory arena. A fundamental advantage that we have also been able to draw on is the fact that we can use more than 10 different inputs in our NExBTL process.

Neste Oil is a sustainable and responsible company in all its operations, and sustainability is particularly important when it comes to renewable fuels. We must be able to show that the feedstocks we use have been produced sustainably and that production does not result in any additional emissions, destroy the environment, or undermine anyone's livelihood. We published the Neste Oil No-Deforestation and Responsible Sourcing Guidelines in spring 2013 to further underline our commitment to avoiding bad practices. Wherever our partners have allowed, we have also published the names of our suppliers that would otherwise be covered by the confidentiality clauses of the supply contracts that we have with them. The certification target for crude palm oil was achieved two years in advance. 100% of the crude palm oil we

use, is certified and traced. We started collaboration with TFT, a non-profit organization focused on preventing deforestation, and we have opened up all the non-commercial information related to our supply chain to them so that they can evaluate how our supply chain operates.

The acceptability of feedstocks, together with their price and availability, are very decisive for our Renewable Fuels business. Waste and residues account for an increasing proportion of the renewable inputs we use, and Neste Oil is now the world's largest buyer of waste animal fat, for example, which we source from five continents. In fact, waste and residues accounted for more than half of our entire usage of renewable feedstocks in 2013. This means that we produced enough NExBTL renewable diesel from waste and residues during 2013 to power over a million cars for an entire year. We are now both the world's largest producer of renewable diesel and the world's largest producer of biofuels refined from waste and residues.

With the rise in the priority given to resource efficiency generally, waste and residues have begun to interest a growing number of industries and has resulted in increasing competition for these materials. Legislators are also being called on to decide what is the best use for these materials. Our hope is that they realize the added value that advanced renewable fuel production represents, especially as fuels play such an important role in a world where people's need to stay on the move and society's need to move goods is growing all the time.

The profitability of our Renewable Fuels business has been the outcome of a number of factors. One of these is that we have increased our sales to North America significantly; around half of our NExBTL renewable diesel output went there in 2013. We would not have succeeded here if we had not put in extensive work over a number of years to prepare ourselves for breaking into this market. When the opportunity came, we had the customer base, the capacity and the approved feedstock chain in place to meet the market's requirements.

### Petroleum product market under pressure

The high price of crude oil and petroleum products, together with the increased use of renewable fuels and the improvements that have been made in vehicles' fuel efficiency, have combined to depress demand for fossil traffic fuels in Western Europe for a number of years. Parallel to this, new competitive refining capacity has come on stream elsewhere, such as in the Middle East and Asia, and some of the output from these new facilities has ended up in Europe. The rapid growth in shale gas and tight oil in the US has also increased competition in Europe. The situation facing the European oil refining industry can only be resolved by shuttering capacity. Little has been done in this area, however, to such an extent, in fact, that even the European Commission has become concerned about the fundamentals underpinning the future of the industry in Europe.

All the same, Neste Oil's petroleum product operations performed well in 2013. Our refineries operated virtually without any outages, particularly during the second half of the year, something that is essential at a time of low product margins to maintain profitability. In addition, we succeeded in defending our market in the Baltic area by offering value-added solutions to customers.

Faced with increasing competition, our Base Oils business has focused on identifying new markets. Efforts here have been helped by the fact that our products have an extensive range of approvals from automotive manufacturers, including many of the industry's most prestigious brands.

## Oil Retail recorded its best result ever

Oil Retail recorded its best result ever in 2013. The key contributors here included effective product pricing, comprehensive cost monitoring, and successful marketing. I was particularly satisfied to see the success that Neste Pro Diesel, a truly premium-quality fuel launched in fall 2012, has had on the Finnish market.

## Cash flow is important

Strong cash flow is one of the best foundations that a company can rely on, and is generated not only by active sales but also by managing working capital effectively. We succeeded well in the latter area in 2013.

We invested less than we originally planned in 2013. Some investments were postponed and we also concentrated more on learning how to manage our investment needs more effectively. The largest capital project under way at the moment is a new isomerization unit at the Porvoo refinery, which, when complete, will enable us to increase our output of higher-value gasoline fractions.

Our solution aimed at enabling us to exit the shipping business also reflects Neste Oil's commitment to profitability and a better balance sheet structure. Our transportation needs have changed because our business is changing, and new capacity has also become available from other shipping companies. In a situation like this, it is difficult to achieve sufficient profitability from an in-house fleet. I am pleased that our solution has enabled our key vessels to transfer to stable Finnish owners.

## Strategic projects

The core of Neste Oil's strategy has remained essentially unchanged for some time: we want to be our customers' preferred partner for cleaner traffic solutions. Everyone at Neste Oil has a part to play in implementing our strategy. We have brought our main strategic projects under the umbrella of four Value Creation programs: Profitable Growth, Productivity, Renewable Feedstock, and Customer Focus. By working through these, we have been able to change our business in a significant way over the last few years. Setting challenging and measurable targets has generated results.

The changes we are making are all linked to our aim of becoming our customers' best partner and being a profitable investment for our owners. The Way Forward initiative is helping us here, to change the way we work and smooth our path to achieving our strategic goals.

As part of the Productivity Value Creation program, we have an internal change program focusing on improving safety. We have enhanced our occupational and process safety performance significantly over the last 10 years, but now we want to take a major leap forward and become one of the safest companies in the industry. Safety is all about actions, and as professionals we are committed to making this happen.

2013 was a good year for Neste Oil. For that, I would like to thank our customers and our personnel. We will do our utmost to ensure that Neste Oil continues to be a good partner and a good employer as we go forward.

Matti Lievonen  
President & CEO

## Strategy

Traffic and transport are an integral and essential part of life and modern society. Neste Oil believes that traffic cannot be stopped but needs to be developed. Cleaner solutions are needed to provide the growing energy needs to keep society on the move as sustainably as possible, both today and in the future.



The premium-quality fuels developed by Neste Oil, with their smaller environmental footprint, open up excellent potential for

cleaner traffic and transport and for helping global efforts aimed at combating climate change. Neste Oil's R&D on renewable raw materials and refining technologies for these materials makes a valuable contribution to reducing the dependence on crude oil.

### Cleaner traffic strategy

Neste Oil's vision is to be the preferred partner in cleaner traffic fuel solutions.

Neste Oil's high-quality cleaner traffic solutions, together with its unique refining and technological expertise and ability to expand its feedstock base, provide what is a small company in international oil industry terms with a solid foundation for implementing its strategy.

Neste Oil is implementing its cleaner traffic strategy through a series of four [Value Creation programs](#).





## Heritage

- Our pioneering nature was born from our expertise in harsh conditions

## Forces of Change

- Tough competition in a stagnant market
- Feedstock availability is becoming more limited
- Customers' growing demand for high-quality products
- Legislation and regulations set boundaries and force us to be flexible

## Strategic choices

- In Oil Products, we strengthen our foothold in our home markets and improve our production reliability
- In Renewable Fuels, we focus on markets that value the properties of our products and use the most suitable feedstock
- In Base Oils, we need to become a global player
- In Oil Retail, we create captive growth opportunities

## Value Creation Programs

- Profitable Growth
- Productivity
- Renewable Feedstock
- Customer Focus

## Way Forward

- Focus on customers
- Improve cross-functional cooperation
- Give and take responsibility
- Value good results and react when needed
- Do things right and do them safely

## Added value for customers

- Helping people enjoy staying on the move worldwide

## Vision

- The preferred partner for cleaner traffic fuel solutions

## Values

- Responsibility
- Innovation
- Cooperation
- Excellence

## A new initiative: Way Forward

A new model for working and acting across Neste Oil was rolled out in 2013. Based on Neste Oil's core values, this new model embodies the company's commitment to securing its success in a changing business environment, both today and into the future, and to making the most of the capabilities and resources of all its personnel. The Way Forward initiative supports Neste Oil in implementing its strategy and making Neste Oil a more profitable, more customer-driven, and safer company where personnel enjoy their work and feel good.

Taking and delegating responsibility are very central to this new model, as are cooperation, safety, customer focus, and rewarding people for good performance.

The Way Forward initiative will make itself felt over a number of years and will bring a number of changes. One of its aims will be to align all of Neste Oil's HR processes, such as remuneration and personal development planning, with the new model to ensure that they support the company's business goals as effectively as possible.

Read more about [Way Forward initiative](#)

## Strategic roles

Neste Oil's two business areas – Oil Products & Renewables and Oil Retail – support the implementation of the company's strategy, together with its efficient Production and Logistics function.

The strategic role of **Oil Products and Renewables** is to maximize the cash flow provided by the products Neste Oil refines and generate profitable growth on the growing market for premium-quality base oil and renewable fuels.

The strategic role of **Oil Retail** is to act as a marketing channel for Neste Oil's products and maximize the cash flow generated by product sales and grow in the countries around the Baltic.

The strategic role of **Production and Logistics** is to ensure reliable and flexible production, and continuously improve efficiency.

## Strategy implementation in 2013

Neste Oil continued implementing its cleaner traffic strategy during 2013 through its Value Creation Programs. Launched in 2011, these programs will be the company's main focal areas over the next few years, and the progress made towards the targets they contain is monitored on a regular basis. During the strategy

process in 2013, the number of Value Creation Programs was reduced from five to four programs, as most of the targets of the Winning Culture program are continuing in the [Way Forward initiative](#).

Value Creation Program	Target	Successes in 2013
<b>Profitable Growth</b>	<ul style="list-style-type: none"> <li>Achieve business targets and create profitable growth and new opportunities in all business areas</li> </ul>	<ul style="list-style-type: none"> <li>Sales volumes of renewable NExBTL diesel increased by 16% (165%) and totaled 1.9 million tons (1.7 million tons).</li> <li>Sales of NExBTL diesel were extended to a number of new markets and the customer portfolio was expanded in existing markets (e.g. US).</li> <li>Customer segments and future potential were identified in new NExBTL application areas (e.g. biochemicals and solvents).</li> <li>Base oil sales increased and new customers were secured in Asia and North America, as well as Europe.</li> <li>Product portfolio enlarged in Bahrain.</li> </ul>
<b>Productivity</b>	<ul style="list-style-type: none"> <li>Improve production efficiency and safety at all Neste Oil refineries</li> <li>Cost efficiency and agility in the logistics network and operations to meet changing business needs</li> </ul>	<ul style="list-style-type: none"> <li>Operations at the new refineries in Singapore and Rotterdam achieved normal status. Action plan created to increase capacity to 120%.</li> <li>Capacity utilization at the Porvoo refinery was 88% (87%).</li> <li>Operating practices covering Diesel Line 4 at Porvoo were developed, extending the duration of incident-free operations on the line. The operating cycle of the line was longer than ever before and reached over 11 months.</li> <li>Business-driven enterprise architecture project created the foundation for developing company processes and modernizing ITC-systems.</li> <li>Successful test run showed that tall oil pitch can be used as a refinery feedstock.</li> <li>Implementation of energy efficiency plans proceeded well and the energy efficiency index hit a record low level.</li> </ul>

Value Creation Program	Target	Successes in 2013
<b>Renewable Feedstock</b>	<ul style="list-style-type: none"> <li>• Improve the availability of competitive feedstock, processing capabilities, and the market and customer acceptability of renewable raw materials to ensure profitable growth</li> <li>• Increase the use of waste and residues as feedstock</li> </ul>	<ul style="list-style-type: none"> <li>• Usage of waste- and residues-based raw materials was 52% and was altogether 1.22 million tons, 62% more compared to 2012.</li> <li>• Technical corn oil (TCO), spent bleaching earth Oil (SBEO) and tall oil pitch (TOP) were added to Neste Oil's renewable feedstock portfolio.</li> <li>• Neste Oil achieved its certification target two years in advance. 100% of the crude palm oil is certified and traced.</li> <li>• Neste Oil was the first company to receive a RSPO-RED certificate for its refineries in Singapore and Rotterdam. In addition to existing ISCC-DE and ISCC-EU certificates, NExBTL renewable diesel refineries were ISCC Plus audited successfully.</li> <li>• Extensive R&amp;D work continued in order to develop new raw materials for NExBTL production over the long term.</li> <li>• First contingent commercial off-take agreement for algae oil signed.</li> <li>• Milestone of over 1,000 reserched feedstock samples was reached.</li> </ul>

Value Creation Program	Target	Successes in 2013
<b>Customer Focus</b>	<ul style="list-style-type: none"> <li>• Create value together with Neste Oil's customers and strengthen the company's customer-focused mindset</li> </ul>	<ul style="list-style-type: none"> <li>• Neste Pro Diesel, a premium-quality diesel fuel developed and produced by Neste Oil in Finland, was the first anywhere to comply with the WWFC category 5 specification drawn up as part of the Worldwide Fuel Charter (WWFC) by automotive manufacturers in Europe, the US, and Asia.</li> <li>• Together with our customers, Neste Oil has been able to create solutions that have increased value for everyone. These solutions have included logistics, premium and specialty products, and high-quality cleaner solutions.</li> <li>• Neste Oil's organisation was developed to be more customer-focused and to provide more customer service.</li> </ul>

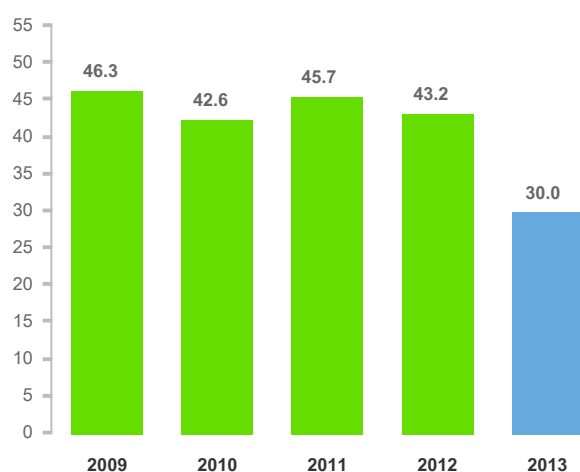
## Financial targets

### Neste Oil's key financial targets are to achieve:

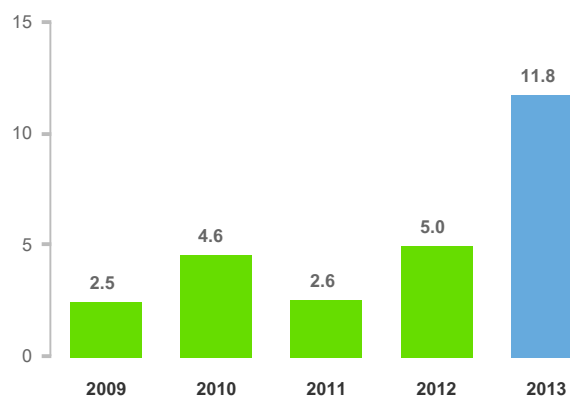
- A leverage ratio of 25–50%
- A return on average capital employed after tax (ROACE) of at least 15% annually over the long term.

In line with its dividend policy, Neste Oil aims to pay a dividend equivalent to at least a third of the company's comparable net profit.

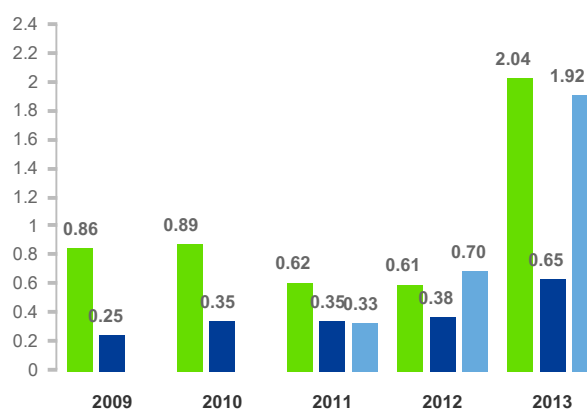
**Leverage ratio, %**



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



**Earnings per share and dividend per share, EUR**



■ Earnings per share (EUR)  
 ■ Dividend (EUR) 2013 = Board's proposal to the Annual General Meeting  
 ■ Comparable earnings per share (EUR)

## Potential risks concerning the strategy implementation

### Potential risks

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

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

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

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

The implementation of biofuel legislation in the EU, North America, and other key market areas may influence the speed at which the demand for these fuels develops. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing technologies may have a negative impact on the company's results. Renewable fuels margins can be volatile in various markets due to rapidly changing feedstock and product prices, and affect the profitability of the Renewable Fuels business as a result.

Over the longer term, access to funding and rising capital costs, as well as challenges in procuring and developing new

competitive and reasonably priced raw materials, may impact the company's results.

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

USD/EUR exchange rate





## Megatrends supporting Neste Oil's cleaner traffic strategy

A number of global developments, or megatrends, are expected to shape the future business environment in which oil refining and marketing companies operate. Many of these trends are already beginning to offer Neste Oil new opportunities. Through its cleaner traffic strategy, Neste Oil can make its own contribution to developments and help build a future that has less impact on the environment.

### Megatrends supporting the strategy implementation

#### Growing environmental awareness among consumers

Climate change is forcing consumers and producers to become more critical of what they consume and become more environmentally aware. A growing number of consumers want products to be produced both ethically and sustainably. People who enjoy a high standard of living have the opportunity to choose products that have a smaller environmental footprint, even when these products cost more. Questions related to the sustainability of the raw materials used in producing biofuels, for example, are attracting more and more interest from customers.



#### Energy security

Society is heavily dependent on energy; we travel, produce, and consume more than ever before. Increasing energy consumption is placing growing pressure on energy resources, and countries worldwide are looking for new ways to secure their future access to sufficient supplies of energy. As a result, the proportion of all forms of renewable energy that society uses is likely to grow. Biofuels offer a number of solutions for improving energy security in this respect.



#### Increased demand for energy

Population growth and higher standards of living are contributing to higher demand for energy in developing countries. Millions of people are leaving rural areas for the cities, where their new lifestyles use more energy. The ageing population in the developed world is also posing new types of challenges for society and service providers, and leading to changes in the type of mobility and services that people need.



#### Technological developments

Technology will play a key role in enabling new energy sources and production technologies to be exploited. New oil discoveries will extend the world's energy supply, while new process technologies will open up a broader range of feedstocks for producing renewable fuels. New engine technology, for its part, will make vehicles more energy-efficient and new ICT technology will enhance control systems and services. Although new innovations are needed, the development potential of existing technology should not be underestimated.



### Unsustainable demand for natural resources and climate change

Society consumes one and half times as many natural resources as the world produces today – and means that we need to be able to use existing resources as efficiently as possible and develop new types of energy with a smaller environmental footprint. New biofuel technologies enable a broader range of raw materials that is increasingly based on the use of waste and residues.



## Neste Oil's business

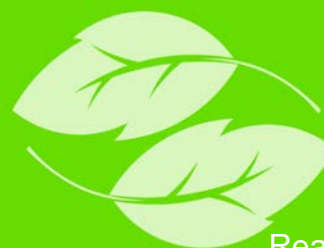
Neste Oil's business is based on two business areas and four reporting segments. The business areas are Oil Products and Renewables, and Oil Retail. The reporting segments are Oil Products, Renewable Fuels, Oil Retail, and Others.

### Oil Products



[Read more ►](#)

### Renewable Fuels



[Read more ►](#)

### Oil Retail



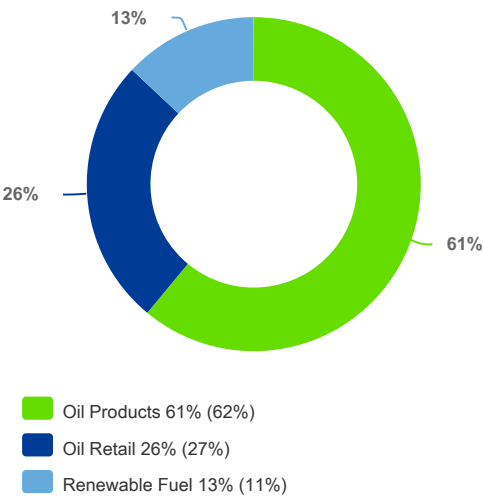
[Read more ►](#)

### Production and Logistics & Research and Technology



[Read more ►](#)

Revenue by reporting segment, %



## Oil Products

Neste Oil produces and sells an extensive range of petroleum products to a global customer base, with a particular focus on premium-quality traffic fuels and other high value-added products. Oil Products' goal is to develop its product-related services, expand its base oil offering, increase the proportion of middle distillates, such as diesel, in its product mix, and grow profitably in the global VHVI base oil market.



### Competitive advantages

- Premium-quality products
- Ability to supply customers traffic fuel solutions flexibly and reliably, including solutions to fulfill biomandates
- Strong position in the wholesale market around the Baltic
- One of Europe's most advanced refineries at Porvoo; feedstock flexibility



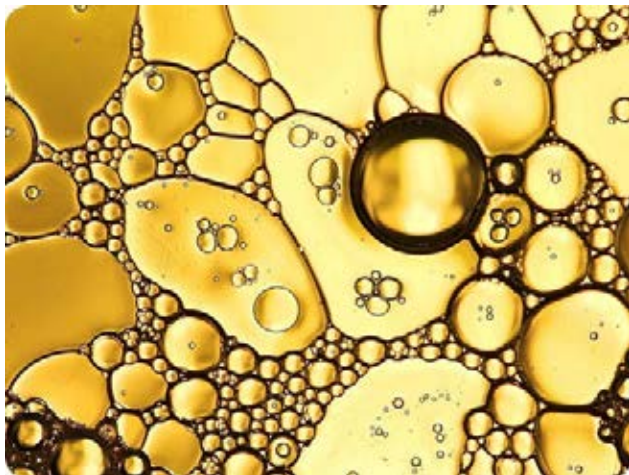
Key figures	2013	2012
Revenue, EUR million	13,271	13,764
Operating profit, EUR million	286	491
Comparable operating profit, EUR million	280	396
Net assets, EUR million	2,163	2,252
Comparable return on net assets (RONA), %	11.8	16.6
Capital expenditure, EUR million	142	180

What were our targets?	Achievements in 2013	What next?
Maintain Neste Oil's leading position in the Baltic region.	<ul style="list-style-type: none"> <li>Neste Oil retained its strong position around the Baltic, which accounted for approx. 66% of petroleum product sales.</li> <li>Sales increased in the Baltic countries.</li> </ul>	<ul style="list-style-type: none"> <li>Further strengthen Neste Oil's position in the Baltic region by developing the customer offering.</li> </ul>
Strengthen the company's margins by improving productivity, by increasing plant capacity utilization levels and the proportion of middle distillates in product output for example.	<ul style="list-style-type: none"> <li>Capacity utilization of the refineries improved by 1.5% and company's margin improved by USD 3.98/bbl compared to 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Further strengthen margins by improving plant capacity utilization levels and supply chain optimization.</li> </ul>
Leverage growth in the base oil market by increasing sales of VHVI base oil, developing new customer solutions, and expanding into new areas.	<ul style="list-style-type: none"> <li>Sales in North America and Asia rose to 20% of total sales.</li> </ul>	<ul style="list-style-type: none"> <li>Continue growth in North America and Asia.</li> <li>Improve supply chain-related cost efficiency.</li> </ul>
Offer customers flexible and efficient solutions for fulfilling their biomandate requirements.	<ul style="list-style-type: none"> <li>Customers in the Baltic region were supplied with drop-in solutions for fulfilling their biomandate requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Develop new solutions for fulfilling rising biomandate needs in the Baltic region.</li> </ul>

Case: Tight oil and shale gas are changing the world's energy balance



## Tight oil and shale gas are changing the world's energy balance



Tight oil is not a new resource, but its use had been held back until recently by expensive production methods. Technological developments and high oil prices have changed all this, however, and production of both tight oil and shale gas has grown significantly in the last few years, particularly in the US.

US-based refiners are benefiting the most from this development, as they are now able to use lower-cost tight oil as a feedstock rather than imported crude. The use of shale gas is also reducing

the energy costs of US refiners and enhancing their competitiveness compared to other companies. A number of other countries, in addition to the US, have extensive tight oil reserves, such as China, Russia, South America, and Europe.

Debate on the production of tight oil and shale gas tends to focus on the environmental sustainability of these operations. Sustainable production calls for all risks to be assessed and managed carefully. Although tight oil is currently mainly produced in North America, the economic impact of its use is being felt worldwide. The US could well soon become self-sufficient in energy thanks to tight oil, which will reduce the pressure on crude oil prices and could also impact the traditional price differential between different crude qualities. In the event that the volumes of petroleum products refined in North America exceed local needs, increasing amounts of these products could find their way on to other markets, including Europe.

### What does this mean for Neste Oil?

Neste Oil is monitoring the impact these developments are having on product prices, such as gasoline and diesel prices, and on demand. Developments in the crude oil market are also being monitored. Increased operational flexibility is a priority for Neste Oil to enable the use of different types of crude at its refineries.

Business ► Oil products ► Developments in Oil Products' markets

## Developments in Oil Products' markets



The most important external factors affecting the result of the Oil Products reporting segment are the price differential between petroleum products and crude oil and between Brent crude from the North Sea and Russian Export Blend (REB), and the USD/EUR exchange rate.

### Demand for petroleum products continued to grow

Global demand for petroleum products continued to rise during 2013, despite uncertainty surrounding economic growth, by around 1% for the second year in succession. Gasoline demand growth was focused on developing countries. Demand for diesel in Europe softened, as a result of the challenging economic situation and lower industrial demand for energy and transport. Low capacity utilization rates at European refineries led to a higher diesel shortfall in Europe, creating a stronger market for diesel compared to other key product segments.

### Crude prices impacted by the state of the world economy and geopolitical uncertainty

Continuing uncertainties in the world economy and geopolitical tensions in oil-producing countries were the main drivers in the oil market during 2013. Brent traded in the USD 100–120/bbl range, peaking in early February, when it reached USD 120/bbl, before weakening in the lead-up to the summer as new concerns related to the international economy and future growth prospects in China drove the price close to USD 100/bbl.

Following some positive signs in the international economy, combined with political unrest in Syria and strikes that reduced Libyan crude oil exports, crude trended up during the late summer and early fall towards USD 120/bbl. As the strikes ended in Libya and negotiations between Iran and Western countries pointed to the possibility of a future easing of crude export sanctions, crude prices returned to USD 105–110/bbl, ending the year at around USD 110/bbl. The increasing production of tight oil in the US limited crude price increases and resulted in narrower differentials between lighter and heavier crudes.

The price differential between Russian Export Blend (REB) and Brent averaged USD –1/bbl in 2013, which was slightly narrower than in 2012. The differential widened significantly during the spring on the back of higher crude prices and the refinery maintenance season before narrowing and reaching even positive differential levels in the late summer when delayed maintenance at Russian refineries and the strikes in Libya reduced oil exports. The refinery maintenance season in the fall and the end of the strikes in Libya saw the price differential widen again, approaching around USD –2/bbl. With the ending of the maintenance season, the differential narrowed towards USD –1–1.5/bbl, where it stood at the end of the year.

The structural changes under way in the European refinery sector favor advanced refiners such as Neste Oil that are able to meet today's statutory requirements and react flexibly to changing market conditions.



## Fluctuating refining margins

Refining margins in Europe were volatile and clearly weaker on average than in 2012. Margins during the first quarter were strong, as gasoline margins were unseasonably high due to refinery outages and relatively low gasoline inventories. After a strong start to the year, refining margins experienced growing pressure in the second half as new capacity was ramped up in the Middle East and Asia. High diesel exports from the US to Europe also pushed European refining margins down, to such an extent that many refiners were forced to make economic run cuts. Margins were lowest at the end of the year after the fall maintenance season.

Middle distillates were again the strongest part of the barrel. Gasoline margins were seasonally low during the early part of the first quarter and the fourth quarter, but were strong from the spring until the early fall. Fuel oil margins were strong during the first half of the year, but weakened significantly during the second half.

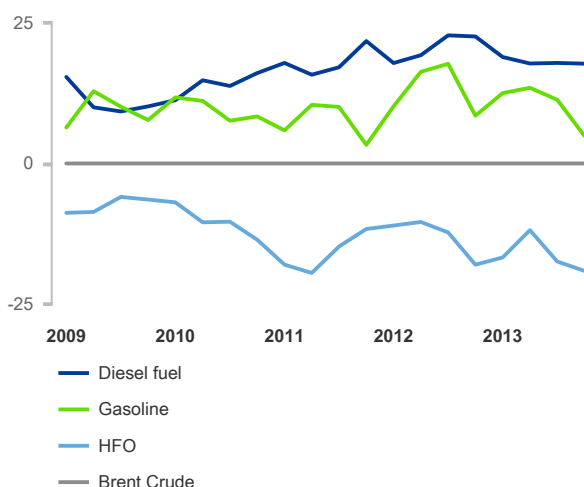
Crude oil price, USD/bbl



Price differentiation between Urals and Brent Dated, USD/bbl



**Price differential between main petroleum products compared to Brent Crude, USD/bbl**



## Base oil market remains challenging

The challenging market situation facing premium-quality Group III base oil continued during 2013, primarily because of the extensive supply of these products. The recovery in the world economy supports demand for Group III products, as does the increasing shift to premium-quality base oil around the world. Neste Oil's Group III base oil increased its share in the main markets of Europe and Americas, thanks to successful sales work, despite the tough competitive situation there. Neste Oil's goal in 2014 will be to further grow its market share, although the overall market for Group III base oil is expected to remain challenging.

## A changing competitive environment

Neste Oil is a small oil company by international standards, and has concentrated on premium-quality fuels and extending its middle distillates capacity, particularly diesel. The Porvoo refinery is one of the most advanced in Europe and Neste Oil has a leading position on its home markets around the Baltic.

Neste Oil's main competitors comprise other advanced refiners in Northwest Europe and global export refiners. The latter include Russian refiners focusing on improving the quality of their output, together with refiners in the Middle East and Asia that have invested in modern capacity in recent years.

Russia is continuing to modernize its refining capacity, encouraged by tax changes introduced there in 2011 aimed at increasing investments in crude production and improving the country's refining base.

Average capacity utilization rates at European refineries during 2013 were below 80% and resulted from slow demand growth and overcapacity. Uncompetitive refineries in Europe and along the US East Coast will probably continue to be shuttered as a result of the worldwide growth in refining capacity. Tougher environmental legislation in Europe will also affect the restructuring of the refining sector, which is expected to favor advanced refiners, such as Neste Oil, that can respond to new legislative requirements and react flexibly to changing market conditions.

Neste Oil has become one of the world's leading suppliers of base oil. Producers in Asia and the Middle East that have recently increased their production capacity are key competitors for Neste Oil in this area.

## Crude oil and fossil feedstock procurement

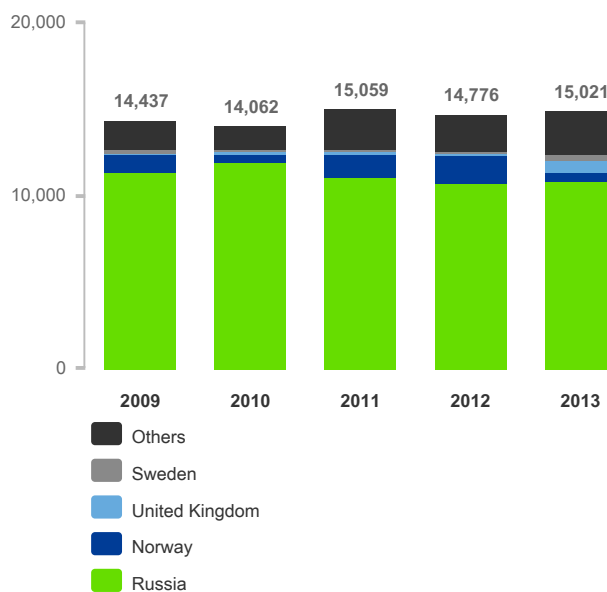


The majority of the crude oil used by Neste Oil comes from Russia. Russian crude is generally cheaper than Brent crude from the North Sea and can be shipped highly efficiently to Neste Oil's refineries at Porvoo and Naantali from the Primorsk terminal on the Gulf of Finland.

The proportion of Russian crude purchased during 2013 was at the same level as in 2012 and stood at 81% (82%) for the year as a whole. 72% (72%) of all the fossil feedstocks used at Neste Oil's refineries in 2013 were sourced from Russia.

Neste Oil is continuing efforts aimed at increasing its flexibility in using different types of crude and will continue to optimize crude usage in line with market developments.

Crude oil and fossil feedstock sources by region, 1,000 t



## Oil Products' customers and solutions



Neste Oil's extensive product range includes gasoline, diesel fuel, aviation fuel, bunker fuel, heating oil, heavy fuel oil, base oil, gasoline components, specialty fuels, solvents, liquefied petroleum gas (LPG), and bitumen. Oil Products' aim is to further

develop this offering in selected growth areas, such as diesel and premium-quality base oil.

### Refining margins

Neste Oil's total refining margin declined compared to 2012 and stood at USD 9.60/bbl (USD 10.17/bbl). Diesel margins were relatively strong throughout the year, while gasoline margins were strong for only part of the year. To strengthen its margins, Neste Oil is aiming to further increase its productivity, concentrate on higher value-added products, and focus on its home markets around the Baltic.

### Continued strong position around the Baltic

Neste Oil offers its customers around the Baltic a wide range of customized products and fuel blends, together with various flexible solutions for helping them fulfill their biomandate needs. Customers in the region benefit from a fast and flexible service that can supply multiple products in a single shipment, even at short notice. Neste Oil succeeded in retaining its strong position around the Baltic during 2013, and approx. 66% (71%) of

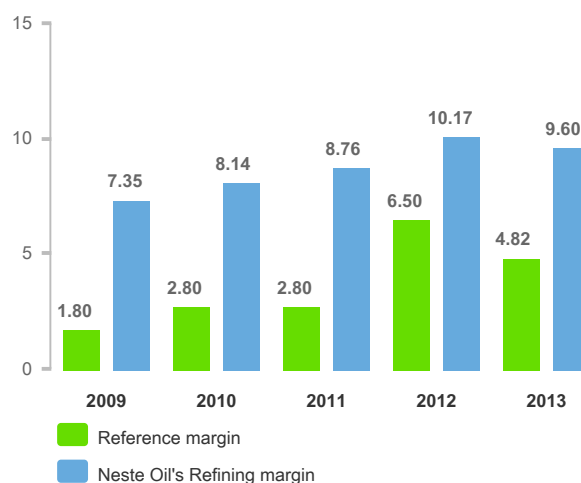


petroleum product sales were accounted for by customers in the region.

## Sales outside Finland increased

Neste Oil supplied a total of 6 (7.1) million tons of petroleum products to customers in Finland in 2013. Sales outside Finland totaled 10 (8.6) million tons, of which gasoline accounted for 2.9 (2.6) million tons and diesel 4.9 (3.9) million tons, including 1.7 (1.5) million tons of renewable diesel. The US, Sweden, and Canada were the most important export markets for gasoline and took 54% of gasoline exports. Sweden, Germany, and Britain were Neste Oil's largest export markets for diesel and accounted for 61% of total diesel exports. The proportion of sales accounted for by diesel, including renewable diesel, increased again in 2013 and was 49% (48%).

**Total refining margin,  
USD/bbl**





## Renewable Fuels

Neste Oil is a global pioneer in premium-quality renewable fuels. The family of renewable products based on Neste Oil's proprietary NExBTL technology currently includes two fuels – NExBTL diesel and NExBTL aviation fuel – and three products for the chemical industry: NExBTL naphtha, NExBTL propane, and NExBTL isoalkane. Neste Oil has succeeded in creating a renewable products business generating revenue of over EUR 2 billion in just a few years. With 2 million t/a of production capacity in place today, Neste Oil is the world's largest producer of renewable diesel.

**Comparable  
operating profit:  
EUR**

**273**

**million**


[Read more ►](#)

**Over 50%**  
**of renewable inputs  
consisted of  
waste and  
residues**



[Read more ►](#)

**Biofuel  
legislation  
facing  
changes**



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**Break-  
through  
in the  
US market**

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### Neste Oil's competitive advantages:

- Premium-quality products that are suitable for existing distribution systems and vehicles and offer cost-effective, flexible solutions for fulfilling biomandates
- Reliable production technology that offers a high degree of feedstock flexibility and enables the use of a wide range of sustainably produced raw materials
- Global customer base and supply chain

Key figures	2013	2012
Revenue, EUR million	2,493	2,163
Operating profit, EUR million	252	-183
Comparable operating profit, EUR million	273	-56
Net assets, EUR million	1,768	1,860
Comparable return on net assets (RONA), %	15.2	-2.8
Capital expenditure, EUR million	21	51

What were our targets?	Achievements in 2013	What next?
Improve the profitability of the business by increasing capacity of refineries, extending the customer base, and opening up new markets	<ul style="list-style-type: none"> <li>Sales volumes rose to 1.9 million tons.</li> <li>The global customer base grew to nearly 50 customers in Europe, North America, and Asia.</li> <li>A breakthrough was achieved in the important US market.</li> </ul>	<ul style="list-style-type: none"> <li>Continue developing key market segments that expect high quality on all continents and offer solutions that fulfill growing biomandate requirements.</li> <li>Improve the efficiency of the supply chain in terms of production and logistics. To achieve this, refinery capacity will be increased on a phased basis. The aim is to increase capacity by 15% to 2.3 million t/a by 2015.</li> </ul>
Secure a flexible feedstock base and the sustainability and acceptability of the feedstocks Neste Oil uses	<ul style="list-style-type: none"> <li>Neste Oil extended its feedstock base with the addition of technical corn oil, spent bleaching earth oil and tall oil pitch. The usage of waste and residue-based inputs increased by 476,000 tons to 1,220,000 tons and accounted for approximately 52% of total renewable feedstock usage.</li> <li>Neste Oil started a collaboration with The Forest Trust (TFT) organization to develop sustainable practices in palm oil production.</li> <li>100% of the crude palm oil used by Neste Oil is certified and traced.</li> </ul>	<ul style="list-style-type: none"> <li>Continue extending the feedstock base and increase the use of waste and residues.</li> <li>Continue efforts to ensure the sustainability and acceptability of Neste Oil's renewable raw material.</li> <li>Maintain the target of 100% certified and traced crude palm oil.</li> </ul>
Commercialize new product applications	<ul style="list-style-type: none"> <li>A number of new NExBTL-based applications were investigated, including solvents and petrochemicals.</li> </ul>	<ul style="list-style-type: none"> <li>Grow the business in new application areas.</li> <li>Take an active role in developing renewable fuel solutions for the aviation sector.</li> </ul>

Case: Promoting the use of renewable aviation fuel



## Promoting the use of renewable aviation fuel



Renewable aviation fuel is a new product and was only approved for commercial use in 2011 under the ASTM D7566 fuel standard. Adopting biofuels could significantly reduce the greenhouse gas emissions that contribute to global warming released by aircraft. As liquid fuels remain the only alternative for aviation, developing and commercializing fuels capable of replacing fossil jet fuel is particularly important.

Neste Oil joined a Dutch initiative in 2013 aimed at promoting the adoption of sustainably produced biofuels in airline use, and including KLM, SkyNRG, Schiphol Airport, the Port of Rotterdam,

the Dutch State Secretary of Infrastructure and the Environment, and the Dutch Minister of Economic Affairs. Neste Oil's role in the initiative is to explore the production opportunities for aviation biofuel and scaling up production. Its renewable fuel refinery in Rotterdam has the potential to be the first site for producing a continuous supply of renewable aviation fuel in the Netherlands.

Neste Oil is also involved in the ITAKA project, an EU-sponsored collaborative initiative aimed at producing and testing aviation fuel based on European renewable inputs.

Neste Oil is a global pioneer in aviation biofuel and has already carried out trials on the use of NExBTL renewable aviation fuel in commercial service. The hope is that the new initiative in the Netherlands will stimulate market demand for sustainable aviation biofuel and promote a shift from individual projects to the continuous production and supply of this fuel.

Neste Oil's renewable aviation fuel is based on its NExBTL technology, which can make very flexible use of a wide range of vegetable oil and waste-based raw materials. Neste Oil ensures the sustainability of all the renewable feedstocks it uses, and its supply chain complies with a number of sustainability certification schemes.

NExBTL renewable aviation fuel meets the very stringent quality standards demanded of aircraft fuel and can significantly reduce an aircraft's greenhouse gas emissions compared to fossil fuel.

Case: Powering a million vehicles with renewable diesel produced from waste and residues



## Powering a million vehicles with renewable diesel produced from waste and residues



Neste Oil produced enough NExBTL renewable diesel from waste and residues in 2013 to power around a million vehicles for a year. The two NExBTL units at the Porvoo refinery have used waste

and residues as virtually their sole feedstocks for the last couple of years.

### Waste and residues now account for over half of renewable raw materials

The NExBTL technology developed by Neste Oil enables premium-quality renewable diesel to be produced from virtually any vegetable oil or waste fat. Unlike vegetable oil, the quality of waste material varies greatly and Neste Oil has developed a dedicated pretreatment process to ensure that these materials are handled as effectively as possible at its plants. Pretreatment is important, as it removes contaminants and impurities from inputs before they are fed into the NExBTL process.

Extending its feedstock base is one of Neste Oil's most important strategic goals. The progress made in this areas means that Neste Oil is able to refine NExBTL renewable diesel from over 10 different raw materials today, including waste animal fat, waste fish processing fat, fatty acid distillates (e.g. PFAD), palm oil, rapeseed oil, jatropha oil, and camelina oil. Technical corn oil and

spent bleaching earth oil was added to the renewable input palette in 2013. Tall oil pitch has also been used successfully to produce traffic fuels at the Naantali refinery. All new raw materials are nonfood waste materials.

Waste and residues currently account for over half of the renewable inputs used by Neste Oil, and further increasing the use of these materials is a key ongoing company goal. Neste Oil's plants delivered on this challenge by boosting their use of waste and residues by hundreds of thousands of tons during 2013.

Increasing the use of waste and residues for producing renewable fuel is important, as these materials do not compete for land with food production and the greenhouse gas emissions of end-products refined from them are significantly lower than those of fossil fuels.

## Competitive advantage through a flexible feedstock base

The biofuel market differs from the fossil fuel market in a number of ways, among other things the requirements for renewable raw materials may vary in different markets. The raw materials approved for producing renewable fuel in Europe, for example, may not be approved in the US. Thanks to its broad feedstock base, Neste Oil is well-placed to meet the requirements of different markets and customers around the world.

Business ► Renewable Fuels ► Developments in Renewable Fuels' markets

## Developments in Renewable Fuels' markets



### Continued growth in global biodiesel demand

Global biodiesel demand continued to grow in 2013, in line with long-term projections. The pace of growth was slower than between 2008 and 2012, however. Demand grew in North America in particular, on the back of higher mandated content requirements. Demand for biodiesel in the EU fell compared to 2012, due to a lower mandate in Spain, double countable biofuels reducing physical demand, and stagnating fossil diesel demand. Demand for premium-quality solutions such as NExBTL renewable diesel developed positively everywhere.

### Biofuel legislation in Europe and the US set for a number of changes

Legislation designed to promote the use of renewable energy sources and biofuels has been developed and introduced around the world for a number of years.

In fall 2012, the European Commission proposed a significant change to the EU's biofuel legislation by splitting the 10% requirement for biofuel usage in traffic and transport by 2020 into two parts – limiting the proportion of biofuels produced from food crops to 5% in 2020 and requiring the other 5% to be met using

biofuels produced from waste, residues, or completely new types of raw materials.

A further proposal announced in fall 2013 indicated that biofuels produced from food crops should be limited to 6% of total traffic fuel consumption and that an advanced biofuel quota would be introduced from the beginning of 2016 onwards for biofuels refined from nonfood inputs rising to 2% by 2020. Debate on how best to reform legislation in this area is continuing, as no changes have yet been approved.

The Environmental Protection Agency (EPA) in the US announced a proposal covering renewable fuel mandates for 2014 in November that would retain the biomass-based diesel mandate at the 2013 level and reduce total renewable fuel mandates by 8% compared to 2013.

Neste Oil and the advanced biofuels industry believes that the industry has proved its capability to deliver growing volumes of advanced biofuels during 2013, and biomass-based diesel in particular, to the US market. As a result, Neste Oil favors higher 2014 mandates for advanced biofuels than those contained in the EPA proposal, as this would support further research and investment in this area.

### Strong margins for conventional biodiesel

Margins in the European biodiesel market improved significantly in 2013 compared to recent years. Product shortages and raw material prices both contributed to this development. The volume of cheap biodiesel on the market dropped considerably after the European Commission announced that it was going to impose heavy import duties on biodiesel imports from Indonesia and Argentina, which acquired a more than 20% share of the European market in 2012, with sales of more than 2 million tons.

Biodiesel margins in the US remained modest during the early part of the year, but reached an all-time record around mid-year. Numerous factors contributed to this, primarily strong product demand combined with low feedstock prices. Demand for renewable diesel improved, not only as a result of the higher mandate, but also because of the need to find alternatives to ethanol; usage of the latter has begun to reach 10%, challenging the capabilities of the country's distribution infrastructure. Margins



declined from the peak levels seen in the middle of the year, as the price of end-product and RIN declined strongly as the EPA announced its proposal for biofuel mandates for 2014.

## Major fluctuations in renewable feedstock prices

The price of renewable feedstocks fluctuated strongly in 2013, as in previous years. Crude palm oil prices varied between USD 680/t and USD 825/t (Malaysia) and averaged USD 770/t (957). Lower-than-expected supply growth, combined with strong exports, kept Malaysian palm oil inventories below the 2 million ton benchmark level from March 2013 onwards, which resulted in higher prices towards the end of the year.

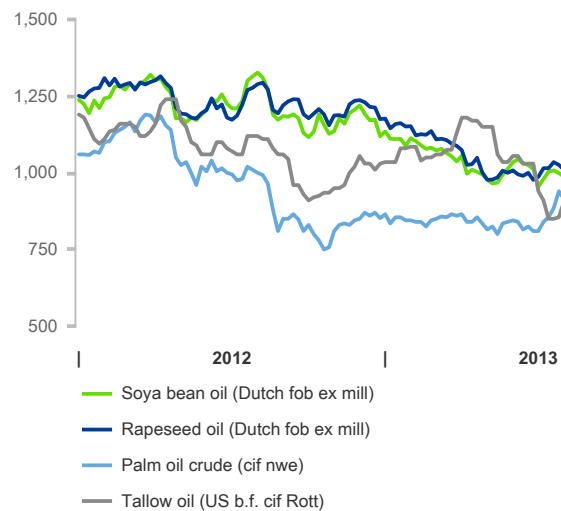
Rapeseed oil (RSO) and soybean oil (SBO) prices fell during the year. SBO prices, in particular, came under pressure, as the US soybean crop was better than expected, while the outlook for the 2014 crop in South America remained very good. The price differential between palm oil and rapeseed oil was wider than the long-term average during the first half of the year, but narrowed subsequently. The CPO/RSO spread fell from USD 330/ton in the first quarter to around USD 150/ton in the fourth quarter of 2013. Animal fat prices remained at a premium over palm oil, but the premium was clearly narrowed during the fourth quarter.

## Competition is also expected to increase, alongside higher demand

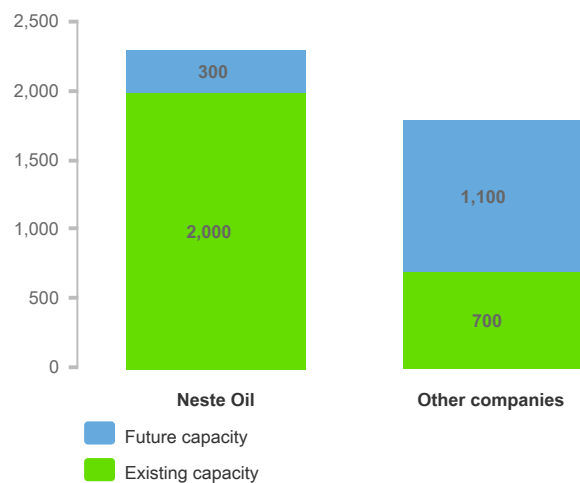
Neste Oil is the world's largest producer of renewable diesel and the NExBTL renewable diesel that it produces using its proprietary technology is of a significantly better quality than conventional biodiesel. The only other companies producing a comparable product on an industrial scale are US-based Diamond Green Diesel and Dynamic Fuels, which have a combined production capacity of 700,000 t/a. There is a surplus of conventional biodiesel capacity, and a number of poorly performing small plants have been closed as a result in recent years.

Competition is expected to increase significantly over the next few years, as the marketplace prefers premium-quality, advanced biofuels of the type represented by Neste Oil's NExBTL renewable diesel. High-quality 'drop-in' renewable fuels like NExBTL do not require modifications to existing vehicle engines or distribution and logistics systems. The use of premium-quality renewable diesel is not limited by the 7% blending limit in Europe imposed on conventional biodiesel. The supply of renewable diesel is also expected to increase as new capacity enters to the market.

**Weekly prices for vegetable oils and animal fat in Europe, USD/t, (Source: Oil World)**



**Global renewable diesel capacity comparison, 1,000 t**



## Renewable raw material procurement



Neste Oil's NExBTL technology can be used to produce renewable fuel from virtually any vegetable oil or waste fat. This flexibility gives Neste Oil a valuable advantage, as it enables the special needs of different markets and customers to be met with ease. By optimizing its use of different input streams, Neste Oil can also leverage the varying price differentials between these materials.

Neste Oil sources only sustainably produced renewable raw materials that are fully traced back to the plantation or production plant from which they originate. Strict principles have been put in place covering the procurement of renewable inputs, and supplier

contracts covering these inputs contain detailed sustainability-related terms and conditions.

Read more about the sustainability of [Neste Oil's raw material procurement](#).

The volume of renewable raw material used by Neste Oil increased in 2013 as a result of increased fuel output, and totaled 2.3 (2.1) million tons.

Neste Oil's renewable raw material base:

- waste animal fat
- waste fish fat
- crude palm oil
- fatty acid distillates (PFAD)
- stearin
- technical corn oil
- rapeseed oil
- soy bean oil
- jatropha oil
- camelina oil
- tall oil pitch
- spent bleaching earth oil

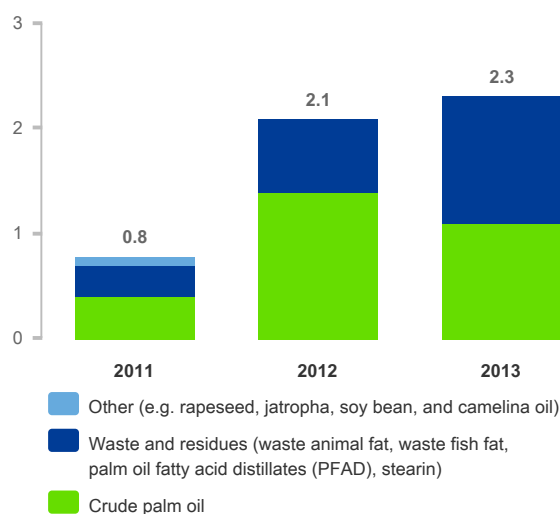
Read more about [research on renewable feedstocks](#).

### Use of renewable raw materials

Feedstock	Amount used in 2013, million tons	Amount used in 2012, million tons
Crude palm oil	47.4% (1.1 Mt)	64.5% (1.36 Mt)
Waste and residues (waste animal fat, waste fish fat, vegetable oil fatty acid distillates e.g. PFAD, technical corn oil, stearin, spent bleaching earth oil)	52.6% (1.22 Mt)	35.1% (0.74 Mt)
Other vegetable oil (rapeseed, soy bean, and camelina oil)	0.0% (0.0002 Mt)	0.3% (0.007 Mt)
<b>Total</b>	<b>100% (2.32 Mt)</b>	<b>100% (2.11 Mt)</b>



**Use of renewable raw materials in 2013, million tons**



Business ► Renewable Fuels ► Renewable Fuels' customers and solutions

## Renewable Fuels' customers and solutions



NExBTL renewable diesel is sold as a premium-quality biocomponent to corporate customers, primarily in Europe and North America, but the market for the product is expected to grow in Asia as well. Thanks to its high quality, customers can use it very flexibly and optimize their logistics chain and produce their own quality products. NExBTL renewable diesel ready-blended with fossil diesel is also sold to fuel distributors as a 'drop-in solution'.

Neste Oil sells Neste Pro Diesel, containing a minimum of 15% NExBTL renewable diesel, at its stations in Finland. Neste Pro Diesel was the first diesel anywhere to comply with the Worldwide Fuel Charter (WWFC) category 5 specification in 2013.

Read more about [the properties of NExBTL renewable diesel](#)

### Customers and markets

Neste Oil further extended its NExBTL renewable fuels customer base in 2013 and sold NExBTL products into a number of new markets. Alongside Europe, North America represents a major market for premium-quality biofuels, and Neste Oil achieved a major breakthrough in the key US market in 2013. Continued progress was also made in Europe, and NExBTL renewable diesel was sold to nearly 50 customers in over 10 countries worldwide in 2013.

The addition of these new customers and new markets saw the sales volumes of NExBTL renewable diesel increase by 16% compared to 2012, to total 1.9 million tons. Looking ahead, Neste Oil's goal is to further strengthen its position, particularly in markets where a premium-quality product like NExBTL renewable diesel can generate the maximum added value for the customer.

### NExBTL product family

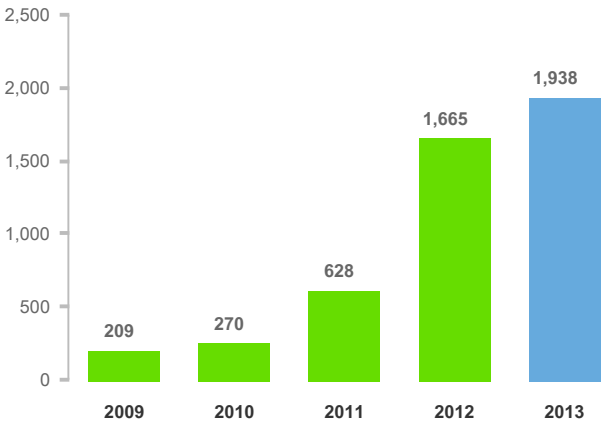
In addition to producing transport and aviation fuel, NExBTL technology is also capable of producing renewable solvents and renewable industrial petroleum, naphtha. Renewable solvents, for example, can be used in manufacturing paints, adhesives, cleaning agents, and cosmetics; while renewable industrial petroleum can be used as a biocomponent in gasoline blends and for producing bioplastics. Thanks to its renewable base, the carbon footprint of end-products manufactured using NExBTL renewable naphtha is smaller than that of those produced from fossil naphtha.

Neste Oil is currently planning the production of NExBTL renewable propane at its refinery in Rotterdam. Propane can be used for example, in producing plastics and generating electricity.

In addition, Neste Oil is investigating the commercial potential of renewable isoalkane.

Read more [how Neste Oil promotes the use of renewable aviation fuel](#)

Sales of NExBTL renewable diesel, 1,000 t



## Oil Retail

Neste Oil's Oil Retail has a network of 1,027 stations around the Baltic region, and acts as a key marketing channel for Neste Oil's premium-quality, low-emission products. Oil Retail offers premium-quality products and high-performance solutions to consumers via the Neste Oil station network and directly to fleet users, industrial and agricultural customers, heating customers, and distributors.

**Neste Oil is Finland's most respected service station brand**



[Read more ►](#)

**1,027 stations**



[Read more ►](#)

**The world's best diesel fuel**



[Read more ►](#)

**Significant improvement in RONA**

[Read more ►](#)



### Neste Oil's competitive advantages

- Premium-quality products
- Strong brand
- Extensive station network
- Competitive unit costs
- Value-added customer solutions

Key figures	2013	2012
Revenue, EUR million	4,528	4,895
Operating profit, EUR million	120	58
Comparable operating profit, EUR million	76	58
Net assets, EUR million	255	345
Comparable return on net assets <sup>*)</sup> (RONA), %	26.1	17.3
Capital expenditure, EUR million	31	36
Total sales <sup>**</sup> , 1,000 m <sup>3</sup>	4,000	4,160

\* rolling 12 months

\*\* includes both station and terminal sales in Baltic counties

What were our targets?	Achievements in 2013	What next?
Improve comparable return on net assets	<ul style="list-style-type: none"> <li>Comparable return on net assets increased to 26.1%.</li> <li>Unprofitable operations in Poland and Sweden were divested.</li> </ul>	<ul style="list-style-type: none"> <li>Continue measures aimed at ensuring a good comparable return on net assets, e.g. by optimizing the station network and inventory levels.</li> </ul>
Grow the business profitably	<ul style="list-style-type: none"> <li>New stations were opened in Finland, the Baltic countries, and in St.Petersburg.</li> <li>New customer accounts were secured in Finland and internationally.</li> <li>Neste Pro Diesel became the first fuel to comply with the WWFC category 5 specification.</li> </ul>	<ul style="list-style-type: none"> <li>Increase sales to current customers and identify new customer segments.</li> <li>Extend our understanding of customers and markets and continue developing products and services to provide an excellent customer experience for different customer segments.</li> <li>Develop pricing practices to optimize sales and profitability.</li> </ul>
Improve operational efficiency	<ul style="list-style-type: none"> <li>The rollout of revamped IT systems was delayed. The goal now is to commission them in spring 2014.</li> </ul>	<ul style="list-style-type: none"> <li>Improve efficiency by measures such as further reducing unit costs and optimizing the station network.</li> </ul>

Case: Neste Pro Diesel – the world's best diesel



## Neste Pro Diesel – the world's best diesel



Neste Oil's premium-quality Neste Pro Diesel is the world's first fuel to comply with the WWFC category 5 specification drawn up as part of the Worldwide Fuel Charter by automotive manufacturers. Neste Pro Diesel contains a minimum of 15% NExBTL renewable diesel.

The WWFC specification system is drawn up by manufacturers in Europe, the US, and Asia; and WWFC category 5, announced in 2013, is the fifth edition of the specification to be announced to

date and has been produced to reflect the latest developments in vehicle and engine technology.

The WWFC category 5 specification places strict requirements on fuel quality and is intended to ensure the long-term, problem-free performance of engines, motor oil, and vehicle emission control systems. It excludes conventional FAME-type biodiesel completely and favors more advanced biofuels, such as hydrotreated vegetable oil (HVO) and Biomass to Liquid (BTL) biodiesel, for which no upper content limit is set and the use of these fuels is recommended.

Neste Oil's NExBTL renewable diesel, which is produced by hydrotreating vegetable oil and waste, is one of the biofuels recommended under the WWFC category specification.

WWFC category 5-compliant Neste Pro Diesel is available at all Neste Oil's service stations and unmanned stations granting loyalty points across Finland. Neste Pro Diesel is compatible with all diesel vehicles, and using it can reduce fuel consumption and emissions, as well as improve vehicles' overall performance. Neste Pro Diesel's excellent cold weather properties also help enhance vehicle performance during the winter.

Business ► Oil Retail ► Developments in Oil Retail's markets

## Developments in Oil Retail's markets

The most important external factors affecting the result of the Oil Retail reporting segment are the general state of the economy and overall fuel consumption.



### Uncertainty in the world economy affected truck and bus diesel demand

The continued uncertainty typical of the world economy in 2013 impacted the retail market in Finland, and demand among fleet

customers and in industry remained weak. Consumer diesel demand continued to grow, however, reflecting the growing number of diesel cars on the road. Total diesel consumption in Finland rose by 1.2%, while gasoline consumption fell by 1.9%.

Demand for light fuel oil was weaker than in 2012, in line with the growing preference for other types of heating than oil in new buildings. The declining demand for heating oil could be compensated for in the future by an increased use of middle distillates by ships when stricter sulfur limits come into force at the beginning of 2015. These new emission limits will encourage ships operating in the Baltic to switch from high-sulfur heavy fuel oil to lighter products. Demand for light fuel oil is also likely to be supported by increased use by off-road machinery.

### Increased overall demand in the Baltic countries and St. Petersburg

Demand for gasoline in the Baltic countries continued to decline, while that for diesel increased in 2013. Neste Oil's profitability developed positively in all the Baltic countries during 2013, thanks to higher volumes and favorable price developments.

The St. Petersburg region in Northwest Russia is one of Russia's growth centers, and the demand for gasoline and diesel there is continuing to grow. Higher volumes and favorable price developments made a positive contribution to Neste Oil's profitability in the region.

## Sale of station network in Poland completed

Neste Oil announced in December 2012 that it was going to sell its station network in Poland to Shell. The sale was closed in April 2013, marking the end of Neste Oil's retail operations in Poland. The divestment was prompted by the lower-than-expected market share and financial performance achieved by the business.

## LPG business terminated in Sweden

Neste Oil decided to terminate its unprofitable LPG business in Sweden in 2013 and majority of the business was shut down by the end of the year.

## Competition still tough around the Baltic

Neste Oil's goal is to be one of the top two station networks in all its selected markets. Competition around the Baltic remained tough in 2013. In Finland, Neste Oil had a 28.2% (28.5%) share of retail gasoline sales and a 39.1% (40.0%) share of retail diesel sales.

Neste Oil's most significant competitors in Finland are ABC and St1, both of which are Finnish-owned, and Russian-based Lukoil, which has strengthened its position around the Baltic in recent years and operates in Finland under the Teboil brand. Neste Oil's most significant competitor in the Baltic countries is the Statoil network, which has prioritized developing its stations' shops.

Business ► Oil Retail ► Oil Retail's customers and solutions

## Oil Retail's customers and solutions



Oil Retail is a major marketer and supplier of petroleum products in Finland, with a product range that includes gasoline, diesel, light and heavy fuel oil, lubricants, liquefied petroleum gas, aviation fuel, sulfur, and solvents. Products are sold to consumers via the Neste Oil station network and directly to fleet users, industrial and agricultural customers, heating customers, and distributors. Outside Finland, Neste Oil sells traffic fuels in Northwest Russia, Estonia, Latvia, and Lithuania.

## Decreased sales volumes of traffic fuels

Sales volumes of Neste Oil's traffic fuels decreased by 4% (increased by 6%) in 2013, and total sales stood at 3.2 (3.3)

million m<sup>3</sup>. Diesel sales rose by 0.3% (9.4%) and gasoline sales decreased by 9% (increased by 2.1%) compared to 2012.

Pump-based sales of Neste alcyate gasoline at the five stations where it is available in this form increased by around 75% compared to 2012, and a number of major customer accounts were secured for the fuel. An investment decision to improve distribution logistics at the Naantali refinery will enable sales to be further increased, both via land-based and marine distribution channels.

## Lubricants and automotive chemicals increased their market share

Neste Oil's direct sales during 2013 remained comparable to those seen in previous years, despite the challenging economic situation.

Demand for lubricants in Finland continued to decline as a result of the depressed economy and structural changes affecting industry, while demand for automotive chemicals remained largely unchanged. Despite this, Neste Oil was able to increase its market share clearly in both product areas. Exports remained comparable to those seen in 2012.

The card-free Truck+ service among fleet owners grew steadily during 2013.



### **Neste Pro Diesel and alcyate gasoline selected as first fill fuels for Mercedes-Benz A-Class cars**

Valmet Automotive has selected Neste Pro Diesel as the first fill fuel for the diesel-engined Mercedes-Benz A-Class cars that it manufactures in Finland. Neste Oil's alcyate gasoline is specified as the first fill fuel for gasoline-engined A-Class cars. Extremely good ignition and storability properties are essential for first fill fuel, as cars pass through numerous logistics and parking stages on their journey from the factory to purchasers. Valmet Automotive's plant in Uusikaupunki began manufacturing Mercedes-Benz A-Class cars at the end of August 2013 under a contract with Daimler AG.

#### **Neste Oil's alcyate gasoline has many advantages**

Neste Oil's alcyate gasoline is produced exclusively from carefully selected sulfur-free paraffines known for their good performance in high-compression engines. Thanks to its carefully formulated composition, alcyate gasoline is odor-free, unlike regular gasoline, which makes it pleasant to use and ideal for sensitive environments. Being benzene-free, it is also not classified as a hazardous substance.

Handling Neste Oil's alcyate gasoline is safe and pleasant for users, as it has a lower vapor pressure than regular motor gasoline.

Alcyate gasoline also stores well. Fuel systems do not need to be drained during long storage, as resin content does not develop nor does the fuel otherwise deteriorate during storage. As a result, engine always starts easily after being stored for an extended period.

Case: Renewable diesel or conventional biodiesel - what is the difference?



## Renewable diesel or conventional biodiesel – what is the difference?



Many drivers and boat owners are still often unaware that the law requires a biocomponent to be added to diesel fuel today and sometimes have doubts about the use of biodiesel and how well it can tolerate being stored over an extended period.

Conventional biodiesel (FAME, RME, esters) can encourage water to collect in fuel and also acts as a more attractive medium for microbial growth than hydrocarbon-based fuel. If these types of problems develop, fuel tanks need to be cleaned and, in some cases, use of an antibacterial compound can also be called for.

Long-term use of additives or a failure to clean tanks can prolong problems.

The diesel fuel and heating oil sold by Neste Oil does not contain any conventional biodiesel, however, only premium-quality NExBTL renewable diesel, a hydrotreated vegetable oil or animal fat (HVO).

Hydrotreating is a catalytic process widely used in oil refining and takes place at high pressure and high temperatures. The hydrocarbon molecules produced from the crude oil or renewable oil and fat treated using this process are so similar that they cannot be distinguished from each other using conventional means.

Neste Oil produces premium-quality NExBTL renewable diesel from a range of different types of vegetable oil, waste, and residues. Neste Pro Diesel contains NExBTL and is the world's only diesel fuel to comply with the WWFC category 5 specification, the strictest to be drawn up as part of the Worldwide Fuel Charter by automotive manufacturers.

Using Neste Pro Diesel can reduce fuel consumption by as much as 5%, depending on people's driving style and local conditions. It also improves engine performance and reduces vehicle emissions, such as nitrogen oxides, particulates, and hydrocarbons.

Business ► Oil Retail ► Station network

## Station network



Neste Oil has a network of 1,027 stations: 790 in Finland and 237 in Northwest Russia, Estonia, Latvia, and Lithuania. Neste Oil's retail operations in Poland ended during the first half of 2013 when the sale of the station network there to Shell was completed. New stations opened in Finland, the Baltic countries, and Northwest Russia in 2013 helped further strengthen Neste Oil's market position.

## Neste Oil's station network around the Baltic

### Neste Oil's stations:

Finland 790

St. Petersburg 67

Estonia 51

Latvia 58

Lithuania 61



Market position



Neste Oil's station network in Finland comprises Neste Oil service stations, Neste Oil unmanned stations, Neste Oil Express unmanned stations, and Neste Oil Truck stations serving trucks and fleet users.

### Increased sales in Estonia and Latvia

Neste Oil extended its station network in the Baltic countries and Northwest Russia during 2013, in line with its growth target, and a total of 11 new stations were built and four new stations purchased in Latvia. Retail operations developed well and recorded a better result than in 2012.

### All stations outside Finland now feature the new Neste Oil brand

Neste Oil completed the brand revamp of its station network in Estonia, Latvia, and the St. Petersburg region in 2013. Outlets in Lithuania were rebranded in 2011. Neste Oil's stations in Russia and the Baltic countries all now feature the new brand identity. In addition to modernizing the appearance of stations, the project has also focused on improving the customer experience and safety.

In Russia, the project has included a revamp of the station shop concept, which has been reconfigured to focus on offering premium-quality products to quality-conscious customers, and station forecourts. The revamp has proved a success and shop sales have been better than expected.

To further secure Neste Oil's brand and market position in the region, the plan is to launch a Neste Oil-branded range of traffic fuel products in the Baltic countries and Northwest Russia in spring 2014.

### IT revamp continues in 2014

The comprehensive revamp of IT systems started in Oil Retail in 2010 reached the rollout phase in the retail business in Estonia, and is expected to be fully completed in 2014. The new system will integrate Oil Retail's processes, improve customer relationship management and customer service, as well as enhance cost efficiency.

## Neste Oil is Finland's most respected service station brand

Neste Oil was ranked Finland's most respected service station brand in a survey of Finnish brands carried out by Taloustutkimus and Markkinointi&Mainonta in summer 2013. ABC was ranked second and St1 third.

The survey reviewed respondents' views on 1,043 individual brands. Neste Oil improved its ranking compared to the 2012 survey, while ABC's ranking declined, making Neste Oil the more respected brand in 2013.

## Production & Logistics

The Production & Logistics function is responsible for ensuring that Neste Oil's premium-quality products are produced and supplied to customers as safely, reliably, and cost-effectively as possible. Neste Oil's refineries and plants in five countries produce a comprehensive range of major petroleum products, together with premium-quality NExBTL renewable fuels.

### Neste Oil exits the shipping business



[Read more ►](#)

### Production target for renewable fuel set at

**2.3**  
million t/a

[Read more ►](#)

### Production record at Porvoo:

**12**



million tons

[Read more ►](#)

### Capacity fully utilized in Singapore and Rotterdam

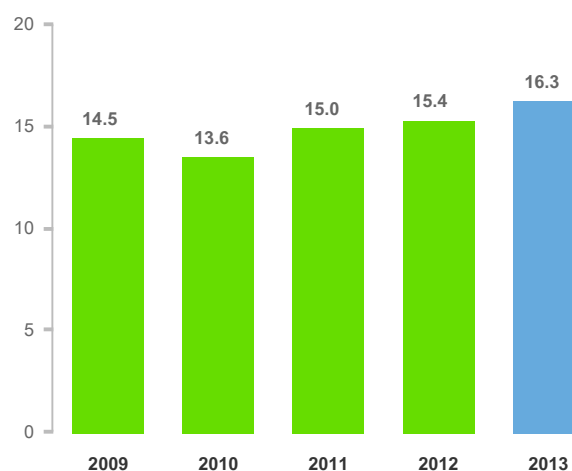
[Read more ►](#)



What were our targets?	Achievements in 2013	What next?
Develop safety culture	<ul style="list-style-type: none"> <li>Total Recordable Injury Frequency (TRIF) per million hours worked was 4.2 (3.6).</li> </ul>	<ul style="list-style-type: none"> <li>Achieve a clear improvement in safety performance, both in occupational and process safety.</li> <li>The goal is to achieve a Total Recordable Injury Frequency (TRIF) per million hours worked of less than 3.3*.</li> </ul>
Improve operational reliability at all plants	<ul style="list-style-type: none"> <li>Excellent operations at the Singapore and Rotterdam refineries. Both sites achieved an average capacity utilization of 91%.</li> <li>Operational reliability and utilization rate at Porvoo refinery improved compared to 2012.</li> <li>Output at Naantali refinery was reduced in line with market situation.</li> </ul>	<ul style="list-style-type: none"> <li>Continue work aimed at developing the operational reliability of all production sites.</li> <li>New renewable fuel production target is 2.3 million t/a to be achieved by 2015.</li> </ul>
Improve cost efficiency	<ul style="list-style-type: none"> <li>Neste Oil announced that it is to exit the shipping business, and plans selling all its ships and outsourcing its ship management functions.</li> <li>Operating costs at Neste Oil's renewable diesel refineries were reduced as a result of improved operational reliability and energy efficiency.</li> <li>Crude oil refining production costs continued to perform well.</li> </ul>	<ul style="list-style-type: none"> <li>Continue working to improve cost efficiency.</li> </ul>
Ensure high standards of operational quality	<ul style="list-style-type: none"> <li>The impact of shortcomings in product quality or the volumes of products delivered on customers are monitored closely. The number of quality issues fell by nearly 30% compared to 2012.</li> </ul>	<ul style="list-style-type: none"> <li>Continue implementing measures aimed at ensuring high standards of operational quality.</li> </ul>

\*Neste Oil's long-term target is zero accidents. The safety target-setting process was reviewed in 2013 as part of an intensified effort to improve safety across the company, and a revised short-term safety target of 3.3 was set for 2014.

**Total production, million tons**





### Neste Oil's refineries and production plants

- Refineries owned by Neste Oil
- Joint venture production plant



In addition to the production plants shown on the map, Neste Oil has a 49.99% holding in Nynas AB, which has production in Europe and in North and South America.

Business ► Production & Logistics ► Refineries

## Refineries



Neste Oil's output totaled 16.3 (15.4) million tons in 2013, of which renewable fuels accounted for 2.0 (1.8) million tons.

Neste Oil has two fossil fuel refineries, at Porvoo and Naantali in Finland, and two renewable diesel refineries, in Singapore and Rotterdam in the Netherlands. The Porvoo site also produces renewable diesel.

The success of Neste Oil's refineries is based on a high level of refining expertise, a commitment to introducing advanced new technologies, and the ability to refine a range of different feedstocks.

The environmental impact and safety performance of Neste Oil's refineries is covered in more detail in the [Sustainability section](#) of the Annual Report.

### Porvoo refinery

Neste Oil's Porvoo refinery is one of the most advanced and versatile in Europe and capable of producing a comprehensive range of major petroleum products, as well as NExBTL renewable diesel. The refinery has a crude refining capacity of approx. 12 million t/a.



The refinery's average capacity utilization rate in 2013 was 88% (87%) and output totaled 12.0 (11.5) million tons. Russian Export Blend accounted for 59% (58%) of feedstock in 2013.

Work on improving the productivity of Diesel Line 4 proved successful, and the line achieved a new record in terms of uninterrupted production in 2013. The line has also now shifted from two maintenance turnarounds annually to one.

Porvoo's two NExBTL production units used waste and residues as virtually their sole raw materials in 2013.

## Naantali refinery

Neste Oil's Naantali refinery concentrates on specialty products, such as solvents and bitumen, and has a capacity of approx. 3 million t/a.

The refinery's average utilization rate in 2013 was 78% (67%) and output totaled 2.1 (1.9) million tons. Russian Export Blend accounted for 89% (95%) of the refinery's total feedstock input.

The refinery operated very smoothly in 2013 following the successful major maintenance turnaround carried out there in spring 2012. Operations were further developed in a number of areas during 2013, in line with the refinery's Polaris development program, which extends until 2015. Tall oil pitch was introduced as a new feedstock, and energy consumption was cut by 24 GWh. The Polaris program also focused on improving the efficiency of the refinery's internal supply chain and maintenance work.

The Naantali refinery's excellent track record in zero hot work-related inflammable material incidents continued for a record fourth year in 2013.

## Renewable diesel refineries

Neste Oil has invested heavily in renewable diesel production capacity based on its proprietary NExBTL technology and now operates the world's two largest renewable diesel refineries, in Singapore and in Rotterdam. Both of these facilities have a capacity of 800,000 t/a of NExBTL renewable diesel. Neste Oil also produces renewable diesel in two NExBTL units at the Porvoo refinery. In total, Neste Oil now has 2 million t/a of renewable diesel capacity, making it the world's largest producer in the field.

The refineries of renewable diesel in Singapore, Rotterdam, and in Porvoo achieved an excellent capacity utilization of 91% in 2013 and total renewable fuels output rose to 2.0 (1.8) million tons.



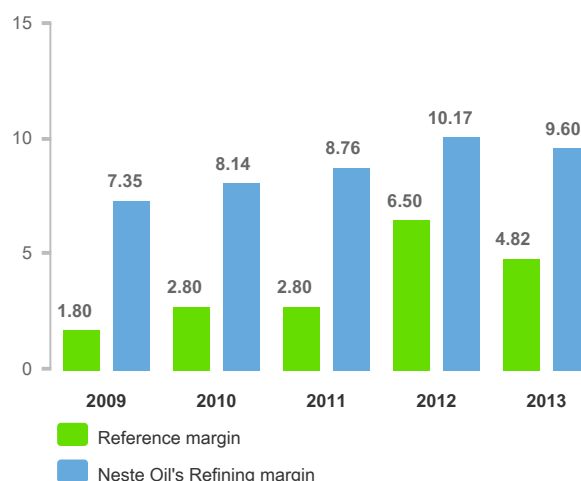
Neste Oil also produces bionaphtha and biopropane as part of the NExBTL renewable diesel refining process. The NExBTL renewable naphtha produced at the Singapore refinery can be used as a feedstock for producing bioplastics or as a gasoline component. A feasibility study on producing NExBTL renewable propane and isoalkane at the Rotterdam refinery is currently under way.

## Other production plants

In addition to its own refineries, Neste Oil has a 45% stake in a joint venture base oil plant in Bahrain, which produces premium-quality Group III VHVI (Very High Viscosity Index) base oil used in high-quality lubricants. The other owners of the plant are Bahrain Petroleum Company (Bapco) and nogaholding. The plant has a nameplate capacity of 400,000 t/a, and Neste Oil is responsible for marketing and selling its output. The share of Neste Oil of the Bahrain plant's output during 2013 totaled 151 tons.

Neste Oil also has a 49.99% holding in Nynas AB, which produces naphthenic oil and bitumen at sites in Europe and North and South America. Further information on Nynas AB can be found at [www.nynas.com](http://www.nynas.com).

**Total refining margin,  
USD/bbl**



## Fleet and terminals



Neste Oil's tanker fleet and terminals handle the company's feedstock supplies and provide customers with quality, safe, and cost-efficient product deliveries.

88% (89%) of the feedstocks used at Neste Oil's refineries were supplied by sea in 2013, 9% (9%) by rail, and the rest by road. 69% (70%) of products for domestic customers were transported by road, 16% (20%) by sea, and the rest by rail and pipeline. 92% (92%) of products sold to customers outside Finland were shipped by sea and the rest in tanks.

The 23 ships in the Neste Oil fleet transported 26.9 (27) million tons of crude and petroleum products in 2013. Despite a weak freight market resulting from overcapacity, the fleet's utilization rate remained high, at 95% (94%).

Neste Oil announced in September 2013 that it is planning to exit the shipping business. Under the plan, Neste Oil would sell all its own vessels and outsource the ship management functions covering their crewing and maintenance. Five tankers and three tugs central to the company's operations will be sold to Finland's National Emergency Supply Agency and the Ilmarinen Mutual Pension Insurance Company and will be leased back under long-term contracts. In addition, Neste Oil plans to sell three of its other tankers – the *Tempera*, *Purha*, and *Jurmo* – at a later stage, together with its 50% ownership of three other tankers – the *Stena Poseidon*, *Palva*, and *Stena Arctica* – which are owned together with the Stena Group of Sweden. Statutory employer-employee negotiations covering the plan to outsource ship management functions were completed in November. Where necessary, Neste Oil will supplement its marine transport needs with other long-term or short-term contracts. The goal is to finalize this restructuring during the first half of 2014.

Read more on [Neste Oil's stock exchange release on 20 February 2014](#)

Read more about [the impact on personnel](#)

In addition to terminals at the Porvoo and Naantali refineries, Neste Oil has 10 coastal terminals in Finland, together with terminals in Estonia, Latvia, and St. Petersburg in Russia. The excellent logistics of these terminals reduce the distances that customers' tanker trucks have to travel and benefits the environment in terms of lower emissions. Logistics flexibility has also been increased by acquiring additional terminal capacity at other strategically important locations.

## Research, technology, and engineering

Expertise in research and technology represents one of Neste Oil's key success factors and plays a major role in the company's cleaner traffic strategy. Research concentrates on supporting Neste Oil's current businesses and strengthening the Group's potential for developing new businesses in the future.

**Neste Jacobs won a number of major contracts**

[Read more ►](#)

**New raw materials in use**



[Read more ►](#)

**70%**  
of R&D expenditure went on renewable raw material research

[Read more ►](#)

**Ongoing research on renewable feedstocks**

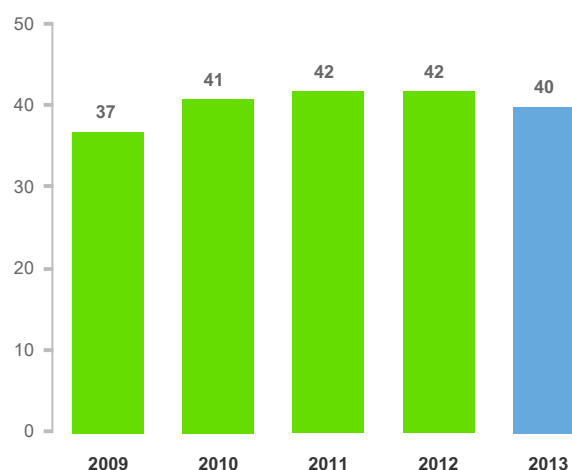


[Read more ►](#)



What were our targets?	Achievements in 2013	What next?
Increase productivity by improving the performance of Diesel Line 4 at the Porvoo refinery and further develop NExBTL technology	<ul style="list-style-type: none"> <li>• Another new production record was set by Diesel Line 4 at Porvoo.</li> <li>• The NExBTL refineries in Singapore and Rotterdam operated at full capacity.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue improving the operational performance of Diesel Line 4 at the Porvoo refinery and extend the range of feedstocks used at NExBTL facilities.</li> </ul>
Extend the feedstock base used in producing renewable fuels to provide greater flexibility	<ul style="list-style-type: none"> <li>• Technical corn oil, spent bleaching earth oil and tall oil pitch were added to the feedstock base.</li> <li>• The use of waste and residues increased and these materials accounted for 52% of the renewable raw materials.</li> <li>• Neste Oil and Raisioagro launched a research project to investigate the potential of straw as an input for producing renewable diesel.</li> <li>• Tall oil pitch was used at the TCC unit at the Naantali refinery.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase the use of waste and residues in producing renewable fuels.</li> <li>• Continue developing pilot-scale microbial oil technology to enable a decision to be taken on moving to the semi-commercial phase.</li> <li>• Review different types of algae oil and sign partnership agreements.</li> <li>• Increase the use of tall oil pitch at the Naantali refinery.</li> </ul>
Develop new product technologies	<ul style="list-style-type: none"> <li>• New applications in areas such as heating, mining, solvents, and petrochemicals have been investigated to broaden the NExBTL product range.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue developing new product technologies.</li> </ul>
Protect Neste Oil's immaterial property rights	<ul style="list-style-type: none"> <li>• Neste Oil acted to protect its IPR assets by filing patent infringement actions in the US, Finland, and Singapore.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue protecting and defending Neste Oil's immaterial property rights.</li> </ul>
Develop strategic partnerships	<ul style="list-style-type: none"> <li>• Partnerships with numerous Finnish and international research organizations were developed.</li> <li>• Research partnerships focused on new, long-term feedstocks and enhancing production efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue developing Neste Oil's network of partners, particularly in the area of new feedstocks.</li> </ul>

**R&D expenditure, EUR million**





Case: Developing straw as a new input for producing renewable fuel



## Straw as a raw material of renewable fuel



Microbial oil technology developed by Neste Oil enables straw to be used as a feedstock for producing renewable NExBTL diesel. Trials have been carried out using straw to produce microbial oil

production at Neste Oil's pilot plant at Porvoo and the results have been promising.

Large quantities of waste straw are produced as agricultural residue in Finland and elsewhere, and only a small proportion of this is currently used. The joint Neste Oil–Raisioagro project is looking at whether a logistically effective and efficient, large-scale straw harvesting chain could be created in Finland. The storability of straw for use as an industrial input year-round is also being investigated. Developments in technology and the growing size of today's farms, for example, together with the shift to more specialized farming methods, have improved the potential for making greater use of straw. The goal of the research project is to investigate the practical questions involved in collecting straw under different conditions, how efficiently it can be done, and various quality-related issues. The level of interest among farmers and contractors in making greater use of straw will also be studied.

Business ► Research, technology, and engineering ► Research on renewable feedstocks

## Research on renewable feedstocks



Extending the range of feedstocks used to produce renewable fuel is one of the most important goals of Neste Oil's R&D work, and 70% of R&D expenditure is spent on research into renewable feedstocks.

Neste Oil is currently the world's only biofuel producer that can produce renewable diesel from more than 10 different types of feedstock. Research work has made an important contribution to steadily extending the range of raw materials used, as starting use of a new material calls for extensive studies and testing before procurement can begin.

Research work again played an important role in 2013, in enabling tall oil pitch, spent bleaching oil and technical corn oil to be added to Neste Oil's feedstock base. Waste and residues accounted for 52% of the raw material used in producing renewable diesel in 2013.

Technical corn oil is a nonfood by-product of ethanol production



Used cooking oil (UCO) is likely to be the most interesting new alternative input over the short term. Over the longer term, Neste Oil's feedstock research is focusing on using microbial oil produced from residues such as straw (lignocellulose) and algae oil as feedstocks for producing renewable fuels. Both of these materials have already been used to produce laboratory-scale batches of NExBTL renewable diesel.

Neste Oil works closely with a number of leading research institutes and companies in the renewable feedstock research field, and its R&D network includes a total of around 25 universities and research bodies in Finland and elsewhere.

Read more about [the current range of renewable rawmaterial used by Neste Oil](#).

Read more about [the sustainability of the renewable raw material supply chain](#).

Read more about [the use of technical corn oil in Neste Oil](#).

## Research on renewable raw material



### Tall oil pitch introduced as a new renewable raw material

Neste Oil is the first company in the world to begin using tall oil pitch as a feedstock for refining into traffic fuel. Tall oil pitch was trialed successfully in commercial operations at the Naantali refinery in spring 2013 and it can now be used on a continuous basis.

Prior to the success of the trial, it had not been possible to use tall oil pitch, a residue produced by tall oil refiners, as a commercial-scale feedstock for fuel refining purposes. Finnish tall oil refiners produce around 100,000 tons of tall oil pitch residue annually.

Read more about [the use tall oil pitch in Neste Oil](#).

### Microbial oil research continuing in the pilot plant

Neste Oil continued pilot plant-scale development of its microbial oil technology during 2013. A pilot plant was commissioned at Porvoo in 2012 to consolidate the company's current technology and enable it to be scaled up. The pilot stage will be followed by semi-commercialization to ensure the broader viability of the

technology before full-scale commercialization. A decision to move to the next stage will be taken in fall 2014 at the earliest.

### Focusing on developing algae oil processing technology

A number of different algae oil samples were tested during 2013 to ensure their suitability for feedstock purposes.

Neste Oil and Cellana, an algae biomass developer based in the US, signed a contingent commercial off-take agreement in 2013 that will enable Neste Oil to purchase Cellana's algae oil for use as a feedstock in the future for producing renewable fuel. The agreement is contingent on Cellana's future production capacity and on compliance with future biofuel legislation in the EU and US.

Neste Oil is currently involved in university-led algae research projects in Australia and the Netherlands that are testing a range of methods for cultivating algae outdoors.

Read more about [the co-operation between Neste Oil and Cellana](#).



## Product and technology development



Neste Oil's R&D has concentrated on developing products and technologies with a smaller environmental footprint for decades.

### Supporting sales, customer support, and standards-related work

Neste Oil's product experts provided extensive sales, production, and customer support during 2013 and took part in international work on new fuel standards through the European Committee for Standardisation (CEN) and ASTM (prev. American Society for Testing and Materials). Company experts also contributed to fuel quality development through work coordinated by Europia and CONCAWE.

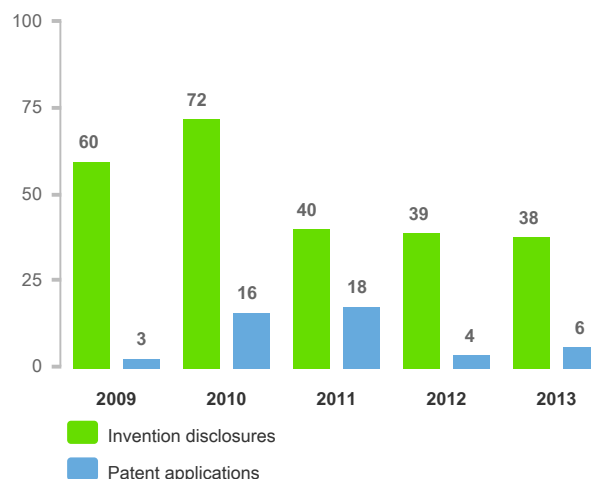
### Neste Oil is committed to defending its innovations and patents

Neste Oil uses patents to protect its key technologies and innovations, and actively defends its patents and trademarks to safeguard the business value that they represent. Technology related to the production of renewable fuels, the feedstocks used in producing these fuels, and for pretreating renewable inputs is particularly central here. Neste Oil defended its patents and technologies in various patent proceedings and court cases in Finland, Singapore, and the US.

The number of patents applied for in 2013 rose compared to 2012, while the number of invention disclosures remained largely

unchanged. The number of patent applications varies from year to year, depending on the stage at which research projects are. The patent applications lodged during 2013 covered mainly new technologies.

### Invention disclosures and new patent applications



### Quality control

Neste Oil's laboratories play a central role in analyzing product batches and quality control, and provide extensive support for the company's R&D work. The Group's laboratories work closely with each other through the GlobaLab network, which has been created to harmonize operations and develop and introduce best practices across the company. The operations of the GlobaLab network were extended and consolidated as a profitable part of Neste Oil's operations during 2013.

A new data network linking laboratory measurement and analysis equipment at Porvoo was commissioned in 2013 and has resulted in more reliable and more automated quality control procedures there.

## Technology, engineering and project management company Neste Jacobs



Neste Oil owns 60% of the technology, engineering, and project management company, Neste Jacobs. Net sales at Neste Jacobs during 2013, at EUR 100 million, were similar to those recorded in 2012; while the company's order book increased significantly and reached a record high.

### Operations extended into new industries and markets

Neste Jacobs continued developing its operations in 2013, further increasing its capacity in Sweden and strengthening its position, not only in the Nordic region and the Middle East but also Russia, which is expected to remain one of Neste Jacobs' growth markets in the future.

Neste Jacobs extended its service offering to consultancy in 2013 to provide its clients with a more comprehensive service during the feasibility study stage of projects, during mergers and acquisitions, and as part of efficiency improvement projects.

The client base was extended in areas such as chemicals, food manufacturing, and pharmaceuticals. A contract was signed with the dairy company, Valio, to optimize Valio's whey powder production process using Neste Jacobs' NAPCON<sup>®</sup> technology; and Neste Jacobs worked with Orion, a pharmaceutical company, on a number of projects, providing project management for

modification work on Orion's tablet plant in Espoo, for example, a project that will continue until 2015.

### Major contracts signed during 2013

Neste Jacobs signed a number of major contracts during 2013. In April, an agreement was signed with the enzyme producer, Roal Ltd, covering the expansion of Roal's enzyme production facility in Rajamäki. In May, an agreement was signed with Global Oil Shale covering oil shale processing and plant design. During the last quarter of the year, Indorama B.V. ordered an EPCM package from Neste Jacobs to increase the capacity of its PTA plant in Rotterdam. Borealis Polymers commissioned Neste Jacobs to work on various projects, including the modernization of a hot oil furnace and an EPCM package for the company's PE2-3G projects. In September, Neste Jacobs began the final stage of basic engineering for Nynas' Sardinia project located at Shell's Harburg refinery.

Neste Jacobs also strengthened its position in the gas sector, in areas such as LNG terminals, and towards the end of the year was selected to deliver the project management office for Gasum's Finngulf LNG and Balticconnector project. The company also signed a long-term contract to provide engineering, project management and consultancy services to Borouge, a polyolefins producer based in Abu Dhabi. Neste Jacobs established a bridgehead in Abu Dhabi in 2011 and the contract with Borouge is expected to help open up significant growth opportunities for Neste Jacobs in the Middle East in the future.

### Closely involved in Neste Oil projects

Neste Jacobs' approx. 1,000 engineering professionals and subcontractors play a key role in Neste Oil's capital projects and R&D initiatives. During 2013, Neste Jacobs continued EPCM work on an isomerization plant at the Porvoo refinery and carried out basic engineering on a new SDA unit. Planning work was started on the major maintenance turnaround scheduled for the Porvoo refinery in 2015. Engineering services were also provided to Neste Oil's other sites, at Naantali and in Rotterdam and Singapore.

# Sustainability

Sustainability is fundamental part of Neste Oil's cleaner traffic strategy. We continually develop cleaner fuels that make a valuable contribution to combating climate change. In addition, we continuously develop our own operation in order to reduce their environmental impact. We also strive to promote sustainable operating practices across the industry.



Neste Oil ranked as the world's sixth most sustainable company



Volume of NExBTL diesel produced reduced greenhouse gas emissions by 4.8 million tons



Read more ►

# Managing sustainability and strategy

Neste Oil's approach to sustainability is based on the company's sustainability policy, and sustainability is one of our four values. Sustainability-related work is crystallized in the six focus areas of the Neste Oil Sustainable Way program.

## Long-term goals

for our sustainability program drawn up

[Read more](#)

## Managing sustainability at Neste Oil



[Read more](#)

## Sustainability key figures



[Read more](#)

## Sustainability based on sustainability policies and principles



[Read more](#)





## Managing sustainability



Neste Oil's approach to sustainability is based on the company's values and is guided by its Code of Conduct, sustainability policy, and sustainability principles.

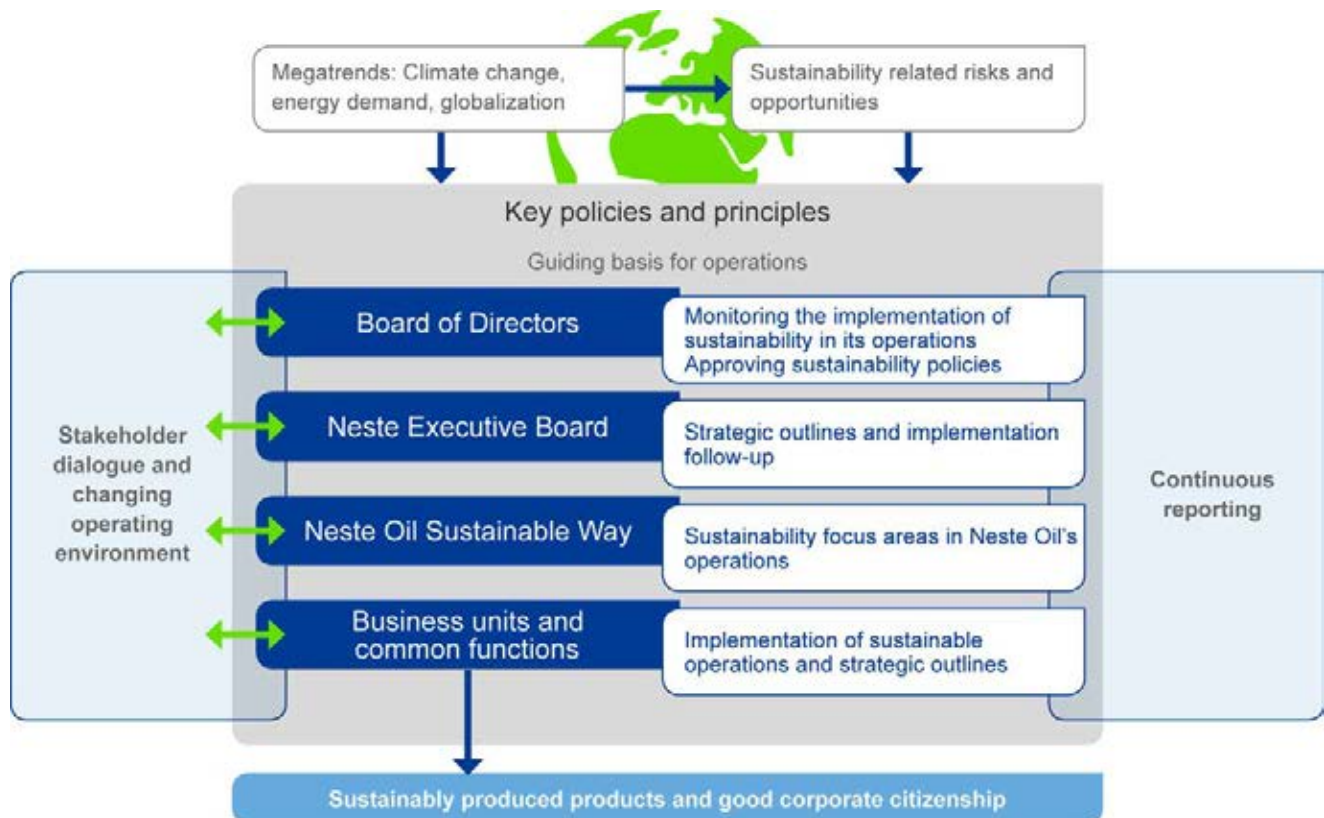
Learn more about the [policies and principles underpinning Neste Oil's sustainability](#).

Six focus areas were defined as part of Neste Oil's sustainability program in 2012. These areas form the foundation of the sustainability-related work carried out by the company. These focus areas are:

- Customer
- Safety
- Personnel
- Society
- Climate and resource efficiency, and
- Sustainable supply chain.

Sustainability-related work is steered by the Senior Vice President, Sustainability and HSEQ, who is a member of the Neste Executive Board. The Board of Directors approves policies covering sustainability and monitors how Neste Oil performs in terms of sustainability. The Neste Executive Board is responsible for outlining the company's strategic approach to sustainability and monitoring how sustainability is reflected in business units and support function operations. Matters related to sustainability are reviewed regularly by the Board of Directors, the Neste Executive Board, and the management teams of the Sustainability and HSEQ organization, business areas, and production plants.

### Managing sustainability



Performance in the sustainability area is one of the factors determining the incentives paid to management, and how well the company performs in terms of accident frequency, for example, will affect the bonus paid to the President & CEO for 2013.

**Sustainability is part of management remuneration**




## Managing safety, the environment, and human resources

Neste Oil's HSEQ organization is responsible for the company's safety and environmental management systems. The unit's area

of responsibility covers people safety, process and product safety, environmental impact, and environmental protection at Group level. Safety specialists are responsible for supporting safety work in line organizations.

Incident-free operations play a central role in managing environmental impact effectively. All measures taken to promote, for example, operational reliability also help improve environmental protection.

### Safety responsibilities

Who?	How?	What?
 <b>Corporate Management</b>	<b>Quarterly Management Meeting</b>	<ul style="list-style-type: none"> <li>overview of Group performance</li> <li>implementation of strategy and annual targets</li> <li>resource management</li> </ul>
 <b>Business Area</b>	<b>Monthly Management Meeting</b>	<ul style="list-style-type: none"> <li>Business Area performance and monitoring</li> <li>decision on corrective actions</li> <li>preventive and corrective actions</li> </ul>
 <b>Site/unit</b>	<b>Periodical Review Meetings</b>	<ul style="list-style-type: none"> <li>creating unit safety plans</li> <li>unit safety follow-up and improvement</li> <li>preventive and corrective actions</li> <li>monitoring safe ways to work</li> </ul>
 <b>Teams, individuals</b>	<b>Continuous Safety Work</b>	<ul style="list-style-type: none"> <li>observing and enforcing safe behaviour</li> <li>task risk assessments</li> <li>safety discussions</li> </ul>

Improving Neste Oil's safety performance is one of the company's strategic focus areas. Safety work is guided by Neste Oil's 12 Key Safety Elements, which form an important part of the company's safety management system and act as a framework for Group-wide operating practices. Safety-related activities are monitored and developed through the company's safety management system.

Systems related to HR management are the responsibility of the HR organization and the Senior Vice President, HR. A group of

management and employee representatives is responsible for regularly reviewing and updating HR management guidelines. Neste Oil's long-term HR management goal is to develop the company's strategic expertise and performance management practices and promote operations in line with the Way Forward operating model.

Read more about [Way Forward](#).



## Sustainability targets

Sustainability focus area	Long-term goal	What next?
Customer	<ul style="list-style-type: none"> <li>Add value to an increasing number of customers through our cleaner premium-quality traffic solutions. We develop advanced low-carbon applications serving new customer segments.</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Bring to market NExBTL renewable isoalkane from NExBTL product family. The product is suitable for bio-based raw material in the chemical industry.</li> <li>Continue working to bring to market new diesel blends which include renewable diesel.</li> </ul>

Sustainability focus area	Long-term goal	What next?
Safety	<ul style="list-style-type: none"> <li>Commit to safety culture that is based on leadership and motivation, and safety is a natural and important part of everyday work.</li> <li>Our long-term goal is zero accidents.</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>PSER &lt; 3.0</li> <li>TRIF 3.3</li> <li>Preventive safety measures 30,000</li> </ul>

Sustainability focus area	Long-term goal	What next?
Personnel	<ul style="list-style-type: none"> <li>Our way of working, inspiring leadership, and talented people enable business success. Neste Oil is a respected employer.</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>The new model for job descriptions was defined in 2013, and it will be implemented during 2014.</li> <li>Remuneration will follow the new job description system in the future.</li> <li>Introducing new HR system will begin in 2014 and is expected to be complete by the end of 2015.</li> <li>Continue implementing Neste Oil's wellbeing at work plan.</li> <li>Continue developing and implementing Way Forward.</li> </ul>

Sustainability focus area	Long-term goal	What next?
Society	<ul style="list-style-type: none"> <li>Generate long-term business success by operating ethically. The profitability target (ROACE) is at least 15% after tax.</li> <li>Our long-term leverage ratio target is 25–50%</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Continue working to achieve our long-term ROACE and leverage ratio targets.</li> <li>Continue developing how we report our tax footprint.</li> <li>Continue providing expertise to decision makers.</li> </ul>

Sustainability focus area	Long-term goal	What next?
Climate and resource efficiency	<ul style="list-style-type: none"> <li>Promote resource efficiency and are the global leader in refining waste and residue materials into premium-quality traffic fuels.</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Continue increasing the proportion of waste and residues used in producing renewable fuels.</li> <li>Continue operations contributing our energy saving target (660 GWh by 2016).</li> <li>Continue implementing measures to achieve our energy saving target.</li> <li>Continue mapping possibilities to reduce greenhouse gas emissions from our own operations.</li> <li>Continue operating within the terms of our environmental permits and modify operations where needed to comply with new regulations.</li> </ul>

Sustainability focus area	Long-term goal	What next?
Sustainable supply chain	<ul style="list-style-type: none"> <li>Set a new sustainability standard for supply chain through voluntary and proactive measures that support our business growth.</li> <li>See the actions and achievements in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Continue using only certified crude palm oil also in the future.</li> <li>Ensure the continued traceability of our renewable inputs.</li> <li>Expand cooperation with selected crude oil suppliers.</li> </ul>

Sustainability ► Managing sustainability and strategy ► Sustainability principles and policies

## Sustainability principles and policies



The key policies and principles covering sustainability at Neste Oil are:

- Neste Oil's Code of Conduct
- Sustainability Policy
- Sustainability Principles for Biofuels
- Human Resources Policy, and the
- No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock.

No major changes took place in Neste Oil's key policies and principles during 2013.

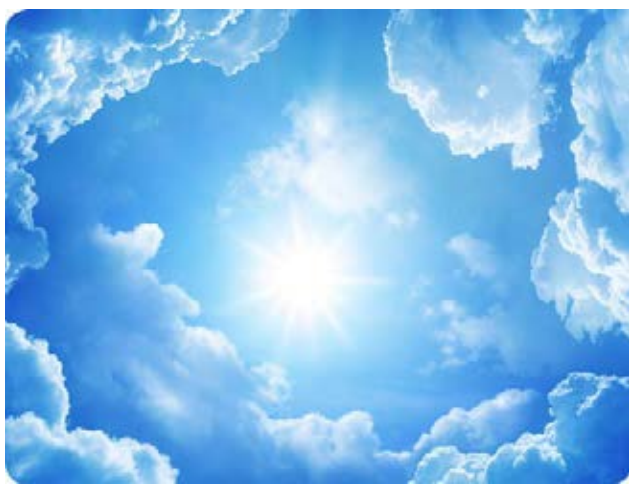
## Sustainability key figures

<b>CUSTOMER</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Produced renewable NExBTL diesel (million tons)	<b>1.9</b>	1.8	0.7
Emission reduction achieved with NExBTL diesel compared to fossil diesel, (%)	<b>40–90</b>	40–90	40–80
<b>SAFETY</b>			
Process safety incidents per million hours worked, (PSER)	<b>3.0</b>	5.9	4.8
Total Recordable Injury Frequency per million hours worked (TRIF)	<b>4.2</b>	3.6	2.7
Lost Workday Injury Frequency per million hours worked, (LWIF)	<b>2.9</b>	1.5	1.9
Preventive safety measures*	<b>30,064</b>	30,286	27,137
*includes observation tours, safety inspections, and near miss reporting			
<b>PERSONNEL</b>			
Number of employees, average	<b>5,097</b>	5,031	4,926
Sick leave (%)	<b>3.0</b>	3.1	3.2
Training days per person (excludes safety trainings)	<b>2.1</b>	2.5	2.8
Training-related investments (EUR million)	<b>3.5</b>	3.6	4.2
Job rotation (%)	<b>8.4</b>	8.0	7.7
Permanent employees (%)	<b>96.3</b>	95.3	96.0
<b>SOCIETY</b>			
Corporate income tax (EUR million)	<b>94</b>	59	46
Salaries and remuneration (EUR million)	<b>270</b>	253	240
ROACE (return on average capital employed after tax, %)	<b>11.8</b>	5.0	2.6
Provided employment (including contractors' employees)	<b>7,600</b>	n/a	n/a
Charity and sponsorship (EUR million)	<b>1.0</b>	1.0	1
Investments (EUR million)	<b>214</b>	292	364
Cleantech net sales (EUR billion)	<b>2.5</b>	2.2	1.0
<b>CLIMATE AND RESOURCE EFFICIENCY</b>			
New raw materials introduced	<b>3</b>	1	2
Use of waste-based raw materials (Mt/a)	<b>1.2</b>	0.74	0.33
Carbon dioxide emissions (t/a)			
Direct, scope 1	<b>3,556,200</b>	3,469,700	3,694,100
Indirect, scope 2	<b>444,500</b>	489,200	434,200
Indirect emissions, scope 3	<b>45,900,000</b>	45,639,380	n/a
Reduction in greenhouse gas emissions achieved with produced NExBTL renewable diesel (tons)	<b>4,800,000</b>	3,981,502	n/a

<b>SUSTAINABILITY SUPPLY CHAIN</b>			
The share of certified crude palm oil (%)	<b>100</b>	91	83
Supplier audits by an external party	<b>29</b>	26	19
The amount of smallholders in supply chain	<b>54,000</b>	9,000	n/a
Traceability of renewable raw materials to production plant or plantation (%)	<b>100</b>	100	100

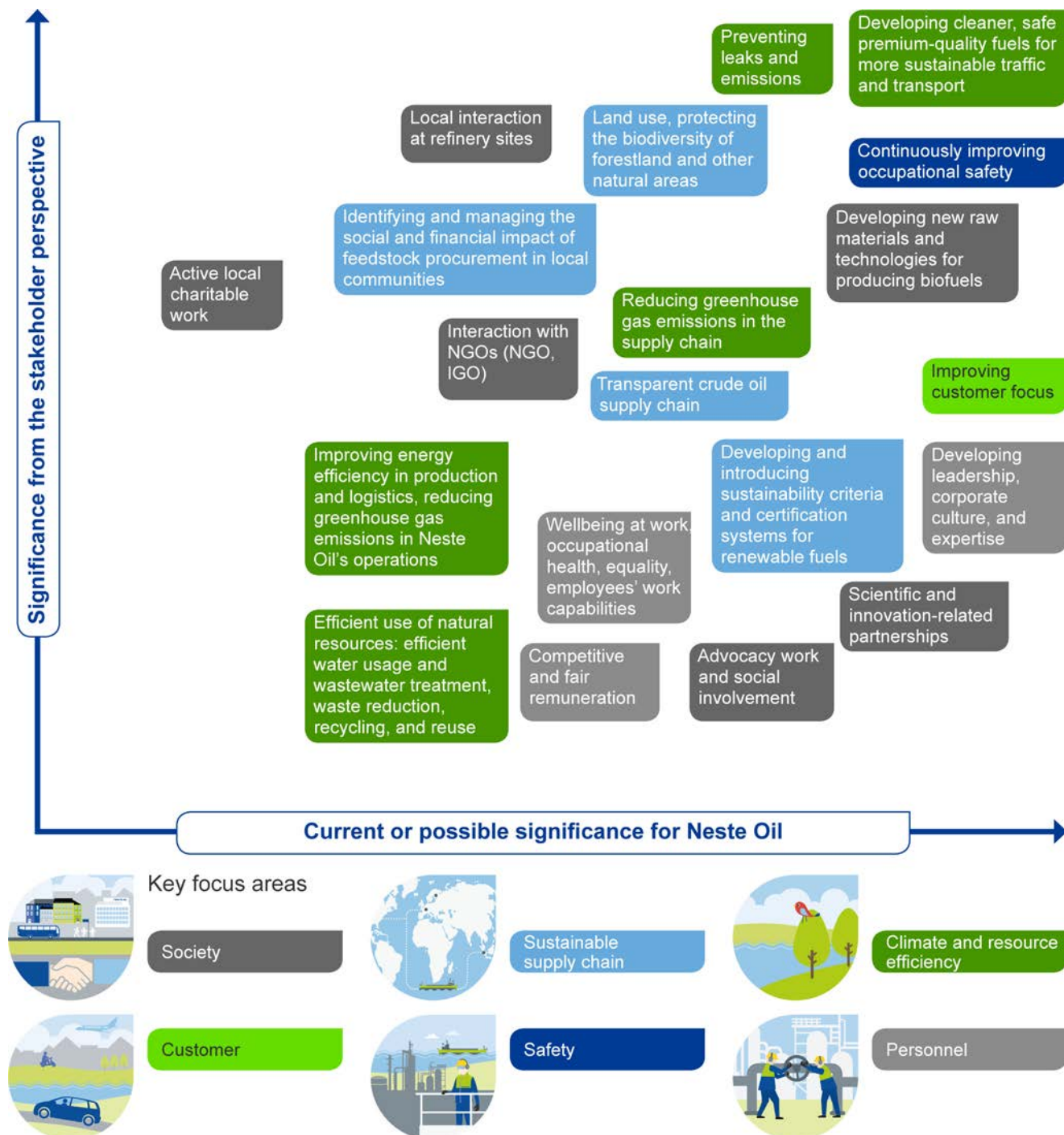
Sustainability ► Managing sustainability and strategy ► Materiality assessment

## Materiality assessment



Neste Oil's materiality matrix covers the company's key themes of sustainability from the perspective of its business and stakeholders. The matrix was updated in 2012 and has been approved by the Board of Directors and the Neste Executive Board. Work on updating the matrix involved the Neste Executive Board and company sustainability experts covering a variety of fields. The sustainability matrix is updated every other year. The next update will be carried out in fall 2014.

# Materiality matrix of sustainability



## Sustainability-related risks and opportunities



A number of sustainability-related risks are associated with Neste Oil's operations. Risk management aims to identify for example these threats and support defining preventive measures. As Neste Oil does not have any oil exploration or drilling activities, this reduces its exposure to direct environmental risks significantly.

### Major sustainability-related risks associated with Neste Oil's operations

Key risk	Performance in 2013	Preventive measures	Sustainability focus area
Procurement of refinery feedstocks and reputation risk associated with palm oil	<ul style="list-style-type: none"> <li>No issues related to sustainability (such as infringements of laws or regulations) in the procurement or use of renewable inputs.</li> </ul>	<ul style="list-style-type: none"> <li>Neste Oil uses only traced and certified palm oil.</li> <li>Open communication and reporting.</li> <li>Close collaboration with stakeholders.</li> <li>Collaboration on combating deforestation with TFT.</li> </ul>	Sustainable supply chain
Occupational and process safety in refining operations	<ul style="list-style-type: none"> <li>People safety failed to improve as projected during the year. Process safety target was reached.</li> </ul>	<ul style="list-style-type: none"> <li>Safety regulations were updated and launched among personnel.</li> <li>An extensive safety development project was launched.</li> </ul>	Safety
Environmental impact of refining operations	<ul style="list-style-type: none"> <li>No major environmental incidents occurred.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental monitoring continued in line with the requirements of Neste Oil's environmental permits.</li> <li>An extensive overview of the Porvoo refinery's environmental impact was made for the new environmental permit.</li> </ul>	Climate and resource efficiency
Product liability	<ul style="list-style-type: none"> <li>Neste Oil supplied its customers with both statutory and voluntary product information.</li> </ul>	<ul style="list-style-type: none"> <li>Work continues on updating product information data.</li> </ul>	Customer



More information on the financial risks associated with Neste Oil's business operations can be found in the section on [risk management](#).

## Sustainability-related opportunities driven by Neste Oil's strategy

Neste Oil offers its customers a wide range of products with a smaller environmental footprint and traffic fuel solutions that comply with environmental requirements, in line with its cleaner traffic strategy. As a result, Neste Oil's key opportunities in terms

of sustainability are very much linked to developing cleaner products and increasing the use of these products.

Neste Oil has developed its sustainability-related expertise in supply chain management into a voluntary sustainability verification scheme within the framework of the EU's Renewable Energy Directive. The scheme was approved by the European Commission in early 2014. Approval could increase Neste Oil's potential to make flexible use of new renewable raw materials.

Sustainability ► Managing sustainability and strategy ► Certified management systems

## Certified management systems



In addition to Neste Oil's management system, the Group's operations are also guided by plant-, business area-, and function-specific certified operating systems. These management systems ensure that operations meet the requirements of the ISO 9001 (quality), ISO 14001 (environment), and OHSAS 18001 (occupational health and safety) standards.

Internal and external audits are used to assess the effectiveness of these systems. Internal quality, HSEQ and sustainability criteria audits ensure that the Group's operations comply with the requirements of the law, regulations, and Neste Oil's own guidelines. An external, independent third party audits Neste Oil's certified management systems.

A total of 119 (97) internal audits were carried out in 2013 and 33 (33) certification audits. Two (1) accreditation audits were also carried out.

Neste Oil refineries received the world's first RSPO-RED certificates



## Renewable diesel plants received new certificates

The renewable diesel refinery in Singapore received ISO 9001, ISO 14001, and OHSAS 18001 certificates in 2013. All of Neste Oil's renewable diesel production facilities are ISCC-certified (International Sustainability and Carbon Certification). The refineries in Rotterdam and Singapore also have RSPO-RED (Roundtable on Sustainable Palm Oil) certificates. These certificates ensure that renewable fuels fulfill the European Commission's sustainability criteria. All renewable fuel refineries are also approved by the U.S. Environmental Protection Agency (EPA).

## Other Neste Oil certificates:

- International Ships and Port facility Security Code (ISPS)
- Factory Production Control Certificate for Bitumen and Bituminous Binders
- International Safety Management System of Ships (ISM) certificates cover the company's fleet.

## Sustainability ratings



A number of outside bodies review Neste Oil's performance in the sustainability area through the ratings and indices they produce and maintain. Neste Oil monitors its ranking in these ratings and

strives to develop its operations on the basis of the feedback that it receives.

Neste Oil was included in the following reviews, amongst others, in 2013:

- The Global 100, ranked sixth (4th)
- Dow Jones Sustainability Index; Neste Oil was selected for inclusion in DJSI World for the seventh year in succession
- CDP Forest (prev. Forest Footprint Disclosure), good performance
- Carbon Disclosure Project (CDP); disclosure score: 72 (79)
- Storebrand Sustainable Development Fund
- STOXX® Global ESG Leaders
- Ethibel Sustainability Indices (ESI) – Excellence.

# Sustainability program

Neste Oil's sustainability program, the Neste Oil Sustainable Way, summarizes the focus areas of the company's sustainability work. The program's six focus areas highlight Neste Oil's view of sustainability.

<p><b>Customer</b></p>  <p>Helping our customers to stay on the move with lower impact on the environment. ►</p>	<p><b>Safety</b></p>  <p>Committed to preventing all accidents and injuries from happening. ►</p>	<p><b>Personnel</b></p>  <p>Creating a working environment where work feels good and does good. ►</p>
<p><b>Society</b></p>  <p>Generating prosperity for our stakeholders and being in active dialogue. ►</p>	<p><b>Climate and resource efficiency</b></p>  <p>Using resources efficiently to minimize the impact on the environment. ►</p>	<p><b>Sustainable supply chain</b></p>  <p>Ensuring that every step in our supply chain complies with our strict sustainability criteria. ►</p>

## Customer

Neste Oil's cleaner petroleum and renewable products offer our customers the opportunity to reduce their local and greenhouse gas emissions. NExBTL renewable diesel enables corporate customers to meet their renewable energy mandates cost-effectively.

Produced volume of NExBTL diesel equals the annual fuel consumption of **2.6 million cars**



[Read more](#) ►

Using NExBTL renewable diesel results in a **40–90% reduction** in emissions compared to fossil diesel

[Read more](#) ►



**Promoting the adoption of renewable aviation fuel**



[Read more](#) ►

Customer communications to **ensure the safe use** of products



[Read more](#) ►

What were our targets?	Actions and achievements in 2013	What next?
Develop new product applications	<ul style="list-style-type: none"> <li>We investigate the possibility to substitute fossil raw materials with renewable ones in chemical industry.</li> </ul>	<ul style="list-style-type: none"> <li>We bring to market NExBTL renewable isoalkane from NExBTL product family. The product is suitable for renewable raw material in the chemical industry.</li> </ul>
Continue launching premium-quality products such as Neste Pro Diesel	<ul style="list-style-type: none"> <li>We took part in a trial in Germany aimed at launching a new diesel containing a higher proportion of renewable fuel.</li> </ul>	<ul style="list-style-type: none"> <li>We continue working to bring to market new diesel blends which include renewable diesel.</li> </ul>

Case: New fuel blend on its way to the German market



## New fuel blend on its way to the German market



Neste Oil is part of a project aiming to launch a new diesel fuel containing a higher proportion of renewable content in Germany. The new blend, Diesel R33, contains 26% of Neste Oil's NExBTL renewable diesel, 7% conventional biodiesel (FAME), and 67% fossil diesel – making a total of 33% renewable content.

"Unlike conventional biodiesel, there are no restrictions on how much NExBTL renewable diesel can be blended into a fuel," explains Kaisa Hietala, Neste Oil's Vice President, Renewable Fuels. "As a result, it's possible to produce blends with a high renewable content and achieve a greater reduction in greenhouse gas and tailpipe emissions."

### Trials before launching the fuel

Diesel R33 is being tested in a joint trial involving 280 vehicles in Coburg in Germany. In addition to Neste Oil, the project involves

various German universities, automotive manufacturers, research institutions, and other partners.

"In addition to vehicles supplied by our partners, Volkswagen and Audi, the trial also covers a number of ordinary privately owned cars as well," says Professor Jürgen Krahel of the Coburg University of Applied Sciences, the head of the research project. "We're currently carrying out tests on tailpipe emissions and motor oil performance, and testing how compatible the fuel is with the particulate filters fitted to modern diesel engines."

The Diesel R33 project is a follow-up to a trial conducted in Coburg and Munich in 2010-2011. The results from this trial showed that the fuel, produced from 100% renewable inputs, is ideally suited to urban use and can make a significant contribution to reducing tailpipe emissions.

Read more about [the previous project](#).

### Renewable diesel is good for vehicle engines!

Neste Oil's NExBTL renewable diesel is compatible with all modern diesel engines and fuel distribution systems. Starting to use it is very easy and vehicles require no modifications. As a hydrotreated vegetable oil (HVO), NExBTL diesel is very well-suited to today's diesel engines, according to Volkswagen.

"Fuel plays a decisive part in extending the recommended intervals between regular vehicle service and reducing CO<sub>2</sub> emissions, and we believe our cooperation with Neste Oil will help us in our work in this area," says Jens Hadler, Chief Engineer at VW's Engine Research Department.

Sustainability ► Sustainability program ► Customer ► Cleaner and safer products

## Cleaner and safer products



In line with its cleaner traffic strategy, Neste Oil offers its customers a range of traffic fuel solutions with a smaller environmental footprint. Neste Oil's renewable and petroleum products offer consumers and businesses a cleaner way to stay on the move and transport goods. Neste Oil was the first company to launch sulfur-free gasoline and diesel fuel on the Finnish market at the beginning of the new millennium and is the world's largest producer of renewable fuels today. Neste Oil also produces premium-quality base oil, which its customers use to manufacture high-quality lubricants.

The company's products are based on high-quality R&D work, which guarantees safe usage and compatibility with customer requirements.

NExBTL diesel: 40 to 90% less emissions





## Lower level of environmental impact with renewable fuel

Using Neste Oil's NExBTL renewable diesel can reduce greenhouse gas emissions by 40–90% over the fuel's entire life cycle compared to fossil diesel. It has also been shown to reduce the following local emissions:

- particulate matter, by 33%
- nitrogen oxides (NOx), by 9%
- carbon monoxide (CO), by 24%, and
- hydrocarbons (HC), by 30%.

NExBTL renewable diesel offers corporate customers a cost-effective way to meet their biomandates for renewable energy usage. It is fully compatible with all existing distribution and logistics systems and using the fuel does not call for any additional investments.

NExBTL renewable diesel was used to generate electricity for an outdoor event for the first time in 2013, at the Down By The Laituri music festival in Turku and the Tall Ships Race event in Helsinki. It performed excellently and the user experience was positive.

Read more about using [NExBTL diesel to generate electricity for an event](#).

Read more about how [NExBTL renewable diesel reduces greenhouse gas emissions](#).

## Neste Pro Diesel meets automotive manufacturers' toughest demands

NExBTL renewable diesel is available to motorists in Finland in the form of Neste Pro Diesel, which contains a minimum of 15% renewable diesel. This is the world's first diesel fuel to comply with the tough WWFC category 5 specification drawn up as part of the Worldwide Fuel Charter (WWFC) by automotive manufacturers. Since 2013, it also has been the first fill fuel for Mercedes-Benz A-Class cars manufactured in Finland.

## Joint efforts to promote the uptake of renewable fuel in aviation

Neste Oil is involved in a number of projects aimed at promoting the use of renewable fuel by airlines. Capable of supplying customers with renewable aviation fuel on an industrial scale, Neste Oil was one of the signatories of a Dutch initiative launched in 2013 to promote airline use of biofuels.

Read more about the ['Bioport for jet fuels in the Netherlands' project](#).

Read more about Neste Oil's [renewable aviation fuel](#).

## Extensive field testing in a range of different conditions

Neste Oil has tested its products to ensure their quality and good performance, both in-house and in collaboration with its partners.

Neste Pro Diesel, for example, has been tested in collaboration with VTT Technical Research Centre of Finland and the Tampere University of Applied Sciences. In-house testing is concentrated at the Engine Laboratory based at the Porvoo refinery.

NExBTL renewable diesel has been tested in tens of field trials in Finland and overseas involving cars, trucks, and buses. It has also been tested under competition conditions, most recently at the 24-Hour Race at the Nürburgring circuit in Germany in 2013.

Neste Oil has been involved in a renewable diesel trial in Germany since August 2013. Known as the Diesel R33 project, this is aimed at launching a fuel containing a significantly higher proportion of renewable content than current diesel blends.

Read more about the [Diesel R33 project](#).

Read more about [other NExBTL diesel field tests](#).

## Cleaner choices for other industries

In addition to producing fuel, NExBTL technology is also capable of producing renewable solvents and renewable industrial petroleum, naphtha. Renewable solvents, for example, can be used as an alternative with lower impact on the environment in manufacturing paints, adhesives, cleaning agents, and cosmetics; while renewable naphtha can be used as a biocomponent in gasoline blends and for producing bioplastics. Thanks to its renewable base, the carbon footprint of end-products manufactured using NExBTL renewable naphtha is smaller than that of those produced from fossil naphtha.

Neste Oil is currently planning the production of NExBTL renewable propane at its refinery in Rotterdam. Propane can be used for example, in producing plastics and generating energy. In addition, Neste Oil is investigating the commercial potential of renewable isoalkane.

## Ensuring that products are safe and providing safety information

As the majority of Neste Oil's products are classified as hazardous, ensuring that they are handled safely throughout their life cycle is extremely important.

Neste Oil has registered all its products in accordance with the requirements of the European Union's REACH chemicals regulatory framework. No recalls of Neste Oil's products took place during 2013. The EU has also introduced the CLP (Classification, Labelling and Packaging) regulation on chemicals, and Neste Oil began changing its product labeling to comply with the new regulation in 2013. The chemical labeling on fuel pumps were changed to comply with the new regulation at all Neste Oil stations in 2013.

Neste Oil always ensures that its customers have the information they need to handle its products safely and that its products comply with all national and international statutory requirements.

Read more about [how Neste Oil communicates with its customers](#).



## Sustainability in the station network



Neste Oil has a network of 1,027 retail stations in Finland, Northwest Russia, Estonia, Latvia, and Lithuania. A total of 79.9 million (85.7) fuel purchases were made at these stations in 2013. Comprehensive dealer training and regular station inspections ensure that stations provide drivers a safe and pleasant experience.

### Dealers committed to Neste Oil's operating principles

In Finland, Neste Oil's station network is made up of independent owner-dealers and K-market retailers supplied by Neste Oil, and unmanned stations managed by Neste Oil.

All the dealers in the network have committed themselves to observing Neste Oil's Code of Conduct, which forms part of their dealer agreement. Neste Oil expects dealers to follow common practices and operating principles that have been drawn up for all stations.

A member of the Roma community experienced discrimination at a Neste Oil station in 2013 when the local dealer imposed a limit on the number of Roma people at the station at any one time. This contravened Neste Oil's Code of Conduct and the matter was reviewed with the dealer in question to correct the situation. Neste Oil does not tolerate any form of discrimination in its operations and expects the same of its partners.

### Neste Oil supports training for station personnel

Neste Oil produces and distributes guidelines for its dealers, together with tools for training station staff. Dealers are responsible for the training given to their staff, which covers areas

such as the properties and hazards of Neste Oil's fuels, the risks associated with station operations, and safety issues.

Neste Oil launched an interactive game for station personnel in 2013 in which staff at different stations can compete with each other in a championship to find the team who knows the most about station operations.

Neste Oil shares topical information about safety and new products, for example, with its dealers via the company's extranet service and its annual dealer days.

### Safety and environmental issues at stations

Neste Oil is committed to ensuring that customers visiting stations are safe at all times and that station operations have the minimum level of impact on the environment. Environmental issues at Neste Oil stations are taken into account from the construction stage onwards. Stations use twin-skin structures, for example, and storage tanks are fitted with alarm sensors, such as sensors measuring temperature and surface level, and preventing overfilling. External inspectors carry out regular audits at stations, and action lists are drawn up on the basis of these inspections where needed. Further inspections are then made to verify that corrective work is carried out. A total of 1,724 station audits and check-ups were carried out in 2013. Neste Oil's own sales personnel also monitor station operations.

The safety of Neste Oil stations in urban areas was enhanced in 2013 with the introduction of round-the-clock station monitoring.

### Recognition for Neste Oil's stations in Finland and the Baltic countries

Neste Oil's stations that are open 24 hours a day were recognized for the healthy nature of their catering in 2013 in a report by the Finnish Institute of Occupational Health. The report listed two Neste Oil stations among the three best in Finland: the Neste Motorest Eläintarha station in Helsinki and the Neste Jari-Pekka station in Joroinen.

The Neste Oil network in Latvia has also received recognition and has been given a family-friendly company award, given to companies that highlight family needs in areas such as easy-to-use services.

A survey by Taloustutkimus and the marketing magazine, Markkinointi ja Mainonta, ranked Neste Oil as Finland's most respected service station brand in 2013.

Read more about our [station network](#).

## Marketing and communications



Neste Oil observes the guidelines of the International Chamber of Commerce (ICC) and the requirements of Finnish consumer and marketing legislation when marketing its products.

Marketing is factually based and product property descriptions are designed to present an accurate picture. The benefits and properties of products highlighted in marketing material are based on test results. Neste Oil approaches its customers only if they have given permission to do so. Information customers provide to Neste Oil is never divulged to third parties.

### Helping customers use products correctly and safely

The majority of the products sold by Neste Oil are classified as hazardous, which means that providing sufficient and up-to-date information is an important part of customer communications. Safety data sheets and technical product information on products sold in Neste Oil's home markets can be consulted at the company's web site. Product labels also include information on safety-related questions. Neste Oil responds to questions from its customers via its telephone service and e-mail, and uses its Facebook account to tell people more about its products. Neste Oil also has a dedicated lubricant search engine, which customers can use to find the right lubricant based on their vehicle registration plate.

One of the subjects covered by Neste Oil in its proactive customer communication work in 2013 were the differences between the renewable contents used in marine diesel. Customers are regularly reminded every fall of the need to switch to winter-grade diesel to help them choose the appropriate fuel for their vehicles under cold conditions. Neste Oil also distributes a large amount of practical advice to customers, covering areas such as what to do if they fill up with the wrong fuel and comprehensive guides on using diesel and gasoline and their properties. Neste Oil also took part in organizing an international fuel seminar held in Helsinki in 2013.

## Safety

All accidents and incidents are preventable. We are comprehensively committed to developing our safety performance and safety culture.

**We believe all accidents and injuries are preventable**

**0**

[Read more ►](#)

**Total recordable injury frequency per million hours worked (TRIF) of 4.2**



[Read more ►](#)



**Main safety guidelines revamped**



[Read more ►](#)

**We invested 26.4 million euros in safety**



[Read more ►](#)

What were our targets?	Actions and achievements in 2013	What next?
Reduce the number of process safety events (PSER <4).	<ul style="list-style-type: none"> <li>The target was achieved. PSER was 3.0 (5.9).</li> </ul>	<ul style="list-style-type: none"> <li>PSER &lt; 3.0</li> </ul>
Reduce Neste Oil's Total Recordable Injury Frequency (TRIF) to 2.2.	<ul style="list-style-type: none"> <li>The target was not achieved. TRIF was 4.2 (3.6)</li> </ul>	<ul style="list-style-type: none"> <li>TRIF 3.3*</li> </ul>
Carry out at least 28,000 preventive measures.	<ul style="list-style-type: none"> <li>30,064 (30,286) preventive measures** were carried out.</li> </ul>	<ul style="list-style-type: none"> <li>Preventive measures 30,000</li> </ul>

\* Neste Oil's long-term target is zero accidents. The safety target-setting process was reviewed in 2013 as part of an intensified effort to improve safety across the company, and a revised short-term safety target of 3.3 was set for 2014.

\*\* Includes observation tours, safety inspections, and near miss reporting.

Case: Safety is the professionals' choice



## Safety is the professionals' choice



Neste Oil launched an extensive safety development project in 2013 aimed at creating an even stronger safety mindset within the company and reducing the number of accidents that take place, as accident performance has not progressed as hoped for over the last few years. Neste Oil's safety vision is based on the conviction that all accidents are preventable and that safety is part of being a professional and very much the professional's choice.

### A new set of safety rules

As part of the safety development project launched in 2013, a new set of Life Saving Rules was introduced that crystallize the key guidelines that need to be observed in the safety area.

"The new guidelines are simpler than the previous ones, and our aim is to highlight them throughout the workplace to ensure that everyone keeps them in mind the whole time," says Erkki Ranta, Production & Logistics' HSEQ Director. "We also want to learn more from near miss incidents, which is why we're developing our near miss reporting to enable us to make better use of the information these incidents provide."

New interactive safety training material is also being planned for personnel, and safety is to be more closely integrated into management training as well.

### Safety is about attitudes

Safety is not limited to the workplace either, which is why Neste Oil is also working to promote safety in people's leisure time.

"Safety is about attitudes and important outside work too. When it comes to safety, it's not so important what you do, but how you do it," says Harri Järvelin, Neste Oil's Director, HSEQ Functions.

Safety is also part of the Way Forward initiative launched in 2013, aimed at making Neste Oil a more profitable, a more customer-driven, and a safer company.

Read more about [Way Forward](#).

Sustainability ► Sustainability program ► Safety ► Process safety

## Process safety



Good process safety ensures that a plant's processes operate without incident and prevents personnel from being exposed to danger and the environment from being polluted. Process safety is

based on identifying process-related risks in advance and preventing accidents. Performance in this area is regularly reviewed using internal audits and official inspections. Neste Oil's insurers also carry out insurance audits at the company's refineries.

Neste Oil has surveyed all the areas likely to be affected if a major accident were to occur at one of its refineries. Numerous smaller accident scenarios have also been reviewed. The accident risk assessment covering the Porvoo refinery was updated in 2013 and now includes information on the ability of structures housing personnel to withstand an explosion across the site.

A project is currently under way at the Porvoo refinery to assess the compatibility of the materials used in the site's equipment and the process parameters, such as high temperatures, encountered at the site with modern material recommendations. Danger preparedness plans based on fire and explosion risk survey data are also being drawn up for process areas and units at the Porvoo and Naantali refineries. Work is also being done at the refineries

to assess the criticality of site equipment in terms of safety and business continuity.

Cooperation with the authorities at Neste Oil's refineries is an important part of process safety. Communication and preparedness planning is continuous with local rescue departments, for example.

Process safety target was well achieved

## Process safety performance and how it is measured

Neste Oil measures its process safety performance using CONCAWE-defined PSERs (Process Safety Events Rate). These define process safety levels and measure the number of incidents that take place in processes per million hours worked. Process safety incidents are monitored at all the company's production sites and terminals. A total of 19 (32) PSEs took place in 2013. Neste Oil's goal is to be among the best European refiners in terms of process safety events in the future.

The internal monitoring of process safety performance was extended in 2013 by introducing preventive PSE3 and PSE4 indicators. These are used to measure areas such as near miss incidents and shortcomings identified in protection equipment and procedures.

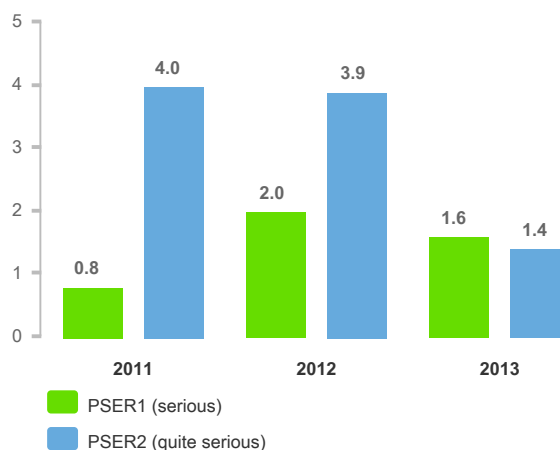
## Know-how plays a key role

People's professional know-how plays an important part in process safety, which is one of the reasons why personnel at Neste Oil receive constant training on process safety-related

matters. All personnel at production plants and terminals take part in process and fire safety training. Two safety training days are also included in the training carried out for the operator's certificate offered by Neste Oil.

A project was launched in 2013 to further develop and harmonize work-related procedures. A new tool for these procedures was tested in 2013 and development work will continue in 2014.

## Process safety event rate, incidents per million hours worked



Sustainability ► Sustainability program ► Safety ► People safety

## People safety

Neste Oil's safety vision is based on the conviction that all accidents are preventable. Safety culture is constantly developed across the company, both among Neste Oil's own personnel and

those of its contractors, and focuses on improving safe behavior and people's safety awareness.

## People safety performance and development

	2013	2012	2011
TRIF (Total Recordable Injury Frequency per million hours worked)	4.2	3.6	2.7
LWIF (Lost Workday Injury Frequency per million hours worked)	2.9	1.5	1.9

Neste Oil's safety performance has not been developing as hoped for over the last few years, despite systematic safety work. An extensive safety development program was launched in 2013 to turn this development around. A new set of simplified safety guidelines – Neste Oil's life saving rules – were drawn up as part of the program, and adherence to these rules will be monitored

closely. The new rules are designed to increase people's safety awareness and make it easier to act safely in day-to-day work. The new rules will be promoted via a variety of means during 2014, including an interactive game.



## Life saving rules



Neste Oil also has a contractor safety development program under way designed to help enhance the safety of contractor work at the company's sites, improve collaboration, and develop monitoring processes, both when selecting contractors and during their on-site work.

An ongoing effort to improve people's working conditions also forms part of people safety development work. The safety of access routes at Neste Oil's refineries was improved in 2013, for example, new railings installed, and personnel provided with additional personal protective equipment. Neste Oil invested EUR 26.4 (25.6) million in safety in 2013.

People safety reporting covers refineries, terminals, offices, and retail country companies that are either wholly or majority owned by Neste Oil. Safety data reporting also covers service providers, contractors, and haulage partners.

### Preventive safety measures

Tens of thousands of preventive safety measures are carried out annually at Neste Oil, including safety discussions, safety

observation tours, and HSSE safety inspections. The target for preventive safety measures was set at 28,000 for 2013. The target was achieved as the number of preventive safety measures done in 2013 was over 30,000. Preventive measures affected company and contractor personnel a total of 64,500 (65,791) times during the year.

Near miss incidents are reported and learnt from across Neste Oil. The number of near miss incidents reported in 2013 was double that of those reported in 2012. Neste Oil's goal is to develop reporting on near miss incidents and use this data during 2014.

A serious safety incident took place at the Porvoo refinery in 2013 when a contractor's crane collapsed in a process area; no one was injured and no environmental damage resulted, however. The case was treated very seriously and was thoroughly investigated in accordance with company practice. The majority of the improvements proposed in the report on the incident will be implemented during 2014.

### Preventive safety measures in 2013

	2013	2012	2011
Safety observation tours	26,298	27,643	25,734
Safety discussions	3,557	2,925	2,563
HSSE safety inspections	766	1,480	521
Near miss reports	3,000	1,163	882

### Safe handling of chemicals

A large number of hazardous chemicals are handled at Neste Oil's refineries, during logistics operations, and as part of R&D work. Technical safety systems and procedures, up-to-date protective equipment, and access to the appropriate safety data sheets are all used to ensure a high standard of health and safety. Regular

reviews and occupational hygiene measurements are used to monitor people's working conditions. A total of six workplace reviews and 34 occupational hygiene studies were carried out in 2013. The results of these were used to improve the personal protection guidelines covering work prior to the start of technical modifications, for example.

The EU's REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) framework places extensive requirements on the manufacturers, importers, and users of chemical substances in terms of registration, permitting, and usage. REACH requirements are taken into account in procurement and sales contracts, R&D, and risk management practices at Neste Oil's refineries. All the chemical substances produced and imported by Neste Oil have been registered in accordance with REACH requirements.

## Safety training

Neste Oil's goal is to make safety an increasingly integral part of the training provided to managers and supervisors. Safety is also given high priority in Neste Oil's professional training programs. Planning work on a new Group-wide safety training program was started in 2013.

### Safety training in 2013

	Courses	Persons
Occupational safety training	41	462
Occupational safety card and hot work licence training	46	1,095
Work permit training	67	1,174
Access pass training	201	3,622
First aid training	32	367
Process and fire safety training	18	385
Other HSE training (mainly training related to outages)	135	3,861
<b>Total</b>	<b>540</b>	<b>10,966</b>

### Promoting safety outside the workplace

Neste Oil is also committed to improving the safety awareness of personnel outside the workplace. A number of safety campaigns covering leisure-time activities were arranged during 2013, such

as winter tire events for cyclists and car drivers, and a campaign to encourage everyone to wear reflectors to improve their visibility during the winter. Personnel also have the opportunity to borrow safety equipment, such as harnesses, for use outside work.

Sustainability ► Sustainability program ► Safety ► Transport safety

## Transport safety



Ensuring the safety of transport-related operations is an important part of Neste Oil's activities. Neste Oil recognizes the risks associated with the transportation of its feedstocks and products, and works to reduce these risks by maintaining high equipment standards and ensuring that personnel have the expertise they need.

### Road shipments

Neste Oil uses haulage contractors to handle its road shipments. A total of 23 haulage partners, and 184 vehicles and 320 drivers, were used to carry Neste Oil products and feedstocks in 2013. All the company's haulage partners were audited in 2013 to review their administrative practices, the training given to their personnel, the service status of their vehicles, and the documentation covering their operations, for example.

A total of 0.03 traffic accidents involving Neste Oil tanker trucks per 100,000 kilometers took place in Finland in 2013; the

equivalent figure for accidents overseas was 0.02. The total amount of accidents in Finland was 8 (5) and 1 (0) abroad. A total of 28,680,000 kilometers were covered carrying Neste Oil cargoes in 2013.

**Report on the driving behavior helps the drivers develop their driving style**



In addition to annual inspections, the trucks used by Neste Oil's haulage contractors are also subject to European Truck Safety Control inspection. This focuses especially on vehicle bodies and the structures of tank vehicles. Annual inspections will extend to the Baltic countries, in addition to Finland and Russia, in 2014.

All tanker trucks used by Neste Oil in Finland are fitted with a tachograph for monitoring areas such as speed and driver behavior, including acceleration and braking. Drivers have been supplied with a report on how they drive since 2013 to help make them safer on the road.

Neste Oil and its haulage contractors train the drivers that handle the company's cargoes annually. Neste Oil also works closely with the authorities and agencies in the industry, such as the police, the Finnish Transport Safety Agency (Trafi), and the Finnish Petroleum Federation to harmonize overall road transport performance and improve safety.

## Marine shipments

Neste Oil uses both its own fleet and vessels operated by other shipping companies to handle its marine shipments. As of the end of 2013, the Neste Oil fleet consisted of 19 tankers, of which 11 were time-chartered from other companies. In addition, hundreds of time-chartered tankers owned and operated by other companies were used to carry the company's marine shipments. Neste Oil also owns three tugs. All the vessels Neste Oil uses to ship its cargoes are ice-strengthened.

Neste Oil's in-house shipping company, Neste Shipping, is responsible for the commercial operation of vessels and the safe operation of vessels that come within the scope of its regulatory safety management system. The safety of chartered tankers is the responsibility of the companies that handle their safety management systems. Neste Oil's ship vetting function is responsible for reviewing and approving tankers chartered from other companies.

**Neste Oil's own vessels did not cause any significant seaborne emission**



Shipping operations carried out by Neste Oil's own vessels did not result in any significant seaborne emissions during 2013, nor did these vessels suffer any fires or run aground. One tanker was involved in a collision with a freighter in the ice in the Bay of Bothnia in April 2013. No injuries or environmental damage resulted from the incident.

Safety work on vessels owned by Neste Shipping during 2013 concentrated on safety in the workplace, developing systematic safety management procedures, and near miss reporting. A total of some 2,300 safety observation reports were logged for ships

coming within the scope of the company's safety management system in 2013. Neste Shipping's safety management system is regularly audited and inspected by official agencies and other oil companies that use Neste Oil ships.

All of the ships used by Neste Oil have crew training plans in place, and exercises are carried out continuously. Seagoing personnel are required to have qualification certificates covering the work they do and be qualified to deal with oil spill response, firefighting, and other similar specialist duties. Neste Shipping arranges regular training for its personnel covering areas such as navigation, safety, and environmental protection.

Neste Oil has been part of the joint Tanker Safety program, coordinated by the John Nurminen Foundation and aimed at improving marine safety in the Gulf of Finland, since 2010. The ENSI risk assessment and prevention service that has been developed as part of the project was introduced on all vessels operated by Neste Shipping in 2013.

Watch a video about the ENSI service:

Neste Oil holds regular exercises with the rescue authorities to ensure the effectiveness of its oil spill response capabilities. The company has also collaborated in this area with WWF Finland for many years, and the two organizations held a joint oil spill exercise at the Porvoo refinery in 2013.

## Rail shipments

Neste Oil does not own any rail freight cars or locomotives and uses the VR Group to handle its rail shipments. Neste Oil is responsible for the safety and maintenance of the rail tracks it owns. Following the introduction of new railway legislation, all companies operating private rail lines in Finland are required to have a safety permit from the Finnish Transport Safety Agency; Neste Oil was awarded one in 2013. Neste Oil owns and administers eight rail-connected terminals.

One particularly serious safety incident involving a Neste Oil rail shipment took place in 2013, when the seal around a safety valve on an LPG car failed during loading at the distribution terminal in Porvoo, resulting in the controlled release of the car's contents. A total of five major near misses occurred. All incidents and the investigations that follow are reported to the Transport Safety Agency. Serious safety events are investigated and reported internally.

A new rail safety management system covering the maintenance and safety of company track, as required under the terms of Neste Oil's new safety permit, was introduced in 2013. All of the company's terminal managers received training on the new system during the year. Rail safety training for operators was also started in 2013.

New LPG loading equipment designed to improve safety during loading operations was installed at the Tornio terminal in 2013.

In addition to Finland, Neste Oil also has rail shipment operations at its terminals in the Baltic countries. Although its safety permit only covers Finnish operations, Neste Oil is looking at how the safety of rail shipments can be developed in these countries as well.

## Personnel

Neste Oil believes that a safe workplace, challenging jobs, good management, and a business culture that encourages people to perform at their best are key to the wellbeing of its personnel and the success of its business. We prioritize management training and developing our strategic capabilities.

### Our goal:

**Our way of working, inspiring leadership, and talented people enable business success**



### Way Forward

– Neste Oil's new way of working



**Work should feel good and do you good!**

[Read more](#) ►

What were our targets?	Actions and achievements in 2013	What next?
Draw up job descriptions for everyone across the Group	<ul style="list-style-type: none"> <li>New model for job descriptions was defined.</li> </ul>	<ul style="list-style-type: none"> <li>The new model will be introduced and implemented during 2014.</li> </ul>
Develop a new short-term incentive system	<ul style="list-style-type: none"> <li>New short-term incentive system was introduced.</li> </ul>	<ul style="list-style-type: none"> <li>Remuneration will follow the new system.</li> </ul>
Move ahead with updating our HR system	<ul style="list-style-type: none"> <li>The revamp reached the implementation phase.</li> </ul>	<ul style="list-style-type: none"> <li>Introducing the new system will begin in 2014 and is expected to be complete by the end of 2015.</li> </ul>
Develop wellbeing at work	<ul style="list-style-type: none"> <li>We carried out site-specific analyses of the current situation and defined the development measures that need to be introduced.</li> </ul>	<ul style="list-style-type: none"> <li>Continue implementing Neste Oil's wellbeing at work plan.</li> </ul>
Continue promoting an engagement-driven leadership culture	<ul style="list-style-type: none"> <li>A new way of working, Way Forward, was introduced. This emphasizes taking and giving responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>Continue developing and implementing Way Forward.</li> </ul>



Case: Job rotation opens up new ways of thinking



## Job rotation opens up new ways of thinking and develops people’s expertise



Job rotation, and the opportunity it offers for people to do different jobs during their careers, is one of the key tools in HR development and committing personnel to the company at Neste Oil. Job rotation increases people’s job satisfaction and provides variety over their careers. More than 400 people changed jobs within the company in 2013. People typically have long careers at Neste Oil and there are numerous examples of staff that have enjoyed varied and rich career paths.

The career of Anssi Tammilehto, who is currently responsible for Planning & Controlling in Group Finance, is an excellent example of how job rotation has helped develop someone’s expertise.

“Like many other people, I first came to Neste Oil as a summer trainee,” says Anssi. “Since then, I’ve had the chance to work in a variety of interesting jobs, both in our businesses and in common functions. Working in different departments has really increased

my awareness of how activities interface with each other internally and our overall operations. When you’ve worked in different units, it’s easier to challenge accepted ways of doing things and develop solutions that are better in terms of the big picture.

“I’ve found that job rotation has really benefited me in my present position as well, as I’ve been able to draw on the things that I’ve learned in previous jobs.”

### New perspectives and new colleagues

Job rotation is similar to travel, both introduce you to new things and open up new perspectives on existing ones. Whenever Anssi walks down a corridor at work in the Espoo headquarter, he often passes someone who knows him.

“Working in different departments gives you the chance to meet a lot of people and learn how to communicate with people from different backgrounds. You also learn how best to approach things with different groups of people. I’ve noticed that, while we often face common challenges, we often look at them differently. So when it comes to solving challenges, it helps if you can look at things from more than one perspective,” says Anssi.

Neste Oil encourages people to try job rotation in Anssi’s experience. The aim is to fill vacancies internally wherever possible, for example. “You never know what opportunities there are still out there for me too,” he laughs.

Sustainability ► Sustainability program ► Personnel ► Neste Oil employees in 2013

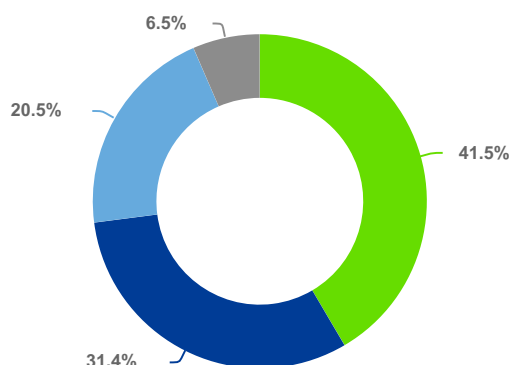
## Neste Oil employees in 2013





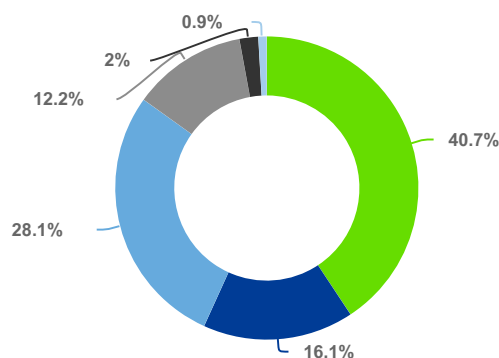
Neste Oil's hiring rate in respect of permanent employees was 9.9% (11.3%) in 2013, and the leaving rate 10.3% (9.6%).

**Personnel by personnel group as of 31 December 2013, %**



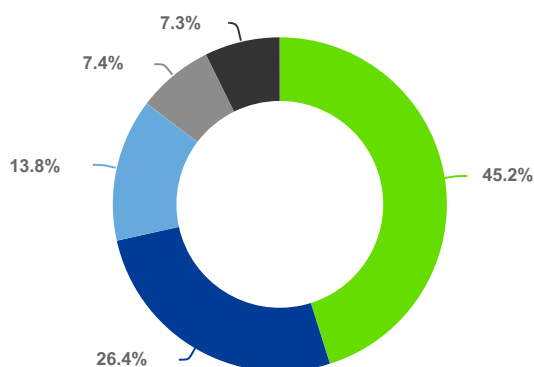
- Blue-collar 41.5% (41.2%)
- Management and upper white-collar 31.4% (30.1%)
- White-collar 20.5% (20.7%)
- Sea personnel 6.5% (8.1%)

**Educational background of employees as of 31 December 2013, %**



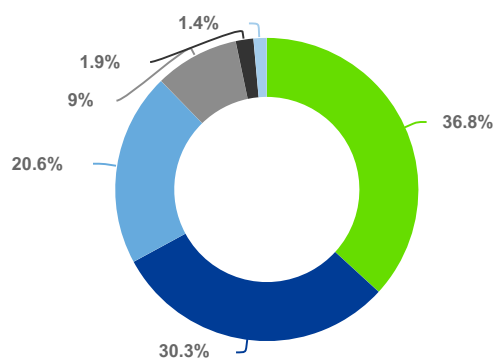
- Technical or natural sciences 40.7% (45.1%)
- Others 16.1% (15.3%)
- Information not available 28.1% (21.1%)
- Commercial and law 12.2% (12.2%)
- Logistics or transport 2.0% (5.2%)
- Social sciences and humanities 0.9% (1.1%)

**Personnel by segment as of 31 December 2013, %**



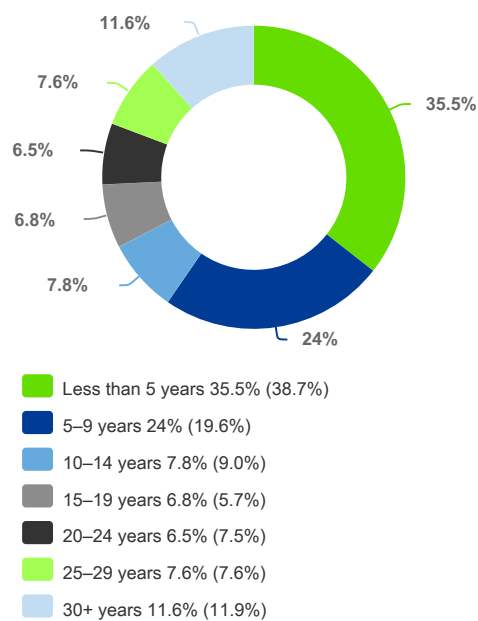
- Oil Products and Renewables 45.2% (46.2%)
- Oil Retail 26.4% (26.7%)
- Neste Jacobs 13.8% (12.5%)
- Research and Technology 7.4% (4.6%)
- Other common functions 7.3% (10.1%)

**Educational level of employees as of 31 December 2013, %**

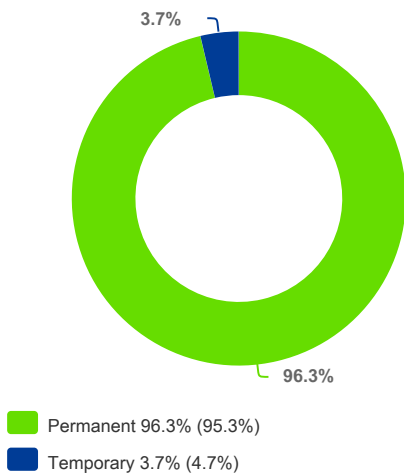


- Bachelor's degree or equivalent 36.8% (37.0%)
- Vocational degree or high school 30.3% (34.1%)
- Master's degree or equivalent 20.6% (20.4%)
- Compulsory education 9.0% (5.6%)
- Information not available 1.9% (1.2%)
- Doctorate/licenciante 1.4% (1.6%)

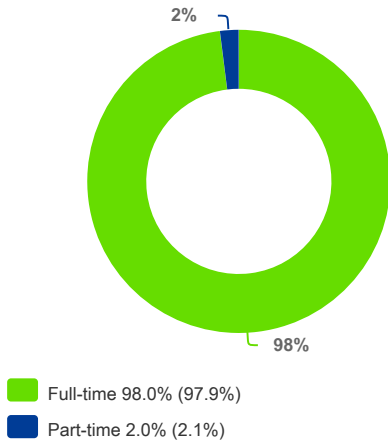
Length of employment of employees as of 31 December 2013, %



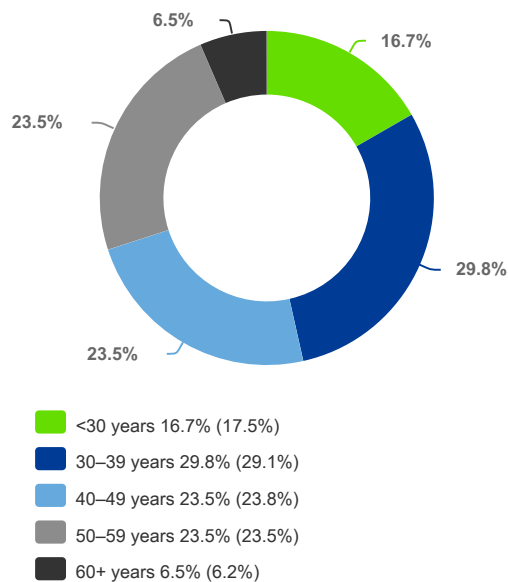
Type of employment contract as of 31 December 2013, %



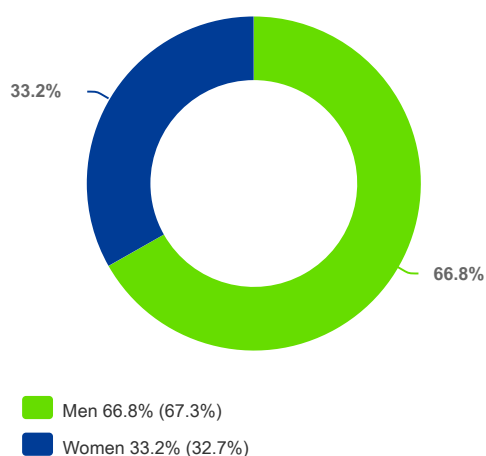
Type of employment according to working hours as of 31 December 2013, %



Breakdown by age as of 31 December 2013, %



Gender ratio as of 31 December 2013, %



## Statutory employer-employee negotiations at Neste Shipping

Statutory employer-employee negotiations were held at Neste Oil's shipping company, Neste Shipping, during early 2013 as part of the company's efficiency enhancement program. As a result of these negotiations, which covered all of Neste Shipping's some 450 land- and sea-based personnel, 124 employees were decided to be reduced. In 2013, the number of reduced people was approximately 110 of which three were made redundant. The remainder of the reduction took place through voluntary retirement and the termination of fixed-term employment contracts. The rest of the personnel reductions are likely to be realized during 2014.

Later in 2013, Neste Oil announced that it planned to exit the shipping business completely. In February 2014, Neste Oil announced the selling of its shipping business to OSM Group AS. According to plans, Neste Shipping's personnel, covering approximately 320 people, will transfer to OSM Group during spring 2014.

## Progress in revamping the Group's HR IT system

A revamp of Neste Oil's HR IT system is currently under way. The new system will cover all personnel employed by Neste Oil and all the countries in which Neste Oil operates. The revamp will integrate remuneration and performance management systems that currently operate separately into one system, and is designed to increase transparency, improve Neste Oil's ability to manage the expertise of its personnel, and simplify managers' work. The rollout of the system will begin in 2014 and it is expected to be in use across the entire company by the end of 2015.

## Number of employees

	2013	2012	2011
Number of employees, average	5,097	5,031	4,926
Number of employees at the end of the year	5,049	5,022	4,825

Sustainability ► Sustainability program ► Personnel ► Way Forward – Our way of working

## Way Forward – Our way of working



Neste Oil defined a new way of working model for personnel across the entire Group in 2013 known as Way Forward. Based on the company's values, this new initiative is intended to secure Neste Oil's ability to succeed in a changing world, both today and into the future, and leverage everyone's resources for the company's benefit. Way Forward is central to how Neste Oil is working to achieve its strategic targets and make Neste Oil a more profitable, a more customer-focused, and a safer company and one where personnel enjoy their jobs and feel good about what they do.

Taking and giving responsibility, teamwork, safety, customer focus, and rewarding people for good performance are central to the Way Forward model.

During the course of the Way Forward change initiative, which will extend over a number of years, the plan is to align all of the

company's HR processes – such as performance management and personal development planning – with the new model, to ensure that they provide as much support as possible in helping Neste Oil achieve its goals.

## Involving personnel in developing a new way of working

The Way Forward initiative was developed on the basis of a questionnaire for personnel at Neste Oil and designed to give people the opportunity to express their views on the strengths and weaknesses of existing practices and procedures. As the

questionnaire covered all personnel, it was decided to postpone the next personnel survey to early 2014.

The operating model developed on the basis of the results of the questionnaire was fine-tuned in June with the help of 100 key staff, after which it was presented to personnel at a series of strategy events. The new model is being brought closer to employees' everyday work through unit-specific events, at which people are being asked to make two public commitments covering their own way of working. These commitments, and how successfully people live up to them, will be monitored in target-setting and development discussions.



Sustainability ► Sustainability program ► Personnel ► Developing people's skills and expertise

## Developing people's skills and expertise



Work on developing people's skills and expertise, together with training generally, is guided by the needs of Neste Oil's businesses and the changes affecting the environment in which the company operates. Developing strategic competencies, managerial capabilities, and the expertise and skills of the personnel are based on helping support the company's businesses achieve their short- and long-term goals.

### Development discussions and job rotation help people progress in their careers

Annual performance and development discussions play an important role in helping people develop in their work. These discussions concentrate on setting targets, evaluating performance, and reviewing issues related to employees' personal development. Performance and development discussions covered 82% (82%) of personnel in 2013, excluding service station

personnel in Russia. Performance and development discussions are held 2–4 times a year.

Job rotation is an important tool in HR development and in committing personnel to the company. 8.4% of employees (8.0%) switched to new jobs in 2013. The long-term target for job rotation is 6–8%.

Read [Anssi's story about his diverse career at Neste Oil](#).

## Developing strategic competencies and successor planning

During 2013 Neste Oil defined the strategic competencies that it needs in the light of the skills required by the Group's businesses, as part of an overall effort to help the company achieve its strategic goals. Planning work on a new development program covering these strategic competencies was started in 2013. The program itself is expected to begin in 2014.

Successor planning integrated into a review of key positions across the Group represents one of the ways that Neste Oil is using to prepare for the changes in competency requirements that are expected to develop over the next few years. Neste Oil's long-term target is to fill 80% of key positions through internal recruitment.

Around 100 people are expected to come up for possible retirement between now and the end of 2016, and work is under way to respond to this through long-term HR planning and by

strengthening Neste Oil's image as an employer among key target groups.

## Coaching-oriented leadership underlined in management development

Neste Oil continued promoting coaching-oriented leadership as part of management development work during 2013. This focuses on encouraging managers and supervisors to engage the members of their teams by involving them, delegating responsibility to them, and fostering more independent decision-making further down in the organization. Peer coaching and comprehensive feedback, amongst other methods, are used to underline the value of a coaching-oriented mindset. Developing coaching-oriented leadership will also help translate the thinking behind the new Way Forward initiative into practical measures and practical progress.

## Developing project management skills is also important

Neste Oil's strategy is being implemented through numerous individual projects grouped under the umbrella of four Value Creation programs. As the success of these projects will play a major role in how well Neste Oil succeeds in achieving its overall strategic goals, project management skills are emphasized. Reflecting this, expert personnel and those responsible for projects are provided with a range of training to enhance their project management skills.

### Participation in Neste Oil's training programs (number of participants)

	2013	2012	2011
Training for new managers	69	87	80
Extended management training	72	71	37
Specialist training	110	38	Began in 2012
Project management training	35	27	39

Neste Oil organizes a wide range of training for personnel every year, covering professional specialties, languages, IT, safety, and first aid. In addition, employees are provided with various self-study materials and online modules covering areas such as information security, competition law, and work permits. Some of

this training is provided as part of complying with Neste Oil's statutory commitments.

### Training-related investments

	2013	2012	2011
Training days/ person	2.1	2.5	2.8
Training-related investments, EUR million	3.5	3.6	4.2



## Remuneration



Neste Oil's policy of providing fair and motivational remuneration is intended to encourage personnel to perform at their best.

Neste Oil applies and observes the requirements of local employment legislation and collective bargaining agreements that determine things such as minimum wages and supplements such as overtime pay wherever it operates. Managers are kept informed about local collective bargaining agreements and remuneration systems as part of their management training.

### Overall remuneration at Neste Oil covers elements such as the following:

- **Basic salary:** monthly salary and agreed supplements
- **Flexible component:** performance incentives, recognition for excellent performance, share-based incentives, Personnel Fund (in Finland)
- **Additional benefits:** fringe benefits, health care, insurance cover, other benefits, and
- **Career development opportunities:** training and professional development, performance-based management, feedback, and recognition.

### Remuneration principles updated

Neste Oil's Group-wide employee remuneration principles were updated during 2013. These updated principles are intended to promote more effective implementation of the company's strategy, encourage personnel to perform well in their jobs and work in accordance with Neste Oil's values, motivate people to take on responsibility, and ensure the overall fairness and transparency of the remuneration that Neste Oil pays its employees. These principles are applied wherever Neste Oil operates within the framework of local collective bargaining agreements, national labor markets, and the local competitive environment. The updated principles will help secure the implementation of the new Way Forward initiative introduced in 2013.

Read more about [Way Forward](#).

Neste Oil's senior executives do not come within the scope of collective bargaining agreements, and are covered instead by Neste Oil's senior management remuneration principles.

Learn more about [the remuneration principles covering senior management and the CEO & President](#).

Learn more about the [remuneration of senior management and the CEO & President](#).

Learn more about [the long-term incentive plan](#).

### Short-term and long-term incentive systems

All personnel are covered by Neste Oil's incentive systems. The main short-term incentive is the annual performance-based incentive system, which was updated in 2013. The revamped system gives greater emphasis to target-setting that bypasses traditional team boundaries and to Neste Oil's overall financial performance.

The Personnel Fund represents Neste Oil's main long-term incentive and covers the Group's employees in Finland. Similar funds do not exist in other countries where Neste Oil operates.

### Fringe benefits

In addition to salary, Neste Oil aims to offer its employees competitive fringe benefits in line with local market practices, such as – in the cases of Finland – comprehensive health care, a Personnel Fund, and an insurance fund. A new global management model was introduced in 2013, under which decision-making covering new fringe benefits will be handled by the Group HR function on a centralized basis.

### Updated tools for defining and classifying job descriptions

The model used for defining and classifying job descriptions was updated in 2013 to bring greater transparency and comparability to this area, and simplify the work of managers. The entire Group switched over to the new system as of 1 January 2014. In advance of the switchover, managers were trained on how to use the new approach, which they reviewed with the members of their teams in employees' performance and development discussions.

## New pay system covering chemical industry introduced in Finland

A new pay system was introduced at the Porvoo and Naantali refineries at the beginning of 2013 linking pay increases to employee's expertise and personal capabilities. The new system will provide a road map for pay through a person's entire career and will encourage employees to extend their skill set. The change has affected a total of around 1,000 people.

As part of the system, a new method for assessing people's skills has also been launched. Reviewing people's personal performance and capabilities annually will be one of the factors taken into account in determining people's salary from now on.

The method was trialed during 2013 and was officially introduced at the beginning of 2014.

In terms of personal development, employees coming within the scope of the new pay system have the opportunity to study for various professional qualifications and progress to higher pay grades as a result. Two groups of around 20 people began studying for a qualification at the Porvoo refinery in 2013. Neste Oil's aim is to further develop and extend the professional qualifications available and offer employees the opportunity to study for more advanced, specialist qualifications as well.

Sustainability ► Sustainability program ► Personnel ► Equality and diversity

## Equality and diversity



The importance of equality and diversity is highlighted in Neste Oil's HR Policy and in the Group's recruitment and remuneration principles. In line with its HR Policy, Neste Oil treats all employees equally and fairly, regardless of their gender, ethnic origin, age, religious beliefs, and political convictions. Neste Oil is similarly committed to respecting human rights and treating all employees as individuals. No cases of discrimination were reported during 2013.

Learn more about [Neste Oil's HR Policy](#).

Equality issues and treating all personnel equally and fairly form an integral part of Neste Oil's Code of Conduct, which was published in 2010. The aim of the Code, which forms part of Neste Oil's management system, is to help personnel act ethically in their day-to-day work and increase their understanding of what constitutes appropriate behavior in terms of Neste Oil's values.

Personnel have had the opportunity to learn more about the Code through a number of means, including an online game; and familiarizing people with the Code and what it entails forms part of the induction program provided for all new employees.

Learn more about [Neste Oil's Code of Conduct](#).

Neste Oil monitors gender distribution based on the composition of its employees, management, management groups, and the membership of the Board of Directors. The age distribution, educational level, and remuneration of employees are also monitored. Employees' ethnic origin or nationality are not monitored.

### Leveraging the value of local expertise

Neste Oil believes that a diverse employee pool will be a competitive advantage in the future, both in terms of its businesses and in the competition for the best possible talent. Neste Oil aims to ensure that local personnel are primarily responsible for its activities in all the countries where it operates. Recruiting local personnel gives Neste Oil access to valuable expertise on the local business world and local culture, and helps increase the effectiveness of company operations.

### Gender equality

Neste Oil's equality principles cover the underlying principles and practical measures used to develop equality between men and women across the company. All the indicators required under Finland's equality legislation and Neste Oil's equality plan are monitored annually together with employee representatives. Outside Finland, company practice complies with local legislation and requirements aimed at promoting greater equality between men and women.

**Proportion of women on the Board of Directors and in management teams, %**

	2013	2012	2011
Board of Directors	42.9	42.9	37.5
Neste Executive Board	11.1	11.1	11.1
Senior management teams in business areas and common functions	28.6	32.9	27.6

8.5% (8.9%) of women working for Neste Oil served as managers and supervisors in 2013 and 12.3% (16.8%) of men.

**Managing diversity**

Employees are seen as individuals at Neste Oil and are encouraged to identify their individual strengths and develop them as part of their careers. People's individuality and the factors that most motivate them are taken into account in areas such as management training programs, which have focused on a more coaching-based approach over the last few years. The goal of this type of approach is to improve managers' ability to get the most out of the different individuals in their teams and help their teams succeed.

Neste Oil also offers training and support in managing multicultural, geographically disparate teams. Training in virtual management techniques is intended to ensure that teams made up of members based at locations that are geographically distant from each other are managed effectively.

**Freedom of association**

In accordance with ILO conventions and standards, all of Neste Oil's personnel have the right to organize among themselves and belong to associations. No threats to this right were identified in any area of operations during 2013. Not all personnel in all countries are covered by collective bargaining agreements. 90.2% (92.2%) of personnel came within the scope of these types of agreements in 2013.

**Promoting equality and diversity in recruitment**

The principles followed by Neste Oil in its recruitment form part of the company's management system, and are followed in all the countries where Neste Oil operates in accordance with local legislation. Neste Oil recruits personnel based on their experience, expertise, skills, and values; and is committed to guaranteeing all applicants equal opportunities and fair and equal treatment during the recruitment process. Recruitment is also used to promote diversity across the company.

**Salary equality in practice**

Neste Oil extended the statistics that it collects on equality to countries where this is not required by local legislation in 2012. Pay equality surveys are carried out annually in Finland in accordance with the company's equality plan. Despite setting a goal to have country-specific equality plans in place during 2013, this was not achieved.

Neste Oil regularly monitors the ratio between the average basic salaries of women and men working full-time and belonging to upper white-collar, white-collar, and blue-collar employee categories in Finland. Statistics collected in 2013 showed that this ratio varied between 92% and 114% (93–114%), depending on the responsibilities of the people concerned and the category of employee.

Sustainability ► Sustainability program ► Personnel ► Wellbeing at work

**Wellbeing at work**

Neste Oil believes that people's physical and mental factors are fundamental to their wellbeing in working environment. Employees' wellbeing and their ability to do their job are promoted by developing a culture that encourages them to give of their best and by dealing with problems at as early a stage as possible.

**Wellbeing at work and occupational health are promoted via a variety of means including:**

- Personnel survey and analyzing its results
- Regular performance and development discussions
- Emphasis on developing the capabilities of managers and supervisors
- Regular feedback

- Integrated occupational health care, including check-ups, preventive health-related advice, and medical care
- Sickness and insurance cover
- Early rehabilitation and rehabilitation courses
- Guidance on alcohol and drug abuse and access to the appropriate care if required
- Early support model
- Reassignment to alternative work
- Employee club activities
- Support for leisure time activities, and
- Encouraging personnel to adopt a healthy life style and various health promotion campaigns.

## Occupational health care

Neste Oil's occupational health care focuses on preventing, caring for, and following up work-related illnesses. The number of cases of work-related illnesses and diseases continues to remain low and no work-related illnesses were reported in 2013.

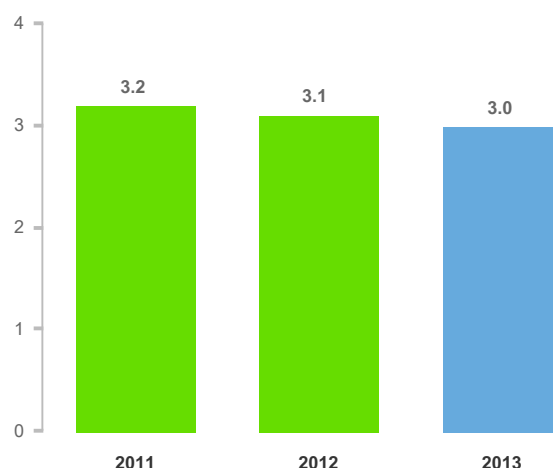
Occupational health care services are provided at Neste Oil's main locations in Finland (Porvoo, Espoo, and Naantali) by the company's own occupational health care units. Occupational health care at other locations in Finland and overseas is sourced from external service providers. Services in Finland are supplemented through voluntary membership of the Enerkem Insurance Fund and the Kilpilahti Sickness Fund.

A new, self help-driven medical check-up practice was introduced at Neste Oil in 2013. As part of this, each employee is now sent a background questionnaire as part of check-ups to help them assess their need for various types of help. This new proactive approach has been introduced to improve the effectiveness of check-ups and ensure that people who could most benefit from the advice or assistance that Neste Oil can provide do in fact seek care. The new system was trialed with a group of 50 employees in 2012.

## Good experience with alternative work and reassignment

Neste Oil's goal is to reduce the amount of sick leave taken by personnel by developing working conditions and making use of various alternative solutions. Personnel injured in accidents at work, for example, are offered alternative work during their recovery. Employees also have the opportunity to switch to new duties permanently for health reasons. Occupational health physicians and a job placement coordinator are responsible for managing the reassignment process. Eleven people were successfully reassigned under this procedure in 2013.

Sick leave, %



## Development work on the early support model is continuing

Neste Oil uses an early support model aimed at identifying factors that might undermine people's ability to do their job effectively at an early stage and address them before they become a real problem. The model and the practices used as part of it are being further developed. A new training package for managers and supervisors covering the early support model will be introduced in 2014.

## Making wellbeing at work an integral part of day-to-day operations

Work on implementing the wellbeing at work plan drawn up in 2012 continued during 2013. A number of workshops for local management teams and wellbeing at work groups were held at sites to bring a local perspective to what wellbeing at work means for Neste Oil and its people. Site-specific analyses of the current situation in this area were carried out, and one to three development measures agreed on for each location. The aim is to integrate wellbeing at work more closely into people's day-to-day activities.

## A good balance between work and leisure time

Ensuring that personnel benefit from a good balance between work and their life outside work is one of Neste Oil's principles. Supervisors are responsible for monitoring the hours put in by the members of their teams, and they are encouraged to discuss time management with their people. Flexible working hours and working from home provide additional flexibility for personnel with jobs that can benefit from these practices.

## Society

Neste Oil listens to its stakeholders and strives to develop its operations on the basis of the feedback that it receives.

### Our goal:

**We generate long-term success in business by operating ethically**

**Our return on average capital employed (ROACE) after tax was**

**11.8%**



[Read more](#) ►



**Taking a stand on energy and climate politics**



[Read more](#) ►

**More extensive overview of our tax footprint from 2013**



[Read more](#) ►

What were our targets?	Actions and achievements in 2013?	What next?
Increase ROACE (Return on Average Capital Employed, after tax) to at least 15% over the long term.	<ul style="list-style-type: none"> <li>• ROACE was 11.8% (5.0).</li> </ul>	<ul style="list-style-type: none"> <li>• Continue working to achieve our long-term ROACE target</li> </ul>
Encourage stakeholder involvement and actively interact with key stakeholders.	<ul style="list-style-type: none"> <li>• The Stakeholder Advisory Panel met twice.</li> <li>• Discussions with NGOs continued in Europe, the US, and Asia.</li> <li>• We began working with The Forest Trust (TFT), an organization dedicated to preventing deforestation.</li> <li>• We drew up improvement plans based on the results of our stakeholder survey.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to encourage stakeholder involvement and participate more actively in debate.</li> </ul>
Provide wider reporting on Neste Oil's tax footprint.	<ul style="list-style-type: none"> <li>• We published more tax-related details in the Sustainability report.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue developing how we report our tax contribution.</li> </ul>
Make our expertise available to decision-makers.	<ul style="list-style-type: none"> <li>• We were involved in technical drafting work on BAT requirements coordinated by the EU.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue providing expertise to decision-makers.</li> </ul>



Case: Educating plantation workers' children in Malaysia



## Educating plantation workers' children in Malaysia



Neste Oil supports schooling for children living in remote parts of Malaysia and has contributed for a number of years to the work of the Humana Child Aid Society, which gives thousands of children the chance to go to school who would otherwise miss out on this opportunity.

Humana Child Aid runs schools and learning centers on remote plantations together with responsibly minded local palm oil companies. All its schools are officially approved by the Malaysian

Ministry of Education. The aim is to offer education to children who would not normally be able to attend school because of the long distances they would have to travel, poverty, or their lack of legal entitlement.

Palm oil companies have begun to pay increasing attention to their social responsibility and children's education in recent years, and a growing number of children today have the chance to attend school as a result.

"Our partners feel that the assistance they give us provides real benefits, as workers are more satisfied and stay with them for a long time," says the Chief Executive Officer of the Humana Child Aid Society, **Torben Venning**.

### Educating a growing number of children

The Humana Child Aid Society has done a lot of good work educating children and has opened over 20 new learning centers providing basic education for more than 2,000 children over the last few years. Over 12,000 children attend the organization's 130 schools in all. Although a lot has been achieved, there is still a lot left to do, says Torben.

"Over 10,000 children have been educated at our schools so far, but there's still more we can do, as lots of children on plantations still lack the opportunity to attend school."

Sustainability ► Sustainability program ► Society ► Financial impact

## Financial impact

Neste Oil lives up to its financial responsibility by ensuring that it is profitable and competitive. By doing so, it can increase the prosperity of its owners by enhancing the value of their holdings and by paying dividends.

Neste Oil's operations have a major impact on Finnish society. The taxes and other charges that it pays help support society and the services society provides. Neste Oil is also responsible for collecting a large amount of taxes on behalf of government, in the shape of fuel duty and value added tax.

Neste Oil is Finland's largest company in terms of net sales in 2013, and provides employment for about 5,000 people worldwide. Including the personnel employed by the company's contractors, Neste Oil provided employment, directly and indirectly, for approximately 7,600 people in 2013.

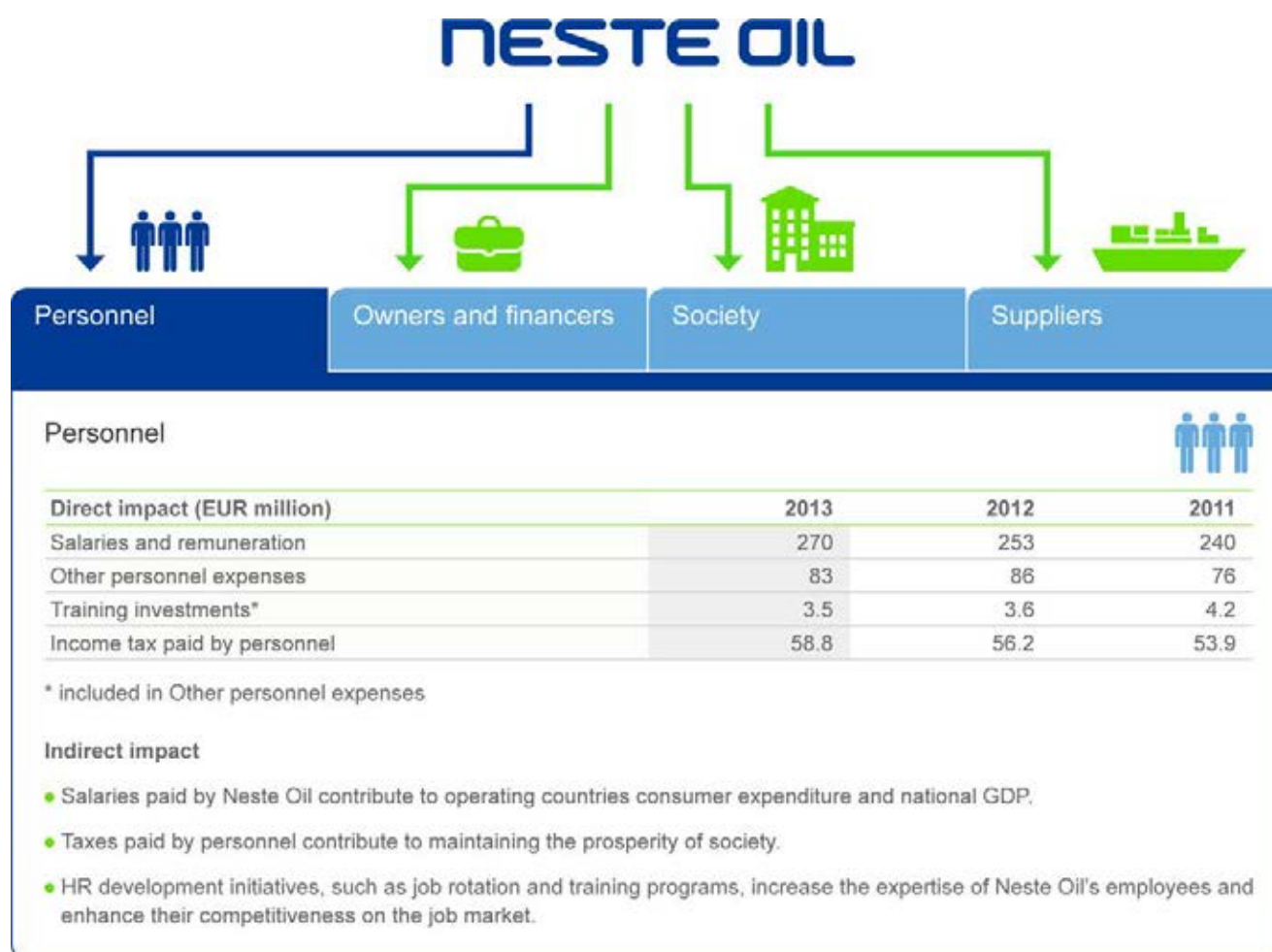
Neste Oil also pays strategic stockpile fees on the fuel it sells to the Finnish National Emergency Supply Agency and oil protection fees on the crude oil that it imports. The National Emergency

Supply Agency is responsible for securing society's needs in the event of serious disruptions and emergencies, while the Oil Pollution Compensation Fund is managed by the Ministry of the Environment. This fund, which is separate from the state budget, is responsible for acquiring equipment to deal with possible oil spills and for reimbursing people affected by spills when the cause of an incident is unknown or the party responsible is unable to pay the compensation in question.

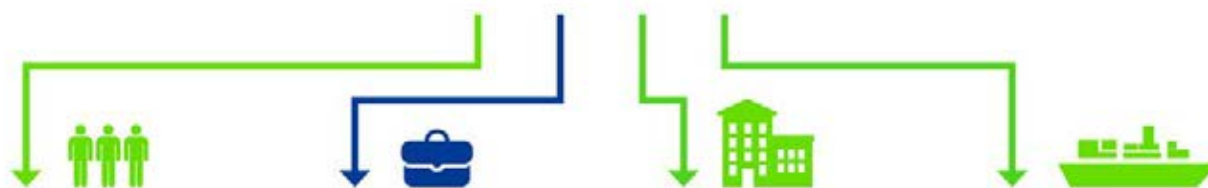
Neste Oil is also a major Finnish exporter and contributes around EUR 2 billion to Finland's trade balance through its refining operations. If there were no refineries in Finland and all petroleum products were imported, the trade balance would be severely impacted. The growth of Neste Oil's Renewable Fuels business has also made Neste Oil Finland's third-largest cleantech company. Neste Oil's cleantech-related net sales totaled EUR 2.5 (2.2) billion in 2013.

## Financial impact and stakeholders

(by clicking different stakeholders in the picture you will see the information related to that particular group)



## NESTE OIL



### Personnel

### Owners and financiers

### Society

### Suppliers

#### Owners and financiers



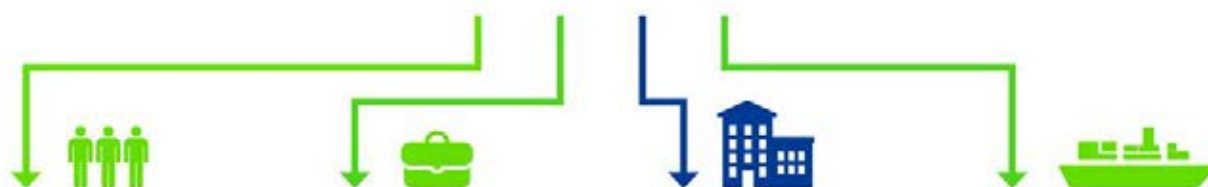
Direct impact (EUR million)	2013	2012	2011
Dividends	167*	97	90
Interest and financial expenses	81	87	72

\* Board proposal to the AGM

#### Indirect impact

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

## NESTE OIL



### Personnel

### Owners and financiers

### Society

### Suppliers

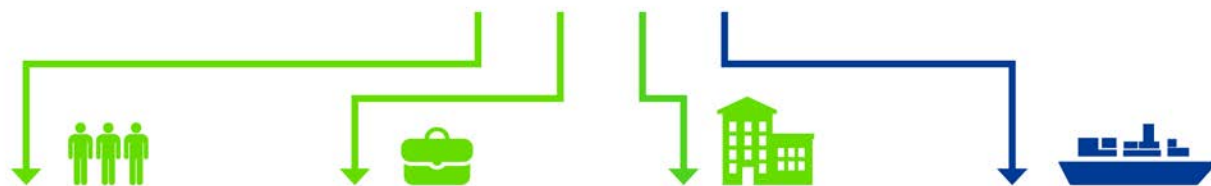
#### Society



Direct impact (EUR million)	2013	2012	2011
Corporate income tax	94	59	46
Excise taxes	1,684	2,261	2,354
Environmental tax	24	22	24
Charity work and sponsorship	1	1	1
Total investments	214	292	364

See Neste Oil's tax contribution

## NESTE OIL



Personnel

Owners and financiers

Society

Suppliers

## Suppliers



Direct impact (EUR million)	2013	2012	2011
Purchases of refinery feedstocks	15,320	16,164	14,199
Others (e.g. goods and services)	904	790	379

## Indirect impact

- Working with partners to develop their operations helps create new business opportunities for them
- Thanks to the stable income offered by Neste Oil, partners can provide employment for their employees and purchase products and services
- Neste Oil provided employment, including contractors' employees, to approximately 7,600 people in 2013

## Combating the gray economy

Neste Oil contributes to efforts aimed at combating the gray economy and takes part in initiatives such as the Finnish Tax Administration's Raksa project covering the construction industry. As part of its collaboration with this project, Neste Oil has supplied the tax authorities with information on its contractors. Beginning in 2013, Neste Oil has begun adding people's individual tax numbers to their staff cards. Contractors are not granted access permits to Neste Oil sites unless they provide their tax numbers. Everyone working for Neste Oil in Finland has been registered with the Public Register of Tax Numbers.

Sustainability ► Sustainability program ► Society ► Financial impact ► Tax contribution 2013

## Tax contribution 2013

Neste Oil provides a tax and duty overview. Company has published voluntary reports of taxes already for several years. This developed report includes material taxes and duties divided by type and by split between Finland and other countries.

The tax strategy of the company is to support Neste Oil's business decisions and ensure their proper implementation also from tax perspective. Tax planning follows the business changes and rationale of the company and taxes and duties are paid, collected, remitted as well as reported according to respective local laws. Neste Oil is committed to follow local laws as well as OECD Transfer Pricing Guidelines and transfer prices are based on public quotations whenever applicable quotation is available. High-quality tax compliance is the corner stone of Neste Oil's tax management. Company contributes continuously to tax law drafting and practice development and is in favour of fair, clear and consistent tax system.

Neste Oil has active companies in a couple of low tax jurisdictions because of sound business reasons. The captive insurance company in Guernsey pays corporate income tax in Finland according to Finnish tax laws. The income derived from shipping joint ventures in Bermuda is taxed according to Finnish tax laws in Finland only when the funds are repatriated to Finland.

The report includes such taxes and levies which Neste Oil is liable to pay or collect according to local law. However, such taxes or levies which are included in the purchase price of a product or a service are not reported in this overview unless Neste Oil is liable to report such tax or levy. If a foreign Group company was liable to pay tax in Finland, such tax is reported among Finland in our figures, and not in corresponding foreign figures.

## Taxes of 2012–2013

Taxes borne, MEUR	2012	2012	2012	2013	2013	2013
	Finland	Other countries	Group in total	Finland	Other countries	Group in total
Corporate income tax	25	34	59	76	18	94
Real estate tax	1	5	6	1	6	7
Employer's charges	5	8	13	4	7	11
Environmental taxes	22	0	22	23	1	24
Customs duty	7	1	8	2	1	3
<b>Total taxes borne, MEUR</b>	<b>60</b>	<b>48</b>	<b>108</b>	<b>106</b>	<b>33</b>	<b>139</b>
<b>Taxes collected, MEUR</b>						
VAT/GST, remitted	1,214	184	1,398	997	214	1,211
Excise taxes	2,024	237	2,261	1,480	204	1,684
Withholding taxes	65	10	75	69	8	77
Employee's social security	14	3	17	15	3	18
<b>Total taxes collected, MEUR</b>	<b>3,317</b>	<b>434</b>	<b>3,752</b>	<b>2,561</b>	<b>429</b>	<b>2,990</b>

	2012	2012	2012	2013	2013	2013
<b>Total taxes borne and collected, MEUR</b>	<b>3,377</b>	<b>482</b>	<b>3,860</b>	<b>2,667</b>	<b>462</b>	<b>3,129</b>

### Key term definitions:

**Corporate income tax** – All current taxes that are based on the taxable profit of a company during the respective calendar year and current tax adjustments for prior years (deferred taxes are excluded).

**Customs duty** – Legislative duties levied on imports and exports payable to EU or to governments in other customs territories during a fiscal year.

**Environmental taxes** – Taxes and levies imposed for environmental reasons.

**Excise taxes** – Taxes collected for certain products delivered for consumption or taken into use for the periods of a fiscal year. Excise taxes include strategic stockpile fees.

**Real estate tax** – Any taxes and duties paid based on ownership, possess, or usage of real estates as defined in respective legislation.

**Taxes** – Material, compulsory taxes, duties, charges, and levies payable to government and governmental body.

**Taxes borne** – Taxes that the Group is obliged to pay to governments and governmental bodies on its own behalf.

**Taxes collected** – Taxes which the Group is obliged to pay to governments and governmental bodies on behalf of another person or corporation, such as withholding taxes collected from the salary of personnel.



**VAT/GST, remitted** – Net amount amounting to VAT payable less the VAT deductible remitted to governments for the VAT periods of a fiscal year. VAT includes similar sales taxes.

**Withholding taxes** – Tax charged on salaries, dividends, royalties and interest on behalf of individual or corporation.




## Neste Oil's stakeholders

### Customer


What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	
<ul style="list-style-type: none"> <li>• High-quality, safe products</li> <li>• Reliable deliveries and good availability</li> <li>• Sustainable operations throughout the supply chain</li> <li>• Lower-emission products and solutions fulfilling biomandate requirements</li> <li>• Competitive pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Customer service channels (e.g. helpline, web site feedback, lubricant advice)</li> <li>• Customer satisfaction surveys</li> <li>• Personal interaction with sales staff</li> <li>• Brand survey</li> <li>• Facebook accounts</li> <li>• Group Twitter account</li> <li>• Group LinkedIn profile</li> </ul>	<ul style="list-style-type: none"> <li>• Using Neste Oil products, customers were able to reduce their greenhouse gas emissions by approx. 4.8 million tons, equivalent to over 40% of traffic-related greenhouse gas emissions in Finland.</li> <li>• We continued developing our supply chain to ensure reliable deliveries.</li> <li>• We continued working to ensure the sustainability of every stage of our supply chain.</li> <li>• A total of 1,724 audits or check-ups were done at our stations to ensure ongoing high standards of customer experience.</li> </ul>	 <p>“Our experience of using NExBTL diesel has been extremely positive in our own fleet, and we have experienced zero customer complaints or issues.”</p> <p><b>Pat O'Keefe, Vice President, Golden Gate Petroleum</b></p>

## Personnel and dealers


What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	care
<ul style="list-style-type: none"> <li>• Fair remuneration that encourages people to perform well</li> <li>• A workplace that promotes people's wellbeing and safety</li> <li>• Opportunities for people to develop their expertise and enjoy exciting career paths</li> <li>• Involvement</li> <li>• Trainee positions</li> </ul>	<ul style="list-style-type: none"> <li>• Innovation system</li> <li>• Personnel survey</li> <li>• Performance and development discussions</li> <li>• Intranet</li> <li>• Quarterly performance updates and staff strategy sessions</li> <li>• Dealer days</li> <li>• Extranet for dealers</li> <li>• Student visits</li> <li>• Recruitment fairs</li> <li>• Careers account on Twitter</li> <li>• Employer image studies</li> <li>• Summer intern studies</li> </ul>	<ul style="list-style-type: none"> <li>• We updated our performance-based bonus system and the remuneration system used at our refineries in Finland.</li> <li>• We launched the Way Forward initiative, which was created with the help of input from personnel.</li> <li>• We organized numerous internal manager training courses and other training.</li> <li>• We continued implementing our wellbeing at work plan.</li> <li>• We offered comprehensive occupational healthcare cover.</li> <li>• We supported job rotation and relocation.</li> <li>• We offered summer internships in our own operations to around 300 young people. In addition, approx. 200 young people were hired by Neste Oil stations. The focus in station recruitment was on young people without any previous work experience.</li> <li>• Summer trainees gave Neste Oil 4.4 (4.2) points out of five in the annual summer trainee survey.</li> <li>• We took part in the 'Responsible Summer Job' campaign in Finland.</li> </ul>	 <p>My busy career at Neste Oil has lasted over 20 years to date. My responsibilities have varied and adapted to where I've been in my life over the years, and I've tried to be flexible as well when the job has called for it. Having such a long career with the same employer means sharing the same sort of values as the company and my colleagues. I've also felt that my job has given me the chance to champion things I find important, whether they're financial-, technology-, or people-related."</p> <p><b>Reetta Ristola, Sourcing Manager, Neste Oil</b></p>

sourcing manager


## Owners and investors

What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	care
<ul style="list-style-type: none"> <li>• Good overall return on the company's share</li> <li>• Good loan repayment performance</li> <li>• Sufficient and reliable information for making investment decisions</li> <li>• Sustainable operations</li> <li>• Good risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Press conferences on the company's financial results</li> <li>• Annual General Meeting</li> <li>• Capital Markets Day</li> <li>• Meetings with investors and analysts</li> <li>• Conference calls with investors and analysts</li> <li>• Surveys</li> </ul>	<ul style="list-style-type: none"> <li>• We paid a dividend of EUR 0.38 per share from 2012.</li> <li>• We improved our most important financial target, return on average capital employed, after tax (ROACE), from 5.0% to 11.8%.</li> <li>• We held a Capital Markets Day in London.</li> <li>• We met investors and analysts regularly.</li> <li>• We operated in accordance with the law and statutory regulations and our Code of Conduct.</li> </ul>	 <p>"Corporate responsibility issues are increasingly material for companies and therefore they are increasingly material for their investors. We at Nordea Asset Management strive to incorporate various environmental, social and governance issues in to our decision making and appreciate the effort the Neste Oil has invested in corporate responsibility management. We especially appreciate the levels of transparency not only demonstrated in their annual reporting, but also in their openness to discuss their opportunities and challenges in public."</p> <p><b>Antti Savilaakso, Director of Responsible Investment &amp; Governance, Nordea</b></p>

## Decision-makers and the authorities

What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	care
<ul style="list-style-type: none"> <li>• Compliance with the law and statutory regulations</li> <li>• Reliable and sufficient reporting</li> <li>• A good taxpayer</li> </ul>	<ul style="list-style-type: none"> <li>• Visits to Neste Oil locations</li> <li>• Personal meetings</li> <li>• Permit application processes</li> <li>• Joint crisis response exercises</li> <li>• Brand study</li> <li>• Stakeholder Advisory Panel</li> </ul>	<ul style="list-style-type: none"> <li>• We operated in compliance with the law and statutory regulations in all countries.</li> <li>• Our income taxes totalled EUR 94 million. <a href="#">Read more about our taxes.</a></li> <li>• We engaged in active dialogue with decision-makers and officials on matters affecting our industry.</li> <li>• We submitted a new environmental permit application for the Porvoo refinery in the fall 2013.</li> </ul>	 <p>Neste Oil's operations in recent years have reflected a positive effort to highlight the importance of social responsibility as part of its activities. The company's investments in biofuels and renewable feedstocks, together with its ongoing R&amp;D, are important aspects of this effort. In line with its commitment to sustainable development, Neste Oil has actively looked for new business opportunities and has taken the criticism that it has received from environmental organizations, on issues such as the use of palm oil, seriously."</p> <p><b>Pia Kauma, MP, Chair of Neste Oil's Stakeholder Advisory Panel</b></p>

## Local communities


What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	care
<ul style="list-style-type: none"> <li>• Effective management of the environmental impact associated with our plants</li> <li>• Support for and donations to the local community</li> <li>• Open and timely communication</li> </ul>	<ul style="list-style-type: none"> <li>• Outreach events for people living near Neste Oil's refineries in Finland</li> <li>• Collaboration with other companies based close to our sites</li> <li>• Open door days at our refineries</li> <li>• Magazines and newsletters distributed to the surrounding community</li> <li>• Facebook site maintained by the Naantali refinery</li> <li>• Meetings with local municipal leaders</li> <li>• Feedback via internet</li> </ul>	<ul style="list-style-type: none"> <li>• We continued to constantly monitor the environmental impact of our operations and ensure that we operate within the terms of our environmental permits.</li> <li>• We distribute newsletters to people living near our plant.</li> <li>• Incidents at our Porvoo and Naantali sites are communicated to local people via sms, email, our refinery helplines, and the joint web site maintained by companies in the Kilpilahti area in Porvoo.</li> <li>• Local people were updated about incidents at Porvoo and Naantali sites 37 times in 2013. There were no incidents that required informing local communities in Singapore and Rotterdam.</li> <li>• The trustworthiness of Neste Oil's local communications in Porvoo and Naantali was ranked 3.25 and 3.24 respectively (on a scale of 1-4) in a survey of decision-makers and local residents.</li> <li>• We held open door events at the Naantali and Rotterdam refineries.</li> </ul>	 <p>"It has been positive to see that a major industrial site and a small golf course can co-exist so well, despite being so close to each other, just a few kilometers apart in fact. We have worked together on a number of events and meetings, and I am sure that there will be a lot more opportunities for doing so in the future. As neighbors, we feel part of the same local community and we get updated on the site's operations regularly."</p> <p><b>Antti Hiltunen, CEO, Kullo Golf Oy</b></p>





**Partners (feedstock and other suppliers, universities, etc.)**

What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	
<ul style="list-style-type: none"> <li>• Reasonable level of revenue and fair and equitable treatment</li> <li>• Opportunity to develop their operations and collaboration with Neste Oil</li> <li>• Sustainable operations by Neste Oil</li> <li>• Joint R&amp;D projects</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous interaction, meetings, and visits</li> <li>• Training courses</li> <li>• Audits</li> <li>• Research consortia and joint teams</li> <li>• Annual feedback questionnaire</li> <li>• Seminars and conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Our experts helped palm oil smallholders in Indonesia to develop their operations and enabled them to have their output certified.</li> <li>• We launched a study with RaisioAgro on how straw could be used cost-effectively as an input for producing biofuel.</li> <li>• We were part of a research project coordinated by the Lappeenranta University of Technology on biofuel-related greenhouse gas emissions.</li> <li>• We are part of a number of international research projects on algae oil and started a new joint research initiative in the field with the University of Queensland in Australia.</li> <li>• We participated in TransEco, an extensive research initiative headed by VTT Technical Research Centre of Finland, and continue the cooperation by participating the TransSmart project.</li> </ul>	 <p>"Golden Agri-Resources believes that multi-stakeholder collaboration is the best way to achieve solutions for sustainable palm oil production. Our leadership position enables us to adopt the best industry practices and standards, manage the environment responsibly and empowering the communities where we operate, while maximising long-term shareholder value."</p> <p><b>Peter Heng, Managing Director, Corporate Communications and Sustainability, Golden Agri-Resources Ltd</b></p>

## Media

What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	care
<ul style="list-style-type: none"> <li>• Open and reliable communication on topical issues</li> <li>• Availability of personnel to answer questions</li> </ul>	<ul style="list-style-type: none"> <li>• Background meetings with journalists</li> <li>• Media events and interviews</li> <li>• Visits to our sites</li> <li>• Facebook channel: Neste Oil Bensis</li> <li>• Group Twitter account</li> <li>• Direct contact with media representatives</li> <li>• Web site</li> <li>• LinkedIn profile</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Communications responded to media enquiries and helped journalists contact someone suitable to answer their questions.</li> <li>• We offered possibilities to interview our people.</li> <li>• We organized background meetings for 65 journalists.</li> <li>• Neste Oil personnel provided specialist input for a number of articles on subjects of interest to the general public.</li> <li>• We organized visits to our sites for the media and other groups.</li> </ul>	 <p>"I follow Neste Oil's R&amp;D work and refining new materials into biofuels with great interest. This is certainly true recycling of waste and many other kinds of biomass."</p> <p><b>Helena Raunio, Journalist, Tekniikka &amp; Talous</b></p>

## Organizations

What people expect of Neste Oil	Interactive channels	Examples of how we responded to these expectations in 2013	
<ul style="list-style-type: none"> <li>• Sustainable operations and transparency</li> <li>• Sustainable use of palm oil</li> <li>• Continuous development of our operations</li> <li>• Active participation in debate on matters important to society and concrete actions to move things forward</li> <li>• Sharing our expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings with representatives of different organizations</li> <li>• Joint exercises, in areas such as oil spill response</li> <li>• Conferences and seminars</li> </ul>	<ul style="list-style-type: none"> <li>• We started collaboration with The Forest Trust (TFT) to help prevent deforestation and secure the sustainable production of renewable feedstocks.</li> <li>• We published a set of No-Deforestation &amp; Responsible Sourcing Guidelines.</li> <li>• We were actively involved in the activities of numerous industry organizations, such as the Finnish Petroleum Federation and the Chemical Industry Federation of Finland.</li> <li>• We continued to be an active member of the Roundtable on Sustainable Palm Oil (RSPO) and were the first company in the world to receive a RSPO-RED certificate.</li> <li>• We continued to collaborate with WWF Finland on oil spill response work and carried out a joint exercise at the Porvoo refinery.</li> <li>• We continued to support the work of Borneo Child Aid in promoting the education and welfare of children in Malaysia.</li> <li>• We met with various environmental organizations critical of our operations.</li> </ul>	 <p>"Neste Oil is helping to transform the palm oil industry with their ground-breaking commitment to No-Deforestation in their sourcing. They understand that buyers need to support suppliers to make these changes, and are working closely with TFT and other stakeholders to remove the barriers to truly deforestation-free palm oil."</p> <p><b>Scott Poynton, Executive Director, TFT (The Forest Trust)</b></p>

## Stakeholder dialogue in 2013



Neste Oil actively engages in dialogue with its various stakeholders and listens to their expectations and possible concerns. Stakeholder feedback is seen as very valuable and is used to help develop Neste Oil's operations.

Stakeholder dialogue takes place on many levels. Overall responsibility for stakeholder engagement lies with the company's Senior Vice President, Communications, Marketing and Public Affairs; Senior Vice President, Sustainability and HSSE; Vice President, Investor Relations; Senior Vice President, Human Resources; the Executive Vice Presidents of Neste Oil's business areas; and numerous experts across the company.

Neste Oil engages with its stakeholders on a daily basis through a variety of communication and interactive channels. Company personnel are encouraged to take part in discussion through things such as social media, and a set of guidelines has been drawn up to help them do this.

Read more about the [channels used by Neste Oil to interact with its stakeholders](#).

Feedback from stakeholders is not always positive and is sometimes critical. Constructive criticism is seen as valuable input for developing Neste Oil's operations.

### The sustainability of the biofuel industry and land seizures caused concern

The sustainability of the palm oil industry generated some discussion among Neste Oil's stakeholders in 2013. A report on the industry and deforestation published by Greenpeace in October 2013 accused one of Neste Oil's suppliers (Wilmar) of irresponsible practices in this area. Neste Oil treats deforestation very seriously, and its No-Deforestation Guidelines, introduced in 2013, are designed to help the company's palm oil suppliers identify and review aspects of their operations of the type highlighted in the Greenpeace report. Neste Oil works closely and constantly with its suppliers and has discussed the issues contained in the Greenpeace report with them. Neste Oil only buys certified palm oil that comes from known sources from its suppliers.

Neste Oil requires its suppliers to operate according to legislation and RSPO (Roundtable on Sustainable Palm Oil) principles.

Read about [Wilmar's response to the Greenpeace report](#).

Read the [Greenpeace report on the palm oil industry and the trade in palm oil](#).

Some claims were made during 2013 asserting that Neste Oil was linked to land grabbing in Asia. No cases of this type have occurred in Neste Oil's own supply chain. All the palm oil used by Neste Oil is traced back to the plantation where it is produced, and Neste Oil knows the exact location of these plantations and their history; none of the plantations supplying Neste Oil have plans to extend their operations. The certification procedures used by Neste Oil and the company's own sustainability criteria require all of Neste Oil's suppliers to respect human rights. All of Neste Oil's suppliers are also committed to the RSPO's criteria covering land grabbing.

Learn more about the [RSPO's sustainability criteria](#).

Read more about [how Neste Oil verifies the sustainability of its supply chain](#).

### Collaboration with smallholders and forest fires high on the agenda in Asia

Neste Oil's collaboration with palm oil smallholders was one of the subjects that attracted the interest of the company's stakeholders in Asia in 2013. Neste Oil currently buys palm oil from around 54,000 smallholders and is negotiating a new arrangement that would enable it to buy palm oil from independent smallholders.

Forest fires in Indonesia also generated some discussion in 2013. These were suspected of being the result, at least in part, of illegal burning of land by farmers. The Indonesian authorities and the RSPO investigated a number of cases and found no sign of land having been cleared in this way on Neste Oil's suppliers' plantations. All of Neste Oil's suppliers are covered by a clear policy banning the use of slash and burn to clear land.

### Plans to exit the shipping business generated discussion among personnel and in the media

Neste Oil's announcement that it was to start statutory employer-employee negotiations with its shipping personnel and plans to exit the shipping business generated discussion among the company's personnel and in the media. The issues involved were discussed openly with the personnel concerned and in accordance with statutory requirements. Neste Oil also communicated the news and answered media questions on the subject openly.

### Advocacy work supports public decision-making

Neste Oil supports legislators and other decision-makers in their work by making its specialist expertise and knowledge available on industry-related matters. Its advocacy-related work is aimed at supporting the implementation of the company's strategy and ensuring that Neste Oil's operating environment develops in a way favorable to the company's interests and competitiveness. In line with its commitment to good advocacy practices, Neste Oil is registered with the EU's Transparency Register.

Neste Oil aims to take an active part in public debate, both in Finland and internationally, and during 2013 participated in discussions at EU level on subjects such as the update of the directives covering the use of renewable traffic fuels, alternative traffic fuels, and EU climate and energy policy post-2020. Neste Oil also continued work aimed at helping eliminate market barriers within and outside the EU. In Finland, Neste Oil took part in debate on subjects such as the reform of the country's environmental protection legislation, government strategy on energy and climate policy, and how to compensate the impact on Finnish competitiveness resulting from the EU's Sulphur Directive. In the US and Canada, Neste Oil presented its views on the

development of biofuel legislation through industry organizations there.

Neste Oil was also involved in supporting the Finnish Arkadia 2015 training program for young future decision-makers in 2013. This aims to give participants a comprehensive overview of the challenges facing the future of the retail trade, the energy sector, the media, property, and construction in Finland.

Read more about [Neste Oil's position on key issues](#).

Sustainability ► Sustainability program ► Society ► Human rights

## Human rights



Neste Oil is committed to observing the principles contained in the United Nations' Declaration of Human Rights and the key conventions on human rights promoted by the International Labour Organization (ILO). The same respect for human rights is expected of all the company's partners. The importance of respecting human rights is included in Neste Oil's sustainability principles for biofuels, its sustainability policy, and the company's Code of Conduct.

All forms of harassment, discrimination, child labor, forced labor, and other forms of exploitation are strictly forbidden in Neste Oil. Equality is currently the most central aspect of human rights highlighted within the company's own operations. Neste Oil has its own Code of Conduct, and the personnel are encouraged to familiarize themselves with it through a variety of means, including an interactive game.

Learn more about [Neste Oil's Code of Conduct](#), its [sustainability policy](#), and its [sustainability principles for biofuels](#).

### Southeast Asia identified as the riskiest area

No risks associated with the use of child, forced, or prison labor were identified in Neste Oil's operations during 2013, and there were no cases of people's human rights being violated.

Southeast Asia, where Neste Oil buys some of its renewable raw materials, has been identified as the highest-risk region in a mapping of human rights issues covering the company's entire supply chain. To ensure that human rights are respected throughout Neste Oil's supply chain, all of the company's potential suppliers go through due diligence reviews before they are approved as partners. Reviews cover their performance in areas such as workers' rights and the use of child labor and forced labor. As part of the certification process, third-party auditors review the procedures used by raw material suppliers in their operations and their human rights performance. Neste Oil also requires all its palm oil suppliers to be members of the Roundtable on Sustainable Palm Oil (RSPO). By joining the RSPO, suppliers commit themselves to the organization's principles, which include respecting people's human rights.

Learn more about the [RSPO's principles](#).

No land disputes were shown to have occurred during 2013 in areas from which Neste Oil sources its palm oil. One of its palm oil suppliers, the IOI Group, is involved in an ongoing, unresolved land-related dispute in Sarawak in Malaysia. Neste Oil does not buy palm oil from disputed land areas. None of the plantations from which Neste Oil buys palm oil have plans to extend their activities or are involved in land disputes.

Read more about [how Neste Oil verifies the sustainability of its suppliers' operations](#).



## Participation in organizations and joint projects



Neste Oil takes part in the development of the industry it operates in by working through key industry organizations worldwide and the company representatives that sit on their boards or committees.

**During 2013, Neste Oil took part in the activities of numerous communities, including the following:**

### Energy and chemicals

- European Biodiesel Board (EBB)
- CONCAWE, the oil companies' European association for environment, health and safety in oil refining
- Europa (European Petroleum Industry Association)
- ASFE (Alliance for Synthetic Fuels in Europe)
- Chemical Industry Federation of Finland
  - Neste Oil's President & CEO has chaired the Federation's Board since the beginning of 2013

- Finnish Petroleum Federation
  - A Neste Oil representative is the Vice Chair of the Federation's Board
- Cleantech Finland
- CLEEN (Cluster for Energy and Environment)
- European Energy Forum (EEF)
- Canadian Renewable Fuels Association (CRFA)
- European Committee of Standardization (CEN)
- ASTM International
- Oil Companies International Marine Forum (OCIMF)

### Sustainable production and use of feedstocks

- Roundtable on Sustainable Biomaterials (RSB)
- Roundtable on Sustainable Palm Oil (RSPO)
- Round Table on Responsible Soy (RTRS)

In addition to organizations, Neste Oil also participates in a number of joint initiatives every year.

### Aviation initiatives

- European Aviation Biofuels Flightpath
  - aimed at increasing the use of aviation biofuel to 2 million t/a by 2020
- ITAKA (Initiative Towards Sustainable Kerosene for Aviation)
  - aimed at promoting the commercialization and use of renewable aviation fuel in Europe
- A Dutch 'Bioport for jet fuels in the Netherlands' initiative aimed at promoting the use of sustainably produced biofuel in aviation

### Safety initiatives

- Tanker Safety, a project aimed at improving marine and environmental safety in the Gulf of Finland

### Sustainability initiatives

- Responsible Care, a voluntary initiative by the global chemical industry aimed at supporting sustainable development in the industry.

## Charity work and sponsorship



Sponsorship at Neste Oil is based on the company's sponsorship principles. When selecting what to sponsor, particular attention is given to how closely a potential partner shares similar values to Neste Oil's own. Neste Oil does not sponsor political parties, religious movements, or company clubs. Neste Oil spent a total EUR 1 (1) million on charity work and sponsorship in 2013.

### Neste Oil Rally has a major impact in and around Jyväskylä

Neste Oil has been the main sponsor of the Finnish World Rally Championship event since 1994. A study carried out in 2013 – in the form of a questionnaire produced by the Sports Business School – showed that the Neste Oil Rally generated a direct financial benefit to the Jyväskylä region valued at close to EUR 15 million in 2013. The event also has a very positive impact on the town's overall image.

Read more about [the study](#).

### Other sporting events sponsored in 2013:

- **'Auta miestä mäessä'** campaign, in support of the Finnish national ski jump team
- **Espoo Blues**: ice hockey team from Espoo
- **Oulun Kärpät**: ice hockey team from Oulu

### Special emphasis on children and young people in recent years

Neste Oil has focused on supporting activities linked to children and young people in particular in recent years. By supporting a range of activities, Neste Oil's aim is to help enhance the wellbeing of young people and children, offer them challenging activities, and help them enjoy sport and staying on the move.

### The following received support from Neste Oil in 2013:

- **Nuorten hyväksi (Let's Help Young People)** campaign: aimed at promoting wellbeing among the young

- **Finnish Figure Skating Association**: proactive support to help prevent young national team players aged between 10 and 15 from being injured
- **Millennium Youth Camp 2014**: encouraging young people to learn more about science and promoting the concept of sustainable development among future scientists
- **Chemistry Lab Gadolin**: an action-based learning environment for schoolchildren and students studying chemistry
- **Espoo Blues Juniors**: long-term support for junior ice hockey players
- **Borneo Child Aid**: enabling 265 Malaysian children to attend school annually
- **Lastenklินิกoiden kummit and Espoo Blues**: Neste Oil donated EUR 100 for every goal scored by the Espoo Blues ice hockey team in a home game during the 2012–2013 season to the children's wards at Jorvi Hospital in Espoo via Lastenklินิกoiden kummit
- **MyCity project in Turku**: a study module on society, working life, and entrepreneurship for sixth-grade pupils.

### Sponsoring a pioneer spirit

Neste Oil also uses sponsorship to promote a pioneer spirit. Research and development activities play an important role in Neste Oil's businesses, which is why they are also seen as worthy of sponsorship support.

### Activities sponsored in 2013:

**Millennium Technology Prize**: the world's biggest technology prize, awarded to innovations that enrich people's everyday lives and promote sustainable development.

### Supporting local sports and arts activities

Neste Oil is also committed to helping promote the dynamism of local communities by supporting sports and arts activities in locations where its operations are based. The company donated approx. EUR 57,000 to local volunteer work associated with children and young people in 2013.

### Activities sponsored in 2013:

- **Summer Sounds in Porvoo festival**
- **Naantali Music Festival**
- **Local volunteer work among children and young people.**

Neste Oil's Christmas donation in 2013, totaling EUR 15,000, went to the new children's hospital in Helsinki, UN Women, and WWF Finland.

## Company position on energy and climate issues



### Alternative energy solutions for transport

A number of different alternatives are needed to power transport in the future. Liquid fuels, as used by today's engines and infrastructure, are likely to remain the dominant source of energy in the sector over the next few decades. Therefore, biofuels have a key role to play in reducing traffic-related CO<sub>2</sub> emissions.

Alternatives such as gas, electricity, and hydrogen will become more widely used at some point. Neste Oil's view is that, legislators should consider different solutions similarly, based on their true climate impact. Work also needs to be done to investigate how the introduction of biofuels in aviation can best be promoted, as liquid fuels will remain the only alternative in this sector even over the long term.

### Climate change and EU climate policy after 2020

The current targets for reducing greenhouse gas emissions set for member states within the European Union extend to 2020. Neste Oil believes that the EU should clarify its post-2020 policy on climate and energy as soon as possible, as uncertainty about the nature of future legislation will slow the pace of investments in renewable energy. Retaining binding, EU-level targets for the use of renewable energy in transport after 2020 will be important in achieving reductions in greenhouse gas and other tailpipe emissions.

### Biofuel regulations and raw materials

The EU's biofuel legislation contains very strict sustainability criteria. Neste Oil supports the method proposed by the European Commission for preventing the risk of emissions related to indirect land use change (ILUC) by limiting the amount of crop-based feedstocks to the current level. This will prevent new ILUC emissions being generated and will also encourage the development of new types of feedstocks and technologies. Neste Oil expects both EU and national authorities to favor the use of waste and residues as feedstocks for producing renewable fuel.

## Climate and resource efficiency

Neste Oil's operations are regulated by strict environmental permits. By operating in accordance with these permits and making efficient use of our resources, we are able to manage our environmental impact effectively, protect natural resources, and improve productivity.

**We are the global leader in refining waste and residues into premium-quality traffic fuels**

**80%** of the target set for energy efficiency agreement achieved

[Read more](#) ►

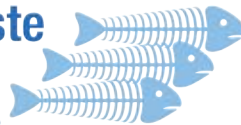


**We recovered 156,500 tons of carbon dioxide generated during production**



[Read more](#) ►

**Over half of our renewable raw material use was waste and residues**



[Read more](#) ►

What were our targets?	Actions and achievements in 2013	What next?
Significantly increase the amount of waste and residues-based inputs we use.	<ul style="list-style-type: none"> <li>Waste and residues accounted for 52.6% (35.1%) of our renewable inputs in 2013.</li> <li>We added technical corn oil, tall oil pitch, and spent bleaching earth oil to our feedstock base.</li> </ul>	<ul style="list-style-type: none"> <li>Continue increasing the proportion of waste and residues used in producing renewable fuels.</li> </ul>
Continue progressing towards our energy saving target (660 GWh by 2016).	<ul style="list-style-type: none"> <li>We achieved 80% (60%) of the target set for 2016.</li> </ul>	<ul style="list-style-type: none"> <li>Continue operations that will help us to achieve our energy saving target.</li> </ul>
Improve energy efficiency through investments and enhanced refinery operations.	<ul style="list-style-type: none"> <li>Measures executed in 2013 result in an annual energy saving of 160 GWh.</li> </ul>	<ul style="list-style-type: none"> <li>Continue implementing measures (investments and optimizing refinery operations) to achieve our energy saving target.</li> </ul>
Reduce greenhouse gas emissions in our operations cost-effectively.	<ul style="list-style-type: none"> <li>We recovered 156,500 (156,000) tons of CO<sub>2</sub> at the Porvoo refinery.</li> <li>We optimized the fired heaters used at the Naantali refinery.</li> <li>The diesel unit hot oil furnace at the Rotterdam refinery was converted to using process gas in addition to natural gas.</li> </ul>	<ul style="list-style-type: none"> <li>We continue identifying opportunities to reduce greenhouse gas emissions in our own operations.</li> </ul>
Monitor changes in environmental legislation and permitting practices and assess their potential impact on Neste Oil.	<ul style="list-style-type: none"> <li>We took part in drafting work on new Best Available Technology (BAT) requirements.</li> </ul>	<ul style="list-style-type: none"> <li>When the requirements are completed we will review the condition of our refineries and prepare possible actions.</li> </ul>
Comply with stricter environmental permit requirements.	<ul style="list-style-type: none"> <li>A new limit on SO<sub>2</sub> emissions was introduced at Porvoo.</li> </ul>	<ul style="list-style-type: none"> <li>Continue operating within the terms of our environmental permits and modify operations where needed to comply with new regulations.</li> </ul>



Case: Reducing methane emissions results in a better greenhouse gas balance for renewable diesel



## Reducing methane emissions results in a better greenhouse gas balance for renewable diesel



The majority of the CO<sub>2</sub> emissions generated by fossil fuels are released during end-use, while most emissions from renewable fuels are linked to producing the feedstocks used for refining them. In the case of waste-based inputs, farming and processing account for the most emissions. To further enhance the greenhouse gas emission reduction (40–90% compared to fossil diesel) offered by renewable diesel, Neste Oil is investigating a variety of opportunities for reducing CO<sub>2</sub> emissions during the production of the renewable inputs it uses.

When producing palm oil, one of the inputs used in refining renewable diesel, greenhouse gases are generated in the open basins used when treating wastewater from pressing plants. Wastewater contains high levels of organic matter, which breaks down into methane and CO<sub>2</sub> over time. Recovering these gases and using the recovered methane to generate electricity can reduce emissions. Recovery facilities call for major investments, however.

Separating out organic matter from wastewater as it leaves pressing plants would be one alternative solution, as it would prevent methane and CO<sub>2</sub> from being formed. Organic matter can

be recovered in a number of ways, by filtration for example. By removing organic matter, the remaining water and sludge can be treated more cost-effectively and the decomposition process that generates methane can be minimized. Organic residue can also be refined into fertilizer for plantation use and reduce the need for chemical fertilizers.

Methane is 20 times more potent in terms of promoting climate change than CO<sub>2</sub>, according to Neste Oil's Sustainability Manager in Singapore, Adrian Suharto.

"Because of the major climate impact that it has, recovering methane or preventing it from being formed in the first place are highly effective ways to reduce the overall level of greenhouse gases generated by renewable fuel."

### Benefits for village communities as well as the environment

Reducing greenhouse gas emissions is far from being the only benefit to result from methane recovery, as methane can also be used to generate electricity, benefiting not only pressing plants but local communities as well.

"When pressing plants are able to generate their own electricity, they can make major savings in their fuel costs," explains Adrian. "And if a plant is grid-connected, it can earn extra income by selling its surplus electricity to the grid."

Given the high level of investments involved, only a fraction of palm oil pressing plants in Malaysia and Indonesia currently have methane recovery units in operation. Although Neste Oil does not own any palm oil pressing plants or oil palm plantations, its aim is to help palm oil producers acquire methane recovery systems or equipment to help prevent it being generated in the first place, and it is working on a number of research, funding, and collaborative-based alternatives.

## Climate



Climate change is a global challenge, and responding to it effectively calls for a number of parallel approaches. Combating

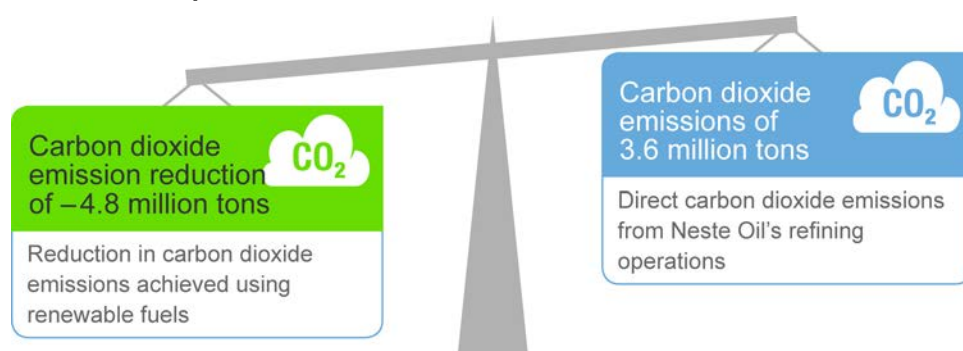
climate change is one of the central drivers behind Neste Oil's cleaner traffic strategy. The company aims to reduce traffic- and transport-related greenhouse gas and other emissions by producing cleaner traffic fuel solutions.

The annual emission achieved with using NExBTL diesel equals to over 40% of the annual greenhouse gas emissions generated by traffic in Finland.



Neste Oil began work on drawing up a climate program towards the end of 2012. During 2013, work focused on reviewing the current status of existing policies and measures aimed at combating climate change. The long-term goal of the climate program is to reduce traffic-related tailpipe emissions through renewable fuel solutions and reduce the climate impact of Neste Oil's own operations through cost-effective improvements. Development work on the program will continue in 2014.

### Net climate impact\*



\*Calculated in accordance with the method defined in the European Union's Renewable Energy Directive.

### Carbon footprint calculations covering the entire product life cycle

Neste Oil calculates the carbon footprint of its products over their entire life cycle, from the production of the feedstocks they are refined from to their end-use. Neste Oil has developed greenhouse gas calculation tools on the basis of international standards and legislation for a number of years. The methods have been verified by independent, third-party experts as meeting

the strict quality standards required for biofuels, such as the requirements of the EU's Renewable Energy Directive.

Using NExBTL renewable diesel results in 40–90% lower greenhouse gas emissions than fossil diesel. The majority of the greenhouse gas emissions associated with renewable diesel are generated during feedstock production and are linked to factors such as fertilizer usage.

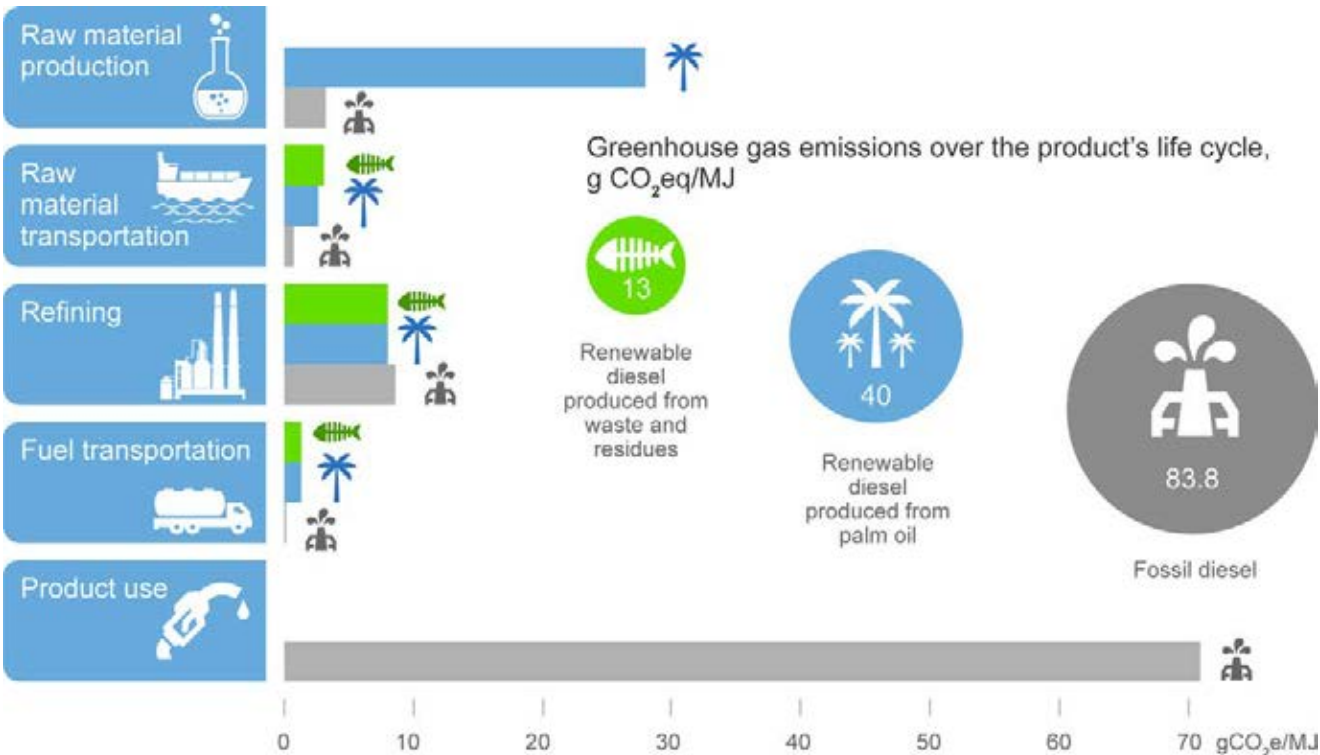
Feedstock	Emission reduction
Waste and residues (e.g. waste animal fat, waste fish processing fat, palm fatty acid distillate (PFAD), and stearin)	85–90%
Crude palm oil	52%
Other vegetable oil (e.g. rapeseed and camelina oils)	42–55%

Neste Oil reports on the carbon footprint associated with its operations in accordance with the criteria established by the Carbon Disclosure Project. Regular reporting on the company's forest footprint takes place through the CDP Forest program.

Read more about carbon footprint reporting and the [Carbon Disclosure Project](#).

Greenhouse gas emissions throughout a product life cycle

(by clicking some phase in a product's life cycle you will see information related to that particular phase)



Raw material production

Greenhouse gases generated in raw material production (e.g.):

- Crude oil extraction and flaring
- Using fertilizers in renewable raw material production
- Methane released from wastewater during palm oil production. The amount of methane can be significantly reduced by capturing it at mills.



Raw material transportation

Greenhouse gases generated in raw material transportation (e.g.):

- Fuel usage during marine, rail, and road shipment
- To reduce fuel consumption at sea, basic tanker speed has been reduced to 13.5 knots. Ships' hulls and propellers are cleaned of growth that reduces ship speed.



### Refining

#### Greenhouse gases generated in refining (e.g.):

- Energy production
- Burning fuel in furnaces

- Hydrogen production
- Part of the carbon dioxide generated during production is recovered for re-use



### Fuel transportation

#### Greenhouse gases generated in fuel transportation (e.g.):

- Fuel usage in marine, rail, and road shipments
- Emissions from road shipments are reduced by measures such as optimizing load levels.

- Engine efficiency and the condition of machinery affect emission levels, for example.



### Product use

#### Greenhouse gases generated in product use (e.g.):

- Emissions released when using renewable fuels are carbon-neutral, as their CO<sub>2</sub> is bound to the biomass used to produce them

- The majority of the life cycle emissions of fossil fuels are generated when they are used

Sustainability ► Sustainability program ► Climate and resource efficiency ► Material efficiency

## Material efficiency



### Efficient feedstock use

Conventional oil refining is highly efficient in terms of material usage, as virtually all the feedstock used can be refined into products or feedstocks for other industrial uses. Oil refining also generates very little waste, as any product not meeting the quality requirements can be returned to the process and re-refined.

Neste Oil strives to make maximum use of the inputs employed to produce renewable fuels. The renewable naphtha produced as a by-product during NExBTL renewable diesel production, for

example, is sold to customers in the chemical industry. In addition to renewable naphtha, Neste Oil is also planning to commercialize the renewable propane and renewable isoalkane produced as a side-product during the NExBTL process.

Read more about [Neste Oil's renewable raw material use](#).

52% of total raw material use comprised waste and residues



### Premium-quality products produced from other's waste

Unlike many other companies in the energy field, Neste Oil does not only use waste to generate energy, but also uses waste and residues to produce premium-quality, low-emission traffic fuels with the help of its NExBTL technology. Neste Oil used 1,2 million tons (742,000 tons) of waste and residues for refining purposes in 2013, equivalent to 52.6% (35.1%) of its total usage of renewable inputs.

The waste and residues-based inputs used in 2013 comprised waste animal and fish fat, technical corn oil, tall oil pitch, and palm fatty acid distillate (PFAD), a by-product of palm oil production. Neste Oil increased its use of waste animal fat and PFAD in particular, and produced enough renewable diesel from waste and residues in 2013 to power around 1.3 million cars for a year.



## Industrial symbiosis helps reduce Neste Oil's impact on the environment

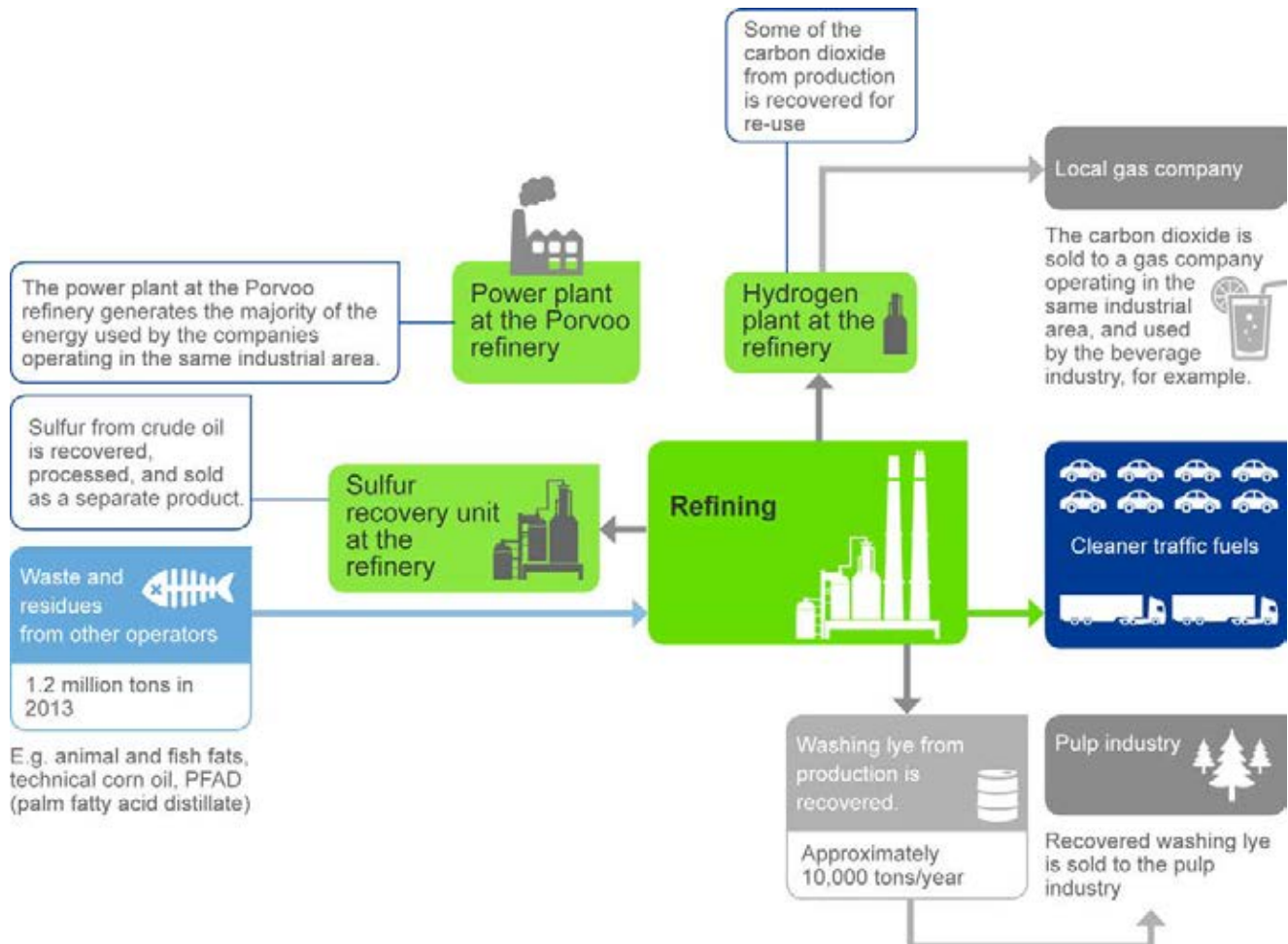
Neste Oil aims to use natural resources effectively and efficiently at all its refineries. The fact that its refineries are located in industrial areas offers numerous opportunities for leveraging synergies in this area with neighboring plants. The Porvoo refinery, for example, generates around 10,000 tons of used wash liquor annually, which can be used as an input by pulp mills. The sulfur recovered from crude oil is processed into elemental sulfur, which can be used as a product in its own right. The Porvoo

refinery also generates the majority of the energy used by Neste Oil and the other companies in the Kilpilahti industrial area.

Neste Oil's refineries in Singapore and Rotterdam are able to make use of sidestreams and process waste from nearby companies in their own production processes. They also source the gases, electricity, water, and steam they need from nearby chemical and energy generation plants.

Read more about [how CO<sub>2</sub> is recovered at the Porvoo refinery](#).

### Material efficiency in production, case Porvoo refinery





## Energy efficiency



Neste Oil's goal is to reduce its overall energy consumption, particularly in refining and logistics. Enhancing cost efficiency and low-emission refining are key drivers for improving energy efficiency.

### Energy usage

	2013	2012	2011
<b>Total energy use, TWh</b>	<b>14.11</b>	<b>14.24</b>	<b>14.98</b>
Fuels and natural gas (incl. self-produced fuels used in Neste Oil's own energy generation)	91.4%	90.5%	94.3%
Purchased electricity	6.4%	6.9%	3.9%
Purchased heat	2.2%	2.6%	1.8%

### Continued progress on improving energy efficiency

Neste Oil is committed to Finland's national action program covering the country's energy-intensive industry and designed to help combat climate change in line with Finland's national climate and energy strategy. Launched in 2009, Neste Oil's energy efficiency program covers the Porvoo and Naantali refineries and terminals in Finland. As part of the program, Neste Oil has set an energy-saving target of 660 GWh to be achieved by 2016, equivalent to the annual energy needed to heat 35,800 homes (120 m<sup>2</sup>, four family members) electrically (source: Vattenfall). As of the end of 2013, 80% (60%) of the energy-saving target set for 2016 has been achieved.

### Energy efficiency at Neste Oil's fossil fuel refineries

A well-known international energy efficiency index is used as the yardstick for measuring energy efficiency at Neste Oil's fossil fuel refineries at Porvoo and Naantali. The Porvoo refinery was given an index value of 84.0 (87.4) in 2013, while the Naantali refinery received an index value of 96.3 (100.9).

A decision was taken in 2013 to replace the fired heaters at the crude distillation unit at the Porvoo refinery with new-generation units. The plan is to commission the new heaters, which will improve the refinery's energy efficiency and are expected to save

approximately 50 GWh of energy annually, during the site's next major maintenance turnaround scheduled for 2015.

Energy efficiency at the Naantali refinery was enhanced during 2013 by optimizing the refinery's distillation columns and fired heaters. Unit optimization work was also carried out at Porvoo and work was also carried out to remove dust and soot from the refinery's heat recovery boiler. Development measures resulted in an annual energy saving of approx. 160 GWh.

Development measures result in an annual energy saving of approx. 160 GWh



### Energy efficiency at the renewable diesel refineries in Singapore and Rotterdam

Neste Oil's NExBTL renewable diesel refineries in Rotterdam and Singapore feature modern technology throughout and are, by definition, energy-efficient. As the energy efficiency index applied at fossil refineries is not suitable for calculating the energy efficiency of renewable fuel refining processes, Neste Oil uses a different but similar indicator: KWh/ton of output. Use of this indicator started in 2013 and the results will be reported in 2014.

An energy efficiency plan was drawn up for the Singapore refinery in 2013 and an energy review of the site carried out. The results of

the review will be used to determine which areas need to be prioritized.

The hot oil furnace at the Rotterdam refinery was modified in 2013 to use gas generated during the refining process. This has reduced natural gas consumption significantly and resulted in an annual energy saving of approx. 15 GWh. The Rotterdam refinery also joined the local energy efficiency system in 2013.

## **Energy efficiency in transportation and at service stations**

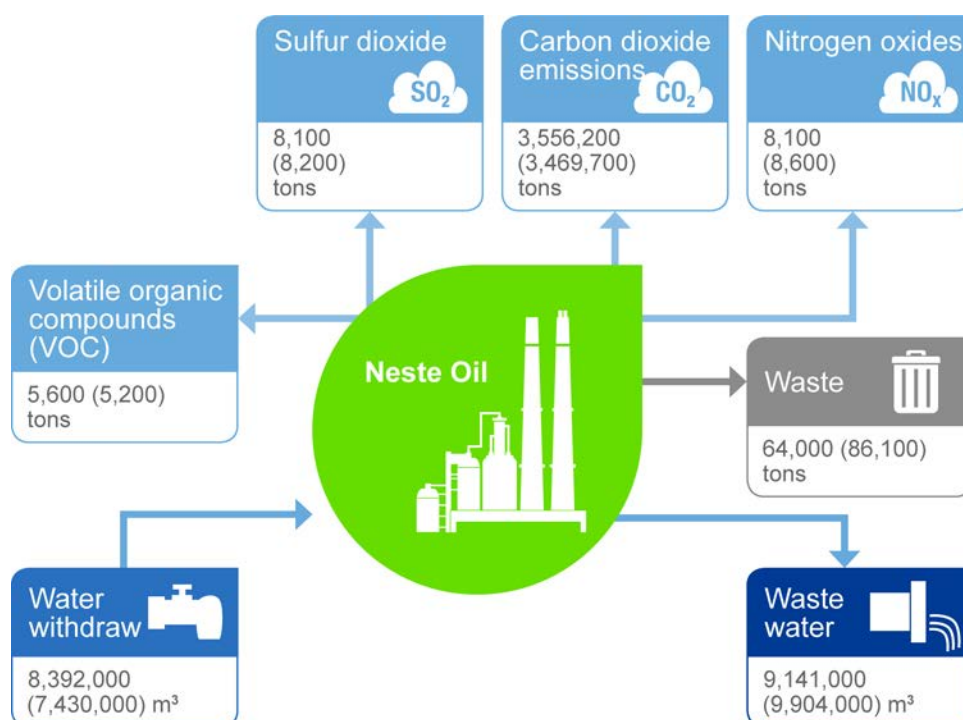
The terminals used by Neste Oil's tanker trucks, together with the loads they carry, are designed to be as efficient as possible in terms of energy usage. Energy efficiency at sea has been improved by introducing a basic speed of 13.5 knots for tankers. The energy efficiency of vessels was further enhanced in 2013 by

cleaning ships' hulls and propellers of algae and barnacles that have a significant effect on their fuel consumption.

Oil Retail launched an energy efficiency program in 2010 aimed at reducing the electricity consumption of stations in Finland by 25% compared to 2007 levels by 2020. New lighting technology will be introduced as part of this, and the plan is to begin a switchover to LED lighting at stations owned by Neste Oil in Finland in 2014. An energy efficiency program is also in place covering stations in the Baltic countries and Northwest Russia, aimed at reducing electricity consumption by 20% (6,800 MWh) compared to 2010 levels by 2020.

# Environmental impact

## Environmental impact of Neste Oil's operations



# Environmental and emission permits

## Refinery environmental permits

The operations of Neste Oil's refineries in the EU (Porvoo, Naantali, and Rotterdam) are regulated by statutory environmental permits issued by the local authorities in accordance with EU legislation. These place limits on the amount of emissions that can be released, for example, and set out requirements for reducing emissions, monitoring, and reporting. Neste Oil's refinery in Singapore is regulated by local environmental legislation.

The environmental permit covering the Naantali refinery was granted in 2007 and that covering the Porvoo refinery in 2006. Under Finnish practice, environmental permits remain in force until further notice, but must be renewed every 8–10 years. The Singapore and Rotterdam refineries, which were commissioned in

2010 and 2011 respectively, both have valid environmental permits.

Current environmental permit policy incorporates the Best Available Technology (BAT) principle, under which the conditions of permits and the limits set out in them must be based on levels that can be achieved using the best available technology. Use of the BAT principle will probably become compulsory for oil refineries in the EU during 2014. Neste Oil has been involved in technical drafting work on BAT requirements coordinated by the EU and recognizes that applying these requirements could result in the need for investments at its sites in the future.

## Environmental permit-related incidents in 2013

	Site	What happened	Impact
Permit level exceeded	• Rotterdam	• Chemical oxygen demand of wastewater exceeded permitted levels	• Minor
Permit level exceeded	• Rotterdam	• Chemical oxygen demand of wastewater exceeded permitted levels	• Minor
Permit infringed	• Rotterdam	• Wastewater sampling system failed	• Minor
Permit infringed	• Kokkola	• Recovery plant went offline	• Minor
Permit infringed	• Porvoo	• Operational problem at a recovery plant	• Minor
Permit infringed	• Kokkola	• Recovery plant went offline	• Minor
Permit infringed	• Porvoo	• Rubble storage exceeded the permit limit	• Minor

Minor= Emission did not result in damage to the environment.

In Singapore, the site waste water discharge does not meet all quality requirements. An on-site treatment investment is being planned to overcome these difficulties.

A total of seven (six) environmental permit-related incidents took place in 2013, none of which had a significant impact on the environment.

## Emissions trading

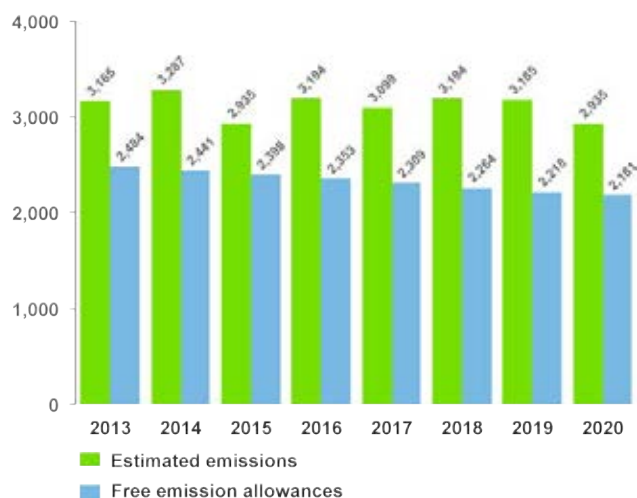
CO<sub>2</sub> emissions released by Neste Oil's Porvoo and Naantali refineries come within the scope of the EU's Emissions Trading System. The renewable diesel refineries in Rotterdam and Singapore, in contrast, are not covered by the emissions trading scheme. The EU scheme has operated since 2005 and entered its third phase, which will run until 2020, in 2013.

Plants coming within the scope of the scheme require an emissions permit; when applying for a permit, companies are required to detail the monitoring systems used for measuring the CO<sub>2</sub> emissions of the plants in question. An independent third party verifies the monitoring carried out at Neste Oil's sites and the company's reporting annually. Some technical malfunctions in the emission trading monitoring system at Porvoo were identified and corrective actions were taken. Neste Oil operates according to emission permits that are granted by the Energy Authority In Finland.

The Porvoo and Naantali refineries have applied for new emission permits in 2013.

Neste Oil procures the majority of the additional emission allowances it needs through the EU's Emissions Trading System. Some of its allowances have been covered through a commitment to invest a maximum of EUR 5 million in GreenStream's Climate Opportunity Fund; this investment will give Neste Oil access to at least 264,000 emission allowances for the 2013–2020 trading period. Companies coming within the scope of the Emissions Trading System also have the opportunity to receive free emission allowances. The number of such free allowances has been reduced for the 2013–2020 trading period following a recent decision by the European Commission.

**Neste Oil's free emission allowances and carbon dioxide emission scenario 2013–2020, kilotons**



# Air

The major airborne emissions generated by Neste Oil's refining operations comprise carbon dioxide, nitrogen oxides, sulfur dioxide, volatile organic hydrocarbons, and particulates.

## Emissions to air in 2013 (t/a)

	2013	2012*	2011*
Direct carbon dioxide (CO <sub>2</sub> ) emissions/ scope 1			
Porvoo	2,882,500	2,826,800	2,954,700
Naantali	340,500	307,000	405,500
Rotterdam	55,600	57,300	7,700
Singapore	7,600	8,100	5,800
Marine transportation	267,700	267,800	317,700
Others	2,300	2,700	2,700
<b>Total</b>	<b>3,556,200</b>	<b>3,469,700</b>	<b>3,694,100</b>
Indirect carbon dioxide (CO <sub>2</sub> ) emissions/ scope 2			
Porvoo	218,700	214,500	207,200
Naantali	65,500	65,600	59,000
Rotterdam	63,200	104,900	27,700
Singapore	71,300	76,000	114,600
Others	25,800	28,200	25,700
<b>Total</b>	<b>444,500</b>	<b>489,200</b>	<b>434,200</b>
Volatile organic compounds (VOC)	5,600	5,200	4,700
Nitrogen oxides (NO <sub>x</sub> )	8,100	8,600	10,100
Sulfur dioxides (SO <sub>2</sub> )	8,100	8,200	9,300
Particulates	410	544	505

\* Figures from 2011 and 2012 have been updated after the reporting period.



### Scope 3 emissions (t/a)

In 2012, Neste Oil inventoried scope 3 emissions in all categories. As a result of this inventory only categories 'Purchased goods and services', 'Use of sold products', and 'End-of-life treatment of sold

products' were identified as relevant. In 2013 scope 3 emissions are calculated for the relevant categories.

	2012	2012	2013
	CO <sub>2</sub> , tons	%	CO <sub>2</sub> , tons
Purchased goods and services*	4,600,000	10.1	4,600,000
Capital goods	20,000	0.0	Not material
Fuel- and energy-related activities	-	0.0	-
Upstream transportation and distribution	85,000	0.2	Not material
Waste generated in operations	10,000	0.0	Not material
Business travel	4,600	0.0	Not material
Employee commuting	4,000	0.0	Not material
Upstream leased assets	-	0.0	-
Downstream transportation and distribution	20,300	0.0	Not material
Processing of sold products	-	0.0	-
Use of sold products**	40,500,000	88.7	40,700,000
End-of-life treatment of sold products***	308,000	0.7	600,000
Downstream leased assets	480	0.0	Not material
Franchises	-	0.0	-
Investments	87,000	0.2	-
<b>Total</b>	<b>45,639,380</b>	<b>100</b>	<b>45,900,000</b>

\* Purchased goods and services: The calculation includes fossil and renewable raw materials used in Neste Oil's production. The largest single source of feedstock-related greenhouse gas emissions comes from the production of the crude oil that Neste Oil buys. Secondary data was used to determine emission coefficients for crude oil and hydrogen. Other emission figures are based on actual emission coefficients, in accordance with the requirements of the Renewable Energy Directive (2009/28/EC). Emissions related to bought-in services and chemicals are not included in the figure. The emissions from services is considered low. The calculations of chemical-related emissions will be developed in the future.

\*\* Use of sold of products: The calculation includes emissions generated during the use of products Neste Oil has sold from its own production. The calculation does not cover emissions generated during the use of products Neste Oil has bought and retailed. The majority of traffic fuel-related greenhouse gas emissions are generated when fuels are used in traffic.

\*\*\* End of life treatment of sold products: The calculation includes emissions generated during the end of life treatment of solvents, lubricants, and naphtha produced by Neste Oil. Toxic waste disposal has been used as an end of life treatment.

### CO<sub>2</sub> emissions

The majority of Neste Oil's direct emissions (scope 1) of CO<sub>2</sub> are refining-related and generated at the Porvoo refinery. Refining-related CO<sub>2</sub> emissions are largely produced when burning fuel in fired heaters and in energy generation. Indirect CO<sub>2</sub> emissions (scope 2) are mainly produced when generating the electricity that Neste Oil buys to power its operations. The majority of the company's scope 3 emissions, not included in direct or in-direct CO<sub>2</sub> emissions, are related to end-of-life treatment of products sold by Neste Oil and the goods and services the company purchases.

Read more about Neste Oil's [net climate impact](#).

The Porvoo refinery recovers CO<sub>2</sub> produced during its refining processes and sells the gas to a company located locally. A total of 156,500 (156,000) tons of CO<sub>2</sub> was recovered in 2013.

Optimization work on furnaces and fired heaters at the Naantali refinery during 2013 has reduced the site's consumption of fuel gas and its CO<sub>2</sub> emissions. Fired heaters at the renewable diesel refinery in Rotterdam were modified to run on in-house process gas rather than natural gas in 2013 to reduce the site's CO<sub>2</sub> emissions; this cuts the refinery's use of fossil fuels and its NO<sub>x</sub> emissions.

### **Volatile organic compounds**

A system capable of recovering a large proportion of the volatile organic compounds (VOC) released into the atmosphere during loading light products was commissioned at the Porvoo refinery's harbor at the end of 2013. This is expected to result in a major reduction in VOC emissions at the site. Operational experience will be collected and reviewed during 2014 to further improve the system's performance. A number of measurement and remedial surveys related to VOC emissions at the Porvoo refinery were carried out in 2013 and resulted in reduced emissions in various areas. A study aimed at reducing VOC emissions in Rotterdam was started.

A study carried out at the Porvoo refinery in 2012 and 2013 showed that the benzene contained in the site's VOC emissions does not pose a danger to the health of people living close to the site and that continuous benzene measurements are unnecessary.

### **NO<sub>x</sub> and SO<sub>2</sub> emissions**

Nitrogen oxide (NO<sub>x</sub>) emissions from refining operations during 2013 were virtually unchanged from those in 2012. Sulfur dioxide (SO<sub>2</sub>) emission performance remained good, and air quality measurements did not identify any cases where threshold limits were exceeded.

The Porvoo and Naantali refineries, which concentrate on refining fossil fuels, are Neste Oil's only major sources of SO<sub>2</sub> emissions. Both refineries have sulfur recovery systems, which operated well during 2013. SO<sub>2</sub> emissions are also reduced by primarily using gas rather than oil in furnaces and fired heaters.

New analyzers were installed at the Naantali refinery in 2013 to measure the composition of the flue gases released through the site's main stacks and have helped further reduce SO<sub>2</sub> emissions.

### **Particulates**

Particulate emissions remained at a low level in 2013 and no major change took place in emission levels. The threshold values for breathable particulate matter and nickel established as part of a study carried out at the Porvoo refinery by the University of Jyväskylä's Institute for Environmental Research were not exceeded, and no evidence was found for beginning continuous measurement of these materials.

## Water

Water and steam are used in Neste Oil's refining operations, and water usage is monitored constantly in terms of parameters such as input flows, water usage efficiency, and cooling water and wastewater management. No direct targets for water usage have been set, as usage forms an integral part of refining processes, safety, and energy consumption. For example for the reasons mentioned above, reducing water consumption is not an end in itself.

The majority of Neste Oil's water usage, around 96%, is linked to the company's refineries while the rest is used at terminals, in shipping, and by the station network. The bulk of refinery usage is linked to fossil petroleum products. Refining renewable fuel is very water-efficient, in comparison, as water is almost only used in these operations to generate steam. Because of its size, the Porvoo refinery, which produces both fossil and renewable fuel, is Neste Oil's largest single water user.

	2013	2012	2011
Water usage <sup>1)</sup> (m <sup>3</sup> /a)	8,392,000	7,430,000	7,628,000
Wastewater (m <sup>3</sup> /a)	9,141,000	9,904,000	9,100,000

<sup>1)</sup> Excluding cooling water.

The sources for the water Neste Oil uses are:

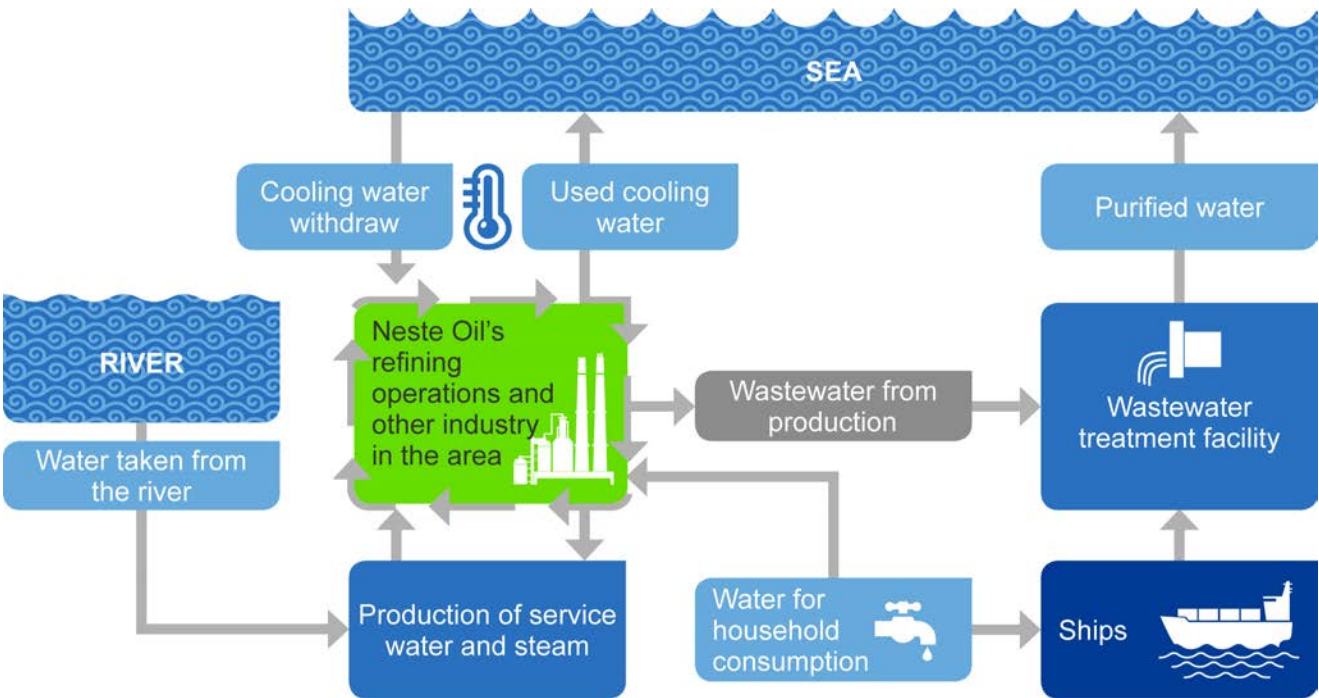
- the River Maas in Rotterdam
- the River Mustijoki in Porvoo, and
- the River Kokemäenjoki in Naantali.

The refinery in Singapore primarily uses recycled wastewater; the rest of its water needs are met by rainwater, surface water purchased from Malaysia, and desalinated seawater, all provided by the Public Utilities Board.

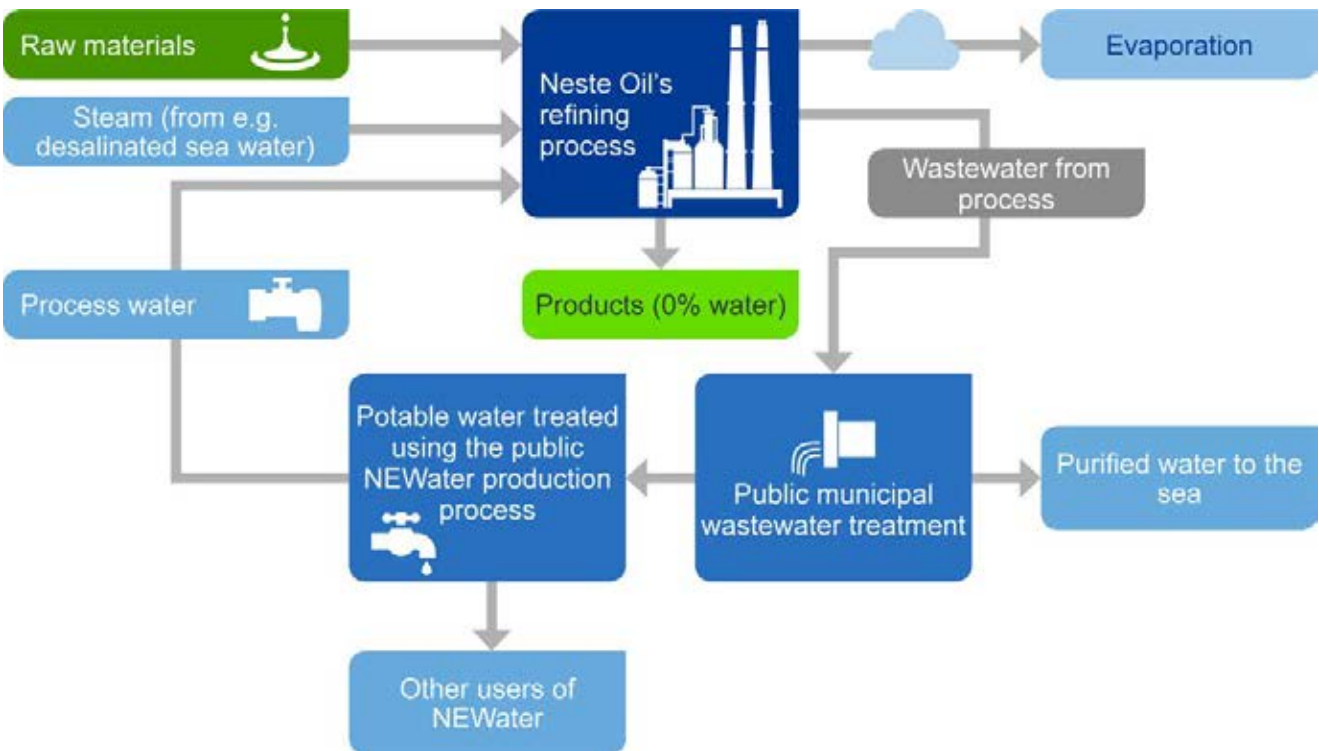
Water balance calculations have been produced for Neste Oil's refineries covering the inputs and outputs at these sites and the volumes of the most important water flows there. Neste Oil's long-term plan is to develop and introduce a water balance tool that will enable water usage per product or production line to be calculated, including the complex Porvoo refinery.

Water reporting at the Rotterdam and Singapore refineries was enhanced during 2013 and now also covers areas such as the source of the water and steam used, the various factors affecting the loading of wastewater flows, and the quality and volume of wastewater.

Water cycle at the Porvoo refinery



Water cycle at the Singapore refinery



## Wastewater treatment at Neste Oil's refineries

Treated wastewater is discharged into waterways in Porvoo, Naantali, and Rotterdam refineries. Before being discharged into waterways, all wastewater passes through on-site treatment

plants featuring physical-chemical and biological processes. Following pretreatment, wastewater from the Singapore refinery goes to a local Public Utilities Board treatment plant, where it is treated for re-use.

## Waterborne emissions (t/a)

	2013	2012	2011
Oil	1.4	3.6	1.4
Chemical oxygen demand (COD)	497	306	317
Nitrogen	49	49	45
Phosphorous	1.4	2.5	2.6

The buffer capacity of the wastewater treatment facility at the Naantali refinery will be increased during 2014 by converting an old oily water storage tank into a buffer tank. A new storage tank for holding oily water was commissioned in 2013. The efficiency of the refinery's wastewater plant has also been enhanced by modernizing its chemical treatment. The plant's oxidation pond will be dredged in 2014 to ensure the quality of the wastewater discharged into the sea at the site. Wastewater pretreatment systems prior to discharge to public sewers were enhanced in Singapore in 2013.

## Using cooling water in refinery operations

All of Neste Oil's refineries employ closed-cycle cooling systems. The process water in these systems is cooled using seawater or air cooling. Seawater is used at all the company's refineries except in Rotterdam, where cooling water is bought in from an outside supplier. Seawater is returned to the sea after use.

The temperature of cooling water increases during the cooling cycle and adds a thermal load to discharge areas when it is returned to the sea, which can affect ice cover during the winter. A three-year study monitoring ice cover off the Porvoo refinery, carried out between 2010 and 2013, showed that cooling water discharged by companies in the Kilpilahti industrial area could reduce the time when ice can be walked on safely by a few days annually.

A fisheries study related to the use of cooling water by plants in the Kilpilahti area continued in 2013. Cooling water used by Neste Oil's refinery has not been shown to have a significant impact on fish catches in the area.

## Helping develop water awareness across the industry

Neste Oil strives to promote water awareness both within its own organization and the oil industry generally; and took part in a development project coordinated by CONCAWE aimed at improving the industry's understanding of water usage and the impact of wastewater and cooling water in 2013. Neste Oil also continued to participate in development work on the ISO 14046 water footprint standard, following on from its involvement in 2012.

## Water issues in renewable feedstock procurement

Water issues are always taken into account when selecting which renewable inputs Neste Oil uses. A review of water-related risks was incorporated into the review process used when assessing the suitability of potential renewable feedstock suppliers in 2013. Neste Oil's experts monitor research on the water consumption characteristics of different crops and agricultural areas producing renewable inputs. Water issues are also reviewed when selecting suppliers, and palm oil suppliers, for example, are required to monitor their water usage regularly.

## Monitoring waterways

Neste Oil has monitored the sea areas off its refineries in Finland and the quality of the water there for many years, in collaboration with outside experts. Monitoring covers water quality, the organisms found on or near the seabed, and local fisheries. No changes compared to the good results recorded in previous years were observed during 2013. The authorities are responsible for monitoring marine conditions in Rotterdam.



## Soil and biodiversity



Neste Oil systematically monitors the groundwater and soil at its refineries in Finland and strives to prevent either being polluted as a result of its operations. Any damage or pollution is remedied immediately. A serious leak took place in 2013, at the Porvoo refinery, when a pipeline fractured at the site's harbor, resulting in approximately 30 cubic meters of oil leaking into the ground.

Groundwater monitoring and reporting any cases where soil becomes contaminated are required under the environmental permits covering Neste Oil's refineries and most retail stations in Finland. A review of the current state of the soil at the Porvoo refinery was drawn up in 2013 as part of the application for the site's new environmental permit submitted in the fall. The study covered both the site's soil and the quality of the groundwater there, and indicates that some of the soil can be classified as contaminated, although the substances involved do not represent a risk to health or the environment. Neste Oil's other refineries can also provide data on the status of the soil at their sites if needed.

The renewable refinery sites in Rotterdam and Singapore were thoroughly surveyed prior to their constructions, and there was or has not been any indications of contamination.

A soil analysis study is always carried out at the Porvoo and Naantali refineries whenever construction work is undertaken, and any contaminated soil that is found is removed for treatment. Both refineries also have long-term soil rehabilitation programs in place to remove contaminants from the soil in storage tank areas during maintenance work on containment dikes.

### Monitoring groundwater quality

Neste Oil always aims to ensure that no contaminants leach out of its sites via groundwater. Groundwater monitoring takes place on both a statutory and voluntary basis. Statutory groundwater monitoring has taken place at the Porvoo and Naantali refineries and the Hamina terminal since the 1990s, and a voluntary groundwater monitoring program is in place at the base oil plant in Bahrain, in which Neste Oil owns a minority share.

### Monitoring the soil at retail stations

The condition of the soil in and around Neste Oil's retail stations is also monitored. Soil studies are carried out annually when stations are closed or modification work is carried out.

Together with the Finnish Petroleum Federation and other companies in the industry, Neste Oil proposed in 2013 a new technical solution to be introduced at stations located in groundwater areas. Based on multilayered structures, this would provide a very high standard of protection for the groundwater and soil at these sites and ensure that no pollution could take place. The solution is proposed for a number of stations in groundwater areas.

Some of Neste Oil's stations are covered by a remote monitoring system that automatically sends an alarm in the event of an incident to the company's service provider, who is responsible for investigating the situation immediately. 54% of stations were covered by the system in 2013, and the aim is to further extend its use.

### Risk assessment of the impact of the oil leak in Kajaani completed

An extensive risk assessment of the serious leak that took place in spring 2012 at the National Emergency Security Agency's oil storage facility in Kajaani operated by Neste Oil was completed in fall 2013. The experts consulted estimated that the size of the contaminated area has decreased to approximately 5% of the original area. Most of the oil has evaporated or been broken down by natural means, and the assessment came to the conclusion that a clean-up is not called for because of the minor environmental and health risk remaining. Clean-up work would be likely to have more of a negative than a positive impact on the local environment.

Based on these findings, Neste Oil has proposed to the authorities that follow-up soil analyses should be carried out in 2015 and 2017, and has offered to recompense local landowners appropriately. Neste Oil carried out numerous water and soil analyses, together with various remedial measures, at the site in 2012 and 2013.

### Claim to pay for marine sediment clean-up

The City of Helsinki announced in 2013 that it believed Neste Oil was liable to pay for the cost of cleaning up marine sediment adjacent to the old oil harbor at Laajasalo. Neste Oil used to have a fuel storage facility and lubricant plant in the area, but no longer has any operations there. Soil clean-up work was carried out at the site using city-approved methods in 2004 and 2010. The new claim is linked to the city's plan to dredge the sea bottom around the old oil harbor as part of redeveloping the area for residential use. Neste Oil is in negotiations with the city to resolve the issue.

### Promoting a diverse natural environment at refinery sites

Nature conservation areas or protected sites are located close to both of Neste Oil's refineries in Finland. The Stormossen bog – a 75-hectare domed bog – to the west of the Porvoo refinery has been protected for many years and is part of the European Natura 2000 network of nature conservation sites. The Vanto area of deciduous woodland close to the Naantali refinery, owned by Neste Oil, is also a protected area. Neste Oil always takes areas such as these into account in its operations and strives to protect them and the rest of the environment around its sites. There are

no areas of protected forestland in the vicinity of Neste Oil's refineries in Rotterdam or Singapore.

Uninterrupted, incident-free refinery operations play a key role in helping reducing the impact of Neste Oil's activities on the environment. Emissions into the water, the air, and the soil are minimal during normal operations.

Bioindicators, such as plants highly sensitive to airborne pollutants like lichen, have been monitored on a long-term basis at the Porvoo and Naantali refineries since 1985. This monitoring work

has shown that the state of the environment in the vicinity of the two sites has improved significantly and local forestland, for example, is recovering from the impact of previous pollution. As the pace of these types of changes is slow, bioindicator studies are carried out over an extended timeframe, every four to five years.

Sustainability ► Sustainability program ► Climate and resource efficiency ► Environmental impact ► Waste

## Waste

### Waste (t/a) \*)

	2013	2012**	2011
Conventional waste	11,900	13,000	4,270
Recycled waste	33,100	59,000	61,010
Hazardous waste	18,900	14,100	24,400
<b>Total</b>	<b>63,900</b>	<b>86,100</b>	<b>89,680</b>

\* Excludes contaminated soil.

\*\* Figures from 2012 have been updated after the reporting period.

### Refining waste

The majority of Neste Oil's waste, over 90%, is generated at the company's refineries. The goal is to steadily reduce the amount of operating waste and promote greater waste recycling.

Conventional oil refining is a very efficient production process in terms of material efficiency, and virtually all the waste produced during refining can be used in another process or to generate energy. Waste management at Neste Oil's refineries is continually being developed and aims to identify new ways of making use of waste streams. The primary goal is to recycle waste as material, and secondly to use it for energy purposes.

Read more about [how efficiently Neste Oil recycles its waste](#).

The majority of the waste generated at the Rotterdam refinery is organic in nature and is exported off-site for use as compost or in producing biogas, for example. In addition to ordinary waste, the Singapore refinery generates other types of waste, primarily bleaching clay, sludge, and oil-contaminated water, which is sent for treatment to a specialist outside contractor, in line with local legislation. Some of the bleaching clay from the site goes to a landfill.

### Reusing packaging

The majority of the products produced by Neste Oil are delivered to customers in bulk in dedicated tanks rather than in consumer packaging. A number of products intended for consumers – such as lubricants, anti-freeze, windshield wash fluid, and bottled gas in Finland – are supplied in retail packaging. The packaging used for these products is covered by Finland's statutory recycling regulations. Neste Oil handles its packaging recovery obligations in this area through an agreement with the Environmental Register of Packaging PYR Ltd., which manages recycling on a centralized basis for registered companies.

### Office waste

Paper waste is collected and recycled at all Neste Oil offices. The company's single largest office, Head Office in Espoo, has been involved in the WWF's Green Office program since 2008. As part of its participation, Neste Oil has targeted reducing mixed and secure ICT waste there by 5%, by improving office efficiency and procurement. The target was not achieved in 2013 as the amount of mixed waste increased by 5.3% and secure ICT waste by 5.8%. Increase in the waste amounts is partly due to increase in the office personnel. Enhancing waste awareness among the personnel will be continued in 2014. The principles behind the Green Office program are also followed at the company's offices in Porvoo wherever possible.

**Waste volumes at Head Office, (t/a)**

	2013	2012	2011
Mixed conventional waste	8.0	7.6	5.6
Secure ICT waste	30.9	29.2	21.0

## Sustainable supply chain

Neste Oil ensures that it acts sustainably at every stage of its supply chain. Our feedstock suppliers are carefully selected and committed to operating sustainably in their own operations. All of our renewable inputs are fully traced back to where they are produced or cultivated.

### Our ways to ensure the sustainability of our supply chain



[Read more](#) ►

**100%**  
of the crude palm oil  
we use is sustainably  
produced and certified

[Read more](#) ►



### Cooperation for the good of rainforests with The Forest Trust

[Read more](#) ►

Palm oil from  
**54,000**  
smallholders



[Read more](#) ►

What were our targets?	Actions and achievements in 2013	What next?
100% of the crude palm oil we use is certified by 2015.	<ul style="list-style-type: none"> <li>100% of the crude palm oil used was certified in 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Continue using only certified crude palm oil also in the future.</li> </ul>
All the renewable inputs we use are traced back to their origin.	<ul style="list-style-type: none"> <li>All the renewable inputs we used were traced back to their origin.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the continued traceability of our renewable inputs.</li> </ul>
Develop how we monitor the carbon footprint of fossil fuels.	<ul style="list-style-type: none"> <li>We familiarized ourselves with the emission data of our most important crude oil suppliers, and began cooperation in this area.</li> </ul>	<ul style="list-style-type: none"> <li>Extend cooperation with selected crude oil suppliers.</li> </ul>

Case: Palm oil from tens of thousands of smallholders



## Palm oil from tens of thousands of smallholders



Neste Oil buys its palm oil directly from producers without the use of intermediaries. Purchases of palm oil from smallholders have steadily increased over the last few years, and the number of smallholders supplying Neste Oil rose from 9,000 to 54,000 in 2013 alone.

### Palm oil offers a higher return and helps educate children

Palm oil is an important part of the economy in Indonesia and Malaysia, and enables many families to educate their children, for example. Many smallholders cultivating oil palms today used to grow rubber trees. By switching to oil palms, they have often been able to double their income.

Growing oil palms has increased the standard of living of two smallholders in Indonesia, Hery Setiawa and Suwelo Ard, for example. One of them has built a house with over 100 m<sup>2</sup> of space for his family and sent his eldest son to study at Riau University. The biggest hope of both men is to provide an education for their children.

### Cooperatives support smallholders and provide information

Smallholders cultivate their own two-hectare plots and belong to cooperatives that organize training, make joint decisions, and manage things like the safe storage of the chemicals needed on plantations.

The training and support provided by cooperatives help smallholders follow sustainable cultivation methods.

"Without our support people, we wouldn't know as much about sustainable methods as we do now, and they give us a lot of information and help," say Suwelo and Hery.

### Certified palm oil commands a better price

Neste Oil requires all its suppliers to be certified to ensure that it knows the origin of the palm oil it buys and that it is produced sustainably. Certification is also a requirement for smallholders. They benefit, however, as certified palm oil commands a better price than non-certified palm oil. Neste Oil is currently negotiating with International Financial Corporation (IFC), which funds sustainable development projects, to organize a system that would enable Neste Oil to buy palm oil from independent smallholders in the future as well.



## Ways to ensure sustainability



Who?

Supplier selection

We only buy from suppliers that meet our sustainability criteria.

Which principles do we follow?



Contract

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

Where?



Traceability

We know the exact location of production sites and plantations.

How?



Certification and audits

We ensure that the palm oil we buy is produced sustainably and that production does not cause deforestation or jeopardize biodiversity, for example.



### Supplier selection

- A due diligence audit is carried out on all potential suppliers. Audits cover areas such as:
  - Governance, corruption, legal cases, possible suspected criminal activity
- Comprehensive sustainability reviews of suppliers are also carried out, covering areas such as:
  - Operating practices and policies
  - Ability to certify production
  - Potential concerns highlighted by NGOs



### Contracts

- We require our suppliers to be members of the RSPO (Roundtable on Sustainable Palm Oil). Members commit themselves to acting sustainably in areas such as respecting human rights and protecting rainforest areas.
- Suppliers must also commit themselves to Neste Oil's own strict sustainability criteria, including its:
  - Sustainability Policy, Sustainability Principles for Biofuels, and No-Deforestation and Responsible Sourcing Guidelines
  - Supplier contracts include strict terms and conditions covering the sustainability of suppliers' operations



### Traceability

- All the renewable raw materials used by Neste Oil are traced back to the plant or plantation where they are produced.
- Neste Oil has detailed maps of its suppliers' plantations and historical data on the use of these plantations.



### Certification and audits

- All of Neste Oil's renewable products have comprehensive documentation covering the entire supply chain that can be used to verify the sustainability of its production.
- Certifications and audits are used to verify that:
  - Production is not linked to cultivation in disputed areas (such as high carbon stock areas and rainforests)
  - The GHG reduction offered by products over their entire life cycle is calculated correctly
  - Biodiversity or endangered species are not jeopardized as a result of production.
  - Production is not linked to land seizures.
  - Human rights are not infringed.

Sustainability ► Sustainability program ► Sustainable supply chain ► Legislation and market requirements

## Legislation and market requirements



The production of renewable fuels in the European Union is strictly regulated by the Renewable Energy Directive (RED). This requires producers to show that:

- feedstocks can be traced back to where they were grown or the plant where they were produced
- a product results in a minimum 35% reduction in greenhouse gas emissions over its life cycle compared to fossil fuels. This will increase to a minimum of 50% from 2017 onwards
- sustainability criteria are met throughout the supply chain.

Biofuel legislation in the US also requires that feedstocks can be traced back to where they are grown or produced. To comply with the criteria established for advanced biofuels, a product must be capable of yielding a greenhouse gas emission reduction of at least 50%. Plants producing renewable fuels must also be certified by the Environmental Protection Agency (EPA) before they can supply renewable fuel to the US market. All of Neste Oil's renewable fuel facilities are EPA-certified.

Read more about the traceability of Neste Oil's [renewable feedstocks](#).

## Raw material suppliers



### Raw material suppliers

Neste Oil requires all its feedstock suppliers to be committed to sustainable operations and to protecting the biodiversity of the environment, and respect human rights. Strict sustainability-related requirements form part of all supplier agreements covering Neste Oil's renewable inputs.

Neste Oil sources the renewable feedstocks it uses directly from suppliers and is not involved in producing or growing them itself, nor does it own any plantations growing these materials or operate any plants producing them. Renewable feedstocks were sourced from a total of 45 (31) suppliers during 2013.

Neste Oil bought palm oil from eight suppliers in 2013 – including Wilmar, Golden Agri, Asian Agri, and IOI Group – as well as from around 54,000 smallholders in Indonesia. The number of smallholders in 2012 was 9,000. Negotiations are currently under way with International Financial Corporation (IFC), which specializes in funding sustainable projects, on a new initiative that would enable Neste Oil to buy palm oil also from independent smallholders.

A total of 15 companies supplied Neste Oil with waste animal and fish fat in 2013.

Neste Oil buys its crude oil mainly from Russia. The majority of the crude oil it uses is supplied from the Primorsk terminal, which receives its crude oil via pipeline from fields across Russia. In 2013, Neste Oil also sourced crude oil from the North Sea, Kazakhstan, and North Africa. A total of 22 (14) crude suppliers were used in 2013.

Read more about [the origin of Neste Oil's feedstocks and their traceability](#).

### Strict sustainability criteria used when selecting suppliers

Neste Oil decides which feedstock suppliers it uses in accordance with its Supplier Compliance principles. All feedstock suppliers are required to pass a due diligence process as part of the selection. Due diligence audits are also carried out on existing suppliers if they add a new feedstock to their offering or there is a significant change in the supply chain. Neste Oil initiated due diligence audits on 29 suppliers of renewable feedstocks in 2013, one of which was rejected because of unclarity related to documentation.

Suppliers also go through a security check conducted by the Security Unit. Security checks review areas such as good management practices, corruption, unresolved legal claims, and other possible factors that might contravene with Neste Oil's policies and principles. Neste Oil gives suppliers the opportunity to correct any shortcomings in their operations that are revealed during the security check process.

In addition, a comprehensive sustainability survey of potential suppliers is carried out as part of the selection process, covering areas such as operating practices and policies, a supplier's ability to certify its production, and any concerns that NGOs might have about their activities.

After selection, Neste Oil continuously monitors its feedstock suppliers. Where certified suppliers are audited by an independent, third-party body annually, Neste Oil reviews the supply chain as part of its own customer audits.

Neste Oil requires all its palm oil suppliers to be a member of the Roundtable on Sustainable Palm Oil (RSPO), which requires its members to commit themselves to respecting human rights and protecting rainforest areas. Suppliers must also commit themselves to Neste Oil's Sustainability Policy, its Sustainability Principles for Biofuels, and its No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock, which were published in 2013.

Learn more about Neste Oil's [No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock](#).

# Traceability



All the renewable inputs used by Neste Oil are traced back to the plantations and production sites from which they come. Vegetable oils are traced back to plantations and waste and residues to the place they are produced, typically production facilities. Traceability is used to ensure that renewable feedstocks are produced sustainably and that production has not infringed anyone's human rights or endangered rainforests or carbon-rich areas, such as wetlands and marshland.

In 2013, Neste Oil purchased palm oil from 212 plantations. The company knows the exact location of all the plantations that supply it with palm oil, as well as the history of these sites. Plantations that supply Neste Oil with palm oil have not extended their operations onto protected land nor do they have plans to

extend their operations. None of the plantations from which Neste Oil buys palm oil are involved in land disputes. Neste Oil buys its palm oil directly from producers, without the use of traders or intermediaries, which are widely used in the industry. By avoiding intermediaries, Neste Oil is able to gain a better understanding of the origin of its feedstocks.

Some of the palm oil used to produce renewable diesel is sourced using the mass balance principle and some in the form of segregated material. Using the mass balance principle, certified palm oil can become mixed with uncertified material at pressing plants or coastal storage facilities. The total amount of certified raw material purchased is verified using accurate accounting, however, to ensure that Neste Oil always receives the amount of certified palm oil that it has contracted for. The material balance principle is also used with other forms of renewable energy, such as green electricity. Segregated palm oil, in comparison, never comes into physical contact with uncertified material at any point in the supply chain. Regardless of which approach is used, the origin of the feedstock purchased by Neste Oil is traceable.

Neste Oil does not engage in oil exploration or production, and has only a limited potential to influence crude oil production as a result. To ensure the quality and sustainability of the crude oil it uses, Neste Oil aims to employ as direct a supply chain as possible and knows the origin, and typically also the production areas, of the crude that it buys. Neste Oil monitors the environmental reporting of crude producers closely and has initiated a dialogue on the sustainability of crude production with a number of major producers.

## Origin of feedstocks used by Neste Oil in 2013

Feedstock	Country of origin
Crude palm oil	Malaysia, Indonesia
Waste and residues (e.g. waste animal fat, waste fish processing fat, PFAD (palm fatty acid distillate), stearin, technical corn oil)	Australasia, South America, Europe, Southeast Asia, North America
Other types of vegetable oil (e.g. rapeseed and camelina oils)	South and North America, Europe
Crude oil	Russia (Western Siberia, fields east and west of the Urals), the North Sea, Kazakhstan, and Northern Africa

Read more about [how Neste Oil uses waste and residues](#).

The origin of all renewable raw materials is traceable

## Collaboration with TFT aimed at promoting sustainable palm oil production

Neste Oil and The Forest Trust (TFT), an organization dedicated to combating deforestation, launched a collaborative program in 2013 aimed at eliminating problems affecting palm oil production and developing sustainable palm oil production outside Neste Oil's own supply chain. TFT reviewed all of Neste Oil's palm oil suppliers in 2013, and the reports produced following these audits will be used to draw up action plans to eliminate any possible shortcomings. TFT has been given access to all the non-



commercial information related to Neste Oil's supply chain. A set of principles known as Neste Oil's No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock was produced as part of the collaboration with TFT. These guidelines were published in April 2013.

See Neste Oil's [No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock](#).

Read more about [how Neste Oil collaborates with TFT](#).

Sustainability ▶ Sustainability program ▶ Sustainable supply chain ▶ Certified feedstocks and production plants

## Certified feedstocks and production plants



Compliance with the sustainability criteria that cover the entire renewable fuel production chain is verified in the European Union using certification systems approved by the European Commission. These include for example International Sustainability and Carbon Certification (ISCC), which covers any type of feedstock, and the RSPO-RED system for palm oil. These systems define what constitutes sustainable operations and the criteria to be used for establishing this, together with the supply chain documentation required. The criteria covering the sustainability of renewable fuels in the US are set by the Environmental Protection Agency (EPA).

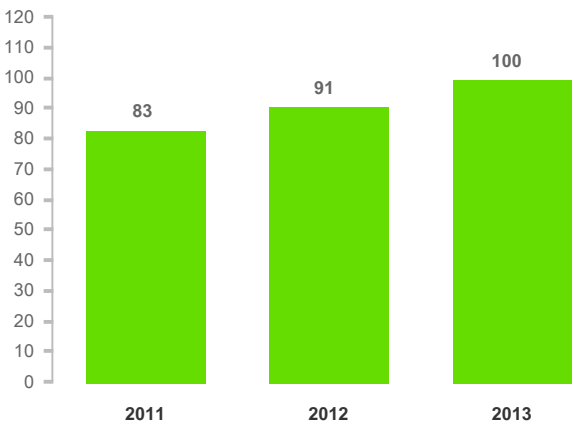
Not all the inputs used in producing renewable fuel require certification. In cases where certification is not needed, sustainability is verified using the statutory method in force in the country where the material is produced. Crude oil production is not covered by dedicated certification systems.

### All used crude palm oil is certified

All the palm oil used by Neste Oil in its renewable fuel is certified. Neste Oil's original target was to shift to using only certified palm

oil by the end of 2015, but thanks to a major effort this target was achieved two years early, in 2013. Palm oil is certified in accordance with the ISCC, RSPO, or RSPO-RED systems. Unlike many companies in the food industry for example, Neste Oil does not buy certificates from the world market, but always sources its certified palm oil directly from producers. Buying directly from producers in this way enables Neste Oil to monitor production and the supply chain more accurately.

Use of certified crude palm oil, %



In 2013, Neste Oil was the first company in the world to receive a RSPO-RED Supply Chain certificate, which is a new, stricter certification system under the Roundtable on Sustainable Palm Oil (RSPO). The RSPO-RED system complies with the requirements of the EU's Renewable Energy Directive (RED) system and, for example, calculates greenhouse gas emissions released over the entire life cycle of a product in line with RED requirements.

### Certificates held by palm oil pressing plants that supply Neste Oil

Certification system	Mills
RSPO or ISCC	65 (81)
Certification program	0 (13)
Total certified	65/65 (80/94)



### **European Commission approved Neste Oil's sustainability verification system**

Neste Oil has developed its own sustainability verification system that complies with the EU's strict requirements covering biofuels. The European Commission approved it as one of the EU's official systems for verifying sustainability in January 2014.

Read more about [Neste Oil's sustainability verification system](#).

### **Certified production plants**

All of Neste Oil's facilities producing NExBTL renewable diesel have ISCC certificates, as required in Europe, and EPA certification required for the US. Ethanol trading carried out at Neste Oil's office in Geneva is also ISCC-certified. Ethanol is purchased for use as a blending component in gasoline sold in Finland.

## Reporting principles

Neste Oil is committed to the principles of the AA1000APS (2008) standard covering inclusivity, materiality, and responsiveness. The 2013 Sustainability Report is the fifth to have been compiled in accordance with the G3 guidelines (version 3.0) of the Global Reporting Initiative (GRI). An independent third party has assured the sustainability information.

Neste Oil's 2012 combined [Annual Report and Sustainability Report](#) was published online on 6 March 2013. The 2013 Annual Report and Sustainability Report will also be published online.

### Reporting principles and guidelines

Neste Oil is committed to the principles of the AA1000 AccountAbility Principles Standard (2008) standard covering inclusivity, materiality, and responsiveness. The Sustainability Report is compiled in applying the G3 guidelines (version 3.0) of the Global Reporting Initiative (GRI).

Neste Oil's financial reporting complies with international IFRS accounting requirements, while corporate governance reporting complies with relevant national legislation and the Finnish Corporate Governance Code covering listed companies. The presentation of environmental costs and liabilities is based on Finnish accounting legislation. Financial indicator data is based on audited figures. Personnel figures are calculated in accordance with the Finnish Accounting Board's general guidelines for annual reports. CONCAWE principles are used in calculating safety-related injury frequency figures.

Changes in previously reported figures and accounting principles are shown alongside the corresponding key figures. Definitions of the indicators reported, together with the calculation principles and formulas used, are presented in the [Principles for calculating key indicators](#).

### Reporting scope

The reporting period covered in the Sustainability Report is the same as that followed in the Annual Report: 1 January – 31 December 2013.

Safety and environmental reporting for 2013 covers all the refineries owned by Neste Oil in Finland and overseas in which the company has a greater than 50% holding. Reporting on safety and environmental matters also covers all of Neste Oil's terminals,

the company's fleet (both Neste Oil's own vessels and its time-chartered tonnage), its offices, and the country companies responsible for Oil Retail operations. Neste Oil does not report environmental data for locations where it occupies only part of an office building; these locations include Neste Oil's offices in Houston, Toronto, and Oulu. Reporting on safety matters also covers service providers, contractors, and the road and marine transportation of Neste Oil's products and feedstocks. In all other respects, reporting covers all aspects of Neste Oil Corporation's activities and those of companies in which Neste Oil has a greater than 50% holding. No changes in the scope of reporting took place during 2013 compared to 2012.

In addition to the corporate Sustainability Report, the Porvoo and Naantali refineries publish regular newsletters for residents in the surrounding areas covering the local impact of Neste Oil's operations. These newsletters can also be read online, in Finnish, at [Neste Oil's web site](#).

### Reporting tools and practices

Neste Oil collects data on environmental and safety indicators using a HSEQ reporting tool that supports Neste Oil's monthly reporting and annual GRI G3 reporting. Personnel data is sourced from Neste Oil's HR systems. Neste Oil also continues to use various other reporting tools for collecting the data needed for its sustainability reporting.

### Assurance

An independent third party, PricewaterhouseCoopers Oy, has assured Neste Oil's Finnish-language sustainability information and checked congruence between the Finnish and English versions. PricewaterhouseCoopers has also checked that Neste Oil's reporting meets GRI's Application Level B+ requirements.

[Read the assurance report here.](#)

# Principles for calculating key indicators

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

## Environment

### Energy

The energy consumption figures cover Neste Oil's refineries, terminals, offices, the company's own station business, and the ships controlled by the Group's own shipping company. The figures are based on data provided by these units.

### Water withdrawal

Water withdrawal volumes are based on the company's own measurements or on invoicing.

### Wastewater discharges

Neste Oil reports wastewater volumes, chemical oxygen consumption, as well as 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 wastewater treated in municipal or other external wastewater treatment plants.

### CO<sub>2</sub> emissions

The emission factors compliant with the fuel classification published by Statistics Finland were used for the calculations of scope 1 and scope 2 emissions. The country-specific factors compliant with the GHG protocol were used as the consumption factors for bought-in electricity and heat. The calculations of scope 3 emissions are based on information from the raw material purchasing and sales. Information from public sources and Neste Oil's own calculations have been used as scope 3 emission factors. Scope 3 calculations are based on principles of GHG protocol (Corporate standard).

## Safety

### Accident frequency

Accidents at work resulting in absence from work, disability, or medical treatment are included in the accident frequency figures. The formula for calculating accident frequency (number of accidents at work per million working hours): total number of accidents at work \* 1000000 / hours worked. The calculation includes the company's own personnel, contractors and service providers working at Neste Oil's sites.

### Hours worked

The hours worked by all employees and 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.

### Accidents at work

Accidents that occur at work/while performing work duties or moving about in the workplace area.

### LWI (Lost Workday Injury)

The number of accidents at work resulting in a minimum of one day's absence from work.

### TRI (Total Recordable Injuries)

All recorded accidents at work: the number of accidents at work resulting in absence from work, disability, or medical treatment

### PSE1 (Process Safety Event)

An unplanned and uncontrolled release of any material from a process resulting in consequences according to the PSE1 classification. The consequences may be:

1. an accident at work resulting in absence from work (LWI, RWI) or fatality
2. a fire or explosion causing direct costs (not production losses) in excess of EUR 25,000
3. evacuation, seeking shelter indoors
4. a leak exceeding the reporting threshold within a certain time, with the limit values according to CONCAWE
5. a release through the emergency discharge system with the above consequences

### PSE2 (Process Safety Event)

An unplanned and uncontrolled release of any material from a process resulting in consequences according to the PSE2 classification. The consequences may be:

1. an accident at work requiring medical treatment (MTC)
2. a fire or explosion causing direct costs (not production losses) in excess of EUR 2,500
3. a leak exceeding the reporting threshold within a certain time, with the limit values according to CONCAWE
4. a release through the emergency discharge system with the above consequences

### HSEQ (Health, Safety, Environment, Quality)

Health, safety, environment and quality.

## HR

### Reporting of personnel numbers

Personnel numbers are calculated as headcount and include, as a rule, employees classified as active and inactive. Unless otherwise specified, personnel numbers are reported as of December 31.

### Number of permanent employees leaving the company

The number of permanent employees leaving the company from Jan 1 to Dec 31. / the number of permanent employees on Dec 31. (Including all reasons for ending employment).

### Number of permanent employees joining the company

The number of newly hired permanent employees from Jan 1 to Dec 31. / the number of permanent employees on Dec 31.

### **Training days per employee**

Training days from Jan 1 to Dec 31. / average number of employees during the period Jan 1 to Dec 31. Training days include in-house training and external training. The calculation does not include safety training.

### **Training costs**

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

### **Proportion of female and male managers**

Number of female managers on Dec 31 / total number of female employees on Dec 31

Number of male managers on Dec 31 / total number of male employees on Dec 31

### **Job rotation**

Number of employees changing their job during the period Jan 1 to Dec 31 / number of employees on Dec 31

### **Sick leave percentage**

Percentage of absences due to illness, a doctor's appointment, or medical treatment of the company's own personnel.

Formula for calculating the sick leave percentage: Number of hours of absence due to illness / theoretical number of regular working hours x 100

# GRI content index

PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Application Level B+.

GRI content		Included	Links
<b>1. Strategy and Analysis</b>			
1.1	CEO's statement	Yes	<a href="#">CEO's review</a>
1.2	Key impacts, risks and opportunities	Yes	<a href="#">Sustainability related risks and opportunities</a>
<b>2. Organizational Profile</b>			
2.1	Name of the organization	Yes	<a href="#">Neste Oil</a>
2.2	Primary brands, products and services	Yes	<a href="#">Business areas in brief</a>
2.3	Operational structure	Yes	<a href="#">Business Group companies on 31 December 2013</a>
2.4	Location of organization's headquarters	Yes	<a href="#">Contacts</a>
2.5	Number of countries and location of operations	Yes	<a href="#">Segment information</a>
2.6	Nature of ownership and legal form	Yes	<a href="#">General information</a>
2.7	Markets served	Yes	<a href="#">Business areas in brief Developments in oil products' markets Developments in renewable fuels' markets</a>
2.8	Scale of the reporting organization	Yes	<a href="#">Key figures</a>
2.9	Significant changes regarding size, structure or ownership	Yes	<a href="#">Reporting principles</a>
2.10	Awards received in the reporting period	Yes	<a href="#">Sustainability ratings</a>
<b>3. Reporting Principles</b>			
<b>Report profile</b>			
3.1	Reporting period	Yes	<a href="#">Reporting principles</a>
3.2	Date of most recent report	Yes	<a href="#">Reporting principles</a>
3.3	Reporting cycle	Yes	<a href="#">Reporting principles</a>
3.4	Contact point for questions regarding the report	Yes	<a href="#">Contacts</a>
<b>Report scope and boundary</b>			
3.5	Process for defining report content (materiality, prioritizing topics and stakeholders using the report)	Yes	<a href="#">Materiality assessment</a>
3.6	Boundary of the report	Yes	<a href="#">Reporting principles</a>
3.7	Limitations on the report's scope or boundary	Yes	<a href="#">Reporting principles</a>
3.8	Basis for reporting subsidiaries, joint ventures, leased facilities, outsourced operations and other entities affecting comparability	Yes	<a href="#">Reporting principles</a>
3.9	Data measurement techniques and bases of calculations	Yes	<a href="#">Reporting principles Principles for calculating key indicators</a>
3.10	Explanation of re-statements	Yes	<a href="#">Principles for calculating key indicators</a>
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods	Yes	<a href="#">Principles for calculating key indicators</a>
<b>GRI content index</b>			
3.12	GRI content index	Yes	<a href="#">GRI index</a>



Assurance		
3.13	Assurance policy and practice	Yes <a href="#">Independent assurance report</a>
4. Governance, Commitments and Engagement		
Governance		
4.1	Governance structure of the organisation	Yes <a href="#">Corporate Governance Statement 2013</a>
4.2	Position of the Chairman of the Board	Yes <a href="#">Board of Directors</a>
4.3	Independence of the Board members	Yes <a href="#">Board of Directors</a>
4.4	Mechanism for shareholder and employee consultation	Yes <a href="#">Corporate Governance Statement 2013</a>
4.5	Impact of organisation's performance on executive compensation (inc. social and environmental performance)	Yes <a href="#">Remuneration and shareholdings</a>
4.6	Processes for avoiding conflicts of interest	Yes <a href="#">Board of Directors</a>
4.7	Processes for determining Board members' expertise in strategic management and sustainability	Yes <a href="#">Board of Directors</a>
4.8	Implementation of mission and values statements, code of conduct and other principles	Yes <a href="#">Sustainability principles and policies</a> <a href="#">Neste Oil's sustainability policy</a>
4.9	Procedures of the Board for overseeing management of sustainability performance, including risk management	Yes <a href="#">Managing sustainability</a> <a href="#">Risk management</a>
4.10	Processes for evaluating the Board's performance	Yes <a href="#">Board of Directors</a>
Commitments to External Initiatives		
4.11	Addressing precautionary approach	Yes <a href="#">Risk management</a>
4.12	Voluntary charters and other initiatives	Yes <a href="#">Participation in organizations and joint projects</a> <a href="#">Sustainability principles and policies</a>
4.13	Memberships in associations	Yes <a href="#">Participation in organizations and joint projects</a>
Stakeholder Engagement		
4.14	List of stakeholder groups	Yes <a href="#">Stakeholders</a>
4.15	Identification and selection of stakeholders	Yes <a href="#">Stakeholder dialogue in 2013</a>
4.16	Approaches to stakeholder engagement	Yes <a href="#">Neste Oil's stakeholders</a>
4.17	Key topics raised through stakeholder engagement	Yes <a href="#">Neste Oil's stakeholders</a>
Economic Performance Indicators		
Management approach to economic responsibility		Yes <a href="#">Financial targets</a> <a href="#">Society</a> <a href="#">Managing sustainability</a> <a href="#">Sustainability principles and policies</a>
Economic Performance		
EC1*	Direct economic value generated and distributed	Yes <a href="#">Financial impact</a>
EC2*	Financial implications, risks and opportunities due to climate change	Partly <a href="#">Climate</a> <a href="#">Sustainability related risks and opportunities</a>
EC3*	Coverage of defined benefit plan obligations	Yes <a href="#">Remuneration</a> <a href="#">Post-employment and other long term benefits</a>
EC4*	Significant subsidies received from government	Yes <a href="#">Tax contribution 2013</a> <a href="#">Other income</a>
Market presence		
EC5	Entry level wage compared to local minimum wage	Partly <a href="#">Remuneration</a>

EC6*	Policy, practices and spending on local suppliers	No	
EC7*	Local hiring procedures and proportion of local senior management	Partly	Equality and diversity
<b>Indirect Economic Impacts</b>			
EC8*	Development and impact of infrastructure investments provided for public benefit	No	
EC9	Significant indirect economic impacts	Yes	Financial impact
<b>Environmental Performance Indicators</b>			
<b>Management approach to environmental responsibility</b>		Yes	Climate and resource efficiency Managing sustainability Sustainability principles and policies
<b>Materials</b>			
EN1*	Materials used by weight or volume	Partly	Material efficiency
E2*	Recycled materials used	No	
<b>Energy</b>			
EN3*	Direct energy consumption	Partly	Energy efficiency
EN4*	Indirect energy consumption	Partly	Energy efficiency
EN5	Energy saved due to conservation and efficiency improvements	Partly	Energy efficiency
EN6	Initiatives to provide energy-efficient or renewable energy based products and services	Partly	Energy efficiency
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	No	
<b>Water</b>			
EN8*	Total water withdrawal by source	Partly	Water
EN9	Water sources significantly affected by withdrawal of water	Partly	Water
EN10	Percentage and total volume of water recycled and reused	Partly	Water
<b>Biodiversity</b>			
EN11*	Location and size of land holdings in areas of high biodiversity	Yes	Soil and biodiversity
EN12*	Description of significant impact of activities, products, and services on biodiversity	Partly	Soil and biodiversity
EN13	Habitats protected or restored	Partly	Soil and biodiversity
EN14	Managing impacts on biodiversity	Partly	Soil and biodiversity
EN15	Species with extinction risk with habitats in areas affected by operations	No	
<b>Emissions, Effluents and Waste</b>			
EN16*	Total direct and indirect greenhouse gas emissions	Yes	Air
EN17*	Other relevant indirect greenhouse gas emissions		Air
EN18	Initiatives to reduce greenhouse gas emissions	Yes	Material efficiency
EN19*	Emissions of ozone-depleting substances	Yes	No ozone-depleting substances
EN20*	NOx, SOx, and other significant air emissions	Yes	Air
EN21*	Total water discharge by quality and destination	Yes	Water
EN22*	Total amount of waste by type and disposal method	Yes	Waste
EN23*	Total number and volume of significant spills	Yes	Soil and biodiversity

EN24	Transported, imported, exported, or treated hazardous waste	No	
EN25	Water bodies and habitats affected by discharges of water	Partly	Water
<b>Products and Services</b>			
EN26*	Mitigating environmental impacts of products and services	Yes	Climate Cleaner and safer products
EN27*	Percentage of products sold and their packaging materials reclaimed by category	No	
<b>Compliance</b>			
EN28*	Significant fines and sanctions for non-compliance with environmental regulations	Yes	Environmental and emission permits No such cases during reporting period
<b>Transport</b>			
EN29	Environmental impacts of transportation	Yes	Climate Air
<b>Overall</b>			
EN30	Total environmental protection expenditures and investments	No	
<b>Social Performance Indicators</b>			
<b>Labor Practices and Decent Work</b>			
<b>Management approach to labor practices and decent work</b>		Yes	Personnel Managing sustainability
<b>Employment</b>			
LA1*	Total workforce by employment type, employment contract and region	Yes	Neste Oil employees in 2013
LA2*	Total number and rate of employee turnover by age group, gender and region	Partly	Neste Oil employees in 2013
LA3	Benefits to full-time employees that are not provided to temporary or part-time employees	No	
<b>Labor/Management Relations</b>			
LA4*	Coverage of collective bargaining agreements	Yes	Equality and diversity
LA5*	Minimum notice period regarding operational changes	Yes	Neste Oil follows local legislation
<b>Occupational Health and Safety</b>			
LA6	Percentage of employees represented in joint health and safety committees	No	
LA7*	Rates of injury, occupational diseases, lost days, fatalities and absenteeism	Partly	People safety
LA8*	Education and prevention programmes regarding serious diseases	Partly	Wellbeing at work
LA9	Health and safety topics covered in formal agreements with trade unions	No	
<b>Training and Education</b>			
LA10*	Average training hours per year per employee	No	
LA11	Programmes for skills management and lifelong learning	Yes	Developing people's skills and expertise
LA12	Employees receiving regular performance and career development reviews	Yes	Developing people's skills and expertise
<b>Diversity and Equal Opportunity</b>			
LA13*	Composition of governance bodies and breakdown of employees	Yes	Equality and diversity

LA14*	Ratio of basic salary of men to women by employee category	Partly	Equality and diversity
<b>Human Rights</b>			
	<b>Management approach to human rights</b>	Yes	Human rights Managing sustainability Sustainability principles and policies Equality and diversity
<b>Investment and procurement practices</b>			
HR1*	Investment agreements that include human rights clauses or that have undergone human rights screening	No	
HR2*	Suppliers and contractors that have undergone human rights screening and actions taken	Yes	Raw material suppliers
HR3	Employee training on policies and procedures concerning human rights relevant to operations	No	
<b>Non-discrimination</b>			
HR4*	Incidents of discrimination and actions taken	Yes	Equality and diversity No such cases during reporting period
<b>Freedom of association and collective bargaining</b>			
HR5*	Operations identified in which the right to exercise freedom of association or collective bargaining may be at significant risk and actions taken to support these rights	Yes	Equality and diversity
<b>Child labor</b>			
HR6*	Operations identified as having significant risk for child labor and measures taken to contribute to the elimination of child labor	Yes	Human rights
<b>Forced and compulsory labor</b>			
HR7*	Operations identified as having significant risk for forced or compulsory labor and measures taken to contribute to the elimination of forced or compulsory labor	Yes	Human rights
<b>Security practices</b>			
HR8	Human rights related training for security personnel	No	
<b>Indigenous rights</b>			
HR9	Incidents involving rights of indigenous people and actions taken	No	
<b>Society</b>			
	<b>Management approach to society</b>	Yes	Society
<b>Community</b>			
SO1*	Programs and practices that assess and manage impacts of operations on communities	No	
<b>Corruption</b>			
SO2*	Percentage and total number of business units analyzed for corruption risks	No	
SO3*	Percentage of employees trained in anti-corruption policies and procedures	Partly	Neste Oil Code of Conduct
SO4*	Actions taken in response to incidents of corruption	No	
<b>Public Policy</b>			
SO5*	Public policy positions and participation in public policy development and lobbying	Yes	Company positions on energy and climate issues
SO6	Contributions to political parties, politicians and related institutions	Yes	Charity work and sponsorship
SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly	Yes	No such cases during reporting period

<b>Compliance</b>		
<b>SO8*</b>	Significant fines and sanctions for non-compliance with laws and regulations	Yes No such cases during reporting period
<b>Product Responsibility</b>		
<b>Management approach to product responsibility</b>		Yes <b>Customer</b>
<b>Customer Health and Safety</b>		
<b>PR1*</b>	Assessment of health and safety impacts of products	Partly <b>Cleaner and safer products</b>
<b>PR2</b>	Non-compliance with regulations concerning health and safety impacts of products	Yes No such cases during reporting period
<b>Product and Service Labeling</b>		
<b>PR3*</b>	Product information required by procedures	Partly <b>Cleaner and safer products</b>
<b>PR4</b>	Non-compliance with regulations concerning product information and labelling	Yes No such cases during reporting period
<b>PR5</b>	Practices related to customer satisfaction and results of customer satisfaction surveys	Partly <b>Neste Oil's stakeholders</b>
<b>Marketing Communications</b>		
<b>PR6*</b>	Adherence to laws, standards and voluntary codes related to marketing communications, advertising, promotion and sponsorship	Yes <b>Marketing and communication</b> <b>Cleaner and safer products</b>
<b>PR7</b>	Non-compliance with regulations and voluntary codes concerning marketing communications, advertising, promotion, and sponsorship	Yes No such cases during reporting period
<b>Customer Privacy</b>		
<b>PR8</b>	Complaints regarding breaches of customer privacy and losses of customer data	No
<b>Compliance</b>		
<b>PR9*</b>	Fines for non-compliance concerning the provision and use of products and services	Yes No such cases during reporting period

\* GRI Core indicator



# Independent Assurance Report

(Translation from the Finnish original)

To the Management of Neste Oil Corporation

We have been engaged by the Management of Neste Oil Corporation (hereinafter also the "Company") to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period of 1 January 2013 to 31 December 2013, disclosed in the "Sustainability" section of Neste Oil Corporation's online Annual Report 2013 (hereinafter "Sustainability information").

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

## Management's responsibility

The Management of Neste Oil 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 G3 Sustainability Reporting Guidelines of the Global Reporting Initiative.

The Management of Neste Oil 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 conclusion on the Sustainability information and on the Company's adherence to the AA1000 AccountAbility Principles based on our work performed. 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 Oil Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria.

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

In a limited assurance engagement the evidence-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. 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 one site in Finland.
- Interviewing employees responsible for collection and reporting of the information presented in the Sustainability information at the Group level and at the site where our visit took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Assessing the systems and practices used for the collection and consolidation of quantitative information.
- 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.

## Conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that Neste Oil Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles.

Furthermore nothing has come to our attention that causes us to believe that Neste Oil Corporation's Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability information is not reliable, in all material respects, based on the Reporting criteria.

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

## Observations and recommendations

Based on our work described in this report, we provide the following observations and recommendations in relation to Neste Oil Corporation's adherence to the AA1000 AccountAbility

Principles. These observations and recommendations do not affect the conclusions presented earlier.

- Regarding Inclusivity: Neste Oil Corporation continues to demonstrate a strong commitment to inclusivity and stakeholder engagement. The Company regularly engages in dialogue with diverse stakeholder groups, and it has a good understanding of stakeholder expectations and concerns. We recommend that the Company continues to develop internal cooperation in the implementation of its sustainability program.
- Regarding Materiality: Neste Oil Corporation has a process in place to evaluate and determine the materiality of sustainability topics. The Company has continued to develop the focus areas of the sustainability program according to its plans. We recommend that the Company develops further its approach on how to monitor and communicate the results of the implementation of the sustainability program.
- Regarding Responsiveness: Neste Oil Corporation continues to be committed to being responsive to its stakeholders, which is

evident from the use of different channels to engage in dialogue and convey messages. We recommend that the Company increases transparency on how it has made progress in implementing the sustainability program. This provides stakeholders further opportunities to assess the Company's performance in the areas of material sustainability themes.

## Practitioner's independence and qualifications

We comply with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the IESBA (the International Ethics Standards Board for Accountants).

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 knowledge of the energy industry, to undertake this assurance engagement.

Helsinki, 28 February 2014  
PricewaterhouseCoopers Oy

Sirpa Juutinen  
Partner  
Sustainability & Climate Change

Maj-Lis Steiner  
Director, Authorised Public Accountant  
Sustainability & Climate Change



**AA1000**  
Licensed Assurance Provider  
000-29

# Governance

Neste Oil 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 2010 Corporate Governance Code. Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

## Remuneration in Neste Oil



[Read more ►](#)

## Members of the Board of Directors



[Read more ►](#)

## Neste Executive Board



[Read more ►](#)

## Risk Management



[Read more ►](#)

## Corporate Governance Statement 2013

This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Corporate Governance Code 2010 and Chapter 7, Section 7 of the Securities Markets Act, and Section 7 of the Ministry of Finance's Decree on the Regular Duty of Disclosure of an Issuer of a Security. The Corporate Governance Statement is issued separately from the Review by the Board of Directors and can be consulted online at [www.nesteoil.com/Investors/Corporate Governance](http://www.nesteoil.com/Investors/Corporate%20Governance).

### Regulatory framework

Neste Oil 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 2010 Corporate Governance Code. The Corporate Governance Code can be found at [www.cgfinland.fi](http://www.cgfinland.fi). Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

Neste Oil's Audit Committee has reviewed the Corporate Governance Statement, and the Company's Auditor, Ernst & Young 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 Oil issues consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act, as well as the appropriate Financial Supervisory Authority standards, and NASDAQ OMX 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 Oil is split between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President & Chief Executive Officer. Ultimate decision-making authority lies with shareholders at the AGM. The latter appoints the members of the Board of Directors and the Company Auditor. The Board of Directors is responsible for Neste Oil's strategy and overseeing and monitoring the Company's business. The President & CEO, assisted by the Neste Executive Board (NEB), is responsible for managing the Company's business and implementing its strategic and operational targets.

Neste Oil's headquarters are located in Espoo, Finland.

### Neste Oil's Governance Bodies



## Annual General Meeting

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

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

- the adoption of the Financial Statements
- the distribution of profit for the year detailed in the Balance Sheet
- discharging the members of the Board of Directors and the President & CEO from liability, and
- the election and remuneration of the members of the Board of Directors and the Auditor.

The Annual General Meeting is held annually before the end of June. An Extraordinary General Meeting addressing specific

matters can be held, when considered necessary by the Board of Directors, or when requested in writing by the Company's Auditor or by shareholders representing at least one-tenth of all Company shares.

Under the Articles of Association, an invitation to the Annual General Meeting shall be delivered to shareholders 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. The invitation must be announced in at least two newspapers that are published regularly as decided by the Board of Directors, or in another verifiable manner. The invitation, agenda, and other meeting material shall also be made available online at [www.nesteoil.com/Investors/AGM](http://www.nesteoil.com/Investors/AGM) at least three weeks prior to the meeting.

Neste Oil is not aware of any shareholders' agreements regarding the Company's shares.

### 2013

The 2013 AGM was held in Helsinki on Thursday 4 April and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2012 and discharged the Board of Directors, and the President and CEO from liability for 2012. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2012, sanctioning payment of a dividend of EUR 0.38 per share. This was paid to all shareholders included in the register of shareholders maintained by Euroclear Finland on the record date set for payment of the dividend, which was 9 April 2013. The payment was made on 16 April 2013. The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Company Auditor.

## Nomination Board

A position paper issued by the Finnish Cabinet Committee on Economic Policy in February 2004 stressed that general meetings of shareholders of publicly listed State-owned companies and companies partly owned by the State should appoint a committee to prepare a proposal covering the composition of the board of directors for the following general meeting of shareholders to vote on. The paper indicated that these AGM nomination committees should generally select representatives from a company's largest shareholders and propose an expert member as chairman.

The position paper is based on the belief that a company's board of directors should enjoy the trust of its owners and that it should act in the interests of shareholders, and that the preparations for its election should lie in the hands of its owners. This, the paper indicates, will strengthen the potential of owners to make their voice heard as effectively and as openly as possible.

The paper suggests that a nomination committee appointed by a board of directors itself, in line with the Governance Code covering listed companies in Finland, is best suited to companies

with a diverse ownership base. In the case of companies owned in full or in part by the State, with large owners that are both well-known to the public and active, the approach recommended under the Governance Code is not to be recommended because of the nature of the ownership involved and the responsibility associated with this type of major holding.

As a listed State-owned company, Neste Oil observes the recommendation contained in the above position paper in respect of its Nomination Committee. Since 2011, Neste Oil has named the Nomination Committee, in accordance with the new Corporate Governance Code 2010, as the AGM Nomination Board to distinguish it from the Nomination Committee comprising members of the Board of Directors.

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 Board members to the AGM and to an Extraordinary General Meeting of Shareholders where needed. The Nomination Board shall also be responsible for identifying successors for existing Board members.

The 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 Nomination Board shall be determined annually 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 Nomination Board. In the event that a shareholder does not wish to exercise his or her right to appoint a representative, it 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 Nomination Board, which will be responsible for electing a Chair from among its members; the Nomination Board's Chair shall be responsible for convening subsequent meetings. When the Nomination Board has been selected, the Company will issue a release to this effect.

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

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

## Composition of the Nomination Board prior to the 2014 AGM

On 2 September 2013, the following members were appointed to Neste Oil's Shareholders' Nomination Board: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; Mikko Koivusalo, Vice President, Capital Markets, Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste Oil's Board of Directors.

The Nomination Board convened five times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 22 January 2014.

## Activities

The Nomination Board drafts proposals for the following AGM on the following:

- the number of members of the Board of Directors
- 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.

## CVs of Nomination Board members:

### Eero Heliövaara

M.Sc. (Econ.) and M.Sc. (Eng.). Chair of the Nomination Board. Born 1956.

Director General of the Ownership Steering Department, Prime Minister's Office. Member of the Boards of Paulig Ltd, Cancer Institute, HLD Healthy Life Devices Oy, and Solidium Oy.

### Timo Ritakallio

M.Sc. (Laws), MBA. Member of the Nomination Board. Born 1962.

Deputy CEO, Ilmarinen Mutual Pension Insurance Company. Member of the Boards of Outotec Oyj, Technopolis Oyj, and Opstock Oyj. Chairman of Remuneration Committee of Technopolis Oyj. Chairman of the Boards of Pohjola Finance and Pohjola Finance AS. Member of the Nomination Boards of Suominen Oyj, Uponor Oyj, Tikkurila Oyj, Kemira Oyj, VVO-Yhtymä Oyj, Oriola-KD Oyj, Ekokem Oy, Sponda Plc, Rautaruukki Oyj, Orion Oyj, Elisa Oyj, Tieto Oyj, and Munksjö Corporation.

### Mikko Koivusalo

M.Sc. (Econ.). Member of the Nomination Board. Born 1961.

Director, Investments, Varma Mutual Pension Insurance Company. Member of the Boards of Tornator Oy and Realia Group Oy. Member of the Nomination Board of Fortum Corporation.

## Composition of the Nomination Board prior to the 2013 AGM

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided on 28 March 2012 to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM. The AGM Nomination Board responsible for preparing the 2013 AGM comprised Jarmo Väisänen, Senior Financial Counselor, Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Director, Investments, Varma Mutual Pension Insurance Company. Jorma Eloranta, Chair of Neste Oil's Board of Directors, acted as the Nomination Board's expert member.

The 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 1 February 2013.

## Board of Directors

In accordance with Neste Oil'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. Anyone 68 years of age or older cannot be elected to the Board.

### Activities

The Board shall meet as frequently as necessary, with approximately 9 to 12 regular meetings annually, all scheduled in advance. In addition, extraordinary meetings, if requested by a Board member or the President & CEO, shall be convened by the 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

The Board's responsibilities and duties are defined in detail in the Board's Charter and cover the following main areas:

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

- deciding on Neste Oil's key operating principles
- confirming the annual business plan
- approving the annual financial statements and interim reports
- deciding on major investments and divestments
- confirming Neste Oil's values and most important policies and overseeing their implementation
- appointing the President & CEO and his or her immediate subordinates and deciding on their remuneration
- confirming the Neste Executive Board's and Neste Oil's organizational and operational structure at senior management level, and
- determining the Company's dividend policy to be followed when making a proposal regarding dividends to the AGM.

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 Oil Group, (ii) agreements between any entity within the Neste Oil Group and third parties where such member has a material interest in the matter which may conflict with the interest of Neste Oil or any other entity within the Neste Oil Group, and (iii) agreements between any entity within the Neste Oil 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 Oil is a company within the Neste Oil Group. The term 'agreement' as used here includes litigation or other legal proceedings arising from or relating to such agreements.

## 2013

The 2013 AGM confirmed the membership of the Board of Directors at seven members, and the following were re-elected to serve until the end of the next AGM: Mr Jorma Eloranta, Ms Maija-Liisa Friman, Mr Michiel Boersma, and Ms Laura Raitio. Mr Per-Arne Blomquist, Mr Willem Schoeber, and Ms Kirsi Sormunen were elected as new Board members. Jorma Eloranta was elected as the Chair of the Board, and Maija-Liisa Friman as the Vice Chair.

Nina Linander's, Hannu Ryöppönen's, and Markku Tapio's membership in the Board of Directors ended at the AGM held on 4 April March 2013.

The Board met 10 times in 2013 and attendance percentage was 100 %. In its work in 2013, the Board concentrated on monitoring the Company's financial result and status, oversaw the implementation of Neste Oil's strategy, and took decisions and established the Company's position on a variety of strategy-related matters, monitored progress on the Value Creation programs, and oversaw the ongoing development of the Company's way of working, particularly through the Way Forward initiative. The Board also devoted particular attention to monitoring efforts aimed at improving the profitability of the Renewable Fuels business, extending the Company's feedstock base, and complying with sustainability-related requirements in its operations. In addition, the Board focused on efforts aimed at improving Neste Oil's safety performance and other duties coming within the scope of its Charter.

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 2013

										Attendance at meetings
	Position	Born year	Education	Main occupation	Independent of the company	Independent of major shareholders	Personnel and Remuneration Committee	Audit Committee	Board	Committees
Jorma Eloranta	Chair	1951	M.Sc. (Tech.)	Non-Executive Director	•	•	•		100%	100%
Maija-Liisa Friman	Vice Chair	1952	M.Sc. (Chem. Eng.)	Non-Executive Director	•	•	•		100%	100%
Per-Arne Blomquist	Member	1962	B.Sc. (Econ.)	Non-Executive Director	•	•		•	100%	100%
Michiel Boersma	Member	1947	(Ph.D (Chem. Eng.)	Non-Executive Director	•	•		•	100%	100%
Laura Raitio	Member	1962	(Lic. Tech.)	Vice President	•	•		•	100%	100%
Willem Schoeber	Member	1948	Ph. D. (Chem. Eng.)	Non-Executive Director	•	•	•		100%	100%
Kirsi Sormunen	Member	1957	M.Sc. (Econ.)	Non-Executive Director	•	•		•	100%	100%

### Board of Directors, 1 January – 4 April 2013\*

Nina Linander	Member	1959	B.Sc. (Econ.) MBA	Partner	•	•		•	100%	100%
Hannu Ryöppönen	Member	1952	B.A. (Business Adm.)	Non-Executive Director	•	•		•	100%	100%
Markku Tapio	Member	1948	Pol. Sc. (Econ.)	Senior Financial Counsellor	•		•		100%	100%

\* Nina Linander, Hannu Ryöppönen, and Markku Tapio left Neste Oil's Board of Directors at the AGM held on 4 April 2013

The shareholdings of members and the remuneration paid to them are detailed in a table in the Remuneration and shareholdings section of the Annual Report.

## Members of the Board of Directors

### Jorma Eloranta

**Chair of the Board. Member of the Board since 2011. Independent member.**

(born 1951)

M.Sc. (Tech.)

President and CEO of Metso Corporation 2004–2011.

President and CEO of Kvaerner Masa-Yards 2001–2003.

President and CEO of Patria Industries Group 1997–2000.

Deputy Chief Executive of Finvest and Jaakko Pöyry Group 1996.

President of Finvest 1985–1995.

Chairman of the Supervisory Board of Gasum Corporation.

Chairman of the Boards of Suominen Corporation, Finnish Foundation for Technology Promotion, and ZenRobotics Oy.

Chairman of the Board and President of Pienelo Oy.

Vice Chairman of the Board of Uponor Corporation and Finnish Fair Foundation.

Member of the Boards of Cargotec Corporation and Ovako Group AB.

Chair of Neste Oil's Personnel and Remuneration Committee and member of the Shareholders' Nomination Board.



### Maija-Liisa Friman

**Vice Chair of the Board. Member of the Board since 2010. Independent member.**

(born 1952)

M.Sc. (Chem. Eng)

President and CEO of Aspocomp Group Oy 2004–2007.

Managing Director of Vattenfall Oy in 2000–2004 and Managing Director of Gyproc Oy 1993–2000.

Chairman of the Boards of Ekokem and Helsinki Deaconess Institute Foundation.

Member of the Boards of Finnair, Talvivaara and LKAB.

Chairman of Finnair's Audit Committee.

Partner of Boardman Oy.

Member of Neste Oil's Personnel and Remuneration Committee.



### Per-Arne Blomquist

**Member of the Board since 2013. Independent member.**

(born 1962)

B.Sc (Econ.)

CFO of TeliaSonera AB 2009–2012 and Executive Vice President until November 2013.

CFO & Executive Vice President of the SEB Group 2006–2008 and as Chief Group Controller & Head of Group Finance 2001–2006.

CFO & Executive Vice President at Halogen AB 2000–2001.

Several managerial positions at Telia AB during 1997–2000 and several positions at Alfa Laval Group during 1989–1997.

Member of the Board of Djurgården Hockey AB.

Chair of Neste Oil's Audit Committee.



### Michiel Boersma

**Member of the Board since 2007. Independent member.**

(born 1947)

Ph.D (Chem. Eng.)

CEO of Essent NV 2003–2009.

Chairman of the Supervisory Boards of ProRail, TMG and VieCuri Medical Centre.

Member of the Supervisory Board of POST NL.

Chairman of the Board of Prometheus Energy.

Member of the Boards of various Dutch foundations.

Senior Advisor of First State Investments.

Served for many years in the Shell Group, most recently in 2000–2003, as President, Shell Global Solutions and Executive Vice President of the Shell Oil Products Executive Committee.

Member of Neste Oil's Audit Committee.



### Laura Raitio

**Member of the Board since 2011. Independent member.**

(born 1962)

M.Sc. (Chem. Eng.), Lic. Tech. (forest products technology)

Executive Vice President, Building and Energy 2009–2013 and Member of the Executive Management Team 2006–2013, Ahlstrom Corporation.

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 Oy 2001–2002. Several managerial positions within Ahlstrom's specialty paper business since 1990.

Member of Neste Oil's Audit Committee.

## Willem Schoeber

**Member of the Board since 2013.**  
**Independent member.**

(born 1948)

Dr. (Chem. Eng.)

Former member of the Management Board of EWE AG, responsible for power generation and international business 2010–2013.

Chairman of the Management Board at swb AG (Bremen), 2007–2011.

Several positions at Royal Dutch Shell Group of companies 1977–2007, in particular in oil refining.

Chairman of the Boards of Directors of EWE Turkey Holding AŞ, Bursagaz AŞ and Kayserigaz AŞ.

Member of the supervisory board of Gasunie N.V.

Member of Neste Oil's Personnel and Remuneration Committee.



## Kirsi Sormunen

**Member of the Board since 2013.**  
**Independent member.**

(born 1957)

M.Sc. (Econ.)

Vice President, Corporate Responsibility at Nokia Corporation until December 2013. Vice

President, Head of Sustainability 2009–2012, Vice President, Head of Environmental Affairs 2004–2009 and Vice President, Strategy Development at Nokia Corporation 2003–2004.

Also served as Senior Vice President of Finance, Control & Planning for Nokia Americas at Nokia Inc., Irving, Texas 1999–2003, Senior Vice President of Finance & Control at Nokia Telecommunications 1995–1999, and Vice President & Group Treasurer Head of Global Treasury activities at Nokia Group 1993–1995.

Several positions within Nokia Group's Treasury functions since 1982.

Member of the Board of Talvivaara Mining Company plc and member of the Board of Directors of Sitra, The Finnish Innovation Fund.

Member of Neste Oil's Audit Committee.



Governance ► Corporate Governance Statement 2013 ► Board of Directors ► Board committees

## Board committees

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

### Audit Committee

Under its Charter, the Audit Committee shall consist of a minimum of three Board members that are independent of the Company and its subsidiaries and at least one of whom shall be independent of Neste Oil'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 and cover the following main areas:

- monitoring the Company's financial statement reporting process, and, as appropriate, interim reports
- supervising the financial reporting process
- monitoring the efficiency of the Company's internal control, internal audit, and risk management systems
- reviewing the Company's Corporate Governance Statement, which includes a description of the main features of the internal control and the risk management systems pertaining to the financial reporting process
- monitoring the statutory audit of the Financial Statements and Consolidated Financial Statements
- evaluating the independence of the Company's Statutory Auditor, particularly the provision of related services to the company to be audited
- preparing the proposal or recommendation or resolution on the election of the Statutory Auditor
- reviewing all the material reports produced by the Statutory Auditor addressed to the Company or its subsidiaries
- evaluating the Company's compliance with laws and regulations



- approving internal audit policy and reviewing the annual plan for Internal Audit and internal audit reports, and
- monitoring the Company's financial position.

## 2013

The Audit Committee until 4 April 2013 comprised Nina Linander (Chair), Michiel Boersma, Laura Raitio, and Hannu Ryöppönen. Starting from 4 April 2013, the Audit Committee comprised Per-Arne Blomquist (Chair), Michiel Boersma, Laura Raitio, and Kirsi Sormunen.

During 2013, the Audit Committee convened nine times and the attendance rate was 100%. In addition to its normal duties, the Committee concentrated on monitoring and development work regarding financial reporting, risk management, and the investment process, as well as monitoring the management of the market risks associated with the expansion of the Renewable Fuels business. In addition, the Committee conducted a selection process covering the external auditor and provided the full Board with a recommendation thereon.

## 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 its Charter approved by the Board and cover the following main areas:

- preparing the appointments of key executive personnel and making proposals to the Board on compensation and incentive systems for key personnel
- preparing and proposing to the Board the appointments of the President & CEO and the members of the Neste Executive Board, and the terms and conditions of their employment, and
- monitoring and evaluating the performance of the President & CEO and the members of the Neste Executive Board.

## 2013

The Personnel and Remuneration Committee until 4 April 2013 comprised Jorma Eloranta (Chair), Maija-Liisa Friman, and Markku Tapio. Starting from 4 April 2013, the Personnel and Remuneration Committee comprised Jorma Eloranta (Chair), Maija-Liisa Friman, and Willem Schoeber.

The Committee convened seven times, and the attendance rate was 100%. In 2013, in addition to the normal duties coming within the scope of its Charter, the Personnel and Remuneration Committee concentrated on discussing, reviewing, and developing the Company's remuneration structures and short- and long-term incentive plans, and monitored the functioning of the latter to ensure that they achieved their objectives and helped improve the Company's performance. The Committee also monitored the talent development and succession planning covering the Company's key personnel and carried out other duties detailed in the remuneration statement.

## President & CEO

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

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

Information on the remuneration and shareholdings of the President & CEO can be found in the [Remuneration and Shareholdings](#) section of the Annual Report.

## Neste Executive Board

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

members of the NEB can be found in the [Remuneration and Shareholdings section](#) of the Annual Report.

### 2013

The Neste Executive Board comprises ten members. Matti Piri acted as the acting Chief Financial Officer and a member of the Executive Board until 6 May when Jyrki Mäki-Kala was appointed as CFO. The Executive Board met 12 times in 2013.

The NEB concentrated on enhancing the implementation of the Group's strategy by monitoring progress on individual Value Creation programs and the Way Forward initiative aimed at changing the way Neste Oil operates internally. The NEB also improved the efficiency of cash flow management by monitoring and controlling fixed costs, investments, and working capital. In addition, the NEB oversaw HR development work and launched a program to improve Neste Oil's safety performance.

## Members of the Neste Executive Board

### Matti Lievonon

**President & CEO, Chair of the Neste Executive Board**

(born 1958)

B.Sc. (Eng.), eMBA. President & CEO since 1 December 2008

Joined the company in 2008.

Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM, 1986 and 2008, and was with ABB earlier.

Member of UPM-Kymmene's Executive Board 2002–2008.

Chairman of the Board of the Chemical Industry Federation of Finland.

Vice chairman of the Boards of Rautaruukki Corporation and Nynas AB.

Member of the Board of the Confederation of Finnish Industries.

Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and member of the Advisory Board, National Emergency Supply Agency.



### Matti Lehmus

**Executive Vice President, Oil Products & Renewables. Member of the Neste Executive Board since 2009.**

(born 1974)

M.Sc. (Eng.) and eMBA

Joined the company in 1997.

Responsible for the Oil Products and Renewables business area. Previously served as 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.

Vice Chairman of the Board of the Finnish Petroleum Federation.

### Sakari Toivola

**Executive Vice President, Oil Retail. Member of the Neste Executive Board since 2007.**

(born 1953)

M.Sc. (Eng.)

Joined the company in 2007.

Responsible for oil retailing in Finland and the Baltic Rim, direct sales, and LPG.

Served previously as Managing Director (2002–2007) and Retail Sales Director (2001–2002) of oy Esso ab (Finland).



Member of the Board of Directors of the Finnish Petroleum Federation.

## **Simo Honkanen**

**Senior Vice President, Sustainability and HSSE. Member of the Neste Executive Board since 2009.**

(born 1958)

M.Sc. (Econ.)

Joined the company in 2006.

Responsible for the Sustainability and HSEQ corporate function. Served previously as Vice President, Marketing, Raw Material Procurement and Stakeholder Relations in the Renewable Fuels division (2008–2009), Vice President, New Ventures in the Components Division (2006–2007) and prior to that as Strategy Director in Shell Finland, Marketing Director, Retail in Shell Benelux and France, and in several other managerial positions in Finland and Sweden (1985–2005).

## **Tuomas Hyryläinen**

**Senior Vice President, Strategy. Member of the Neste Executive Board since 2012.**

(born 1977)

M.Sc. (Econ.)

Joined the company in 2012.

Responsible for strategy, Business Intelligence, M&A operations, as well as development of the Value Creation Programs.

Previously served as Vice President for strategy at F-Secure and served in various strategy- and business development-related positions at Nokia.

Member of the Board of Directors of Nynas AB.

## **Hannele Jakosuo-Jansson**

**Senior Vice President, Human Resources. Member of the Neste Executive Board since 2006.**

(born 1966)

M.Sc. (Eng.)

Joined the company in 1990.

Responsible for the Group's Human Resources function.

Served as Laboratory and Research Manager at the Technology Center (1998–2004) and Vice President, Human Resources at Oil Refining (2004–2005).

Member of the Board of Tekes, the Finnish Funding Agency for Technology and Innovation and member of the Board of Directors of Munksjö.



## **Osmo Kammonen**

**Senior Vice President, Communications, Marketing and Public Affairs. Member of the Neste Executive Board since 2004.**

(born 1959)

M.Sc. (Laws)

Joined the company in 2004. Responsible for the Group's communications, marketing and public affairs activities.

Served as Senior Vice President, Corporate Communications and Investor Relations and Communications Manager in various companies in the electronics, engineering, construction materials, and forest products industries.

## **Lars Peter Lindfors**

**Senior Vice President, Technology. Member of the Neste Executive Board since 2009.**

(born 1964)

Ph.D. (Tech.), MBA

Joined the company in 2007.

Responsible for Research & Development, Investment Management, Procurement, Information Technology and Neste Jacobs. Served previously as Senior Vice President, Technology and Strategy (2009–2012) and as Vice President for the company's Research and Technology unit (2007–2009), as 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 (1989–2001) as R&D Manager and various other positions.

Board Member of the Fortum Foundation.

## **Jyrki Mäki-Kala**

**Chief Financial Officer. Member of the Neste Executive Board since 2013.**

(born 1961)

M.Sc. (Econ.)

Joined the company on 6 May 2013.

Responsible for the Group's financial management, investor relations, and risk management. Served in various business and corporate financial positions at Kemira in 2005–2013.

Previously worked for Finnish Chemicals.

## **Ilkka Poranen**

**Senior Vice President, Production and Logistics. Member of the Neste Executive Board since 2009.**

(born 1960)

M.Sc. (Eng.)

Joined the company in 1985.

Responsible for Production and Logistics. Previously served as Vice President, Corporate Safety (2007–2009), Vice President,



Base Oils (1997–2007), and as Plant Manager at the Porvoo Refinery (1986–1997).

**Matti Hautakangas\***

**General Counsel and Secretary to the Neste Executive Board, the Board of Directors and the Shareholders' Nomination Board.**

(born 1963)

M.Sc. (Laws)



Joined the company in 2003. Secretary to the Neste Executive Board and Board of Directors since 2004 and to the Shareholders' Nomination Board since 2013. Responsible for the Group's legal affairs.

Served previously as Legal Counsel, Oil Refining (2003–2004) and as an attorney-at-law at Procopé & Hornborg Law Offices Ltd. (1994–2003).

\* Not a member of the Neste Executive Board

Governance ► Corporate Governance Statement 2013 ► Neste Executive Management Board

## 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.

### 2013

The Neste Executive Management Board comprised the President & CEO, business area Executive Vice Presidents, the CFO, the Senior Vice President, Strategy, and the Senior Vice President, Production and Logistics. The NEMB met 12 times in 2013.

Governance ► Corporate Governance Statement 2013 ► Company Auditor

## Company Auditor

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

The Auditor is responsible for auditing the Company's accounts, its financial statements, the Review of the Board of Directors, and Neste Oil's administration.

The Auditor's Report covers the Review by the Board of Directors, the Consolidated Financial Statements, and the Parent Company's Financial Statements, and can be found in the [Financial Statements](#) section of the Annual Report.

### 2013

Ernst & Young Oy was elected as Neste Oil's Auditor on 4 April 2013, with Anna-Majja Simola, Certified Public Accountant, as main responsible auditor. Ernst & Young have acted as the Company's Auditor since 2007, when the function was last put out to tender.

Fees charged by the statutory auditor, EUR 1,000	2013	2012
Audit fees	1,052	1,077
Other	392	352
Total	1,444	1,429

## Internal Audit

The Internal Audit Unit supports Neste Oil's Board of Directors, the Board's Audit Committee, and management in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The goal of Internal Audit is to generate added value by making recommendations designed to improve the Company's operations. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.

The central task of Internal Audit is to audit the operations of Neste Oil's units and functions on a regular basis and evaluate their internal controls, risk management, and administrative practices. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments on behalf of management or the Board of Directors' Audit Committee.

Internal Audit reports to the Board of Directors' Audit Committee and administratively to the President & CEO. The Audit Committee is responsible for approving the Internal Audit Charter and Internal Audit's annual operating plan. As a staff function, Internal Audit does not have any direct authority over the activities it reviews.

### Misconduct

Preventing misconduct in the Company's operations is one of Neste Oil's primary goals. Continuous efforts are made to identify and evaluate the risks associated with possible misconduct.

Neste Oil observes a number of principles and guidelines to prevent and deal with misconduct. These cover misuse of assets, systems, or a person's position within the Company aimed at benefiting one or more people either directly or indirectly. Regulations cover areas including:

- fraudulent financial reporting
- unauthorized use of Company assets
- income or assets acquired fraudulently or illegally, and
- evading costs or responsibilities using fraudulent or illegal means, and costs generated in a fraudulent or illegal way.

Regulations also include principles covering how supply, purchase, and service contracts should be negotiated. The Neste Oil Code of Conduct defines the general approach that every Company employee is expected to follow.

Should employees notice or suspect misconduct, they can inform their manager or supervisor, the head of Internal Audit, the head of the Group's Corporate Security Unit, Human Resources personnel, or anonymously via an online tool. Internal Audit is responsible for evaluating cases that are reported and investigating them thoroughly if appropriate. Legal Affairs is responsible for any legal action taken in response. Misconduct and suspected misconduct is reported to the Board of Directors' Audit Committee.

### 2013

Internal Audit focused on refinery maintenance procedures and overseas operations during 2013.

No cases of misconduct took place in 2013 that would have had a material impact on the Company's financial performance.

Read more about internal communications related to the Code of Conduct in the [Sustainability section](#) of the Annual Report.



## Insider guidelines

Neste Oil complies with the Insider Guidelines of NASDAQ OMX Helsinki Ltd. that came into force as of 9 October 2009. The Company has also approved its own Guidelines for Insiders, which are stricter in some areas. The Company's closed window, for example, exceeds minimum NASDAQ OMX Helsinki requirements.

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

The members of the Board of Directors and the President & CEO, the Company's main responsible auditor, and the members of the Neste Executive Board and its secretary have all been classified as insiders subject to a declaration requirement. The holdings of Company securities by such insiders are filed in the public Insider Register, which can be consulted at the [Company's web site](#). A public register is maintained in the insider register system of [Euroclear Finland Ltd.](#)

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

Permanent insiders may not trade in any Company securities during the period from the closing date of an interim or annual accounting period to the date of publication of the interim report or financial statements bulletin for that period. The minimum period concerned is always 28 days prior to the date of publication of the interim report or the financial statements bulletin ('closed window'). The publication dates of interim reports and financial statements bulletins are shown in the financial calendar at [nesteoil.com/investors](http://nesteoil.com/investors).

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

# Performance Management Process

The Neste Oil Performance Management Process plays an essential role in helping the Group attain its strategic goals and reinforcing its performance-driven mindset.

Excellent operational performance is based on setting challenging targets, executing action plans, reviewing progress, giving feedback, and measuring results and performance.

From a financial reporting point of view, Neste Oil's Performance Management Process consists of a monthly Management Reporting Process and a quarterly Performance Review Process.

At Group level, results and 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.



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

## Objectives

The objective of internal control in Neste Oil is to ensure efficient implementation of the Company's strategy and effective operations, assure compliance with both internal instructions and laws and regulations, achieve appropriate financial reporting, and prevent fraud and other misconduct.

The main responsibility for internal control lies with the line organizations of business areas and common functions. Identifying the main risks of processes and defining adequate control points are essential to ensuring an appropriate level of control. In addition to daily monitoring, line organizations are responsible for evaluating their level of internal control by reviewing and assessing their processes, and develop their systems by taking corrective actions as needed.

Line management also has primary responsibility for organizing sufficient control to ensure compliance with the Company's overall management practices, policies, principles, and instructions.

Neste Oil's internal control framework is based on the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework.

## Roles and responsibilities

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

The heads of business areas and common functions are responsible for establishing and maintaining appropriate, up-to-date, effective and adequate controls in their operations. Responsibility for the practical implementation of this is delegated to each organizational level. Managers at each of these levels are responsible for implementing corporate principles and instructions in their organization, and for assessing the effectiveness of controls as often as needed.

To ensure sufficient control and support the line organization, Neste Oil's controllers and their teams have an independent role in controlling their business line. In certain areas, such as credit and counterparty risks, the Finance Department has risk control responsibility. In respect of financial reporting, Finance has a key role in control activities. Other corporate functions also play a role in assisting, assuring, and monitoring the operation of internal control procedures, such as HSEQ audits.

Internal Audit has overall responsibility for evaluating that internal control processes and procedures operate adequately and effectively.

The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing as part of the company's corporate governance.

## Control environment

Neste Oil's values and management systems are the foundation of the control environment and provide the background for shaping people's awareness and understanding of control issues. With respect to financial reporting control environment covers:

- the President & CEO and corporate management are responsible for underlining the importance of ethical principles and correct financial reporting
- the Audit Committee, appointed by the Board of Directors, is responsible for overseeing the financial reporting process and related controls
- clearly defined financial reporting roles, responsibilities, and authorities provide a clear framework for everyone, and
- the structure of the organization and the resources allocated within it (segregation of duties, adequate financial reporting competencies recruited and retained) are designed to provide effective control over financial reporting.

## Risk assessment

The Group's risk management governance is based on the 'three lines of defense' model, which distinguishes between:

1. business areas and common functions owning and managing risk
2. risk management specialists responsible for controlling, consulting, and developing systems, and
3. the Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

There are three risk assessment elements at Neste Oil. An Enterprise Risk Management (ERM) process provides a systematic approach for identifying threats and opportunities related to strategic targets and business plans. Risk manuals consist of risk principles, guidelines, and instructions. Risk awareness across the organization is based on proactive thinking and behavior among individual employees.

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.

Based on risk assessment, the requirement for internal control has been included in the Principle and Instruction for Control of Financial Reporting.

More information on Neste Oil's risk management and risks related to Neste Oil's business can be found in the [Risk management section](#) of the Annual Report.

## Control activities

Control activities are instructions, guidelines, and procedures established and executed to help ensure that the actions identified by management as necessary to address the relevant risks are carried out effectively. Policies and other principles to be followed are documented in Neste Oil's management systems. The most

important areas from the standpoint of financial reporting are included in the Controller's Manual.

Neste Oil's entity-level and process-level control activities with respect to reliable financial reporting are described in the Principle and Instruction for Control over Financial Reporting. These establish the minimum control requirements and also include control activities related to transactions in specific processes, as well as controls carried out as part of the monthly reporting process. Typical control activities include authorizations, automatic or manual reconciliations, third-party confirmations, control reports, access controls to IT systems, and analytical reviews.

Internal communications

Information and communication systems enable Neste Oil's personnel to capture information on management and internal control. With respect to financial reporting, this means that personnel have access to adequate information and communication regarding accounting and reporting principles.

The main means of communicating the matters relevant for appropriate financial reporting are the Controller's Manuals used at common function and business area levels, which include

instructions covering accounting principles, planning, estimating, and reporting, as well as periodic controllers' meetings.

Monitoring

Monitoring is a key component of the internal control system and enables management and the Board of Directors and the Audit Committee to determine whether the other components of the system are functioning as they should and to ensure that internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action, and to management and the Board as appropriate.

Effective monitoring is based on an evaluation of controls, their content and evaluation on the fact whether they are effective in mitigating the risks identified. The efficacy of controls is monitored regularly as part of management activities, as the efficacy of controls can diminish over time due to changes in the operating environment that affect the risks that controls are designed to mitigate, or due to changes in the control activities themselves caused by changes in processes, IT, or personnel.

2013

During 2013, the internal control and monitoring of price and foreign exchange risks were further developed. This was organized as a project and work on responding to the findings began in early summer.

Neste Oil Group also had a project to implement the same financial applications and processes for all Group companies. This has improved the transparency from an internal control point of view.

Annual internal control process in 2014



## Risk management



Due to the extent, diversity, and nature of Neste Oil's business activities and areas, company's business, personnel, assets, and environment are exposed to a wide range of operational risks. From the financial risk point of view, risk management is steered by risk appetite, risk tolerance, and risk management opportunities. In the areas of safety and environment risks, Neste Oil focuses on active prevention of risks. Neste Oil promotes a risk-aware culture in all areas of the company's decision-making.

### The objective, framework, and process of risk management

The Corporate Risk Management Policy and Principles approved by the Board of Directors define the risk management principles for managing the risks associated with the Group's strategic and operational targets and those of its business areas and common functions. The Board is also responsible for approving Neste Oil's Treasury Risk Policy and Credit and Counterparty Risk Management Principles. Business areas and corporate common functions have additional principles and procedures related to risk management, approved by the President & CEO or a member of the Neste Executive Board.

Continuous operational activities are involved in tackling risks in functions such as Finance, Sustainability and HSEQ, and ICT, as well as those related to corporate reputation, legal affairs, technology, investments, and human resources.

### Neste Oil's Risk Management Policy emphasizes:

- the awareness and proactive management of risks
- the value of risk management in enhancing opportunities and reducing threats, and thereby gaining competitive advantage
- the importance of sufficient risk treatment and risk control, particularly in respect of HSEQ and sustainability, and
- the benefits of managing risks as an integrated part of planning, decision-making, and operational processes with a defined structure of roles and responsibilities.

### Neste Oil's risk management framework is based on three risk assessment elements:

1. an Enterprise Risk Management (ERM) process that provides a systematic approach to identifying threats and opportunities related to strategic targets and performance plans
2. risk manuals for specific risk disciplines. Risk manuals and defined processes cover areas such as credit and counterparty risk principles, price risk management principles and instructions, treasury principles and instructions, reputation risk management principles, and proprietary trading manuals and instructions, and
3. risk awareness across the organization, based on proactive thinking and behavior among individual employees.

Risk management is handled through these three elements by following the basic risk management process.



## Risk management governance

The Board of Directors is responsible for setting the Group's risk appetite and approving the Corporate Risk Management Policy and Principles.

Risk management governance is based on the 'three lines of defense' model (see the Risk management governance illustration), which distinguishes between:

1. business areas and common functions owning and managing risk
2. risk management specialists responsible for controlling, consulting, and developing systems, and
3. the Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

### Risk management line responsibility

As part of the first line of defense, the President & CEO, supported by the Neste Executive Board, has overall responsibility for the management of risks, particularly in risks that threaten the Company's strategy and performance plans, as well as investments and new business models. Management and personnel in Neste Oil's business areas and common functions are responsible for assessing and managing risks related to planning, decision-making, and operational processes in their particular areas.

### Risk management control and consultation

The second line of defense comprises the Risk Management Committee steered by the Chief Financial Officer provides a comprehensive understanding of the overall risks the organization faces, supported by the risk management specialists in the Corporate Risk Management function and other common functions and business areas.

The Risk Management Committee steers the development of risk management principles, tools and processes.

The Committee assesses the state of risk management processes, control and compliance and reviews the efficacy of different risk management disciplines, especially in price, FX, proprietary trading, and counterparty risks.

Risk Management specialists are responsible for controlling special risk disciplines, consulting and facilitating risk management processes and developing risk management systems.

### Risk management effectiveness assurance

The third line of defense, led by the Audit Committee, is designed to provide independent assurance on the efficacy of governance and risk management systems. Internal Audit plays a key role in the third line of defense and provides assurance to the Audit Committee.

## Risk reporting

Corporate risk reporting to the Board of Directors, the Audit Committee, the President & CEO, and the Neste Executive Board takes place according to the following main principles:

- risks threatening strategic and performance plan targets are reported as part of the corporate planning process
- risk treatments are reported through the Risk Management Committee as part of the corporate review process, and
- reporting on the overall financial risk situation is provided as part of monthly reporting

## Risk relating to Neste Oil's business

The nature of the oil refining industry, regardless of the feedstocks used, exposes Neste Oil to market, counterparty, contractual, and operational risks, as well as other risks in areas such as sustainability, health, safety and the environment, IT and security, and general political and regulatory issues.

In particular, risks related to legislation, technology, and intellectual property rights, as well as feedstock supply, are likely to be of greater significance in renewable fuels than in traditional oil refining. Any of the above risks, either alone or jointly, may have a materially adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Changes in the refining margins of petroleum products and renewable fuels may also have a materially adverse effect on

Neste Oil. The company's financial result is primarily affected by the price differential or margin between refined product prices and the price of the crude oil, vegetable oil, and other feedstocks used in refining.

The cost of the feedstocks Neste Oil acquires and the price at which it can ultimately sell its products depend on a variety of factors largely beyond the company's control. Historically, refining margins have been volatile and are likely to continue to remain so in the future. Future volatility in refining margins may have a material adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
<b>Feedstock price</b>	
<ul style="list-style-type: none"> <li>The volatility of feedstock prices exposes Neste Oil's inventory value and EBIT to price risks under IFRS accounting. The comparable EBIT that Neste Oil reports is not exposed to this risk, as it is based on current cost valuation.</li> </ul>	<ul style="list-style-type: none"> <li>From a risk management perspective, Neste Oil's inventory consists of two components; base inventory and transaction position. The latter is hedged using oil and vegetable oil derivatives. See: Financial Statements, Note 3, Commodity price risks.</li> </ul>
<b>Feedstock price differences</b>	
<ul style="list-style-type: none"> <li>Changes caused by supply and demand related to the price differentials of specific crude grades (such as the price differential between Russian Export Blend and Brent crude).</li> <li>Crude oil may also be exposed to adverse short-term physical market strength.</li> </ul>	<ul style="list-style-type: none"> <li>Crude oil exposure is sometimes reduced by 'locking' the following crude oil differentials: between Brent Dated and Brent Future/Forward contract and between Urals and Brent Dated.</li> <li>Fixed price premiums on supply contracts or use of commodity derivatives.</li> </ul>
<b>Margin</b>	
<ul style="list-style-type: none"> <li>Uncertainty related to the development of the world economy, which impacts demand for petroleum products generally and diesel fuel in particular.</li> <li>Development of global oil refining capacity and, in particular, capacity in the products refined by Neste Oil.</li> <li>Changes in the costs related to alternative ways of fulfilling regulated biomandates.</li> <li>Fluctuations between crude oil and product prices, as well as price differentials between vegetable oil and renewable fuel prices.</li> <li>Changes in demand for different base oil product quality groups and changes in global base oil refining capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Neste Oil hedges the components of its refining margins with derivative transaction instruments. Hedging transactions concentrate on the components of Neste Oil's total refining margin. See: Financial Statements, Note 3, Refining margin risk.</li> <li>Neste Oil monitors the development of worldwide refining capacity and aims to develop the structure of its own refining capacity.</li> <li>Neste Oil's research and technology activities develop the company's products and technology and aim to extend the range of raw materials that Neste Oil can use in its processes.</li> </ul>
<b>Product price premiums</b>	
<ul style="list-style-type: none"> <li>Availability of price arbitrage for refined products between different geographical markets.</li> <li>Changes in the mandatory product specifications used by the EU and governmental authorities for refined products, such as the EU Fuel Quality Directive.</li> <li>Pricing and other actions taken by competitors that impact the market.</li> </ul>	<ul style="list-style-type: none"> <li>Long-term sales contracts</li> <li>Commodity derivative contracts are used to manage price arbitrage.</li> <li>Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas.</li> <li>Neste Oil has a strong retail network around the Baltic, which provides a captive market for its refining operations.</li> </ul>
<b>Sales volumes</b>	
<ul style="list-style-type: none"> <li>Pace of the implementation of renewable fuel legislation, such as the EU Renewable Energy Directive (RED), national regulations, and the United States Renewable Fuel Standard (RFS-2).</li> <li>Operational availability of Neste Oil's refineries.</li> </ul>	<ul style="list-style-type: none"> <li>Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas.</li> <li>High levels of operational availability are promoted through preventive maintenance and safety work at all the Company's refineries.</li> </ul>

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
<b>Exchange rate</b> <ul style="list-style-type: none"> <li>Trading in commodities and refined products mainly takes place in US dollars, which exposes Neste Oil to USD/Euro exchange rate volatility.</li> </ul>	<ul style="list-style-type: none"> <li>Neste Oil limits the uncertainties resulting from changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures. See: Financial Statements, Note 3, Foreign exchange risk.</li> </ul>
<b>Costs</b> <ul style="list-style-type: none"> <li>Changes in the cost and availability of logistics services for feedstocks and refined products.</li> <li>Changes in environmental and other regulations that could require Neste Oil to make substantial investments without necessarily increasing the capacity or operational efficiency of its refineries.</li> <li>Changes in the cost of capital.</li> </ul>	<ul style="list-style-type: none"> <li>Neste Oil aims to link its environmental investments to productivity investments and cooperates constructively with all its stakeholders.</li> <li>Neste Oil is exposed to interest rate risk primarily through its interest-bearing net debt. See: Financial Statements, Note 3, Interest rate risk.</li> </ul>
<b>Hazard risk</b> <ul style="list-style-type: none"> <li>Hazard risk is defined as the risk of financial losses arising from events leading to the damage of physical or intellectual assets, business interruption, personnel injuries, or environmental, product, or other liabilities.</li> <li>Risks in the area of marine transportation may, if realized, have a major cost effect.</li> </ul>	<ul style="list-style-type: none"> <li>High levels of operational excellence are promoted through instructions and principles covering areas such as process-, product- and personnel safety, security, marine risk management, crisis management, change management, and business continuity management.</li> <li>In addition to preventive risk management measures, major hazard risks are covered by insurance policies.</li> </ul>
<b>Credit and counterparty risk</b> <ul style="list-style-type: none"> <li>Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. Risk is linked to the potential failure of counterparties to meet their contractual payment obligations, and depends on the creditworthiness of counterparties and the size of the exposure concerned.</li> </ul>	<ul style="list-style-type: none"> <li>Credit risk limits are set at Group level, designated by different levels of authorization and delegated to Neste Oil's business areas.</li> <li>Counterparties are screened and evaluated in respect of their creditworthiness to decide whether open credit lines are acceptable or whether collateral or other credit enhancements such as letters of credit, bank guarantees, or Parent Company guarantees have to be posted. See: Financial Statements, Note 3, Credit and counterparty risk.</li> </ul>

More information on market, foreign exchange, and interest rate risks, and how they are mitigated can be found in the [Financial Statements](#) Note 3 section of the Annual Report.

More information on environmental and safety risks can be found in the [Sustainability](#) section of the Annual Report.

## Risk management focus in 2013

During 2013, Neste Oil developed its Enterprise Risk Management (ERM) system by deepening the management of those business opportunities that were left outside the business plan. The value of the ERM process lies in enhancing opportunities and reducing threats, and thereby gaining competitive advantage.

In order to develop reputation risk management, Neste Oil developed a framework where risks are prevented with Company codes, risk-consciousness, risk assessments, crisis management, and by strengthening reputation capital.

The focus of Renewable Fuel business margin hedging was shifted from systematic hedging towards overall margin management.

The ICT systems related to derivatives management and invoicing were customized to enable the regulative (EMIR) reporting of derivatives into trade repositories, which will start in early 2014.

### Hedging market risks

Uncertainties in the global economy were reflected in the oil, renewable fuel, and renewable feedstock markets, and this volatility is expected to continue. Global oil demand is generally

forecasted to grow moderately, and new refining capacity is likely to put pressure on simple refineries.

In the Oil Products business, Neste Oil's advanced, high-conversion conventional refineries provide a reasonable level of natural protection in a low-margin environment, and the normal refining margin hedging ratio used has been relatively low as a result.

In the Renewable Fuels business the good operational performance resulted higher sales volumes and lower unit production costs. In line with Neste Oil's current price risk management strategy, the margin hedging ratio used for this business area has been relatively high. The focus of Renewable Fuel business margin hedging was shifted from systematic hedging towards entire margin management.

Neste Oil manages its market risk mainly through the use of commodity and foreign exchange rate derivatives.



## Remuneration and shareholdings

### Introduction

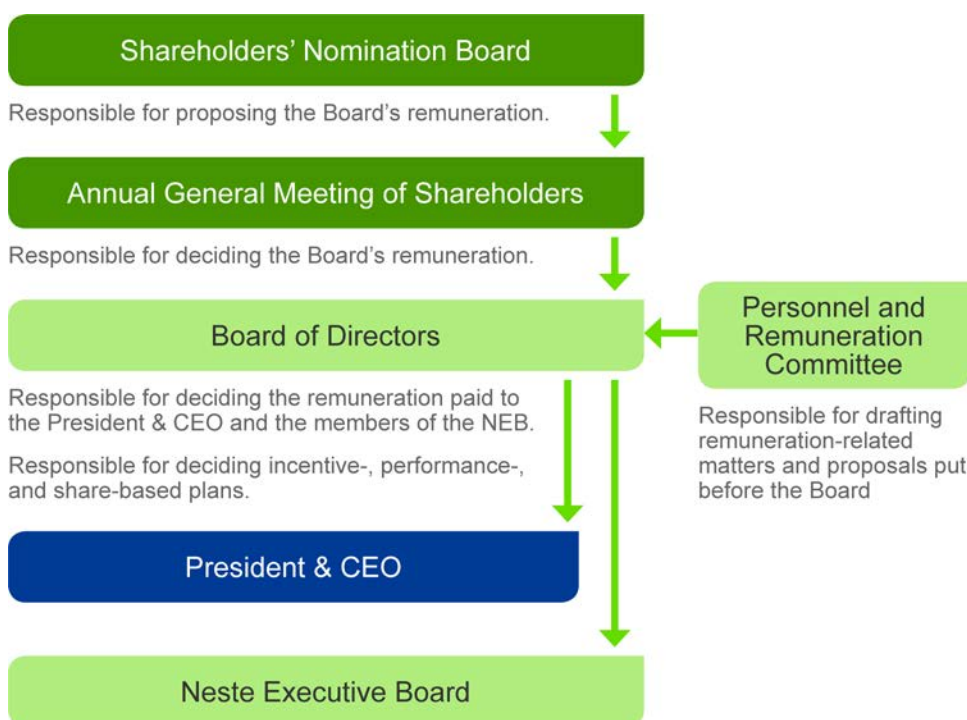
Remuneration-related discussion and decision-making at Neste Oil involves the Shareholders' Nomination Board, the Annual General Meeting of Shareholders, the Board of Directors, and the Board's Personnel and Remuneration Committee. The Nomination Board is responsible for presenting a proposal covering 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 guarantees that decisions are fair and unbiased (see figure below).

Remuneration at Neste Oil is based on remuneration principles proposed by the Personnel and Remuneration Committee and

approved by the Board of Directors. The remuneration principles covering Neste Oil's senior management and other personnel comply with the 2010 Corporate Governance Code covering Finnish listed companies; remuneration also takes account of the recommendations of the Ownership Steering Department of the Prime Minister's Office.

The salary, fringe benefits, and short-term and long-term incentives paid to the President & CEO, together with the bases on which they are determined, are published for each financial year. The salaries and benefits received by the other members of the Neste Executive Board (NEB) are published as a combined sum. Itemized information on the shares and share-based entitlements received as remuneration is also published. The Remuneration Statement required by the Governance Code can be consulted at [www.nesteoil.com](http://www.nesteoil.com).

### Decision-making process followed in remuneration-related matters



During 2013, the Personnel and Remuneration Committee concentrated on renewing Neste Oil's remuneration principles. The aim was to clarify the incentive-related aspects and fairness of remuneration and link remuneration more clearly to the achievement of the Company's strategic targets. In addition, the Personnel and Remuneration Committee oversaw the development of a new short-term incentive program aimed at improving performance management across the Group and tying remuneration more clearly to the Company's financial success. The updated remuneration principles and new short-term incentive system came into force at the beginning of 2014.

### Personnel and Remuneration Committee's view of 2013:

The success of senior management is measured in terms of how well Neste Oil achieves its strategic and financial targets. We were extremely satisfied with the performance of the Renewable Fuels business in 2013, which exceeded the targets that had been set for the business. This excellent result should be rewarded and is in the interest of both the Company and shareholders.

Neste Oil was incorporated in 2005, and since 2013 was the first year in which we rewarded key personnel on the basis of the

Group's long-term share-based incentive programs. The rewards paid in 2013 were earned through the success achieved in implementing Renewable Fuels' strategy. In 2014, the financial performance recorded in 2013 will result in a higher level of remuneration for senior managers and whole personnel through combined short-term and long-term incentive plans than in 2012.

The Board updated the criteria to be used for the 2014-2016 earning period under the share-based incentive plan approved in 2012. The total return yielded by Neste Oil's share compared to a group of 10 oil industry peers was chosen as one criterion. The Group's cumulative comparable free cash flow\* was chosen as the other criterion. By selecting these indicators, the Board's aim is to help secure Neste Oil's competitiveness and position in the industry.

\*) comparable free cash flow = Cash flow after maintenance investments, tax, interest, proceed sales of assets, and gain and losses of inventory

### Short-term incentives

The Company may pay annual short-term incentives (STI) to senior managers and to whole other personnel in addition to their salary and fringe benefits. The criteria for any short-term incentives are based on individuals' success in reaching their personal targets and on the Company's financial performance and success in reaching its goals. The short-term incentive paid to senior managers may not exceed 40% of their annual salary.

Read more about [Group-wide remuneration and fringe benefits](#) in the Sustainability section of the Annual Report.

## 2013

Neste Oil paid a total of EUR 19.6 (24.5) million in performance-based, short-term incentives to personnel in spring 2013; this figure included pension and social insurance contributions. The Group-level performance indicators used in 2012 were Neste Oil's comparable operating profit and comparable earnings per share. The Group-level performance indicators in 2013 were comparable operating profit and ROACE% (Return on Average Capital Employed, After Tax).

Governance ► Remuneration and shareholdings ► Long-term incentive plan (2010)

## Long-term incentive plan (2010)

The Board of Directors decided on 16 December 2009 to establish a share-based incentive plan for the Group's key personnel – to align the objectives of Neste Oil's owners and key personnel through things such as increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on owning Neste Oil shares. The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this plan (LTI scheme). Currently, approx. 70 members of Neste Oil's key personnel come within the scope of the plan.

The plan includes three three-year earning periods beginning in 2010, 2011, and 2012. The Board of Directors has decided the earnings criteria and targets to be met, as well as the maximum level of the reward payable, for each earning period in the December preceding each earning period. The earnings criteria for the 2010–2012, 2011–2013, and 2012–2014 periods are sales volumes at Renewable Fuels and the total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return Index.

Incentives from the first earning period were paid in 2013, and any other possible payments in 2014 and 2015, will be made partly in Company shares and partly in cash. The maximum sum payable may not exceed the annual gross salary of the year in question during any earning year. The proportion to be paid in cash will cover taxes and any tax-related costs.

The plan prohibits the transfer of shares for a period of three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Following this, key personnel must retain 50% of any shares received on the basis of the plan until the total value of the shares held corresponds to their annual

gross salary. This obligation shall be valid for the duration of a person's employment or service with the Group.

The criteria for the 2010–2012 earning period were partially met in respect of sales volume in the Renewable Fuels business. The total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return index failed to reach the threshold level, however. As a result, the equivalent value of around 130,000 shares of the 809,000 shares originally allocated was paid out as a reward for the 2010–2012 earning period in 2013. A total of 63,526 shares after tax were transferred. The share price at the time of the transfer was EUR 10.9977. For the rewards made to the President & CEO and senior management, [see the table](#).

The criteria for the 2011–2013 earning period were met virtually completely in respect of sales volumes in the Renewable Fuels business. The total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return index was around 6%-points better than the difference in percentage yields. As a result, the equivalent value of a maximum of 420,000 shares of the 842,000 shares originally allocated will be paid out as a reward for the 2011–2013 earning period in 2014. President & CEO Matti Lievonon has been paid a reward equivalent to a maximum of 51,680 shares of the total maximum of 80,000 shares allocated to him in December 2010. Payment was made partly in Company shares and partly in cash. Due to this arrangement, the amount of shares allocated will be less than half of the reward's total amount of shares.

At the time of allocation, the maximum reward of the remaining earning period (2012–2014) in terms of number of shares (including the proportion to be paid in cash) is approximately 1,093,000 Neste Oil Corporation shares.

## Long-term incentive plan (2013)

Neste Oil's Board of Directors decided on 13 December 2012 to establish a new long-term share-based incentive plan (Performance Share Plan) for the Group's senior management and nominated key personnel. The aim of the plan 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 Neste Oil shares.

The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this long-term incentive plan (LTI scheme). Approximately 100 key people at Neste Oil come within the scope of the plan. The new long-term share-based incentive plan complies with the Statement by the Cabinet Committee on Economic Policy on 13 August 2012. PCA Corporate Finance and Mercer assisted Neste Oil's Board of Directors in drawing up the plan.

The plan includes three individual share plans, each with a three-year earning period. The share plans will start in 2013, 2014, and 2015. The Board of Directors will decide on the participants in this plan, the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period, either annually or for the entire earning period. The earning criteria for the 2013–2015 earning period of the first plan will be the Group's cumulative comparable free cash flow and the comparable operating profit of Renewable Fuels in the earning period. The earning criteria for the 2014–2016 earning period will be the Group's cumulative comparable free cash flow and the total return yielded by Neste Oil's share compared to a group of peers. The Board of Directors has selected a peer group that consists of comparable oil industry companies.

Any possible payments will be made partly in Company shares and partly in cash in 2016, 2017, and 2018. The proportion to be paid in cash will cover taxes and other tax-related costs. The target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be 40% of individuals' annual fixed salary on average. The maximum long-term incentive for the President & CEO will be 100% of his annual

fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on target-level earnings under the long-term incentive program that has now been decided on, together with the incentive paid on the annual short-term program, may not exceed 60% of participants' annual fixed salary in any given year. In addition, the combined amount of incentives to be paid based on maximum-level earnings under the short-term program and this new long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period will be three years in respect of the President & CEO and the other members of the NEB, and one year in respect of other participants.

Under the share ownership policy followed by the Company, the President & CEO and the other members of the NEB shall accumulate and, once achieved, maintain a level of share ownership corresponding to their annual fixed salary for as long as they remain a member of the NEB. Each participant subject to the above share ownership requirement shall use 100% of the shares received on the basis of the incentive plan for fulfilling the share ownership requirement referred to above, until their share ownership, based on these shares or shares otherwise received or acquired, fulfills the above share ownership requirement. Once share ownership has reached the required level, the restriction period may be shortened from three years to one year.

If the targets set for the 2013–2015 and 2014–2016 earning periods of the share plan are met, the estimated aggregate value of shares to be paid on the basis of this plan for both earning periods will be approximately EUR 3.5 million. The estimated maximum value of shares to be paid on the basis of the share plans, should an excellent level of performance be achieved, will be approximately EUR 7 million.

## Remuneration principles for senior management

The Board of Directors is responsible for making decisions on remuneration and incentives for Group management and key personnel based on proposals by its Personnel and Remuneration Committee. The Committee, assisted by Company experts, drafts proposals to be put before the Board covering salary increases for senior management, the various elements involved in determining remuneration levels, performance targets, and any possible changes in the Company's remuneration principles that are considered necessary. The Committee makes use of data on comparative salaries paid by other companies and outside specialists where appropriate. The remuneration paid to senior management is discussed by the Board of Directors thoroughly once a year and at other times where appropriate. The Committee

reviews the Company's remuneration principles every two years, unless there are appropriate grounds for more urgent consideration.

The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness. Neste Oil is a pioneer in the industry and has set itself the goal of becoming the preferred partner in cleaner traffic fuel solutions.

**The intention of the remuneration principles followed in respect of senior management is to:**

- align the remuneration provided to managers with Neste Oil's strategic objectives, operational business targets, and core values
- encourage and motivate senior management to achieve excellent performance, both as individuals and as team members
- reward individuals based on achieving challenging targets and outstanding operational and financial performance
- attract and retain key personnel
- underline the shared interests of owners and key personnel, and
- increase the value of the Company and shareholder value.

**The principles guiding remuneration are as follows:**

- Remuneration shall be fair and competitive, but not market-leading
- Neste Oil treats senior managers and key personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, or other similar factors
- Remuneration shall be appropriate and based on the needs and requirements of Neste Oil
- Remuneration shall support the essential foundations of Neste Oil's business and its strategic agenda both individual and team level, with an emphasis on performance and sustainable long-term performance
- The Company's largest shareholder, the Finnish State, provides guidelines related to remuneration at listed companies partly owned by the state, and these guidelines are taken into account by Neste Oil's Board of Directors in accordance with the interest of the Company and all of its shareholders
- The remuneration principles covering senior management should align the interests of shareholders, the Company, and senior managers

- These principles cover senior managers and specific key personnel working for Neste Oil.

**The two key components of senior managers' remuneration are:**

1. A base salary benchmarked internationally against peer companies operating in the same labor markets and, in Finland, primarily against listed companies and secondarily industrial companies. This ensures that managers have a competitive base salary on the local market.
2. A short-term incentive program that rewards managers on the basis of the annual performance of their unit, organization, and the Company as a whole. This is tied to the financial and strategic performance goals approved by the Board of Directors and approved individual performance goals that are set annually as part of the performance management process by managers and their superiors.

**In addition, overall remuneration includes the following components:**

- a long-term, share-based incentive program that is discretionary in nature and restricted to a limited number of participants by the Board of Directors
- other benefits benchmarked against local peers (includes a supplementary pension for NEB members)
- recognition awards made under separate Neste Oil guidelines
- intangibles linked to Neste Oil's concept of wellbeing at work, including challenging responsibilities, career opportunities, personal development, management development, an inspiring workplace, and a positive balance between work and leisure time.

In all remuneration decisions concerning senior management and employees, Neste Oil adopts the 'Grandfather Principle'. This means that decisions of remuneration must always be approved by superior's superior.

## Remuneration and shareholdings of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors.

### The AGM in 2013 decided to pay the following remuneration to the Board:

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

In addition, members participating in Board meetings and meetings convened by the Board's committees receive a payment of EUR 600 per meeting, together with their traveling costs, in accordance with the Company's travel policy. A payment of

double this, EUR 1,200 per meeting, is made to Board members living outside Finland.

Board members are not covered by the Company's remuneration systems and do not receive any performance- or share-related payments.

The shareholdings of members and the remuneration paid to them are detailed in the following table. Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

## Members of the Board, remuneration as of 31 December 2013

	Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2013	2013	2012
Jorma Eloranta	66,000	10,200	61,800 <sup>1)</sup>
Maija-Liisa Friman	49,200	10,200	45,750 <sup>2)</sup>
Per-Arne Blomquist	26,550 <sup>3)</sup>	18,000	—
Michiel Boersma	35,400	22,800	35,400
Laura Raitio	35,400	11,400	35,400
Willem Schoeber	26,550 <sup>3)</sup>	16,800	—
Kirsi Sormunen	26,550 <sup>3)</sup>	9,000	—

<sup>1)</sup> The Chair of the Board of Directors receives an annual remuneration of EUR 66,000, and Jorma Eloranta was paid the relevant portion of this for his service between 28 March and 31 December 2012. The Vice Chair of the Board receives an annual remuneration of EUR 49,200, and Jorma Eloranta was paid the relevant portion of this for his service between 1 January and 28 March 2012.

<sup>2)</sup> The Vice Chair of the Board receives an annual remuneration of EUR 49,200, and Maija-Liisa Friman was paid the relevant portion of this for her service between 28 March and 31 December 2012. The members of the Board receive an annual remuneration of EUR 35,400, and Maija-Liisa Friman was paid the relevant portion of this between 1 January and 28 March 2012.

<sup>3)</sup> Annual remuneration paid to the Member of the Board was EUR 35,400, of which Per-Arne Blomquist, Willem Schoeber and Kirsi Sormunen received remuneration for the period between 4 April and 31 December 2013.

## Members of the Board, shareholdings as of 31 December 2013

	2013	2012	Change, pcs
Jorma Eloranta	14,000	12,000	2,000
Maija-Liisa Friman	6,000	6,000	–
Per-Arne Blomquist	3,000	–	3,000
Michiel Boersma	5,000	5,000	–
Laura Raitio	1,500	1,500	–
Willem Schoeber	1,500	–	–
Kirsi Sormunen	–	–	–

Members of the Board have not received any share-related payments, but acquired the shares they own at their own expense.

## Members of the Board, remuneration and shareholdings, 1 January 2013–4 April 2013<sup>\*)</sup>

	Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2013	2013	2012
Nina Linander	8,850	4,800	35,400
Hannu Ryöppönen	8,850	4,800	35,400
Markku Tapio	8,850	1,800	35,400

<sup>\*)</sup> Nina Linander, Hannu Ryöppönen, and Markku Tapio left Neste Oil's Board of Directors at the AGM held on 4 April 2013.

	Shareholdings as of 4 April	Shareholdings as of 31 December	
	2013	2012	Change, pcs
Nina Linander	1,100	1,100	–
Hannu Ryöppönen	3,500	3,500	–
Markku Tapio	–	–	–

<sup>\*)</sup> Nina Linander, Hannu Ryöppönen, and Markku Tapio left Neste Oil's Board of Directors at the AGM held on 4 April 2013.

Members of the Board have not received any share-related payments, but acquired the shares they own at their own expense.

Regularly updated information can be found at [www.nesteoil.com/investors](http://www.nesteoil.com/investors).



## Remuneration and shareholdings of the President & CEO and the Neste Executive Board

The Board of Directors is responsible for deciding the terms of employment and remuneration of the Company's President & CEO, together with the remuneration principles observed in respect of senior management. The Personnel and Remuneration Committee is responsible for making proposals in this area and for monitoring and evaluating the performance of the President & CEO and senior managers.

### President & CEO

The salary and fringe benefits paid to the President & CEO in 2013 totaled EUR 55,039 a month, as in 2012. In addition to these payments, the President & CEO can receive an annual short-term performance-related incentive, which may not exceed 40% of his annual salary and fringe benefits. The criteria for this short-term incentive are based on the President & CEO's success in achieving his personal targets and on the Company's financial performance and success in achieving the corporate targets that the Board of Directors have set for the time in question.

The main performance indicators used for the President & CEO in 2012 were comparable EBIT and EPS (earning per share). In 2013, they were comparable EBIT, ROACE% (return on average capital employed, after-tax), and TRIF (Total Recordable Incident Frequency) and availability of all refineries. In 2014, the main performance indicators used for the President & CEO will be comparable EBIT, ROACE%, and TRIF. The President & CEO also comes within the scope of long-term incentive plans approved in 2009 and 2012. The maximum share reward payable under the program approved in 2009 and started in 2010 may not exceed a person's annual gross salary of the year in question during any earning year. The combined maximum amount of performance-based incentives in the program approved in 2012 and started in 2013 is 120% of a person's fixed annual salary, and the maximum amount payable annually under the short-term incentive program is 40% of a person's fixed salary.

The Company may terminate the President & CEO's employment by giving a six-month period of notice, and the President & CEO may resign with the same period of notice. Should the Company

decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his retirement salary, equivalent to an average monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions of supplementary pension paid during 2013 totaled EUR 525,143.

### Agreements and pension arrangements for the other members of the Neste Executive Board

Neste Executive Board members are paid a basic salary and are entitled to fringe benefits. In addition, they can receive annual short-term performance-based remuneration equivalent to a maximum 40% of their annual salary including fringe benefits. Their director agreements specify a typical termination period of six months and possibly six months of severance pay.

The members of the Neste Executive Board come within the scope of the Finnish national pension and supplementary pension system. Pensionable age is 60, 62, or 63. Under the terms of the oldest defined benefit plans, pensions can be a maximum of 60% of a person's pensionable salary. Pensions are calculated on the basis of the average annual monthly salary paid in accordance with the Finnish national pension system during the 10 years preceding retirement. Neste Oil's Board of Directors has outlined that newer supplementary pension plans agreed after 1 January 2009 take the form of defined contribution plans. Director agreements agreed after 1 January 2009 specify a retirement age of 62 and director agreements agreed after 1 July 2012 a retirement age of 63. Insurance contributions of supplementary pension totaled EUR 523,799 in 2013.

Both defined benefit and contribution plans are insured by a pension company.

## Salaries and remuneration paid to the President & CEO and NEB members, EUR

	Salaries and benefits for 2013	Performance-based short-term incentives for 2012	Salaries, benefits and incentives total for 2013	Salaries, benefits and incentives total for 2012
President & CEO	700,067.28	143,651.79	843,719.07	861,810.26
Other NEB members*)	1,810,604.07	323,930.80	2,134,534.87	2,175,847.84

\*) Includes also Mr Piri's salary before Mr Mäki-Kala's appointment

# Shareholdings and share incentives of the Neste Executive Board as of 31 December 2013, pcs

Name	Born	Position	NEB member since	2013	2012	Change	Distributed shares from the LTI arrangement, 2010–2012**	Distributed shares from the LTI arrangement, 2011–2012***
Matti Lievonen	1958	President & CEO	2008	27,912	17,000	10,912	10,912	51,680 (25,064)
Matti Lehmus	1974	EVP, Oil Products and Renewables	2009	9,655	6,010	3,645	3,645	17,559 (8,164)
Sakari Toivola	1953	EVP, Oil Retail	2007	5,124	1,400	3,724	3,724	15,528 (7,298)
Simo Honkanen	1958	SVP, Sustainability & HSEQ	2009	5,962	3,222	2,704	2,704	12,684 (5,834)
Tuomas Hyyryläinen	1977	SVP, Strategy	2012	–	–	–	–	–
Hannele Jakosuo-Jansson	1966	SVP, Human Resources	2006	6,544	3,869	2,657	2,657	15,080 (6,786)
Osmo Kammonen	1959	SVP, Communications, Marketing & Public Affairs	2004	11,815	9,022	2,793	2,793	14,365 (6,751)
Lars Peter Lindfors	1964	SVP, Technology	2009	4,310	3,450	860	2,910	15,195 (7,521)
Jyrki Mäki-Kala *)	1961	CFO	2013	7,500	–	7,500	–	–
Ilkka Poranen	1960	SVP, Production & Logistics	2009	8,705	5,942	5,942	2,763	14,127 (6,639)

\*) Member of the Neste Executive Board since 6 May 2013.

\*\*) This column refers to the net number of shares distributed under the long-term share-based incentive plan that began in 2010.

\*\*\*) This column refers to the total number of shares approved for reward under the long-term share-based incentive plan that began in 2011. The net number of shares after taxes and other statutory payments is given in brackets. The maximum incentive payable for any earning period under the terms of the plan cannot exceed a participant's annual fixed gross salary in any given year. Shares will be distributed in spring 2014 and will be covered by a restriction period and a share ownership requirement.

Governance ► Remuneration and shareholdings ► Personnel Fund

## Personnel Fund

Neste Oil's Personnel Fund was established in spring 2005 and covers the group's personnel in Finland. Those participating in the Group's share-based incentive program cannot be members of the Fund during the program's earning periods. The Board of Directors determines the criteria used for the profit-sharing earnings paid into the Fund annually. The earnings paid in 2013 were tied to the Company's comparable operating profit in 2012.

Personnel employed under both permanent and fixed-term employment contracts are members of the Personnel Fund. Membership begins after an uninterrupted period of six months of employment and ends once a member has received his or her share of the Fund in full.

The profit-sharing earnings paid into the Fund are distributed equally between members. Each employee's share is divided into

a tied amount and an amount available for withdrawal. The amount available for withdrawal will be determined annually and paid to members who wish to exercise their withdrawal rights. Members can choose whether they want to receive the amount

available for withdrawal in cash or in Neste Oil shares acquired through the Personnel Fund.

## 2013

In 2013, the profit-sharing earnings paid into Neste Oil's Personnel Fund for 2012 totaled EUR 2,86 million (EUR 2,864,256); EUR 845,303 was paid in 2012.

## Investor information

Neste Oil shares are traded on NASDAQ OMX Helsinki under the trading code NES1V.HE. The company had 80,371 shareholders as of the end of 2013. The Finnish State owned 50.1% of shares, international institutions 17.2%, Finnish institutions 17.8%, and Finnish households 14.9%.

**Dividend proposal**  
**EUR**  
**0.65**  
**per share**

[Read more ►](#)

**Annual  
 General Meeting  
 will be held on**



**3 April 2014**

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**Interim  
 Reports  
 2014**



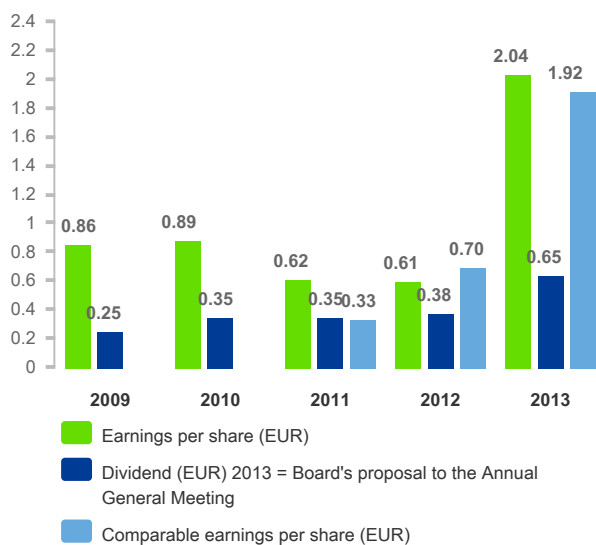
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### **Investor services on the internet**

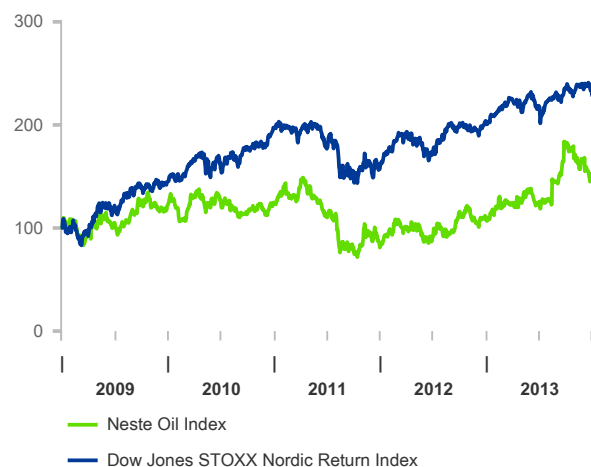
The Investors section of Neste Oil's website contains the information presented in the Annual Report, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, an extensive material archive, current oil market information, such as prices and refining margins, and a share yield calculator.

**[www.nesteoil.com/investors](http://www.nesteoil.com/investors)**

### Earnings per share and dividend per share, EUR



### Shareholder's total return on their investments



## Shares and shareholders

The goal of Neste Oil's investor relations (IR) work is to ensure that investors can form an accurate and appropriately detailed picture of the Company's current and future business and financial position.

### Share capital

Neste Oil's share capital registered with the Company Register as of 31 December 2013 totaled EUR 40 million, and the total number of shares outstanding was 256,403,686. Each share entitles a shareholder to one vote at the Annual General Meeting.

### Share registration

Neste Oil's shares are included in the book entry securities systems maintained by Euroclear Finland Ltd. The latter is also the official keeper of Neste Oil's list of shareholders.

## Trading information

Neste Oil shares are traded primarily on NASDAQ OMX Helsinki under the trading code NES1V.HE. The ISIN code is FI0009013296 and trading takes place in euros (EUR).

### Share buyback and issue authorizations

The Board of Directors is not authorized to issue new shares or other securities. The company does not have a share buy-back program in place, and the Board is not authorized to buy back company shares.

### IR activities in 2013

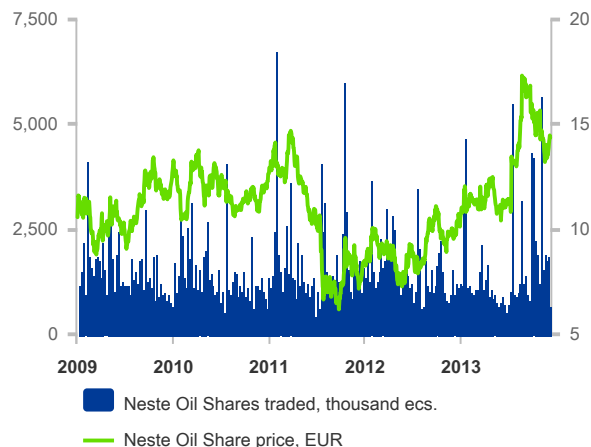
Top management and IR personnel met investors in Finland and elsewhere in Europe, as well as in the US, during 2013. Regular contacts were also maintained with analysts and investors. Capital Market Day was arranged in London in September.

## Share performance and trading

Neste Oil's stock closed 2013 at 47.1% above the price at the end of 2012. The share price started the year at EUR 9.94, reached EUR 17.33 at its highest and EUR 10.13 at its lowest. The weighted average price was EUR 13.06. The closing price at the end of the year was EUR 14.37, giving the company a market capitalization of EUR 3.7 billion. The Total Shareholder Return (TSR) during 2013 was 51.0%.

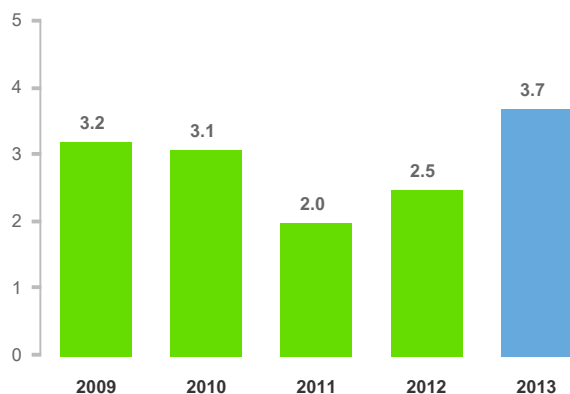
The share price showed strong daily fluctuation during the year and trading was brisk. Average daily trading on NASDAQ OMX Helsinki amounted to some 1.0 million shares, or 0.4% of the company's shares, equivalent to EUR 12.6 million. The average monthly trading volume was 20.1 million shares, or EUR 263 million. During the year as a whole, 256 million shares were traded, accounting for 94% of stock. In addition to the Helsinki Stock Exchange, Neste Oil shares were also traded through several Multilateral Trading Facilities (MTFs).

**Share performance and trading on NASDAQ OMX Helsinki**

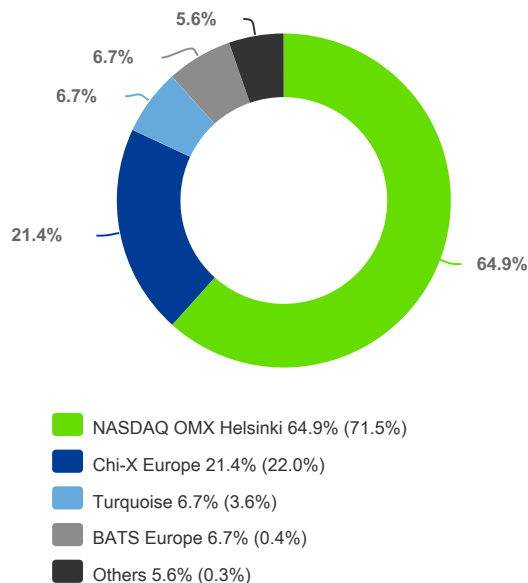




**Market capitalization on  
NASDAQ OMX Helsinki  
2009–2013, EUR billion**



**Trading volumes of Neste  
Oil's shares in 2013, %**



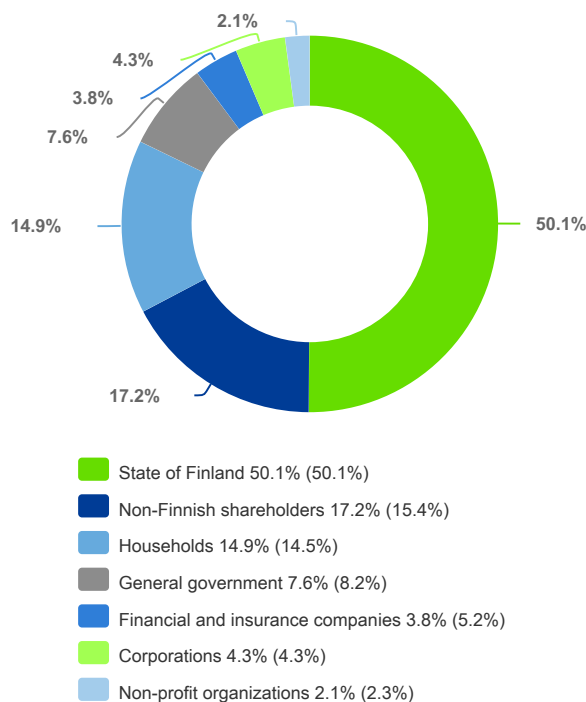
Investor information ► Shares and shareholders ► Shareholders and dividend

## Shareholders and dividend

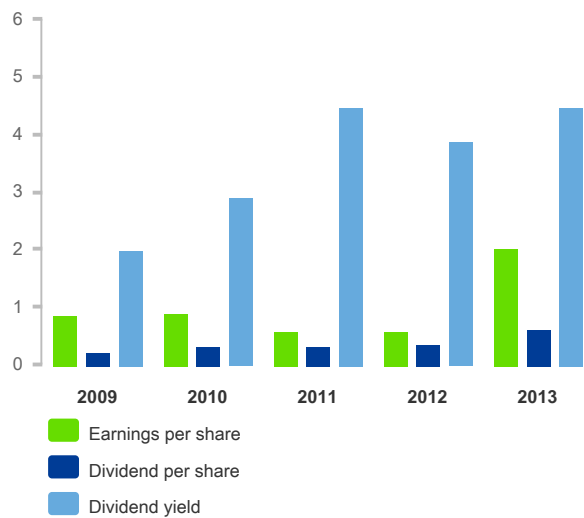
Neste Oil had 77,744 shareholders as of the beginning of 2013 and 80,371 as of the end of the year.

Neste Oil's dividend policy is to distribute at least one third of the Company's comparable net profit for the year in the form of dividends. At the Annual General Meeting in 2014, the Board of Directors will propose a dividend of EUR 0.65 per share for 2013, representing 34% of comparable net profit. The dividend for 2012 was EUR 0.38 per share, representing 54% of comparable net profit.

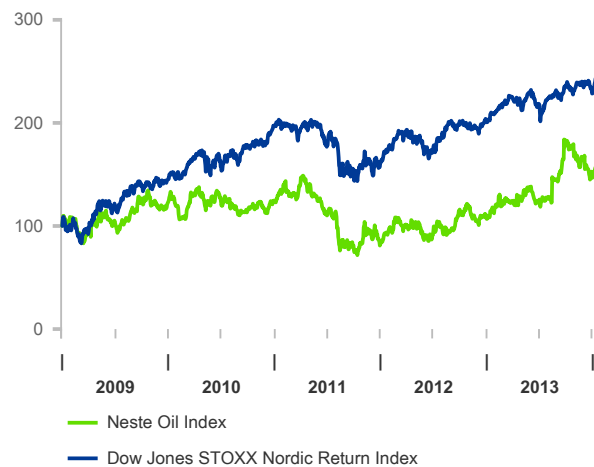
**Shareholders by category, %**



Earnings per share, dividend, and dividend yield, EUR



Shareholder's total return on their investments



## Information for shareholders

### Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held on Thursday, 3 April 2014 at 11.00 am EET at Finlandia Hall at Mannerheimintie 13 e, 00100 Helsinki

### Registration

Registration and the distribution of voting papers will begin at 10.00 am. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4.00 pm on 28 March 2014 at the latest by:

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

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4 pm on 28 March 2014 at the latest.

### AGM and dividend payment in 2014

24 March: AGM record date

3 April: AGM

8 April: Dividend payment record date

15 April: Dividend payable

### Dividend

The Board of Directors will propose to the AGM that a dividend of EUR 0.65 per share shall be paid for the financial year ending 31 December 2013.

### Investor relations

Neste Oil's Investor Relations observes the principles of providing accurate and timely information, commitment, transparency, accessibility, and equal treatment of all investors. To view Neste Oil's Disclosure Policy in its entirety, see [www.nesteoil.com](http://www.nesteoil.com)

### Annual Report for 2013

The Annual Report 2013 is published in Finnish and English primarily online, where it is also available in pdf format. A printed copy of the Financial Statements will be posted to all those who request one.

### Stock exchange releases

Stock exchange releases are available in Finnish and English immediately after publication on the Company's web site. Anyone wanting to be placed on the email distribution list for releases can find a form for the purpose at [www.nesteoil.com](http://www.nesteoil.com)

### Closed period

Neste Oil observes a closed period ('closed window') prior to the publication of its results. Neste Oil's closed window always begins a minimum of four weeks prior to the publication of its interim or

full-year results. During this period, the Company will not comment on non-disclosed developments or prospects of its business, nor will company representatives meet analysts or investors, or take part in capital markets events.

### Financial institutions following Neste Oil

As of the end of the year, 19 financial institutions published research on Neste Oil:

- ABG Sundal Collier
- Bank of America Merrill Lynch
- Barclays Capital
- Carnegie
- Citi
- Danske Bank
- Evli Securities
- Exane BNP Paribas
- Goldman Sachs
- Handelsbanken
- Inderes
- Kepler Cheuvreux
- Nomura
- Nordea Markets
- Pareto Securities
- Pohjola
- SEB Enskilda
- Societe Generale
- UBS

Contact information for the analysts following Neste Oil at the organizations listed here can be found at [www.nesteoil.com](http://www.nesteoil.com).

### Investor services on the internet

The Investors section of Neste Oil's website contains the information presented here, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, an extensive material archive, current oil market information, such as prices and refining margins, and a share yield calculator.

### Interim reports in 2014

- January–March Interim Report, 25 April 2014
- January–June Interim Report, 5 August 2014
- January–September Interim Report, 23 October 2014

Interim Reports are published in Finnish and English and can be downloaded in pdf format at [www.nesteoil.com](http://www.nesteoil.com).

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**Mika Rydman**, Vice President, Group Treasurer

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# Review by the Board of Directors 2013

Neste Oil's comparable operating profit totaled EUR 604 million compared to EUR 355 million in 2012. This profit growth reflected the significantly improved result of the company's Renewable Fuels business. Sales volumes of NExBTL renewable diesel were record high and sales grew in North America in particular. The market conditions were also very favorable and renewable diesel production capacity was run at full utilization rates during the second half the year. In 2013 the use of waste- and residue-based feedstock was further increased to over 1.2 million tons or more than 50% of the total renewable inputs. After a strong start to the year, Oil Products' reference refining margin began to decline and

averaged lower than in 2012 since European demand for petroleum products proved soft and additional refining capacity was brought on-line in the Middle East and Asia. Oil Retail improved its performance compared to the previous year in all markets, in particular Finland and Northwest Russia. Sale of the company's retail network in Poland was closed. The Board of Directors will propose a dividend of EUR 0.65 per share (0.38) for 2013, totaling EUR 167 million (97 million).

Figures in parentheses refer to the full-year financial statements for 2012, unless otherwise noted.

Review by the Board of Directors ► The Group's results for 2013

## The Group's results for 2013

Neste Oil's revenue in 2013 totaled EUR 17,462 million (17,853 million). This decline mainly resulted from lower trading activity and the sale of the retail business in Poland. The Group's comparable operating profit for the year was EUR 604 million, an increase of 70% on the EUR 355 million reported in 2012. The Renewable Fuels segment recorded a significant improvement in comparable operating profit year-on-year, and Oil Retail's result was also clearly higher than in 2012. Oil Products' full-year comparable operating profit was lower than in 2012, mainly due to lower refining margins. The Others segment improved compared to 2012, but remained negative. The Group's fixed costs came in at EUR 691 million (664 million), an increase that was mainly caused by higher staff and maintenance costs.

Oil Products' full-year comparable operating profit was EUR 280 million (396 million), Renewable Fuels' EUR 273 million (–56 million), and Oil Retail's EUR 76 million (58 million). The comparable operating profit of the Others segment totaled EUR –27 million (–43 million), of which Nynas accounted for EUR –13 million (–6 million).

The Group's full-year IFRS operating profit was EUR 632 million (324 million), which was impacted by inventory losses totaling EUR 19 million (61 million) and net capital gains totaling EUR 43 million (45 million). Pre-tax profit was EUR 561 million (233 million), and profit for the period EUR 524 million (159 million). Comparable earnings per share were EUR 1.92 (0.70), and earnings per share EUR 2.04 (0.61). The Group's effective tax rate was low 6.6% (31.9%) mainly due to the write-down of deferred tax liabilities resulting from the Finnish corporate tax rate change, and the tax-exempt items, such as the sale proceeds of the retail network in Poland.

Return on average capital employed after tax (ROACE) and leverage ratio are Neste Oil's financial targets. The company's long-term ROACE target is 15% and ROACE figures are based on comparable results. As of the end of 2013, the rolling twelve-month ROACE was 11.8% (2012 financial year: 5.0%). The leverage ratio target is 25–50%, and leverage was 30.0% (43.2%) at the end of 2013.

**Group key figures, MEUR**

	2013	2012
<b>Comparable operating profit</b>	<b>604</b>	<b>355</b>
- inventory gains/losses	-19	-61
- changes in the fair value of open oil derivatives	4	-15
- capital gains/losses	43	45
<b>IFRS operating profit</b>	<b>632</b>	<b>324</b>
<b>Revenue</b>		
Oil Products	13,271	13,764
Renewable Fuels	2,493	2,163
Oil Retail	4,528	4,895
Others	204	199
Eliminations	-3,034	-3,168
<b>Total</b>	<b>17,462</b>	<b>17,853</b>
<b>Comparable operating profit</b>		
Oil Products	280	396
Renewable Fuels	273	-56
Oil Retail	76	58
Others	-27	-43
Eliminations	2	0
<b>Total</b>	<b>604</b>	<b>355</b>
<b>IFRS operating profit</b>		
Oil Products	286	491
Renewable Fuels	252	-183
Oil Retail	120	58
Others	-26	-42
Eliminations	0	0
<b>Total</b>	<b>632</b>	<b>324</b>



## Cash flow, investments, and financing

Neste Oil Group's net cash from operating activities totaled EUR 839 million (468 million) in 2013. The year-on-year difference is mainly attributable to improved cash generation from the Group's businesses, lower working capital resulting from very successful management of receivables, and lower capital expenditure in 2013. Cash flow before financing activities was EUR 759 million (260 million).

Investments totaled EUR 214 million (292 million) in 2013. Oil Products' capital expenditure totaled EUR 142 million (180 million), while Renewable Fuels invested EUR 21 million (51 million), Oil Retail EUR 31 million (36 million), and Others EUR 20 million (25 million).

Interest-bearing net debt was EUR 1,252 million as of the end of December 2013, compared to EUR 1,935 million at the end of 2012. Net financial expenses for the year were EUR 71 million (91 million). The average interest rate of borrowing at the end of

December was 3.7% and the average maturity 3.7 years. The equity-to-assets ratio was 41.6% (31 Dec. 2012: 34.4%), the leverage ratio 30.0% (31 Dec. 2012: 43.2%), and the gearing ratio 42.8% (31 Dec. 2012: 76.2%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,156 million as of the end of December (31 Dec. 2012: 2,135 million). There are no financial covenants in current loan agreements.

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

## Main events during 2013

On 28 January, Neste Oil announced that Neste Shipping was to start an efficiency improvement program aimed at improving its profitability and securing the continuity of its operations. As part of this, statutory employer-employee negotiations were started and covered all of Neste Shipping's land- and sea-based personnel in Finland, around 450 people in total.

On 4 February, Neste Oil announced that it will build an isomerization unit at its Porvoo refinery. The investment, valued at approx. EUR 65 million, is intended to increase the output of high-octane gasoline and improve refining flexibility at the site.

On 26 March, Neste Oil announced that Neste Shipping had completed the statutory employer-employee negotiations initiated on 4 February. Following the negotiation process, Neste Shipping decided to terminate the ship and crew management agreements covering three vessels jointly owned with the Swedish-based Stena Group and time-chartered to Neste Shipping.

On 2 April, Neste Oil announced that the Polish competition authorities had approved the sale of Neste Oil's station network in Poland (Neste Polska Sp. z o.o.) to Shell. The transaction covered a total of 105 unmanned stations and marked the end of Neste Oil's retail operations in Poland.

On 26 April, Neste Oil announced that it will invest a total of approx. EUR 42 million in improving the energy efficiency and operational reliability of the Porvoo refinery. As part of the investment, fired heaters at the refinery's crude distillation unit will be replaced with new-generation heaters.

On 10 September, Neste Oil announced that it expected the Group's full-year comparable operating profit for 2013 to improve significantly compared to 2012 and estimated that it would be above EUR 530 million, mainly due to good performance at Renewable Fuels, which was expected to book a full-year comparable operating profit of more than EUR 200 million for 2013.

On 11 September, Neste Oil held a Capital Markets Day in London and confirmed its long-term ROACE target of 15%.

On 19 September, Neste Oil announced that it is planning to exit the shipping business. The plan is to sell all the company's own

vessels and outsource the ship management functions currently covering them, with around 320 ship management personnel transferring to a new employer. The intention is to retain Neste Shipping's chartering functions and integrate them with Neste Oil's organization. Going forward, Neste Oil intends sourcing its marine transportation through contractual arrangements. In connection with the planned outsourcing, Neste Shipping commenced statutory employer-employee negotiations covering all land- and sea-based personnel. If the current plans are implemented as intended, no significant capital gains or losses are expected. The arrangement is expected to free up approx. EUR 60 million of capital from Neste Oil's balance sheet and improve the Group's result by approx. EUR 10 million annually during the coming years.

On 15 November, Neste Oil announced that Neste Shipping had completed the statutory employer-employee negotiations initiated on 1 October. Following a decision taken after the conclusion of the negotiations, Neste Shipping is considering the possibility of outsourcing its ship management functions, and is to start negotiations on the terms and conditions of an outsourcing contract with various potential ship management companies.

On 18 November 2013, Neste Oil announced its view on the US Environmental Protection Agency's (EPA) proposal on US renewable fuel mandates in 2014. The EPA proposed retaining the biomass-based diesel mandate at the 2013 level and reducing the total renewable fuel mandates by 8% compared to 2013. The view of Neste Oil and the advanced biofuels industry is that the industry has proved its capability to deliver growing volumes of advanced biofuels, and biomass-based diesel in particular, to the US market. As a result, Neste Oil favors higher 2014 mandates for advanced biofuels than those proposed, as this would support further research and investment in this area.

On December 27, Neste Oil published that it had received an announcement pursuant to Chapter 9, Section 5 of the Securities Markets Act regarding a change in its shareholders. BlackRock, Inc. had announced that its aggregate holding in Neste Oil Corporation had risen above the 5% threshold on December 18 and was 5.01%.

## Strategy implementation

The implementation of Neste Oil's strategy continues to be driven by a series of Value Creation programs: Profitable Growth, Productivity, Renewable Feedstock, and Customer Focus. These programs have defined targets and their progress is measured continuously.

Key achievements in the Profitable Growth program in 2013 include further developing the business operations of Renewable Fuels and the opening-up of new markets such as Australia, Austria, Italy, and Switzerland for the fuel. Customer segments and future potential were identified in new application areas such as chemicals and solvents. Base oil sales increased and new customers were secured in Asia and North America. The product range of the base oil joint venture in Bahrain was expanded in February.

Productivity was systematically enhanced and the renewable diesel refineries in Singapore and Rotterdam achieved normal operational status, with output exceeding the refineries' nameplate capacity. Tall oil pitch was tested successfully at the Naantali refinery to gain bio-mandate status for products. The implementation of energy efficiency plans proceeded well and the energy efficiency index of the company's oil refineries hit a record high.

The main achievement in the Renewable Feedstock program was the expansion of Neste Oil's renewable feedstock portfolio;

technical corn oil (TCO), spent bleaching earth oil (SBEO), and tall oil pitch (TOP) were added. All the renewable feedstocks used by Neste Oil are 100% traced back to their origin and palm oil is 100%-certified. Neste Oil has been the first company to receive a RSPO-RED certificate, developed by the Roundtable on Sustainable Palm Oil (RSPO) for biofuels meeting the Renewable Energy Directive (RED) requirements, for the NExBTL renewable diesel produced at its refineries in Singapore and Rotterdam. Extensive R&D work is continuing to develop new, long-term renewable inputs for NExBTL production. The focus during 2013 was on gaining customer and market acceptance for different types of feedstock to enable Neste Oil to leverage its extensive feedstock portfolio globally. This will also be one of the main focus areas in 2014.

Progress in the Customer Focus program during 2013 included further development of customer segmentation and other sales processes and tools, leading to the creation of new solutions with customers in areas such as logistics, premium and specialty products, and high-quality solutions. Neste Pro Diesel, a premium-quality diesel fuel developed and produced by Neste Oil in Finland, was the first anywhere to comply with the WWFC 5 specification drawn up as part of the Worldwide Fuel Charter (WWFC) by automotive manufacturers in Europe, the US, and Asia.

## Market overview

Continuing uncertainties in the world economy and geopolitical tensions in oil-producing countries were the main drivers in the oil market during 2013. Brent traded in the USD 100–120/bbl range, peaking in early February, when it reached USD 120/bbl, before weakening in the lead-up to the summer as new concerns related to the international economy and future growth prospects in China drove the price close to USD 100/bbl. Following some positive signs in the international economy, combined with political unrest in Syria and strikes that reduced Libyan crude oil exports, crude trended up during the late summer and early fall towards USD 120/bbl. As the strikes ended in Libya and negotiations between Iran and Western countries pointed to the possibility of a future easing of crude export sanctions, crude prices returned to USD 105–110/bbl, ending the year at around USD 110/bbl. The increasing production of tight oil in the US limited crude price increases and resulted in narrower differentials between lighter and heavier crudes.

The price differential between Russian Export Blend (REB) and Brent averaged USD –1/bbl in 2013, which was slightly narrower than in 2012. The differential widened significantly during the spring on the back of higher crude prices and the refinery maintenance season before narrowing and reaching even positive differential levels in the late summer when delayed maintenance at Russian refineries and the strikes in Libya reduced oil exports. The refinery maintenance season in the fall and the end of the strikes in Libya saw the price differential widen again, approaching around USD –2/bbl. With the ending of the maintenance season, the differential narrowed towards USD –1–1.5/bbl, where it stood at the end of the year.

Refining margins in Europe were volatile and clearly weaker on average than in 2012. Margins during the first quarter were strong, as gasoline margins were unseasonably high due to refinery outages and relatively low gasoline inventories. After a strong start to the year, refining margins experienced growing pressure in the second half as new capacity was ramped up in the Middle East and Asia. High diesel exports from the US to Europe also pushed European refining margins down, to such an extent that many refiners were forced to make economic run cuts. Margins were lowest at the end of the year after the fall maintenance season.

Middle distillates were again the strongest part of the barrel. Gasoline margins were seasonally low during the early part of the first quarter and the fourth quarter, but were strong from the spring until the early fall. Fuel oil margins were strong during the first half of the year, but weakened significantly during the second half.

Crude palm oil (CPO) prices were volatile and traded at USD 680–825/ton (Malaysia) during the year. Lower-than-expected supply growth, combined with strong exports, kept Malaysian palm oil inventories below the 2 million ton benchmark level from March 2013 onwards, which resulted in higher prices towards the end of the year.

Rapeseed oil (RSO) and soybean oil (SBO) prices fell during the year. SBO prices, in particular, came under pressure, as the US soybean crop was better than expected, while the outlook for the 2014 crop in South America remained very good. The price differential between palm oil and rapeseed oil was wider than the long-term average during the first half of the year, but narrowed subsequently. The CPO/RSO spread fell from USD 330/ton in the first quarter to around USD 150/ton in the fourth quarter of 2013. Animal fat prices remained at a premium over palm oil, but the premium was clearly narrowed during the fourth quarter.

Demand for biodiesel in the EU fell by approximately 8% compared to 2012, due to a lower mandate in Spain, double countable biofuels reducing physical demand, and stagnating fossil diesel demand. European Fatty Acid Methyl Ester (FAME) prices remained quite stable, but the price differential compared to rapeseed oil varied significantly. The year started with narrow FAME margin levels, which began to gradually improve after the European Commission announced its intention to implement antidumping duties on imports of biodiesel from Indonesia and Argentina. Despite some occasional tightness in European markets, this eased towards the end of the year as a result of higher domestic supplies. Antidumping duties were finally introduced on Argentinean and Indonesian biodiesel in November.

In the US, the biomass-based diesel mandate was raised from 1 billion to 1.28 billion gallons for 2013. The Blender's Tax Credit of USD 1/gallon was applied retroactively for 2012 and 2013 and led to higher demand and higher prices for Soybean Methyl Ester (SME) and renewable diesel. High demand, combined with a market approaching the 10% ethanol blend wall in gasoline, pushed biomass-based diesel and its Renewable Identification Number (RIN) value to record highs in the late summer. In response to criticism against future renewable fuels targets that were expected to exceed the ethanol blend wall, the Environmental Protection Agency (EPA) proposed lowering the targets for ethanol and cellulosic biofuel but keeping the bio/renewable diesel mandate unchanged in 2014 and 2015. By the end of the year, biofuel prices had clearly dropped compared to the exceptional highs seen during summer.

**Key drivers**

	2013	2012
Reference refining margin, USD/bbl	4.82	7.39
Neste Oil total refining margin, USD/bbl	9.60	10.17
Urals-Brent price differential, USD/bbl	-1.02	-1.29
NWE Gasoline margin, USD/bbl	10.54	13.16
NWE Diesel margin, USD/bbl	18.07	20.60
NWE Heavy fuel oil margin, USD/bbl	-16.27	-12.92
Brent Dated crude oil, USD/bbl	108.7	111.6
FAME seasonal- Palm oil price differential, USD/ton*	356.0	234.6
SME - Soybean oil price differential, USD/ton**	388.6	175.3
USD/EUR, market rate	1.33	1.28
USD/EUR, hedged	1.30	1.33
Crude freights, WS points (TD7)***	91	91

\* FAME seasonal vs. CPOBMD3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month future price) + 70 \$/t freight to ARA (Amsterdam–Rotterdam–Antwerpen)

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

\*\*\* Worldscale (WS) points for a 80,000 ton crude cargo from the North Sea to Continental Europe

# Production and sales

## Production

Neste Oil's production totaled 16.3 million tons (15.4 million) in 2013, of which 2.0 million tons (1.8 million) took the form of NExBTL renewable diesel. The increase from 2012 reflected both

higher output at the Porvoo refinery and higher renewable diesel volumes at the Singapore and Rotterdam refineries.

### Neste Oil's production, by plant

(1,000 t)	2013	2012
Porvoo refinery	12,016	11,511
Naantali refinery	2,147	1,908
NExBTL refineries	2,009	1,849
Bahrain VHV plant (Neste Oil's share)	151	128
Edmonton iso-octane plant (Neste Oil's share)	-	8

The Porvoo refinery operated at an average capacity utilization rate of 88% (87%) in 2013, reflecting the maintenance outage at production line 4 during the second quarter of the year. The Naantali refinery ran at a lower rate of 78% (67%) on average to optimize the refining margin.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input at Porvoo and Naantali averaged 63% (63%) for the year as a whole. Production costs at the Porvoo and Naantali refineries totaled USD 4.8/bbl (4.4) for the year.

Neste Oil's renewable diesel facilities achieved an average capacity utilization of 91% (85%) in 2013.

## Sales

Total sales volumes in 2013 were higher than in 2012, mainly due to increased sales volumes of NExBTL renewable diesel, while motor gasoline and diesel sales were slightly lower. Sales to Europe and North America, in particular, increased, reducing the share of domestic sales.

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

(1,000 t)	2013	%	2012	%
Motor gasoline	4,216	26	4,281	27
Gasoline components	0	0	19	0
Diesel fuel	5,838	37	5,886	38
Jet fuel	660	4	651	4
Base oils	436	3	394	3
Heating oil	231	1	229	1
Heavy fuel oil	1,253	8	1,171	7
LPG	334	2	262	2
NExBTL renewable diesel	1,938	12	1,665	11
Other products	1,121	7	1,172	7
Total	16,026	100	15,729	100

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

(1,000 t)	2013	%	2012	%
Finland	6,057	38	7,104	45
Other Nordic countries	2,581	16	2,563	16
Other Europe	5,405	34	4,232	27
USA & Canada	1,690	10	1,247	8
Other countries	293	2	583	4
Total	16,026	100	15,729	100



## Segment reviews

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

### Oil Products

	2013	2012
Revenue, MEUR	13,271	13,764
Comparable EBITDA, MEUR	465	583
Comparable operating profit, MEUR	280	396
IFRS operating profit, MEUR	286	491
Total refining margin, USD/bbl	9.60	10.17
Net assets, MEUR	2,163	2,252
Comparable return on net assets, %	11.8	16.6

Oil Products' full-year comparable operating profit for 2013 amounted to EUR 280 million, compared to EUR 396 million in 2012. This decrease was largely due to a lower refining margin and slightly higher fixed costs for staff and maintenance at refineries and terminals. The Base Oil business continued to suffer from overcapacity in the market, and its full-year profit

contribution was clearly lower than in 2012. Neste Oil's total refining margin stood at USD 9.60/bbl in 2013, compared to USD 10.17/bbl in 2012. The segment's comparable return on net assets was 11.8% (16.6%) in 2013.

### Renewable Fuels

	2013	2012
Revenue, MEUR	2,493	2,163
Comparable EBITDA, MEUR	371	43
Comparable operating profit, MEUR	273	-56
IFRS operating profit, MEUR	252	-183
Net assets, MEUR	1,768	1,860
Comparable return on net assets, %	15.2	-2.8

Renewable Fuels' comparable operating profit was EUR 273 million in 2013, compared to EUR -56 million in 2012. This increase resulted mainly from a higher sales margin, particularly during the third and fourth quarters, when markets were very favorable. Sales volumes for the year as a whole totaled 1,938,000 tons, over 270,000 tons higher than in 2012. Approximately 56% of volumes went to Europe and 44% to North

America in 2013. Renewable diesel capacity operated at an average utilization rate of 91% compared to 85% in 2012. Renewable Fuels' comparable return on net assets was 15.2% (-2.8%) in 2013.

**Oil Retail**

	2013	2012
Revenue, MEUR	4,528	4,895
Comparable EBITDA, MEUR	104	91
Comparable operating profit, MEUR	76	58
IFRS operating profit, MEUR	120	58
Net assets, MEUR	255	345
Comparable return on net assets, %	26.1	17.3
Total sales volume*, 1,000 m <sup>3</sup>	4,000	4,160
- gasoline station sales, 1,000 m <sup>3</sup>	1,151	1,256
- diesel station sales, 1,000 m <sup>3</sup>	1,491	1,620
- heating oil, 1,000 m <sup>3</sup>	635	651
- heavy fuel oil, 1,000 m <sup>3</sup>	225	255

\*includes both station and terminals sales

Oil Retail posted a full-year comparable operating profit of EUR 76 million compared to EUR 58 million in 2012. Performance improved in all markets, especially Finland and Northwest Russia. The efficiency of the station network improved and the majority of the profit improvement came from better average margins. Overall sales volumes declined compared to 2012, mainly due to the sale of the Polish station network and a decline in truck traffic in

Finland. Given the difficult market conditions, successful management of receivables contributed to the segment's good cash flow. The sale of the station network in Poland also reduced fixed costs and depreciation from the second quarter onwards. Oil Retail's comparable return on net assets was 26.1% (17.3%) in 2013.

## Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ OMX Helsinki Ltd. The share price closed the year 2013 at EUR 14.37, up by 47.1% compared to the end of 2012. The total shareholder return (TSR) was 51.0% (29.6%) in 2013. At its highest during 2013, the share price reached EUR 17.33, while at its lowest the price stood at EUR 10.13. Market capitalization was EUR 3.7 billion as of 31 December 2013. An average of 1.0 million shares were traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of 31 December 2013 totaled EUR 40 million, and the total

number of shares outstanding was 256,403,686. The company does not hold any of its own shares, and the Board of Directors has no authorization to buy back company shares or issue convertible bonds, share options, or new shares.

As of the end of the year, the Finnish State owned 50.1% (50.1% at the end of 2012) of outstanding shares, foreign institutions 17.2% (15.4%), Finnish institutions 17.8% (20.0%), and Finnish households 14.9% (14.5%).

### Largest shareholders as of 31 December 2013

Shareholder	Shares	% of shares
Prime Minister's Office	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	5,765,849	2.25
Varma Mutual Pension Insurance Company	3,390,514	1.32
The Social Insurance Institution of Finland, KELA	2,648,424	1.03
The State Pension Fund	2,190,000	0.85
The City of Kurikka	1,550,875	0.60
Mutual Insurance Company Pension-Fennia	1,483,107	0.58
Wipunen varainhallinta Oy	1,300,000	0.51
Nordea Fennia Fund	1,250,000	0.49
Mariatorp Oy	825,000	0.32
Schweizer Nationalbank	804,678	0.31
Nordea Life Assurance Finland Ltd.	773,595	0.30
Keva	746,705	0.29
Veritas Pension Insurance Company Ltd.	745,853	0.29
OP-Delta Fund	720,000	0.28
OP-Focus Non-UCITS Fund	710,000	0.28
Mandatum Life Unit -Linked	664,057	0.26
Nordea Pro Finland Fund	645,000	0.25
Danske Fund Finnish Equity	554,331	0.22
Fennia Life Insurance Company Ltd.	513,609	0.20
20 largest owners total	155,739,844	60.74
Nominee registrations	42,272,202	16.49
Others	58,391,640	22.77
Number of shares, total	256,403,686	100.00

**Breakdown of share ownership as of 31 December 2013**
**By the number of shares owned**

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	27,423	34.1	1,571,552	0.6
101–500	34,786	43.3	8,946,017	3.5
501–1 000	9,532	11.9	7,398,003	2.9
1 001–5 000	7,416	9.2	15,511,093	6.0
5 001–10 000	682	0.8	4,965,802	1.9
10 001–50 000	414	0.5	8,385,437	3.3
50 001–100 000	56	0.1	4,069,347	1.6
100 001–500 000	38	0.0	8,464,545	3.3
500 001–	24	0.0	197,091,890	76.9
<b>Total</b>	<b>80,371</b>	<b>100.0</b>	<b>256,403,686</b>	<b>100.0</b>
of which nominee registrations	11		42,272,202	

**By shareholder category**

	% of shares
State of Finland	50.1
Non-Finnish shareholders	17.2
Households	14.9
General government	7.6
Financial and insurance companies	3.8
Corporations	4.3
Non-profit organizations	2.1
<b>Total</b>	<b>100.0</b>

## Corporate governance

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

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

Neste Oil's Annual General Meeting (AGM) was held on 4 April 2013 in Helsinki. The AGM adopted the company's financial statements and consolidated financial statements for 2012 and discharged the Board of Directors and the President & CEO from liability for 2012. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2012. A dividend of EUR 0.38 per share was paid on 16 April 2013.

In accordance with the proposal made by the AGM Nomination Board, the AGM confirmed the membership of the Board of Directors at seven members, and the following were re-elected to serve until the end of the next AGM: Mr. Jorma Eloranta, Ms. Maija-Liisa Friman, Mr. Michiel Boersma, and Ms. Laura Raitio. Mr. Per-Arne Blomquist, Mr. Willem Schoeber, and Ms. Kirsi Sormunen were elected as new members. Mr. Eloranta was re-elected as Chair and Ms. Friman as Vice Chair. The AGM decided to keep the remuneration paid to Board members unchanged.

Convening after the Annual General Meeting, the Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Maija-Liisa Friman and Willem Schoeber as members of the Personnel and Remuneration Committee. Per-Arne Blomquist was elected Chair and Michiel Boersma, Laura Raitio, and Kirsi Sormunen as members of the Audit Committee.

In accordance with a proposal by the Board of Directors, Ernst & Young Oy, Authorized Public Accountants, were appointed as the

company's Auditor, with Authorized Public Accountant Anna-Maija Simola as Senior Auditor, until the end of the next AGM. Payment for their services shall be made in accordance with their invoice approved by the company.

Following a proposal by the Board of Directors, the 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 Board members to the AGM and to an Extraordinary General Meeting of Shareholders where needed. The Nomination Board shall also be responsible for identifying successors for existing Board members. The Nomination Board shall consist of four 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 Nomination Board shall be determined annually on the basis of the registered holdings in the Company's list of shareholders as of the first weekday in September in the year concerned. The Chair of the Board of Directors shall convene the first meeting of the Nomination Board, which will be responsible for electing a Chair from among its members. The Nomination Board shall serve until further notice, unless the AGM decides otherwise. Its members shall be elected annually and their term of office shall end when new members are elected to replace them. The 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.

The following members were appointed to Neste Oil's Shareholders' Nomination Board on 2 September, 2013: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; Mikko Koivusalo, Vice President, Capital Markets, Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste Oil's Board of Directors.

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

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Review by the Board of Directors ► Personnel

## Personnel

Neste Oil employed an average of 5,097 (5,031) employees in 2013, of which 1,452 (1,450) were based outside Finland. As of the end of 2013, the company had 5,049 employees (5,022), of which 1,477 (1,474) were located outside Finland. Wages and

salaries paid by the company totaled EUR 270 million (253 million) in 2013.

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Review by the Board of Directors ► Health, safety, and the environment

## Health, safety, and the environment

Efforts to improve safety performance were stepped up due to an increase in injuries during the first half of 2013. Safety performance is the first item on the CEO's monthly report to the Board of Directors. In addition to continuous improvement in selected key safety areas, a safety project was included under the corporate Value Creation program umbrella to focus on improving safety leadership and the safety awareness of Neste Oil employees and contractors. Process safety management teams were introduced at refineries to promote harmonized process safety management and the sharing of best practices across the Group.

People safety performance declined overall during 2013, although the second half saw a clear and continuous improvement. The total recordable injury frequency (TRIF, number of cases per million hours worked) was 4.2 (3.6); this figure combines the company's own and contractors' personnel. The corporate target was 2.2. A clear improvement in process safety took place during the second half. Process Safety Event (PSE) frequency for the year as a whole was 3.0 (5.6). The corporate target was 4.0.

Operational environmental emissions were in substantial compliance at all sites. Permitted levels were exceeded seven times, but all were of a minor nature. No serious environmental incidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2013.

The European Renewable Energy Directive (RED) was implemented in key EU member states by the end of 2013, with minor exceptions. Neste Oil's internal procedures are in compliance with the directive's requirements, and the company has filed a voluntary scheme for verifying the sustainability of its biofuels with the EU. The voluntary scheme was finally approved

by the European Commission in January 2014 and its implementation has been started. All of Neste Oil's NExBTL plants have received International Sustainability and Carbon Certification (ISCC) system certificates, ensuring that their output is eligible for use on the European biofuel market. All Neste Oil sites are also EPA-approved for the US market, and selected parts of the palm oil supply chain were successfully audited by a third party in Malaysia.

In April, Neste Oil published a set of No-Deforestation and Responsible Sourcing Guidelines and started active verification work with The Forest Trust (TFT), a non-profit organization focused on preventing deforestation. This extends beyond Neste Oil's own supply chain to identify potential sustainability risks in the palm oil industry as a whole.

In November, Neste Oil was awarded the world's first RSPO-RED certificate, developed by the Roundtable for Sustainable Palm Oil (RSPO) for biofuels, and in December announced that it had achieved its 100% palm oil certification target two years early.

Neste Oil retained its position in a number of sustainability indexes during 2013, and was included in the Dow Jones Sustainability World Index for the seventh year in succession. It was also selected for inclusion in The Global 100 list of the world's most sustainable companies for the seventh year in succession, and was ranked fourth. Companies on The Global 100 list are considered the most capable in their sectors in managing environmental, social, and governance issues, and in their ability to make use of new business opportunities in these areas. Neste Oil was also rated among the top performers in the oil & gas sector by CDP Forest, which reviews industries using forest risk commodities.



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Review by the Board of Directors ► Research and development

## Research and development

Research and development focusing on both crude oil-based and renewable fuels is crucial in implementing Neste Oil's strategy. Neste Oil's R&D expenditure totaled EUR 40 million (42 million) in 2013. Extending the feedstock base is one of the main goals of Neste Oil's R&D work. About 70% of the R&D project portfolio in 2013 was devoted to research on renewable raw materials. Research work concentrated on both completely new types of inputs, such as pilot-scale microbial oil and algae oil, and existing materials, such as waste animal fat, vegetable oil residues, used cooking oil, and technical corn oil. Efficiency improvements at Neste Oil's conventional oil refineries and renewable refineries were another key focus area of technology development.

Neste Oil focused on expanding the use of waste- and residue-based feedstock, particularly waste animal fat, palm fatty acid distillate (PFAD), and technical corn oil (TCO), in 2013. The usage of waste and residue-based inputs increased by 476,000 tons to 1,219,000 tons and accounted for approx. 52% (35%) of total renewable feedstock usage in 2013. Technical corn oil was used in production for the first time during 2013. Non-residue vegetable oils, principally palm oil, accounted for approx. 48% of the inputs used in renewable diesel production in 2013.

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Review by the Board of Directors ► Events after the reporting period

## Events after the reporting period

On January 8, Neste Oil announced that it disputes the view of Finnish Customs that biofuel mandate requirements were not met in 2009 and 2010. Finnish Customs has levied a penalty payment totaling EUR 44 million on Neste Oil because Finnish biofuel mandate requirements were not met in 2009 and 2010. Neste Oil disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. Neste Oil has appealed the Finnish Customs' decision and considers the penalty payment unjustified. The penalty payment was paid in January 2014.

On January 22, the European Commission (EC) announced a proposal to amend the EU's post-2020 climate targets. The proposed key new target is to reduce greenhouse gas emissions by 40% compared to 1990 levels by 2030. In addition, a binding

EU-level target of 27% was proposed for the use of renewable energy. Neste Oil sees the emission reduction target proposed by the Commission as both important and ambitious. However, Neste Oil also believes it is important that the EU continues a consistent policy on promoting the use of renewable fuels in transport, and that national targets covering their use will continue. The EC proposal for post-2020 climate targets is not expected to impact Neste Oil's business in the near- to mid-term.

On January 22, Neste Oil announced that it had been selected for inclusion in The Global 100 list for the eighth year in succession and ranked sixth.

## Potential risks

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

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

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

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

The implementation of biofuel legislation in the EU, North America, and other key market areas may influence the speed at which the demand for these fuels develops. Over the longer term,

failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing technologies may have a negative impact on the company's results. Renewable fuels margins can be volatile in various markets due to rapidly changing feedstock and product prices, and affect the profitability of the Renewable Fuels business as a result.

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

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

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

## Risk management

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

procedures related to risk management, approved by the President & CEO.

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

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Corporate Governance Statement, which has been published as a separate document, and to the Note 3 of Financial Statements for 2013.

## Outlook

Developments in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets, and the volatility is expected to continue. Global oil demand is generally forecasted to pick up more than 1 million barrels per day in 2014, but, as in 2013, this growth is more than compensated by new refining capacity additions in Asia and Middle East. This development is expected to lead to continued high product imports to Europe, putting pressure on average utilization rates of simple refineries in particular. Complex refiners such as Neste Oil are expected to remain the most competitive. Diesel is projected to be the strongest part of the barrel, and gasoline margins are expected to improve seasonally during the spring and summer. While demand for premium-quality base oils is continuing to grow, base oil margins are likely to remain under pressure due to overcapacity.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks, but no fundamental changes in the drivers influencing feedstock price differentials are expected. Price differentials between vegetable oils are likely to widen from the current narrow levels during the year 2014 in both Europe and North America.

Uncertainties regarding political decision-making in the US are likely to be reflected in the renewable fuel markets. Examples of pending decisions include the volume targets for biomass-based diesel and renewal of the Blender's Tax Credit, which both impact the US market.

Production line 4 at the Porvoo refinery is scheduled to be shut down for decoking maintenance for approximately five weeks during the first quarter. The Singapore NExBTL refinery is scheduled to be taken down for maintenance either during the fourth quarter of 2014 or the first quarter of 2015.

The Group's investments are expected to total approx. EUR 300–350 million in 2014.

Neste Oil expects the Group's full-year comparable operating profit to be at the level of EUR 500 million in 2014. This is based on the assumption that Neste Oil's reference refining margin averages USD 4.5/bbl during the year. The reintroduction of a US Blender's Tax Credit for biofuels would impact the result positively. Weakening of the euro against the US dollar would also have a positive impact on the result.

## Dividend distribution proposal

Neste Oil's dividend policy is to distribute at least one third of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2013 amounted to EUR 1,242 million, and there have been no material changes in the company's financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Oil Corporation pays a cash dividend of EUR

0.65 per share (0.38) for 2013, totaling EUR 167 million (97 million) based on the number of registered shares.

The proposed dividend represents a yield of 4.5% (at year-end 2013 share price of EUR 14.37) and 34% of the comparable net profit in 2013.

## Financial statements

Comparable  
operating profit  
totalled EUR

**604**  
million



Return on  
average capital  
employed (ROACE)

**11.8%**



Leverage  
ratio was

**30%**



Comparable  
earnings per share  
was EUR

**1.92**

## Key financial indicators

		2013	2012	2011
<b>Income statement</b>				
Revenue	EUR million	17,462	17,853	15,420
Operating profit	EUR million	632	324	273
- of revenue	%	3.6	1.8	1.8
Comparable operating profit	EUR million	604	355	178
Profit before income taxes	EUR million	561	233	206
- of revenue	%	3.2	1.3	1.3
<b>Profitability</b>				
Return on equity (ROE)	%	19.2	6.3	6.6
Return on capital employed, pre-tax (ROCE)	%	13.4	6.6	5.9
Return on average capital employed, after tax (ROACE)	%	11.8	5.0	2.6
<b>Financing and financial position</b>				
Interest-bearing net debt	EUR million	1,252	1,935	2,080
Leverage ratio	%	30.0	43.2	45.7
Gearing	%	42.8	76.2	84.3
Equity-to-assets ratio	%	41.6	34.4	34.0
<b>Other indicators</b>				
Capital employed	EUR million	4,681	4,885	4,850
Capital expenditure and investments in shares	EUR million	214	292	364
- of revenue	%	1.2	1.6	2.4
Research and development expenditure	EUR million	40	42	42
- of revenue	%	0.2	0.2	0.3
Average number of personnel		5,097	5,031	4,926

Share-related indicators				
Earnings per share (EPS)	EUR	<b>2.04</b>	0.61	0.62
Equity per share	EUR	<b>11.36</b>	9.86	9.58
Cash flow per share	EUR	<b>3.28</b>	1.83	0.77
Price/earnings ratio (P/E)		<b>7.04</b>	15.97	12.61
Dividend per share	EUR	<b>0.65 <sup>1)</sup></b>	0.38	0.35
Dividend payout ratio	%	<b>31.8 <sup>1)</sup></b>	62.1	56.5
Dividend yield	%	<b>4.5 <sup>1)</sup></b>	3.9	4.5
Share prices				
At the end of the period	EUR	<b>14.37</b>	9.77	7.81
Average share price	EUR	<b>13.06</b>	9.08	10.22
Lowest share price	EUR	<b>10.13</b>	7.28	6.19
Highest share price	EUR	<b>17.33</b>	11.11	14.70
Market capitalization at the end of the period	EUR million	<b>3,685</b>	2,505	2,003
Trading volumes				
Number of shares traded	1,000	<b>241,467</b>	259,007	285,178
In relation to weighted average number of shares	%	<b>94</b>	101	111
Average number of shares		<b>255,967,244</b>	255,918,686	255,918,686
Number of shares at the end of the period		<b>255,982,212</b>	255,918,686	255,918,686

<sup>1)</sup> Board of Directors' proposal to the Annual General Meeting



# Calculation of key financial indicators

## Calculation of key financial indicators

Operating profit	=	Operating profit includes the revenue from the sale of goods and services, other income such as gain from sale of shares or non-financial assets, share of profit (loss) of associates and joint ventures, less losses from sale of shares or non-financial assets, as well as expenses related to production, marketing and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil, freight and electricity derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in operating profit.
Comparable operating profit	=	Operating profit +/- inventory gains/losses +/- gains/losses from sale of shares and non-financial assets including disposals of business - unrealized change in fair value of oil, freight and electricity derivative contracts. Inventory gains/losses include the change in fair value of all trading inventories.
Return on equity, (ROE) %	= 100 x	$\frac{\text{Profit before taxes} - \text{taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	= 100 x	$\frac{\text{Profit before taxes} + \text{interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	= 100 x	$\frac{\text{Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil, freight and electricity derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
Capital employed	=	Total assets - interest-free liabilities - deferred tax liabilities - provisions
Interest-bearing net debt	=	Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt} + \text{total equity}}$
Gearing, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	= 100 x	$\frac{\text{Total equity}}{\text{Total assets} - \text{advances received}}$
Return on net assets, %	= 100 x	$\frac{\text{Segment operating profit}}{\text{Average segment net assets}}$

Comparable return on net assets, %	=	100 x $\frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$
Segment net assets	=	Property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment, provisions and pension liabilities.
Research and development expenditure	=	Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.
<b>Calculation of share-related indicators</b>		
Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the equity holders of the company}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the equity holders of the company}}{\text{Adjusted average number of shares at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	=	100 x $\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	100 x $\frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization at the end of the period	=	Number of shares at the end of the period x share price at the end of the period
Trading volume	=	Number of shares traded during the period, and number of shares traded during the period in relation to the weighted average number of shares during the period

## Consolidated income statement

MEUR	Note	1 Jan–31 Dec 2013	Restated 1 Jan–31 Dec 2012
<b>Revenue</b>	<b>4, 7</b>	<b>17,462</b>	<b>17,853</b>
Other income	8	79	98
Share of profit (loss) of associates and joint ventures	19	-9	-3
Materials and services	9	-15,424	-16,186
Employee benefit costs	10	-353	-339
Depreciation, amortization and impairments	11	-323	-332
Other expenses	12	-800	-767
<b>Operating profit</b>		<b>632</b>	<b>324</b>
<b>Financial income and expenses</b>	<b>13</b>		
Financial income		2	3
Financial expenses		-81	-87
Exchange rate and fair value gains and losses		8	-7
<b>Total financial income and expenses</b>		<b>-71</b>	<b>-91</b>
<b>Profit before income taxes</b>		<b>561</b>	<b>233</b>
Income tax expense	14	-37	-74
<b>Profit for the period</b>		<b>524</b>	<b>159</b>
<b>Attributable to:</b>			
Owners of the parent		523	157
Non-controlling interests		1	2
		<b>524</b>	<b>159</b>
<b>Earnings per share from profit attributable to owners of the parent (in EUR per share)</b>	<b>15</b>		
Basic		2.04	0.61
Diluted		2.04	0.61

## Consolidated statement of comprehensive income

MEUR	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
<b>Profit for the period</b>	<b>524</b>	<b>159</b>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to profit or loss, net of tax</b>		
Remeasurements on defined benefit plans	-1	-29
<b>Items that may be reclassified subsequently to profit or loss, net of tax</b>		
Translation differences	-33	10
Cash flow hedges		
recorded in equity	10	-50
transferred to income statement	-19	84
Net investment hedges	0	-1
Hedging reserves in associates and joint ventures	-1	-1
<b>Total</b>	<b>-43</b>	<b>42</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>-44</b>	<b>13</b>
<b>Total comprehensive income for the period</b>	<b>480</b>	<b>172</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	479	170
Non-controlling interests	1	2
	<b>480</b>	<b>172</b>

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

## Consolidated balance sheet

MEUR	Note	31 Dec 2013	Restated 31 Dec 2012	Restated 1 Jan 2012
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	18	62	61	55
Property, plant and equipment	17	3,741	3,869	3,968
Investments in associates and joint ventures	19	225	242	239
Non-current receivables	20, 21	3	3	16
Deferred tax assets	28	29	46	52
Derivative financial instruments	20, 25	22	37	19
Available-for-sale financial assets	20, 21	4	4	4
<b>Total non-current assets</b>		<b>4,086</b>	<b>4,262</b>	<b>4,353</b>
<b>Current assets</b>				
Inventories	22	1,468	1,464	1,457
Trade and other receivables	20, 23	946	1,154	1,045
Derivative financial instruments	20, 25	34	57	59
Cash and cash equivalents	24	506	409	304
<b>Total current assets</b>		<b>2,954</b>	<b>3,084</b>	<b>2,865</b>
<b>Assets classified as held for sale</b>	5	-	52	56
<b>Total assets</b>		<b>7,040</b>	<b>7,398</b>	<b>7,274</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to owners of the parent</b>	26			
Share capital		40	40	40
Other equity		2,868	2,484	2,404
<b>Total</b>		<b>2,908</b>	<b>2,524</b>	<b>2,444</b>
<b>Non-controlling interests</b>		<b>16</b>	<b>16</b>	<b>14</b>
<b>Total equity</b>		<b>2,924</b>	<b>2,540</b>	<b>2,458</b>

<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Interest-bearing liabilities	20,	27	1,586	1,977	1,891
Deferred tax liabilities	28		266	340	331
Provisions	29		37	27	22
Pension liabilities	30		93	99	57
Derivative financial instruments	20,	25	7	6	12
Other non-current liabilities	27		7	7	9
<b>Total non-current liabilities</b>			<b>1,996</b>	<b>2,456</b>	<b>2,322</b>
<b>Current liabilities</b>					
Interest-bearing liabilities	20,	27	171	357	493
Current tax liabilities	20,	27	49	40	26
Derivative financial instruments	20,	25	25	47	88
Trade and other payables	20,	27	1,875	1,925	1,872
<b>Total current liabilities</b>			<b>2,120</b>	<b>2,369</b>	<b>2,479</b>
<b>Liabilities related to assets held for sale</b>	<b>5</b>		<b>-</b>	<b>33</b>	<b>15</b>
<b>Total liabilities</b>			<b>4,116</b>	<b>4,858</b>	<b>4,816</b>
<b>Total equity and liabilities</b>			<b>7,040</b>	<b>7,398</b>	<b>7,274</b>

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



## Consolidated cash flow statement

MEUR	Note	1 Jan–31 Dec 2013	Restated 1 Jan–31 Dec 2012
<b>Cash flows from operating activities</b>			
Profit for the period		524	159
Adjustments for			
Income tax	14	37	74
Share of profit (loss) of associates and joint ventures	19	9	3
Depreciation and amortization	11	323	332
Other non-cash income and expenses		6	43
Financial expenses - net	13	71	91
Profit/loss from disposal of fixed assets and shares	8	-49	-46
		921	656
<b>Change in working capital</b>			
Decrease (+)/increase (–) in trade and other receivables		145	-106
Decrease (+)/increase (–) in inventories		-6	13
Decrease (–)/increase (+) in trade and other payables		-39	49
<b>Change in working capital</b>		100	-44
		1,021	612
Interest and other finance cost paid		-86	-86
Interest income received		4	0
Dividends received		0	0
Realized foreign exchange gains and losses		-16	-20
Income taxes paid		-84	-38
		-182	-144
<b>Net cash generated from operating activities</b>		839	468

<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	17	-200	-269
Purchases of intangible assets	18	-14	-22
Purchases of other shares		0	-1
Proceeds from sale of subsidiaries, net of cash disposed	6	75	-
Proceeds from capital repayments in associates and joint ventures	19	-	2
Proceeds from sale of property, plant and equipment		2	79
Proceeds from sale of other shares		-	0
Changes in non-current receivables		57	3
<b>Net cash used in investing activities</b>		<b>-80</b>	<b>-208</b>
<b>Cash flow before financing activities</b>		<b>759</b>	<b>260</b>
<b>Cash flows from financing activities</b>			
Payment of (-) / proceeds from (+) current interest-bearing liabilities		-144	-173
Proceeds from non-current interest-bearing liabilities		8	1,022
Repayments of non-current interest-bearing liabilities		-421	-914
Dividends paid to the owners of the parent		-97	-90
Dividends paid to non-controlling interests		-1	0
<b>Net cash used in financing activities</b>		<b>-655</b>	<b>-155</b>
<b>Net decrease (-)/increase (+) in cash and cash equivalents</b>		<b>104</b>	<b>105</b>
Cash and cash equivalents at beginning of the period		410	304
Exchange gains (+)/losses (-) on cash and cash equivalents		-8	1
<b>Cash and cash equivalents at end of the period</b>	<b>24</b>	<b>506</b>	<b>410</b>

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

## Consolidated statement of changes in equity

MEUR	Note	Share capital	Reserve fund	Fair value and other reserves	Translation differences	Actuarial gains and losses	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
<b>Total equity at 31 December 2011</b>		40	15	-23	-7	0	2,428	2,453	14	2,467
<b>Change in accounting policy (IAS 19)</b>							-9	-9		-9
<b>Total equity at 1 January 2012</b>		40	15	-23	-7	0	2,419	2,444	14	2,458
Dividend paid							-90	-90	0	-90
Share-based compensation							0	0		0
Transfer from retained earnings			3				-3	0		0
Total comprehensive income for the year				33	9	-29	157	170	2	172
<b>Total equity at 31 December 2012</b>	<b>26</b>	<b>40</b>	<b>18</b>	<b>10</b>	<b>2</b>	<b>-29</b>	<b>2,483</b>	<b>2,524</b>	<b>16</b>	<b>2,540</b>

<b>Total equity at 1 January 2013</b>		<b>40</b>	<b>18</b>	<b>10</b>	<b>2</b>	<b>-29</b>	<b>2,483</b>	<b>2,524</b>	<b>16</b>	<b>2,540</b>
Dividend paid							-97	-97	-1	-98
Share-based compensation							2	2		2
Transfer from retained earnings			0				0	0		0
Total comprehensive income for the year				-10	-33	-1	523	479	1	480
<b>Total equity at 31 December 2013</b>	<b>26</b>	<b>40</b>	<b>18</b>	<b>0</b>	<b>-31</b>	<b>-30</b>	<b>2,911</b>	<b>2,908</b>	<b>16</b>	<b>2,924</b>

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

# 1 General information

Neste Oil Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The Company is listed on the NASDAQ OMX Helsinki.

Neste Oil Corporation and its subsidiaries (together referred to as the Neste Oil Group) is a refining and marketing company focused on advanced, cleaner traffic fuels. The Group's refineries and other production facilities, together with its network of service stations and other retail outlets in Finland and the Baltic Rim area, supply both domestic and export markets with gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas, bitumen and NExBTL renewable diesel based on Neste Oil's proprietary technology. Neste Oil's supply and distribution chain includes a tanker fleet for carrying crude oil and other feedstock imports and refined product exports. As an oil refiner, Neste Oil is a leading manufacturer of environmentally benign petroleum products.

The Board of Directors has approved these consolidated financial statements for issue on 3 February 2014.

# 2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The notes to the consolidated financial statements also include compliance with the 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 income statement. The consolidated financial statements are presented in millions of euros unless otherwise stated.

## New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013:

### *Amendments to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (effective 1 July 2012)*

The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment effected presentation only and has no impact on the Group's financial position or performance.

### *Amendments to IAS 12 Income Taxes - Deferred tax: Recovery of Underlying Assets (effective 1 January 2013)*

The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40. The Group does not have investment properties and therefore the amendment does not have an impact on the Group's consolidated financial statements.

### *IAS 19 Employee Benefits (Revised) (effective 1 January 2013)*

As of January 1, 2013, the Group has adopted retrospectively the revised IAS 19 Employee Benefits standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) as well as Group and segment information for 2012 has been restated in compliance with the requirements of the revised standard.

The changes on the Group's accounting policies are the following: to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

As a result, the Group's operating and comparable operating profit for 2012 increased by EUR 3 million, as the net interest cost related to employee benefits are now reported under financial items. The impact on the Group's net profit for 2012 was not material. Unrecognized actuarial gains and losses was charged to equity as at 1 January 2012 along with consequential tax impact. As a result, the Group's equity in the opening balance for 2012 reduced by EUR 9 million. The Group's equity of 31 December 2012 reduced by EUR 38 million, comprising a EUR 51 million increase in actuarial losses and related deferred tax assets of EUR 13 million. The Group's defined benefit liability increased to EUR 99 million.

Sensitivity disclosures and the maturity for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided. IAS 19 disclosures are presented in Note 30.

*Amendments to IAS 36 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. (effective 1 January 2014)*

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

*IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendment) (effective 1 January 2013)*

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply to the recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments have not impacted the Group's financial position or performance.

*IFRS 13 Fair Value Measurement (effective 1 January 2013)*

The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. Application of IFRS 13 has not materially impacted the fair value measurements of the Group.

*Annual improvements to IFRS.*

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards on 1 January 2014 or when they become effective.

*IFRS 10 Consolidated Financial Statement*

The standard replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. The new standard establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The standard becomes effective for annual periods beginning on or after 1 January 2014.

*IFRS 11 Joint Arrangements*

The standard replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities - Non-monetary Contributions by Ventures'. The new standard changes accounting treatment of jointly controlled entities. Jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method only. The Group's joint ventures are accounted for by using the equity method of accounting and therefore this has no significant impact on the Group's financial position. The standard becomes effective for annual periods beginning on or after 1 January 2014.

*IFRS 12 Disclosure of Interests in Other Entities*

The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after 1 January 2014.

**Use of estimates and assumptions**

The preparation of consolidated financial statements in conformity with International Accounting Standard requires the Group's management to make estimates and assumptions that affect the reported amounts of 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.

The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. They are continuously evaluated. The actual results may differ from these estimates. The most significant estimates relate to the following:

*Intangible assets and property, plant and equipment acquired in a business combination*

Assets and liabilities acquired in business combinations are measured at their fair values at the date of acquisition. The fair values on which cost allocation is based are determined by reference to market values to the extent they are available. If market values are not available the valuation is based on discounted cash flows. The measurement of intangible assets, in particular, is based on the present values of future cash flows and requires management estimates regarding future cash flows and the use of assets.

*Impairment test*

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 five years. Preparation of these estimates requires management to make assumptions relating to future expectations. The main assumptions related to the estimated future operating cash flows and the discount rates used to present value them.

*Employee benefits*

Pension calculations under defined benefit plans in compliance with IAS 19 include the factors that rely on management estimates: discount rate used in calculating pension expenses and obligations for the period, 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.

*Provisions*

The existence of criteria for recognising provisions and the amounts of provisions are determined based on estimates of the existence and amount of the obligation. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

*Critical judgements in applying accounting policies*

The Group's management makes judgements concerning the adoption and application of accounting policies to the financial statements. The management has used its judgement in the process of applying the Group's accounting policies when, for example, determining provisions for restructuring, classifying leases and classifying asset as held for sale.

**Consolidation***Subsidiaries*

The consolidated financial statements cover the parent company, Neste Oil Corporation, and all those companies in which Neste Oil Corporation has the power to govern financial and operating policies and holds, directly or indirectly, more than 50% of voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances, and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Non-controlling interests are presented in the consolidated balance sheets within equity, separate from the equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statements of income. Where necessary, subsidiaries' accounting policies have been modified to ensure consistency with Group policies.



*Associates, joint ventures and jointly controlled assets*

Associated companies are entities over which the Group has significant influence but not control, and generally involve a shareholding of between 20% and 50% of voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another company or companies. The Group's interests in associates and joint ventures are accounted for by the equity method of accounting.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the investment in associates and joint ventures are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the joint venture acquired, the difference is recognized directly in the income statement.

The Group's share of the post-acquisition profits or losses after tax of its associates and joint ventures is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In respect of interest of jointly controlled assets the Group recognises its share of the jointly controlled assets and liabilities as well as its part of any income or expenses incurred. Because the assets, liabilities, income and expenses are recognised in the financial statements of the Group, no adjustments of other consolidation procedures are required.

**Segment reporting**

The Group's operations are divided into four operating segments: Oil Productions, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation resources.

Until 20 December 2010 the reportable segments of the Group were presented in line with the Company's internal organisational and reporting structure adopted as of 1 April 2009. At the time business areas also represented the reporting segments. On 20 December 2010 the Group reorganised its operations so that the Oil Products and Renewable Fuels business areas were merged to create one business area Oil Products and Renewables. Financial reporting has remained unchanged.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses.

The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements.

**Non-current assets and disposal groups held for sale**

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value, less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The assets are not depreciated after classifying as held for sale.

## Foreign currency translation

### *(a) Functional and 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') or the functional currency of the Group. The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### *(c) Group companies*

The results and financial position of all Group entities (none of which uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

## Revenue recognition

Revenue from the sale of goods is recorded in the income statement when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when services have been provided. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licences are recognised when the risks and rewards are transferred to the buyer.

Revenue will be recognised 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 and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. Where forward sale and purchase contracts for crude oil or oil products have been determined to be for trading purposes, the associated sales and purchases are reported net within sales whether or not physical delivery has occurred. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the income statement.

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as capital gains on disposal of other non-current assets and rental income.

**Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement in 'Other income' over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant, and equipment are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they relate to.

**Borrowing costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility.

**Income taxes**

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. For items recognized directly in equity, the income tax effect is similarly recognized. Management judgment is required in determining the provision for income taxes and the deferred tax assets.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, pension liabilities recognized in the balance sheet and provisions. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**Research and development**

Research expenditure is recognized as an expense as incurred and included in other operating expenses in the consolidated financial statements. Expenditure on development activities is capitalized only when it relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

**Property, plant and equipment**

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, marine fleet, and retail station network infrastructure and equipment. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value at 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. The same principle is applied to the costs incurred for compulsory periodic docking of ships. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory is included in other tangible assets and is depreciated according to possible usage of the crude oil. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and structures, including terminals	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Marine fleet	15–20 years
Retail station network infrastructure and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

The residual values and useful lives of assets are reviewed, and adjusted where appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated income statement.

### **Intangible assets**

Intangible assets are stated at historical cost and amortized on a straight-line method over expected useful lives. Intangible assets comprise the following:

#### *Computer software*

Computer software licences are capitalized on the basis of the costs incurred to acquire and introduce the software in question. Costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognized as an expense.

#### *Trademarks and licences*

Trademarks and licences 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'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost, less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

#### *Emission allowances*

Emission allowances, which are purchased to cover future periods deficit are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances 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

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## Financial assets

The Group classifies financial assets in the following categories: financial assets at fair value through income statement, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the asset known as the trade date. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through income statement are subsequently carried at fair value. Unlisted equity securities, for which fair value cannot be measured reliably, are recognized at cost less impairment. Loans and receivables are carried at amortized cost, using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of assets in 'financial assets at fair value through income statement' category are included in the income statement in the period in which they arise. The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

### *Financial assets at fair value through income statement*

The assets in this category are financial assets held for trading, and include derivative financial instruments, if they are held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are held for trading or are expected to be realized within 12 months of the balance sheet date.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in 'Trade and other receivables' in the balance sheet.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted the effective interest rate. The amount of the loss is recognized in the income statement within 'Other expenses'.

The Group could reduce its counterparty risks by selling trade receivables to the third party e.g. bank. The sale of the receivables essentially transfers ownership of the receivables to the bank, indicating it to obtain all of the rights associated with the receivables. The Group receives the advance from the bank at the time of sale. Fees and other expenses are deducted from the advance.

### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses'.

**Leases***Finance leases*

Lease arrangements that transfer substantially all the risks and rewards related to a leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments, as determined at the inception of the lease. Lease payments are allocated between the reduction of the outstanding liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shortest.

An arrangement that does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. Determining whether an arrangement is, or contains, a lease are based on IFRIC interpretation 4.

*Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**Inventories**

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognised in profit or loss as consumed.

**Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

**Provisions**

A provision is recognized in the balance sheet 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.

**Financial liabilities**

Financial liabilities are recognized initially as net proceeds less any transaction costs incurred, and subsequently at amortized cost. Any difference between net proceeds and redemption value is recognized as interest cost over the period of the borrowing, using the effective interest method. Bank overdrafts are shown in current liabilities on the balance sheet. Derivative financial instruments are categorized as held for trading and included in financial liabilities at fair value through income statement, unless they are designated as hedges as defined in IAS 39. Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date.



## Employee benefits

### *Pension obligations*

The Group has pension arrangements in different countries, which are generally funded through insurance companies. Pension schemes consist of both defined benefit and defined contribution plans.

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits. A defined benefit plan is a pension plan that is not a defined contribution plan.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the Projected Unit Credit Method. Pension costs are expensed during employee's service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligations is based on the market yield of high-quality corporate bonds (AA-rated) that have similar maturity terms to those of the related pension liability. The net interest are included as part of finance cost component in profit or loss.

Actuarial gains and losses are recognised immediately in other comprehensive income. The liability or asset recognized in the balance sheet is the defined benefit obligation at the balance sheet date less the fair value of plan assets.

### Share-based payments

Expenses related to share-based payments are recorded in the income statement and a respective liability is recognized in the balance sheet for share-based payments settled in cash. The liability recognized in the balance sheet is measured at fair value at each reporting date. For transactions settled in equity, an increase corresponding to the expense in the income statement is entered in shareholders' equity.

### Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in Note 3.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity/other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. for example when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within revenue. When the forecast transaction that is being hedged results in the recognition of a property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity/other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Changes in the fair value of derivative financial instruments that are designated and qualify 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 that are attributable to the hedged risk compensating the effect. If derivative financial instruments do not qualify for hedge accounting, any movement in fair value is recognized in the income statement.

*Derivative financial instruments that do not qualify for hedge accounting*

Some oil, freight and electricity derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Oil derivative contracts are also held for trading purposes. Certain currency and interest rate derivative contracts also do not qualify for hedge accounting. For derivative financial instruments that do not qualify for hedge accounting, any movement in fair value is recognized in the income statement in operating profit for oil, freight and electricity derivative contracts and in 'financial income and expenses' concerning derivative financial instruments related to financing activities.

**Definitions***Operating profit*

Operating profit includes the revenue from the sale of goods and services, other income such as gains on sale of shares or non-financial assets, less losses from the sale of shares or non-financial assets, as well as expenses related to production, marketing, and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil, freight and electricity derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in the operating profit.

*Comparable operating profit*

Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sale of shares and non-financial assets including disposals of business, and unrealized changes in the fair value of oil, freight and electricity derivative contracts from the reported operating profit. Inventory gains/losses include the change in fair value of all trading inventories. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses.

*Segment net assets*

Segment net assets include property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment as well as provisions and pension liabilities.

*Return on net assets, %*

Return on net assets is calculated by dividing segment operating profit with average segment net assets.

*Comparable return on net assets, %*

Comparable return on net assets is calculated by dividing segment comparable operating profit with average segment net assets.

## 3 Financial risk management

### Risk management principles

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Risks are generally managed at source, within the Group's business areas and common functions. A number of risk management strategies have been developed to address the impact of the risks related to Neste Oil's business activities. The Neste Oil Corporate Risk Management Policy with the related Corporate Risk Management Principles, approved by the Board of Directors, defines risk management governance, responsibilities and processes for communicating and reporting risks and risk management.

The documents define detailed principles covering strategic risks, market risks, including counterparty risks, operational and functional risks, including risks involving human safety, and legal liabilities. The Corporate Risk Management Policy and Principles complement Neste Oil's other management principles and instructions. The Treasury Principles and the Credit and Counterparty Risk Management Principles are also approved by the Board of Directors. The Board of Directors' Audit Committee regularly reviews and monitors financial risk management policy, principles, risk limits, and other risk management activities.

The management of financially related risks aims to reduce the volatility in earnings, the balance sheet, and cash flow, while securing effective and competitive financing for the Group.

### Risk management organization

The Corporate Risk Management and risk management professionals in business areas and common functions are responsible for controlling special risk disciplines, consulting and facilitating risk management processes and developing risk management systems.

Neste Oil's Group Treasury is responsible for managing foreign exchange, credit and counterparty, interest rate, liquidity, and refinancing risks as well as insurance management. The price risk management i.e. hedging of the Group's refining margin and refinery inventory price risk is also organized in Group Treasury. In addition, Group Treasury coordinates the management of the price risk associated with utilities and the obligation to return emission allowances, and provides price hedging services.

The Corporate Risk Management and Group Treasury units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer and both units work in close cooperation with the Group's business areas.

Oil Products and Renewables business area and other functions to a smaller degree enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Products and Renewables business area also enters into derivative transactions for proprietary trading purposes within authorized risk limits.

Risk Management Committee monitors the risk management process and compliance. Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks are reported to the Board of Directors, the Audit Committee, the Risk Management Committee, the President & Chief Executive Officer, and other corporate management as part of the strategy and planning process. A report on the market and financing risks of reporting segments and the Group is included in the monthly management report.

## Market risks

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. The primary commodity price risks that the Group is exposed to include; crude oil, oil products, renewable feedstocks and renewable diesel prices that could adversely affect the value of the Group's financial assets, liabilities or expected future cash flows. As the pricing currency used in the oil market is U.S. dollar and Neste Oil operates and reports in Euro, also this factor exposes Neste Oil's business to short-term transaction risks and longer-term economic currency risks. In accordance with the Group risk management principles the Group enters into various derivatives transactions for risk management purposes. The positions are monitored and managed on a daily basis according to the above mentioned risk management principles.

### 1. Commodity price risks

The main commodity price risks Neste Oil faces on 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 Oil'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 Oil's own consumption of raw materials and output of refined products, drive operational performance and cash flows in Oil Products and Renewables, which is Neste Oil's largest business area in terms of revenue, profits and net assets.

Neste Oil divides the commodity price risks affecting Neste Oil'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 Oil'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 Oil it is called 'transaction position'.

The base inventory is the minimum level of stocks with which can reasonably be assured that the refineries can be kept in operation and the deliveries are not compromised. It comprises inventories at the refineries and within supply chain. The base inventory includes the minimum level of stocks that Neste Oil is required to maintain under Finnish laws and regulations.

The role of price risk management involved in the logistics is particularly present in the Renewables business due to market practices on the feedstocks pricing and longer sea voyages. In the Renewables business the price risk related base inventory is higher than the physical inventory and is approximately one third of the annual renewables refining capacity used. In the traditional oil refining the base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

The base inventory creates a risk in Neste Oil's income statement and balance sheet inasmuch as Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste Oil'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 Oil 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 qualities of the underlying feedstocks for which derivative financial instruments can be sold and purchased, and the actual quality of Neste Oil's feedstocks, the business will remain exposed to some degree of basis risk. The basis risk is typically higher in the Renewables business due to the nature of feedstocks pool and limited availability of hedging instruments.

## *Refining margin risk*

As the total refining margin is an important determinant of Oil Products and Renewables business area's earnings, its fluctuations constitute a significant risk.

In the traditional oil refining business the refining margin at risk is a function of the revenue from sold petroleum products and the cost of raw materials together with other costs. Neste Oil's exposure to low refining margins in the traditional oil refining is partly offset by its high conversion refineries.

Neste Oil is exposed to greater margin volatility in the Renewables business compared to that in the fossil fuel refining. In Renewables business the refining margin is mainly a function of the renewable fuels sale price received and feedstocks used. The underlying indices used in the renewable diesel pricing are primarily oil products or conventional biodiesel related. Product prices fluctuate regionally depending on the nature of biomandates, local supply and demand, and fossil fuel prices. In Europe renewable fuels price is mainly determined by the price of local biodiesel price. Typical biodiesel qualities are Fatty Acid Methyl Ester (FAME) or Rapeseed-Oil Methyl Ester (RME). In the North America the local biodiesel reference and typical renewable fuels pricing driver is, including the value of the Renewable Identification Number (RIN), Soy Methyl Ester (SME). Cost of feedstocks depends on feedstocks selection and is typically derived from different vegetable oils and fats. Feedstock prices are mainly driven by supply and demand balances, crop forecasts and regional weather. In the Renewables business area, operational activities are the primary means of mitigating the margin volatility.

With the aim of securing its margin and cash flow, Neste Oil has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the Renewables business the targeted hedge ratios are typically higher. Hedge ratios can however be expected to fluctuate over the time. The hedge ratio for renewable business is measured and monitored as percentage of the quarterly sales volumes.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on its forecasted or committed sales and refinery production, which are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying feedstocks and refined petroleum products for which derivative financial instruments can be sold and purchased, and the actual quality of Neste Oil's feedstocks and refined petroleum products in any given period, the business will remain exposed to some degree of basis risk. The basis risk is typically higher in the Renewables business than in the fossil fuel refining due to the nature of the feedstocks selection and limited availability of hedging instruments.

The exposure to open positions of oil derivative contracts as of 31 December 2013 (2012) is summarized in Note 25.

## 2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste Oil operates and reports in euro, this factor, among others, exposes Neste Oil's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste Oil 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 forecasted cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-euro zone 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 forecasted over a 12-month period on a rolling basis, and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 60% for the first six months and 25% of the next three months for the renewable business. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Treasury Principles. The most important hedged currency is the U.S. dollar. Other material hedged currencies are Malaysian Ringgit (MYR) and Swedish Crown (SEK). Singapore Dollar (SGD) is expected to become a material hedged currency in 2014.

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 is responsible for implementing hedging transactions.

Neste Oil has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than home currency. The principle is to hedge this balance sheet exposure fully using forward contracts and options. Open exposures are allowed based on risk limits set by the 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 2013, the daily balance sheet exposure fluctuated between approximately EUR 151 million and 635 million. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess the base inventory. Group Treasury 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 table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2013 and 2012, in millions of euros.

MEUR	2013	2012
EUR	1,628	2,181
SGD	51	86
USD	79	67
Other	-	-
	1,758	2,334

The nominal and fair values of the outstanding foreign exchange derivative contracts as of 31 December 2013 (2012) are summarized in Note 25.

#### Translation exposure

Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste Oil may seek to reduce the volatility in equity in the consolidated balance sheet through hedging transactions. Forward contracts are used to hedge translation exposure. Any hedging decisions are made by Group Treasury. The total non-euro-denominated equity of the Group's subsidiaries and associated companies was EUR 482 million as of 31 December 2013 (2012: EUR 500 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2013			2012		
MEUR	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
USD	50	-	0%	61	-	0%
SEK	207	-	0%	222	-	0%
CAD	101	-	0%	80	-	0%
RUB	71	-	0%	77	-	0%
LTL	31	-	0%	34	-	0%
Other	22	-	0%	26	-	0%
	482	-	0%	500	-	0%



### 3. Interest rate risk

Neste Oil is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Company's interest rate risk management is to limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the net debt portfolio is 12 months, and duration can vary between six and 36 months. Interest rate derivatives have been used to adjust the duration of the net debt portfolio. The Group's interest rate risk management is handled by Group Treasury. The nominal and fair values of the outstanding interest rate derivative contracts as of 31 December 2013 (2012) are summarized in Note 25.

The following table summarizes the re-pricing of the Group's interest-bearing debt.

#### MEUR

Period in which re-pricing occurs	within 1 year	1 year - 5 years	> 5 years	Total
<b>Financial instruments with floating interest rate</b>				
<b>Financial liabilities</b>				
Loans from financial institutions	292	0	0	292
Finance lease liabilities	4	50	0	54
Bonds	0	50	0	50
Effect of interest rate swaps	650	-450	-200	0
<b>Financial instruments with fixed interest rate</b>				
Bonds	0	872	394	1,266
Finance lease liabilities	0	13	83	96
	946	535	277	1,758

#### 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 2014 (2013), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

##### **Approximate impact on operating profit (IFRS), excluding hedges <sup>1)</sup>**

		2014	2013
+/- 10% in the EUR/USD exchange rate	EUR million	- 99 / + 121	- 98 / + 120
+/- USD 1.00/barrel in total refining margin	USD million	+/- 110	+/- 105
+/- USD 10/barrel in crude oil price	USD million	+/- 100	+/- 100
+/- USD 100/t in palm oil price	USD million	+/- 55	+/- 55
+/- USD 50/t in Renewable Fuels refining margin	USD million	+/- 100	+/- 100

<sup>1)</sup> Inventory gains/losses excluded from comparable operating profit

##### *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 2013 (2012). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- the flat price variation for oil derivative contracts of crude oil, refined oil products and vegetable oil is assumed to be +/- 10%
- the sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- the sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation
- the sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- the sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- the variation in EUR/USD-rate is assumed to be +/- 10%
- the position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, trade and other liabilities, and cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

the variation in USD/MYR-rate is assumed to be +/- 10%

- the position includes MYR-denominated derivative financial instruments
- the position excludes MYR-denominated future cash flows

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- the variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- the interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps
- 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 other balance sheet items 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 recorded directly in equity. Items affecting the income statement are not included in equity.

#### Sensitivity to market risks arising from financial instruments as required by IFRS 7

		2013		2012	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price <sup>1)</sup>	EUR million	-/+ 8	+/- 0	+/- 9	-/+ 7
+/- 10% change in EUR/USD exchange rate	EUR million	+ 59 / - 74	+ 38 / - 34	+ 63 / - 79	+ 42 / - 39
1% parallel shift in interest rates	EUR million	+/- 7	+/- 0	+/- 9	+/- 0
+/- 10% change in USD/MYR exchange rate	EUR million	+/- 28	+/- 0	+/- 8	+/- 0

<sup>1)</sup> includes crude oil, refined oil products and vegetable oil derivatives

#### 5. Hedge accounting

The Group uses foreign currency derivative contracts to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted future sales and earnings, as well as in Neste Oil's balance sheet. Foreign exchange derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, net investment hedges, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses foreign exchange forward contracts and options as hedging instruments.

With the aim of securing a certain refining margin per barrel, the Group may hedge its refining margin using commodity derivative contracts. Certain commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges.

The Group uses interest rate derivatives and its variations e.g. callable swaps to reduce the volatility of interest expenses in the income statement and by adjusting the duration of the debt portfolio. Interest rate derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, hedges of the fair value of recognized assets or liabilities, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses interest rate swaps as hedging instruments.

*Cash flow hedges*

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are certain commodity derivative contracts hedging refining margin, foreign currency derivative contracts hedging USD-sales, feedstock purchases priced in MYR or capital expenditure denominated in foreign currencies for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2018.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity/other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2013 and 2012 the ineffective portion has been immaterial. Retrospective testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. The gain or loss to the effective portion of the foreign exchange derivative contracts hedging of the MYR based purchases are booked into equity/other comprehensive income until transferred to the inventory as part of raw-material purchase costs according to IAS 2. When the forecast transaction, which is being hedged results in the recognition of property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity/ other comprehensive income. Movements in hedging reserve are presented in the statement of comprehensive income.

*Fair value hedges*

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk compensating the effect. The ineffective portion is also recognized in the income statement.

**Items recognized in the income statement**

MEUR	2013	2012
gain or loss on the hedging instrument	-16	18
gain or loss on the hedged item	16	-18

*Hedges of net investments in foreign entities*

Hedges of the net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity/ other comprehensive income, while any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity /other comprehensive income are included in the income statement when the foreign operation is disposed of.

**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 Oil'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. The Group must always have access to unutilized, committed credit facilities to cover all loans maturing within the next 12 months and any potential forecasted negative free cash flow. Unutilized committed credit facilities must always amount to at least EUR 500 million. In addition, total short-term financing shall not account for more than 30% of the total interest-bearing liabilities.

The average loan maturity as of 31 December 2013 was 3.7 years. The most important financing programs in place are:

- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 150 million
- Domestic commercial paper program (uncommitted), EUR 400 million

As of 31 December 2013, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 2,156 million at its disposal.

#### Cash and cash equivalents and committed unutilized credit facilities

MEUR	2013	2012
Floating rate		
– cash and cash equivalents	506	410
– overdraft facilities, expiring within one year	150	150
– revolving credit facility, expiring within one year	0	75
– revolving credit facility, expiring beyond one year	1,500	1,500
	<b>2,156</b>	2,135

The contractual maturity of interest-bearing liabilities as of 31 December 2013 is presented in the following table.

MEUR	2014 <sup>1)</sup>	2015	2016	2017	2018	2019–	Total
Bonds and debentures	59	360	345	277	66	416	1,523
- less finance charges	59	60	45	27	16	16	223
Repayment of bonds and debentures	0	300	300	250	50	400	1,300
Loans from financial institutions	166	52	8	47	7	17	297
- less finance charges	2	1	1	1	0	0	5
Repayment of loans from financial institutions	164	51	7	46	7	17	292
Finance lease liabilities	20	40	37	15	15	196	323
- less finance charges	14	13	12	12	12	110	173
Repayment of finance lease liabilities	6	27	25	3	3	86	150
Other liabilities	0	0	0	0	1	3	4
- less finance charges	0	0	0	0	0	0	0
Repayment of other long-term liabilities	0	0	0	0	1	3	4
Interest rate swaps							
- less finance charges	-11	-12	-9	-2	-1	-2	-37

<sup>1)</sup> Repayments in 2014 are included in current liabilities in the balance sheet

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 25.

The contractual maturity of interest-bearing liabilities as of 31 December 2012 is presented in the following table.

MEUR	2013 <sup>1)</sup>	2014	2015	2016	2017	2018–	Total
Bonds and debentures	59	60	359	345	277	482	1,582
- less finance charges	59	60	59	45	27	32	282
Repayment of bonds and debentures	0	0	300	300	250	450	1,300
Loans from financial institutions	359	372	52	8	48	24	863
- less finance charges	5	8	1	1	1	1	17
Repayment of loans from financial institutions	354	364	51	7	47	23	846
Finance lease liabilities	21	22	42	39	16	223	363
- less finance charges	15	15	14	13	13	130	200
Repayment of finance lease liabilities	6	7	28	26	3	93	163
Interest rate swaps							
- less finance charges	-3	-9	-10	-8	-2	-2	-34

<sup>1)</sup> Repayments in 2013 are included in current liabilities in the balance sheet

### Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of 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. The management principles for credit and counterparty risk are covered in the Neste Oil Credit and Counterparty Risk Management Principles approved by the Board of Directors.

The amount of risk is quantified as the expected loss to Neste Oil 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 Oil's business areas, which are responsible for counterparty risk management within these limits. When determining the credit lines for sales contracts for oil deliveries, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral for example letter of credit, bank guarantee or parent company guarantee have to be posted. In the event, that a collateral is required the 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 Oil may reduce its counterparty risk by e.g. selling trade receivables.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to the rated counterparties by the general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste Oil has negotiated framework agreements in the form of an ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement with the main counterparties concerning commodity, emissions, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults and termination events. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Neste Oil reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties are rated with the minimum counterparty credit rating requirement being BBB (S&P). Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Oil Group, the minimum credit rating requirement for the insurers and/or reinsurers is A– (S&P).



As of the balance sheet date, the biggest receivable balances were from the customers in the Scandinavian wholesale markets. In addition, 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.

The Group follows the credit and counterparty guidelines in review and follow-up process of the credit limits daily. The impact of the financial market conditions to the Group's counterparties with regard to the associated credit risk are also assessed in the process, by taking into account all available information about counterparties, their financial situation and business activities. Balances due from a single sales transaction to a counterparty with open credit line may amount to approximately EUR 7.5–8 million due to the nature of the oil business, where cargoes including large volumes of refined oil products, for example 10,000 tons, are sold as one transaction. For this example, oil product price is based on a crude oil price of USD 110/barrel representing the price level prevailing at the turn of the financial period 2013/2014.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure as at 31 December 2013, approximately 92% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from Standard & Poor's, Moody's or Fitch. Respectively, Group Treasury had an exposure for currency and interest rate derivative contracts as at 31 December 2013 with banks, of which all have investment grade rating at a minimum. Derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. 43% of the trade receivables portfolio exposure is from counterparties or their parent companies having credit rating BBB– (S&P) minimum. 57% consists of trade receivables from the counterparties not having credit rating, most of it comprising from a large number of corporate and private customers. With respect to undue trade receivables, there were no indications as of 31 December 2013 that the counterparties would not meet their obligations.

#### Analysis of trade receivables by age

MEUR	2013	2012
Undue trade receivables	832	961
Trade receivables 1–30 days overdue	37	47
Trade receivables 31–60 days overdue	2	0
Trade receivables more than 60 days overdue	5	0
	876	1,008

## 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 Oil operates. Despite the fact that the Group does not have a public credit rating, the Group's target is to have a capital structure equivalent to that of other refining and marketing companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25–50%. The leverage ratio as of 31 December 2013 and 2012 was as follows:

MEUR	2013	2012
Total interest-bearing liabilities <sup>1)</sup>	1,758	2,345
Cash and cash equivalents <sup>2)</sup>	506	410
Interest-bearing net debt	1,252	1,935
Total equity	2,924	2,540
Interest-bearing net debt and total equity	4,176	4,475
Leverage ratio	30.0%	43.2%

<sup>1)</sup> Includes EUR 11 million of interest-bearing liabilities related to Assets held for sale in 2012, as disclosed in Note 5.

<sup>2)</sup> Includes EUR 1 million of cash and cash equivalents related to Assets held for sale in 2012, as disclosed in Note 5.

## 4 Segment information

### Neste Oil's business structure

The Group's operations are built around two business areas and eight common functions. Business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products and Renewables, and Oil Retail. The common functions are: Production & Logistics, Finance, Strategy, Human Resources, Sustainability and HSEQ, Technology, Communications, Marketing and Public Affairs, and Legal Affairs. Production & Logistics is responsible for operating the production facilities of Oil Products and Renewables. The result and net assets of Production & Logistics are accounted within reporting segments Oil Products and Renewable Fuels.

### Operating segments

The Group's operations are divided into four operating segments: Oil Products, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation of resources

Operating segments are engaged in following key business activities:

**Oil Products** segment markets and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, base oils, liquefied petroleum gas and other oil products and services which are related to them to domestic and international wholesale markets. The Shipping business is included in the Oil Products segment.

**Renewable Fuels** segment markets and sells NEXBTL renewable diesel based on Neste Oil's proprietary technology to domestic and international wholesale markets.

**Oil Retail** segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Neste Oil's own service station network and direct sales.

**Others** segment consists of Group administration, shared service functions, Research and Technology, Neste Jacobs and Nynas AB.

Operating segments presented above don't include any segments which are formed from aggregating two or more smaller segments.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements as described in 'Summary of significant accounting policies'. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement. The 'other expenses' included in the income statement for each business segment includes the following major items:

**Oil Products:** maintenance, freights, rents, and other property costs and insurance premiums, change in the fair value of open oil derivative positions

**Renewable Fuels:** freights, repairs and maintenance, research, storage charges, rents, other property costs, change in the fair value of open oil derivative positions

**Oil Retail:** rents and other property costs and maintenance

Segment operating assets and liabilities comprise of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities comprise operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Group's customer structure in 2013 and 2012 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 2013 and 2012 is presented in the following tables:

**MEUR**

2013	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
External revenue	10,680	2,235	4,519	28	-	17,462	
Internal revenue	2,591	258	9	176	-3,034	0	
Total revenue	13,271	2,493	4,528	204	-3,034	17,462	7
Other income	15	1	52	31	-20	79	8
Share of profit of associates and joint ventures	3	-	0	-12	-	-9	19
Materials and services	-12,083	-1,845	-4,246	-21	2,771	-15,424	9
Employee benefit costs	-171	-27	-36	-121	2	-353	10
Depreciation, amortization and impairments	-185	-98	-28	-13	1	-323	11
Other expenses	-564	-272	-150	-94	280	-800	12
Operating profit	286	252	120	-26	0	632	
Financial income and expense						-71	13
Profit before taxes						561	
Income taxes						-37	14
Profit for the period						524	
Comparable operating profit	280	273	76	-27	2	604	
Changes in the fair value of open oil and freight derivative positions	-10	14	0	-	-	4	
Inventory gains/losses	16	-35	-	-	-	-19	
Sales gains/losses	0	-	44	1	-2	43	
Operating profit	286	252	120	-26	0	632	
Capital expenditure and investments in shares	142	21	31	20	-	214	17, 18
Segment operating assets	3,690	2,043	554	224	-292	6,219	
Investment in associates and joint ventures	31	-	1	193	-	225	19
Deferred tax assets						29	28
Unallocated assets						567	
Total assets	3,721	2,043	555	417	-292	7,040	
Segment operating liabilities	1,558	275	301	158	-290	2,002	
Deferred tax liabilities						266	28
Unallocated liabilities						1,848	
Total liabilities	1,558	275	301	158	-290	4,116	
Segment net assets	2,163	1,768	255	259	-2	4,443	
Return on net assets, %	12.1	14.0	41.2	-9.8			
Comparable return on net assets, %	11.8	15.2	26.1	-10.2			

MEUR

2012	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
External revenue	10,991	1,938	4,888	36	-	17,853	
Internal revenue	2,773	225	7	163	-3,168	0	
Total revenue	13,764	2,163	4,895	199	-3,168	17,853	7
Other income	70	18	5	23	-18	98	8
Share of profit of associates and joint ventures	3	-	0	-6	-	-3	19
Materials and services	-12,455	-2,005	-4,627	-21	2,922	-16,186	9
Employee benefit costs	-166	-26	-34	-115	2	-339	10
Depreciation, amortization and impairments	-187	-99	-33	-13	0	-332	11
Other expenses	-538	-234	-148	-109	262	-767	12
Operating profit <sup>1)</sup>	491	-183	58	-42	0	324	
Financial income and expense						-91	13
Profit before taxes						233	
Income taxes						-74	14
Profit for the period						159	
Comparable operating profit	396	-56	58	-43	0	355	
Changes in the fair value of open oil and freight derivative positions	6	-22	0	1	-	-15	
Inventory gains/losses	44	-105	-	-	-	-61	
Sales gains/losses	45	-	0	0	-	45	
Operating profit <sup>1)</sup>	491	-183	58	-42	0	324	
Capital expenditure and investments in shares	180	51	36	25	-	292	17, 18
1) The operating profit of Others segment includes a write-off related to an IT project amounting to EUR 14 million.							
Segment operating assets	3,819	2,134	676	204	-286	6,547	
Investment in associates and joint ventures	28	-	1	213	-	242	19
Deferred tax assets						46	28
Unallocated assets						563	
Total assets	3,847	2,134	677	417	-286	7,398	
Segment operating liabilities	1,596	274	332	154	-282	2,074	
Deferred tax liabilities						340	28
Unallocated liabilities						2,444	
Total liabilities	1,596	274	332	154	-282	4,858	
Segment net assets	2,252	1,860	345	260	-3	4,714	
Return on net assets, %	20.6	-9.3	17.3	-15.7			
Comparable return on net assets, %	16.6	-2.8	17.3	-16.0			

## Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and retail selling network in Finland, North-West Russia, Estonia, Latvia and Lithuania. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets comprise of intangible assets, property, plant and equipment and investments in associates and joint ventures including shareholder loans. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. 'Baltic rim' includes Estonia, Latvia, Lithuania and Russia. The Group's activities in this geographical area comprise mainly of retail activities in the mentioned countries.

### MEUR

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
<b>2013</b>							
Revenue by destination	6,807	2,402	1,730	3,602	2,661	260	17,462
Non-current assets	2,353	193	136	673	0	673	4,028
Capital expenditure	176	0	21	8	0	9	214

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
<b>2012</b>							
Revenue by destination	7,524	2,687	1,844	3,952	1,465	381	17,853
Non-current assets	2,402	213	180	707	0	709	4,211
Capital expenditure	226	0	25	32	0	9	292



## 5 Assets held for sale

There were no assets classified as held for sale in 2013.

In 2012, the assets and liabilities held for sale relate to Neste Oil's operating activities in Poland. In December 2012 Neste Oil signed an agreement that Shell Polska Sp. z o.o. bought Neste Oil's station network (Neste Polska Sp. z o.o.) in Poland. The transaction was closed on 2 April 2013. The sold operations were part of the Oil Retail segment.

### Assets classified as held for sale

MEUR	2012
Property, plant and equipment	39
Other assets	12
Cash and cash equivalents	1
<b>Total</b>	<b>52</b>

### Liabilities related to assets as held for sale

MEUR	2012
Interest-bearing liabilities	11
Other liabilities	22
<b>Total</b>	<b>33</b>

## 6 Acquisitions and disposals

### Acquisitions

No acquisitions took place in financial periods 2013 and 2012.

### Disposals

On April 2, 2013 Neste Oil sold its 100% interest in its subsidiary Neste Polska Sp. z o.o. A capital gain amounting to EUR 48 million resulting from the transaction has been included in the consolidated financial statement.

#### Assets and Liabilities of Neste Polska Sp. z o.o.

MEUR	2 April 2013
Property, plant and equipment	38
Inventories	5
Trade and other receivables	5
Cash and cash equivalents	12
<b>Total assets</b>	<b>60</b>
Provisions	2
Trade and other payables	19
<b>Total liabilities</b>	<b>21</b>
<b>Sold net assets</b>	<b>39</b>
Gain on disposal	48
<b>Total consideration</b>	<b>87</b>
Cash consideration received	87
Cash and cash equivalents disposed of	12
<b>Cash inflow arising from disposal</b>	<b>75</b>

On January 19, 2012 Neste Oil sold its 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation. A capital gain amounting to EUR 45 million resulting from the transaction has been included in the consolidated financial statements.

**Assets and Liabilities of Neste Oil's 50% Holding in Iso-Octane production plant.**

<b>MEUR</b>	<b>19 January 2012</b>
Property, plant and equipment	28
Inventories	27
Trade and other receivables	3
Cash and cash equivalents	0
<b>Total assets</b>	<b>58</b>
Trade and other payables	9
<b>Total liabilities</b>	<b>9</b>
<b>Sold net assets</b>	<b>49</b>
Gain on disposal	45
<b>Total consideration</b>	<b>94</b>
Cash consideration received	94
Cash and cash equivalents disposed of	-
<b>Cash inflow arising from disposal</b>	<b>94</b>

## 7 Analysis of revenue by category

MEUR	2013	2012
Sale of goods	17,253	17,676
Revenue from services	138	158
Royalty income	0	1
Other	71	18
	17,462	17,853

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,343 million (2012: EUR 1,446 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 9.

Oil trading included in Sale of goods comprise of revenue from physical and derivative financial instrument 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. Trading mainly involves transactions based on the use of derivative financial instruments.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 230 million (2012: EUR 204 million).

Revenue from services mainly comprises revenue from the chartering services and Neste Jacobs, which is included in the Others segment.

## 8 Other income

MEUR	2013	2012
Gain on sale of subsidiaries	48	-
Capital gains on disposal of other non-current assets	1	46
Rental income	4	5
Government grants	8	8
Other	18	39
	79	98

Government grants relate mainly to the shipping operations, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2012: EUR 4 million) of the amount is included in 'Trade and other receivables' in the consolidated balance sheet. This amount relating to operations in the financial period ended 31 December is applied for and received during the following financial period. The Group believes that it has fulfilled all the conditions related to the grants recognized in the income statement.

In 2012 other income included compensation for production losses amounting to EUR 17 million.

## 9 Materials and services

MEUR	2013	2012
Change in product inventories	68	-5
Materials and supplies		
Purchases	15,412	16,137
Change in inventories	-82	25
External services	26	29
	15,424	16,186

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,343 million (2012: EUR 1,446 million). The corresponding amount is included in 'Revenue', Note 7.

## 10 Employee benefit costs

MEUR	2013	2012
Wages, salaries	270	253
Social security costs	25	23
Pension costs-defined contribution plans	41	39
Pension costs-defined benefit plans	7	14
Other costs	10	10
	353	339

### Number of personnel (average)

	2013	2012
Oil Products	2,097	2,085
Renewable Fuels	261	260
Oil Retail	1,313	1,316
Others	1,426	1,370
	5,097	5,031

## 11 Depreciation, amortization and impairment charges

MEUR	2013	2012
Depreciation of property, plant, and equipment		
Buildings and structures	68	65
Machinery and equipment	232	239
Other tangible assets	15	19
	315	323
Amortization of intangible assets	8	9
Depreciation, amortization and impairment charges total	323	332

## 12 Other expenses

MEUR	2013	2012
Operating leases and other property costs	92	102
Freights relating to sales	256	242
Repairs and maintenance	129	117
Services	75	83
Other	248	223
	800	767

Operating leases include rents for land, premises, machinery and equipment as well as time charter vessels.

Services include planning- and consulting services, IT-services and other services.

Other expenses include selling expenses, insurance premiums and unrealized changes in the fair value of open oil and freight derivative positions when negative.

A write-off related to an IT project amounting to EUR 22 million was included in services and other costs in 2012.

### Fees charged by the statutory auditor

EUR thousands	2013	2012
Audit fees	1,052	1,077
Auditor's mandatory opinions	6	7
Tax advisory	150	14
Other advisory services	236	331
	1,444	1,429



## 13 Financial income and expenses

MEUR	2013	2012
<b>Financial income</b>		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	2	3
Other financial income	0	0
	2	3
<b>Financial expenses</b>		
Interest expenses for financial liabilities at amortized cost	-78	-84
Interest rate derivatives, hedge accounted	0	0
Interest rate derivatives, non-hedge accounted	5	4
Other financial expenses	-8	-7
	-81	-87
<b>Exchange rate and fair value gains and losses</b>		
Loans and receivables	26	0
Other	-7	-6
Foreign exchange derivatives, non-hedge accounted	-11	-1
	8	-7
<b>Financial cost - net</b>	<b>-71</b>	<b>-91</b>
<b>Net gains/losses on financial instruments included in operating profit</b>		
<b>MEUR</b>	<b>2013</b>	<b>2012</b>
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	24	-108
Non-hedge accounted foreign exchange rate, commodity derivative instruments	14	-27
	38	-135

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Financial instruments held for trading purposes include also the net result of physical trading transactions for those contracts that meet the criteria specified in IAS 39.5–6. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR 11 million (2012: EUR –32 million), and transactions entered into for trading purposes amounting to EUR 3 million (2012: EUR 5 million).

### Aggregate exchange differences charged/credited to the income statement

MEUR	2013	2012
Revenue	-4	8
Materials and services	20	-2
	16	6

## 14 Income tax expense

The major components of tax expenses are presented in the following table.

MEUR	2013	2012
Current tax expense	95	53
Adjustments recognized for current tax for prior periods	-1	6
Change in deferred taxes	-57	15
	37	74

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled in the following table.

MEUR	2013	2012
Profit before tax	561	233
Hypothetical income tax calculated at Finnish tax rate 24.5% (2012: 24.5%)	-138	-57
Effect of different tax rates of foreign subsidiaries	8	6
Tax exempt income	53	4
Non-deductible expense	-12	-19
Taxes for prior periods	1	-3
Net results of associated companies	-2	-1
Tax losses without deferred tax asset	-6	-1
Effect of change of Finnish corporate income tax rate	55	-
Tax losses for prior periods without deferred tax asset	1	-
Adjustment to deferred tax assets	-	-2
Adjustment to deferred tax liabilities	-	2
Other	3	-3
Tax charge in the consolidated income statement	-37	-74

The Group's effective income tax rate was 6.64% (2012: 31.91%). The effective tax rate is lower than the Finnish corporate income tax rate of 24.5%. The change of the Finnish corporate income tax rate from 24.5% into 20% from the beginning of 2014 had a material effect on the Group's income tax charge. This was mainly due to the write-down of the deferred tax liability recognized on depreciation difference. Furthermore, tax exempt income and differences in foreign tax rates decreased the effective tax rate.

## 15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Since the Company has not granted any options, there is no dilution. The average number of shares has been adjusted with treasury shares, 421,474 shares (2012: 485,000), as described in note 26.

	2013	2012
Profit attributable to owners of the parent, MEUR	523	157
Weighted average number of ordinary shares in issue (thousands)	255,967	255,919
Earnings per share basic and diluted (euro per share)	2.04	0.61

## 16 Dividend per share

The dividends paid in 2013 were EUR 0.38 per share, totalling EUR 97 million (2012: EUR 0.35 per share, totalling EUR 90 million). A dividend of EUR 0.65 per share will be proposed at the Annual General Meeting on 3 April 2014, corresponding to total dividends of EUR 167 million for 2013. This dividend is not reflected in the financial statements.

## 17 Property, plant and equipment

MEUR

2013	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2013	76	2,092	3,972	193	153	6,486
Exchange differences	-2	-9	-5	-1	-1	-18
Additions	2	64	84	14	36	200
Disposals	0	-3	-12	0	-3	-18
Reclassifications	0	2	10	0	-12	0
Gross carrying amount at 31 December 2013	76	2,146	4,049	206	173	6,650
Accumulated depreciation and impairment losses at 1 January 2013	-	678	1,837	102	-	2,617
Exchange differences	-	-4	-2	-1	-	-7
Disposals	-	-3	-13	0	-	-16
Reclassifications	-	0	0	0	-	0
Depreciation for the period	-	68	232	15	-	315
Accumulated depreciation and impairment losses at 31 December 2013	-	739	2,054	116	-	2,909
Carrying amount at 1 January 2013	76	1,414	2,135	91	153	3,869
Carrying amount at 31 December 2013	76	1,407	1,995	90	173	3,741

**MEUR**

<b>2012</b>	<b>Land</b>	<b>Buildings and constructions</b>	<b>Machinery and equipment</b>	<b>Other tangible assets</b>	<b>Assets under construction</b>	<b>Total</b>
Gross carrying amount at 1 January 2012	94	2,031	3,912	160	150	6,347
Exchange differences	2	8	3	0	0	13
Additions	2	51	138	8	70	269
Disposals	0	-34	-18	0	-5	-57
Reclassifications	-6	68	-34	27	-62	-7
Reclassified as non-current asset held for sale	-16	-32	-29	-2	0	-79
Gross carrying amount at 31 December 2012	76	2,092	3,972	193	153	6,486
Accumulated depreciation and impairment losses at 1 January 2012	-	660	1,635	84	-	2,379
Exchange differences	-	3	3	0	-	6
Disposals	-	-33	-18	0	-	-51
Reclassifications	-	1	-1	0	-	0
Depreciation for the period	-	65	239	19	-	323
On non-current assets reclassified as held for sale	-	-18	-21	-1	-	-40
Accumulated depreciation and impairment losses at 31 December 2012	-	678	1,837	102	-	2,617
Carrying amount at 1 January 2012	94	1,371	2,277	76	150	3,968
Carrying amount at 31 December 2012	76	1,414	2,135	91	153	3,869

## Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table.

MEUR	2013	2012
Gross carrying amount	235	234
Accumulated depreciation	81	68
Carrying amount	154	166

## Capitalized borrowing costs

During 2013 borrowing cost amounting to EUR 0.5 million were capitalized related to the Oil Products investment. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.5% in 2013.

Borrowing costs related to investment projects were not capitalized during the financial period 2012.



# 18 Intangible assets

MEUR

2013	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2013	11	154	165
Exchange differences	-	0	0
Additions	-	14	14
Disposals	-	-5	-5
Reclassifications	-	0	0
Gross carrying amount at 31 December 2013	11	163	174
Accumulated amortization and impairment losses at 1 January 2013	-	104	104
Exchange differences	-	0	0
Disposals	-	0	0
Reclassifications	-	0	0
Amortization for the period	-	8	8
Accumulated amortization and impairment losses at 31 December 2013	-	112	112
Carrying amount at 1 January 2013	11	50	61
Carrying amount at 31 December 2013	11	51	62

**MEUR**

2012	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2012	11	143	154
Exchange differences	-	0	0
Additions	-	22	22
Disposals	-	-18	-18
Reclassifications	-	7	7
Reclassified as non-current asset held for sale	-	0	0
Gross carrying amount at 31 December 2012	11	154	165
Accumulated amortization and impairment losses at 1 January 2012	-	99	99
Exchange differences	-	0	0
Disposals	-	-4	-4
Reclassifications	-	0	0
Amortization for the period	-	9	9
On non-current assets reclassified as held for sale	-	0	0
Accumulated amortization and impairment losses at 31 December 2012	-	104	104
Carrying amount at 1 January 2012	11	44	55
Carrying amount at 31 December 2012	11	50	61

**Emission allowances**

Neste Oil's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 18.7 million tons emission allowances for the period 2013-2020. Emission allowances, which are purchased to cover future periods deficit are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as the change in the probable amount of the provision, are reflected in operating profit.

As at 31 December 2013 Intangible assets include emission allowances amounting to EUR 4.0 million (2012: EUR 6.7 million). The actual amount of CO<sub>2</sub> emissions in 2013 were 3.3 million tons (2012: 3.1 million tons). The Group has traded emission allowances for net amount of -0.2 million tons during the financial period ended 31 December 2013 (2012: 1.4 million tons).

**Impairment test of goodwill**

Goodwill is allocated to Group's cash-generating units (CGU's). From 10 identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

MEUR	2013	2012
Oil Products	2	2
Other	9	9
	11	11

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of three years. The discount rate used is 7.0%, representing 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. Cash flows beyond the three-year period are extrapolated by using 2.5 percent nominal growth rate.

The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering services within oil refining and chemicals industries, as well as the billability rate. The key assumptions used in the impairment test are the billability rate affecting the EBITDA, and the discount rate. A reasonably possible change in the key assumptions would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

## 19 Investments in associates and joint ventures

MEUR	2013	2012
<b>Carrying amount</b>		
At 1 January	242	239
Share of profits of joint ventures	-9	-3
Capital repayments in joint ventures	-	-2
Translation differences	-7	9
Hedging reserves in joint ventures	-1	-1
At 31 December	225	242

The Group's interest in its principle joint ventures at 31 December, all of which are unlisted, are listed in the following table.

	Country of incorporation	2013 % interest held	2012 % interest held
Glacia Limited	Bermuda	50.00	50.00
Lacus Ltd.	Bermuda	50.00	50.00
Nynas AB	Sweden	49.99	49.99
Terra Ltd.	Bermuda	50.00	50.00

Glacia Limited is a joint venture company owned on a 50/50 basis by Neste Oil and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste Oil fleet in January 2007. Neste Oil has entered into a 10-year time charter contract with the joint venture for the vessel of which 3 years remain.

Lacus Ltd. ja Terra Ltd. are two joint venture companies owned on a 50/50 basis by Neste Oil and Concordia Maritime AG (part of the Stena Group). Both companies own one Panamax-size product tankers delivered in January and February 2007. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the vessels of which 3 years remain.

Nynas AB (formerly AB Nynäs Petroleum) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. The sales volumes, including side products, amounted to 3.0 million tons in total in 2013. Neste Oil 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 is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table.

MEUR						
2013	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
Glacia Limited	34	12	17	3	8	3
Lacus Ltd.	26	9	17	3	5	1
Terra Ltd.	26	11	17	3	6	2

2012	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
Glacia Limited	38	17	29	3	8	3
Lacus Ltd.	28	8	20	3	6	2
Nynas AB	447	723	82	663	2,812	-4
Other Joint Ventures	28	9	20	2	6	2
Terra Ltd.	6	5	1	7	16	0

The financial statements of Nynas AB are not published within the Group's reporting timetable. The share of profits of joint ventures for 2013 is consolidated based on the company's preliminary results for the financial period.

The financial statements of the Group's other joint ventures are not published within the Group's reporting timetable. The summarized financial information presented above, is from the latest published financial statements of the joint ventures concerned (2012).

Transactions carried out with associates and joint ventures are disclosed in Note 32.

## 20 Carrying amounts of financial assets and liabilities by measurement categories

Financial assets and liabilities divided by categories were as follows as of December 31:

MEUR

2013 Balance sheet item	Financial assets/liabilities at fair value through income statement				Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available-for-sale financial assets				
<b>Non-current financial assets</b>								
Non-current receivables	-	-	3	-	-	3	-	21
Derivative financial instruments	22	-	-	-	-	22	22	25
Available-for-sale financial assets	-	-	-	4	-	4	-	21
<b>Current financial assets</b>								
Trade and other receivables	-	-	946	-	-	946	-	23
Derivative financial instruments	18	16	-	-	-	34	34	25
<b>Carrying amount by category</b>	<b>40</b>	<b>16</b>	<b>949</b>	<b>4</b>	<b>-</b>	<b>1,009</b>	<b>56</b>	
<b>Non-current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	1,586	1,586	1,643	27
Derivative financial instruments	5	2	-	-	-	7	7	25
Other non-current liabilities	-	-	-	-	7	7	-	27
<b>Current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	171	171	-	27
Current tax liabilities	-	-	-	-	49	49	-	27
Derivative financial instruments	8	17	-	-	-	25	25	25
Trade and other payables	-	-	-	-	1,875	1,875	-	27
<b>Carrying amount by category</b>	<b>13</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>3,688</b>	<b>3,720</b>	<b>1,675</b>	



MEUR

2012 Balance sheet item	Financial assets/liabilities at fair value through income statement					Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available- for -sale financial assets	Financial liabilities measured at amortized cost			
<b>Non-current financial assets</b>								
Non-current receivables	-	-	3	-	-	3	-	21
Derivative financial instruments	37	-	-	-	-	37	37	25
Available-for-sale financial assets	-	-	-	4	-	4	-	21
<b>Current financial assets</b>								
Trade and other receivables	-	-	1,154	-	-	1,154	-	23
Derivative financial instruments	30	27	-	-	-	57	57	25
<b>Carrying amount by category</b>	67	27	1,157	4	-	1,255	94	
<b>Non-current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	1,977	1,977	2,032	27
Derivative financial instruments	6	-	-	-	-	6	6	25
Other non-current liabilities	-	-	-	-	7	7	-	27
<b>Current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	357	357	-	27
Current tax liabilities	-	-	-	-	40	40	-	27
Derivative financial instruments	13	34	-	-	-	47	47	25
Trade and other payables	-	-	-	-	1,925	1,925	-	27
<b>Carrying amount by category</b>	19	34	-	-	4,306	4,359	2,085	

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the assets or liability that is not based on observable market data (unobservable inputs).

#### 2013 Fair value hierarchy

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	22	-	22
Current derivative financial instruments	1	33	-	34

#### Financial liabilities

Non-current derivative financial instruments	-	7	-	7
Current derivative financial instruments	3	22	-	25

During the financial period 2013 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.

#### 2012 Fair value hierarchy

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	37	-	37
Current derivative financial instruments	8	49	-	57

#### Financial liabilities

Non-current derivative financial instruments	-	6	-	6
Current derivative financial instruments	3	44	-	47

During the financial period 2012 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.

The fair values of non-current interest-bearing liabilities that are carried at amortised cost, but for which fair value is disclosed, are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. Non-current interest-bearing liabilities are classified into fair value measurement hierarchy level 2.

## 21 Non-current receivables and available-for-sale financial assets

Non-current receivables	Carrying amount	
	2013	2012
MEUR		
Non-current interest-bearing receivables	1	0
Other non-current receivables	2	3
	3	3

The carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method. The fair values are not materially different from the carrying amounts. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets		
MEUR	2013	2012
At 1 January	4	4
Additions	0	0
Disposals	0	0
At 31 December	4	4

Available-for-sale financial assets are investments in unlisted equity instruments, and are measured at cost, because their fair value cannot be reliably measured in the absence of an active market.

## 22 Inventories

MEUR	2013	2012
Materials and supplies	560	488
Finished products and goods	902	969
Other inventories	6	7
	1,468	1,464

Write downs of inventories amounted to EUR 7 million as at 31 December 2013 (2012: EUR 40 million).

## 23 Current trade and other receivables

MEUR	Carrying amount	
	2013	2012
Trade receivables	876	1,008
Other receivables	45	114
Advances paid	5	6
Accrued income and prepaid expenses	20	26
	<b>946</b>	<b>1,154</b>

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Impairment of trade receivables amounted to EUR 3 million (2012: EUR 4 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

The trade receivables were sold to the third party during 2012 and 2013. The volume of the sold trade receivables was not substantial.

## 24 Cash and cash equivalents

Cash and cash equivalents include the following:

MEUR	2013	2012
Cash at bank and in hand	457	383
Short term bank deposits	49	26
Total	<b>506</b>	<b>409</b>
Cash and cash equivalents included in Assets held for sale	-	1
Total	<b>506</b>	<b>410</b>

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

## 25 Derivative financial instruments

### Nominal values of interest rate and currency derivative contracts and share forward contracts

	2013			2012		
	Remaining maturities			Remaining maturities		
	< 1 year	1–6 years	Total	< 1 year	1–7 years	Total
<b>Derivative financial instruments designated as cash flow hedges</b>						
Interest rate swaps <sup>1)</sup>	-	50	50	-	50	50
Forward foreign exchange contracts	657	-	657	646	-	646
Currency options						
- Purchased	196	-	196	113	-	113
- Written	192	-	192	92	-	92
	1,045	50	1,095	851	50	901
<b>Derivative financial instruments designated as fair value hedges</b>						
Interest rate swaps <sup>1)</sup>	-	700	700	-	700	700
	-	700	700	-	700	700
<b>Non-hedge accounting derivative financial instruments</b>						
Interest rate swaps <sup>1)</sup>	50	-	50	230	50	280
Forward foreign exchange contracts	391	-	391	993	-	993
	441	-	441	1,223	50	1,273

<sup>1)</sup> Interest rate swaps mature in 6 years.

### Volumes of commodity derivative contracts

	2013			2012		
	Volume million bbl Remaining maturities			Volume million bbl Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
<b>Commodity derivative contracts designated as cash flow hedges <sup>2)</sup></b>						
Futures and forwards						
- Sales contracts	-	-	-	14	-	14
	-	-	-	14	-	14
<b>Non-hedge accounting commodity derivative contracts excl. electricity derivatives <sup>3)</sup></b>						
Futures and forwards						
- Sales contracts	7	-	7	7	-	7
- Purchase contracts	9	-	9	17	-	17
	16	-	16	24	-	24

	Volume GWh			Volume GWh		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
<b>Non-hedge accounting electricity derivative contracts</b>						
Futures and forwards						
- Purchase contracts	957	670	1,627	-	-	-
	957	670	1,627	-	-	-

<sup>2)</sup> Commodity derivative contracts with hedge accounting status are oil derivatives.

<sup>3)</sup> Commodity derivative contracts with non-hedge accounting status include oil, freight, vegetable oil and electricity derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

#### Fair values of derivative financial instruments

	Fair value 2013				Fair value 2012			
	Positive		Negative		Positive		Negative	
	< 1 year	1–6 years	< 1 year	1–6 years	< 1 year	1–7 years	< 1 year	1–7 years
<b>Interest rate and currency derivative contracts and share forward contracts</b>								
<b>Derivative financial instruments designated as cash flow hedges</b>								
Interest rate swaps <sup>1)</sup>	-	-	-	4	-	-	-	6
Forward foreign exchange contracts	13	-	8	-	18	-	1	-
Currency options								
- Purchased	2	-	0	-	1	-	1	-
- Written	3	-	-	-	1	-	-	-
	18	-	8	4	20	-	2	6
<b>Derivative financial instruments designated as fair value hedges</b>								
Interest rate swaps <sup>1)</sup>	-	22	-	1	-	37	-	-
	-	22	-	1	-	37	-	-
<b>Non-hedge accounting derivative financial instruments</b>								
Interest rate swaps <sup>1)</sup>	-	-	0	-	-	-	4	0
Forward foreign exchange contracts	3	-	1	-	8	-	5	-
	3	-	1	-	8	-	9	0

<sup>1)</sup> Interest rate swaps mature in 6 years.

MEUR	Fair value 2013				Fair value 2012			
	Positive		Negative		Positive		Negative	
	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years
<b>Commodity derivative contracts</b>								
<b>Commodity derivative contracts designated as cash flow hedges <sup>2)</sup></b>								
Futures and forwards								
- Sales contracts	-	-	-	-	10	-	11	-
	-	-	-	-	10	-	11	-
<b>Non-hedge accounting commodity derivative contracts <sup>3)</sup></b>								
Futures and forwards								
- Sales contracts	1	-	9	-	7	-	7	-
- Purchase contracts	12	-	7	2	12	-	18	-
	13	-	16	2	19	-	25	-

<sup>2)</sup> Commodity derivative contracts with hedge accounting status are oil derivatives.

<sup>3)</sup> Commodity derivative contracts with non-hedge accounting status include oil, freight, vegetable oil and electricity derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

	2013				2012			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Balance sheet reconciliation</b>								
Derivative financial instruments	34	22	25	7	57	37	47	6

#### Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. at the price which could be used if market participants made an orderly transaction at the measurement date. The fair values are determined using a variety of methods and financial valuation techniques, and assumptions are based on market quotations on the relevant balance sheet date.

The fair values of the interest rate swaps and their variations are the present values of the estimated future cash flows. Changes in the fair value of interest rate swaps and their variations are reported either in equity or in the income statement depending on whether they qualify for hedge accounting. Foreign exchange forward contracts are calculated using the valuation model and the market rates at the balance sheet date. The fair value of currency options are calculated using market rates at the balance sheet date and by using the Black and Scholes option valuation model. Changes in the fair value of foreign currency derivative contracts are reported either in equity or in income statement depending on whether they qualify for hedge accounting.

The fair value of exchange traded oil commodity futures and option contracts is determined using the forward exchange market quotations as per 31 December 2013. The fair value of over-the-counter oil and freight derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per 31 December 2013. Changes in the fair value of oil commodity derivative contracts are reported either in equity or in the income statement depending on whether they qualify for hedge accounting.



## 26 Equity

### Share capital

Neste Oil's share capital registered with the Trade Register as of 31 December 2013 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined.

	Number of shares, 1,000	Share capital MEUR
Registered at 1 January 2013	256,404	40
Registered at 31 December 2013	256,404	40
Registered at 1 January 2012	256,404	40
Registered at 31 December 2012	256,404	40

### Treasury shares

Neste Oil has entered into an agreement with a third party service provider concerning the administration of the share-based management share performance arrangement for key management personnel. As part of the agreement, the service provider purchased a total of 500,000 Neste Oil shares in February 2007 in order to hedge part of Neste Oil's cash flow risk in relation to the possible future payment of the rewards, which will take place partly in Neste Oil shares and partly in cash during 2013, 2014 and 2015. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by Neste Oil, as required by IFRS 2, Share based payments and SIC-12, Consolidation - Special purpose entities. The consolidated balance sheet and the consolidated changes in total equity reflect the substance of the arrangement with a deduction amounting to EUR 12 million in equity. This amount represents the consideration paid for the shares by the third party service provider. In March 2013 Neste Oil decided to assign 63,526 shares held by the third party service provider. At the date of the transfer, the value of the shares was EUR 0.7 million. During the financial period 2012 no shares were assigned. As at 31 December 2013 there were 421,474 shares (2012: 485,000 shares) accounted for as treasury shares.

### Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement.

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates.

## 27 Non-current and current liabilities

	Carrying amount	
	2013	2012
<b>Non-current liabilities</b>		
Bonds	1,315	1,330
Loans from financial institutions	124	487
Finance lease liabilities	144	158
Other loans	3	2
Other non-current liabilities	3	5
Accruals and deferred income	4	2
<b>Non-current liabilities total</b>	<b>1,593</b>	<b>1,984</b>
of which interest-bearing	1,586	1,977

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 1,372 million (2012: EUR 1,384 million). The fair values of other non-current liabilities are not materially different from their carrying amounts.

	Carrying amount	
	2013	2012
<b>Current liabilities</b>		
Loans from financial institutions	164	342
Finance lease liabilities	7	7
Advances received	12	13
Trade payables	1,433	1,370
Other current liabilities	314	440
Current tax liabilities	49	40
Accruals and deferred expenses	116	110
<b>Current liabilities total</b>	<b>2,095</b>	<b>2,322</b>
of which interest-bearing	171	357

The carrying amounts of current interest-free liabilities are reasonable approximations of their fair value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method.

Re-pricing periods of the Group's interest-bearing debt is disclosed in Note 3, Financial risk management, section 'Market risk'.

**The future minimum lease payments of finance lease liabilities and their present value in the balance sheet**

	2013			2012		
MEUR	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	19	12	7	20	13	7
Between one and five years	108	46	62	126	58	68
More than 5 years	182	101	81	201	111	90
Total amounts payable	309	159	150	347	182	165

Finance lease liabilities arise from bareboat agreements on crude oil tankers *Tempera* and *Mastera* delivered in 2002 and 2003 that are classified as finance lease agreements under IAS 17. The lease terms are 13 years for both vessels as agreed on the amendment made on year 2012, and in addition the lessee having a call option to purchase the leased assets in the 12th and 13th year of the lease period. Minimum lease payments in each agreement include option prices as terminal payments.

In addition, finance lease liabilities arise from two finance lease agreements for the Singapore production plant and one finance lease agreement for the Rotterdam production plant. The agreements of Singapore plant are made with two local companies that provide utilities and jetty- and storage services that are used by the production facility. The major assets under these agreements are a jetty used for loading and discharging of vessels, a pipeline for off-gas produced as a side product in the production process, and product tanks used for storing of the end product. The leasing contracts are 30 and 15 years long. The agreement of Rotterdam plant is made with a local company that provides utilities that are used by the production facility. The major assets under this agreement consist of pipelines.

## 28 Deferred income taxes

The movement in deferred tax assets and liabilities during 2013:

MEUR	at 1 Jan 2013	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2013
<b>Deferred tax assets</b>						
Tax loss carried forward	9	-5	-	-	-	4
Provisions	2	0	-	-	-	2
Pensions <sup>1)</sup>	25	-4	-2	-	-	19
Other temporary differences	10	-6	-	-	-	4
<b>Total deferred tax assets</b>	<b>46</b>	<b>-15</b>	<b>-2</b>	<b>-</b>	<b>-</b>	<b>29</b>
<b>Deferred tax liabilities</b>						
Depreciation difference and untaxed reserves	286	-50	-	-	-	236
Excess of book basis over tax basis of property, plant and equipment	21	-9	-	-	-	12
Finance leases	5	-1	-	-	-	4
Capitalized interest	17	-4	-	-	-	13
Other temporary differences	11	-8	-2	-	-	1
<b>Total deferred tax liabilities</b>	<b>340</b>	<b>-72</b>	<b>-2</b>	<b>-</b>	<b>-</b>	<b>266</b>

The movement in deferred tax assets and liabilities during 2012:

MEUR	at 1 Jan 2012	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2012
<b>Deferred tax assets</b>						
Tax loss carried forward	15	-6	-	-	-	9
Provisions	4	-1	-	-	-1	2
Pensions <sup>1)</sup>	13	3	9	-	-	25
Cash flow hedges	13	-3	-10	-	-	0
Other temporary differences	7	5	-	-1	-1	10
<b>Total deferred tax assets</b>	<b>52</b>	<b>-2</b>	<b>-1</b>	<b>-1</b>	<b>-2</b>	<b>46</b>
<b>Deferred tax liabilities</b>						
Depreciation difference and untaxed reserves	282	4	-	-	-	286
Excess of book basis over tax basis of property, plant and equipment	19	2	-	-	-	21
Finance leases	5	0	-	-	-	5
Capitalized interest	18	-1	-	-	-	17
Other temporary differences	7	6	-2	-	-	11
<b>Total deferred tax liabilities</b>	<b>331</b>	<b>11</b>	<b>-2</b>	<b>-</b>	<b>-</b>	<b>340</b>

<sup>1)</sup> Restated

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 and liabilities in the same jurisdictions amounting to EUR 2 million (2012: EUR 2 million) have been netted in the balance sheet.

<b>Deferred tax assets</b>	<b>2013</b>	2012
Deferred tax asset to be recovered after more than 12 months	<b>22</b>	28
Deferred tax asset to be recovered within 12 months	<b>7</b>	18
	<b>29</b>	46
<b>Deferred tax liabilities</b>	<b>2013</b>	2012
Deferred tax liability to be recovered after more than 12 months	<b>266</b>	331
Deferred tax liability to be recovered within 12 months	<b>0</b>	9
	<b>266</b>	340

Deferred tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable.

The deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is controlled by the Group, and such distribution, which will realize a relevant tax effect, is not probable within foreseeable future.

The change of the Finnish corporate income tax rate from 24.5% into 20% as of the beginning of 2014 had a total effect of EUR 55 million on deferred tax assets and liabilities.

## 29 Provisions

	Environmental provisions	Restructuring provisions	Other provisions	Total
<b>At 1 January 2013</b>	<b>7</b>	<b>0</b>	<b>20</b>	<b>27</b>
Charged to income statement				
Additional provisions	3	5	4	12
Amounts used during the period	-1	-1	0	-2
Reversed unused provisions	0	-	-	0
<b>At 31 December 2013</b>	<b>9</b>	<b>4</b>	<b>24</b>	<b>37</b>

	2013	2012
Current provisions	15	9
Non-current provisions	22	18
	37	27

The nature of certain of Neste Oil's businesses exposes Neste Oil to risks of environmental costs and potential contingent liabilities arising 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 environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

## 30 Post-employment and other long term benefits

The Group has several pension arrangements in different countries. Pension cover is based on the legislation and agreement in force in each country. Finnish statutory pensions are accounted for as a defined contribution plan in the group financial statements.

The Group has defined benefit pension plans in Finland, Belgium and Switzerland. The largest plans are in Finland, which account for 98% (previous year: 98%) of the Group's total defined benefit pension obligation. 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.

The group also operates a long-service benefit scheme, which is accounted for as an unfunded defined benefit plan in accordance to IAS 19.

### Characteristics of the post-employed defined benefit plans in Finland

The employer has arranged a voluntary post-employed benefit plan in an insurance company to the certain group of employees within the plan, to fulfill a aggregated benefit after retirement.

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. 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 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, pension cover also includes the right to early old-age pension.

The insurance company collects premiums on yearly basis from the employer. The future premiums are adjusted so that the old age benefit will be fully funded until retirement. The disability and survivor's benefits are also financed by risk premiums collected during the employment period. The premiums with fixed discount rate 3.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees to the assets in the plan the same interest yield they have used in calculating the premiums.

The employer finances the index-linkage by paying an additional premium covering the index increase in the year. Discretionary bonuses from the insurance company will lower the index premium. The insurance company decides annually the amount of the bonus.

### Risks to which the plan exposes the employer

The employer's pension liability depends on the yield of corporate bonds as at the reporting date. According to IAS 19 decrease (increase) in yields increases (decreases) the pension liabilities. However, decrease (increase) in yield also increases (decrease) the fair value of the assets partially offsetting the total impact of change in yield on the net defined benefit pension liability.

The future benefits of the plans is tied to TyEL index, which depends on inflation and common salary index. Higher inflation increases the TyEL index, 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 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 to employer's liability according to IFRS. The insurance company bears completely the mortality risk on accrued benefits. The employers has mortality risk only if the insurance company will raise its future benefit accruals premiums because of mortality adjustment.

The insurance company is responsible for the following actuarial risks: the life expectancy, mortality, and onset of disability of the insured.



## Defined benefit plans

### Cost of defined benefit plans

MEUR	2013	Restated 2012
Current service cost	7	14
Net interest expense on benefit obligation	2	3
Total pension expenses recorded in income statement	9	17

Service cost and net interest expense for the current financial year totaled EUR 7 million (2012: EUR 14 million) and EUR 2 million (2012: EUR 3 million) respectively for pension plans in Finland.

### Remeasurements of defined benefit plans

MEUR	2013	Restated 2012
Actuarial gains/losses:		
Changes in demographic assumptions	-	0
Changes in financial assumptions	46	-90
Return on plan assets, excluding amounts included in net interest expense	-42	57
Experience adjustments	-3	-5
Total remeasurements recorded in other comprehensive income	1	-38

Remeasurements recorded in other comprehensive income for the current financial year totaled EUR 1 million (2012: EUR -38 million) for pension plans in Finland.

### Amounts recognized in the balance sheet

MEUR	2013	Restated 2012
Present value of funded obligations	396	435
Present value of unfunded obligations	8	9
Fair value of plan assets	-311	-345
Net liability (+) / asset (-)	93	99

### Changes in fair value of plan assets

MEUR	2013	2012
January 1	345	278
Interest income	9	12
Return on plan assets (excluding amounts included in net interest expense)	-42	57
Employer contributions	15	14
Benefits paid	-16	-16
December 31	311	345

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution in categories is not possible to provide. The actual return on plan assets was EUR -33 million (2012: EUR 69 million)

The fair value of the assets has not materially changed due to the adoption of IFRS 13.

**Changes in the present value of the defined benefit obligation**

MEUR	2013		Restated 2012	
	Funded	Unfunded	Funded	Unfunded
January 1	435	9	335	0
Current service cost	7	0	6	9
Interest cost	12	0	15	-
Actuarial changes arising from changes in actuarial assumptions	-42	-1	95	-
Benefits paid	-16	0	-16	-
December 31	396	8	435	9

The present value of the defined benefit obligation is determined annually by independent actuaries using the project unit credit method. Actuarial assumptions are required for this purpose.

**The principal actuarial assumptions used in determining net defined benefit pension obligation**

	2013	Restated 2012
Discount rate		
Finland	3.5%	2.4–2.7%
Other countries	2.3–3.25%	2.0–3.0%
Rate of salary increase		
Finland	3.5%	3.5%
Other countries	1.5–2.0%	1.5–2.0%
Insurance company's index rate		
Finland	0.5%	0.8%
Other countries	-	-
Pension index rate		
Finland	2.1%	2.1%
Other countries	1.0%	0.0%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is as shown below:

Assumptions	Sensitivity Level	Impact on the net defined benefit pension obligation
Discount rate		
	0.25% increase	EUR million -4
	0.25% decrease	EUR million 5
Rate of salary increase		
	0.25% increase	EUR million 4
	0.25% decrease	EUR million -4
Insurance company's index rate		
	0.25% increase	EUR million -9
	0.25% decrease	EUR million 9
Pension index rate		
	0.25% increase	EUR million 10
	0.25% decrease	EUR million -10

The discount rate, salary increase, insurance company's index and pension index were identified as significant actuarial assumptions. The following impacts on the defined benefit obligation are to be expected:

- A 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 3.2% in the defined benefit obligation.
- A 0.25% increase/decrease in the rate of salary increase would lead to a increase/decrease of 1.1% in the defined benefit obligation.
- A 0.25% increase/decrease in the rate of pension index would lead to a decrease/increase of 2.7% in the defined benefit obligation.

The maturity profile of the future benefit payments which are the basis for the calculated defined benefit pension obligations:

	2013
Within the next 12 months (next annual reporting period)	18
Between 1 and 5 years	109
Between 5 and 10 years	121
Beyond 10 years	433
Total expected payments	681

The average duration of the defined benefit pension obligation at the end of the reporting period is 13 years.

## 31 Share-based payments

### Share-based incentive plan as of 1 January 2010

The Board of Directors decided in December 2009 to establish a new share-based incentive plan for the Group's key personnel. The aim of the plan is to align the objectives of the owners and key personnel of Neste Oil: e.g. increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on holding Company shares. The plan includes three three-year earning periods, first one of which started in 2010, second in 2011 and the last one in 2012.

The Board of Directors decides the earnings criteria and targets to be met as well as the maximum level of the payable reward for each earning period. The earning criteria for the plans are the same, the sales volume at Renewable Fuels and total shareholder return on Neste Oil share in relation to the Dow Jones Nordic Return Index. The potential reward will be paid partly in Company shares and partly in cash in 2013, 2014 and 2015. The maximum level of payable reward may not, during any earning year, exceed the annual gross salary of the year in question. The portion to be paid in cash will cover taxes and tax-related costs arising from the reward. The plan prohibits the transfer of shares within three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Even after this, key personnel must hold 50% of the shares received on the basis of the plan as long as the value of the shares held in total corresponds to their annual gross salary. This obligation to own shares is valid as long as the employment or service in the Group continues.

The maximum amount of reward for key personnel for Plan 2012–2014 equals the value of 1,098,000 Neste Oil shares, of which 990,000 shares were allocated as at 31 December 2013. The maximum reward for the members of the Neste Executive Board equaled the value of 390,000 shares, of which the maximum reward for the President & CEO equaled the value of 100,000 shares.

The maximum amount of reward for key personnel for Plan 2011–2013 equals the value of 842,000 Neste Oil shares, of which 712,000 shares were allocated as at 31 December 2013. The maximum reward for the members of the Neste Executive Board equaled the value of 305,000 shares, of which the maximum reward for the President & CEO equaled the value of 80,000 shares.

Earnings period of share-based incentive plan 2010–2012 ended 31 December 2012. Part of the earning criteria were met resulting in the delivery of shares to the participants in March 2013. A gross reward of 128,340 shares equaling to EUR 1.4 million was delivered to the participants. The net amount of shares delivered totaled 63,526 shares and the rest of the reward was paid in cash to cover taxes and any tax related costs. The fair value of the share as at delivery date was 10.9977 euros. The members of Neste Executive Board received a gross reward equaling to 67,580 shares.

### Share-based incentive plan as of 1 January 2013

Neste Oil's Board of Directors decided on 13 December 2012 to establish a new long-term share-based incentive plan for the Group's senior management and nominated key personnel. The aim of the plan 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 Neste Oil shares. The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this long-term incentive plan.

The plan includes three individual share plans, each with a three-year earning period. The first share plans started in 2013 and it will be followed by plans starting in 2014 and 2015. The Board of Directors will decide on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period, either annually or for the entire earning period. The earning criteria for the first earning period 2013–2015 are the Group's comparable free cash flow and the comparable operating profit of Renewable Fuels. The earning criteria for the earning period 2014–2016 are the Group's comparable free cash flow and the relative total shareholder return of ten Neste Oil peer group oil companies. Any possible payments will be made partly in Company shares in 2016, 2017, and 2018, and partly in cash. Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period will be three years in respect of the President and CEO and the other members of the Neste Executive Board, 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.

Grant dates and prices	Plan 2013–2015	Plan 2012–2014	Plan 2011–2013	Plan 2010–2012
Grant dates	10 Feb 2013	2 Jan 2012	3 Jan 2011	4 Jan 2010
Grant prices, euros	-	6.70	10.81	11.50
Share price as at grant date, euros	-	8.10	12.21	12.70

Term of the plan	Plan 2013–2015	Plan 2012–2014	Plan 2011–2013	Plan 2010–2012
Beginning of earnings period	1 Jan 2013	1 Jan 2012	1 Jan 2011	1 Jan 2010
End of earnings period	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
End of restriction period	31 Mar 2017/ 31 Mar 2019	1 Jan 2018	1 Jan 2017	1 Jan 2016

Assumptions used in calculating the value of the reward	Plan 2013–2015	Plan 2012–2014	Plan 2011–2013	Plan 2010–2012
Amount of granted shares at the beginning of the period, maximum reward	-	1,018,000	740,000	630,000
Amount of shares granted during the period, maximum reward	-	10,000	-	-
Forfeited during the period	-	-38,000	-28,000	-15,000
Expired during the period	-	-	-	-486,660
Amount of granted shares at the end of the period, maximum reward	-	990,000	712,000	128,340
Number of participants at the end of the financial period	93	65	50	34
Share price at the end of the financial period, euros	14.37	14.37	14.37	14.37
Estimated rate of realization of the earnings criteria, %	75%	100%	64%	20%
Estimated termination rate before the end of the restriction period, %	10%	10%	0%	0%

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earning period.

## Accounting treatment

The Share-based incentive plans described earlier in this note are accounted for as a share based transaction with cash alternative. The portion of the earned reward (approximately 50%) for which the participants will receive shares of Neste Oil is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants (approximately 50%), is accounted for as a cash settled transaction. The earned reward is entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the income statement are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the income statement.

The expense included in the income statement is specified in the following table.

MEUR	2013	2012
Expense arising from equity-settled share-based payment transactions	2	0
Expense arising from cash-settled share-based payment transactions	6	1
Total expense arising from share-based payment transactions	8	1

The liability recognized in the balance sheet related to share based payments amounted to EUR 8 million (2012: EUR 2 million). The expense to be recognized during the financial periods 2014–2019 is estimated as 31 December 2013 to amount to EUR 21 million. The actual amount may differ from this estimate.

## Hedging

The Group hedges its exposure to the share price development during the time period between the grant date and the delivery date. The hedging arrangement is accounted for as treasury shares and has been described in detail in Note 26.

## 32 Related party transactions

The Group is controlled by the State of Finland, which owns 50.1% of the Company's shares. The remaining 49.9% of shares are widely held.

The group has a related party relationship with its subsidiaries, associates, joint ventures (Note 33) and with 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 Oil 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 Oil and other companies controlled by the State of Finland are on an arm's length basis.

### Transactions carried out with related parties

2013	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	-	-	0	-	-
Joint ventures	121	89	8	0	12
	121	89	8	0	12

2012	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	0	-	0	-	0
Joint ventures	102	90	6	0	15
	102	90	6	0	15

There were no transactions with key management persons or entities controlled by them.

The major part of business between Neste Oil and its joint venture, Nynas, comprises sales of bitumen production from the Naantali refinery to Nynas based on a long term agreement. Process oils were sold from the Porvoo refinery to Nynas.

### Key management compensation

EUR thousand	2013	2012
Salaries and other short-term employee benefits	3,605	3,453
Statutory pensions	175	177
Supplementary pensions	1,049	760
Share-based payments	749	-
Total	5,578	4,390

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Board. Key management compensation includes termination benefits. There were no outstanding loan receivables from key management on 31 December 2013 or 31 December 2012.



The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Management Performance Share Arrangements have been disclosed in Note 31, Share based payments.

#### Compensation to President and CEO and Board of Directors

EUR thousand	2013	2012
Matti Lievonen, President and CEO	844	862
Board of Directors at 31 December 2013		
Jorma Eloranta, chairman as of 28 March 2012	76	73
Maija-Liisa Friman, vice chairman as of 28 March 2012	59	57
Per-Arne Blomquist, as of 4 April 2013	44	-
Michiel Boersma	58	58
Laura Raitio	47	46
Willem Schoeber, as of 4 April 2013	43	-
Kirsi Sormunen, as of 4 April 2013	36	-
Former Board members		
Timo Peltola, chairman until 28 March 2012	-	19
Nina Linander, until 4 April 2013	14	58
Hannu Ryöppönen, until 4 April 2013	14	57
Markku Tapio, until 4 April 2013	11	47
Board of Directors, all members total	402	415

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended. Board members are not covered by the Company's remuneration systems and do not receive any performance- or share-related payments.

Should the Company decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2013 totaled EUR 525 thousand (2012: EUR 464 thousand). Net liability of defined benefit plan on 31 December 2013 was EUR 192 thousand. Statutory pension insurance contributions in 2013 were EUR 55 thousand. (2012: EUR 56 thousand).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2013 were EUR 1,155 thousand.

## 33 Group companies on 31 December 2013

Subsidiaries	Group holding %	Country of incorporation
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
Kilpilahden Sähkösiirto Oy	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
Neste Canada Inc.	100.00%	Canada
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Aktiebolag	100.00%	Sweden
Neste Jacobs Oy	60.00%	Finland
Neste LPG AB	100.00%	Sweden
Neste Markkinointi Oy	100.00%	Finland
Neste Oil AB	100.00%	Sweden
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Oil BR Ltd	100.00%	Belarus
Neste Oil Components Finance B.V.	100.00%	The Netherlands
Neste Oil Finance B.V.	100.00%	The Netherlands
Neste Oil Holding (U.S.A.), Inc.	100.00%	USA
Neste Oil Insurance Limited	100.00%	Guernsey
Neste Oil Netherlands B.V.	100.00%	The Netherlands
Neste Oil N.V.	100.00%	Belgium
Neste Oil Services, Inc.	100.00%	USA
Neste Oil Singapore Pte. Ltd.	100.00%	Singapore
Neste Oil (Suisse) S.A.	100.00%	Switzerland
Neste Oil US, Inc.	100.00%	USA
Neste Petroleum, Inc.	100.00%	USA
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Trading (U.S.A.), Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

Associated companies	Group holding %	Country of incorporation
Neste Arabia Co. Ltd.	48.00%	Saudi Arabia

Joint ventures	Group holding %	Country of incorporation
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	40.00%	Finland
Bahrain Lube Base Oil Company B.S.C. (Closed)	45.00%	Bahrain
Glacia Limited	50.00%	Bermuda
Lacus Ltd.	50.00%	Bermuda
Nemarc Shipping Oy	50.00%	Finland
NSE Biofuels Oy Ltd	50.00%	Finland
Nynas AB	49.99%	Sweden
Oy Innogas Ab	50.00%	Finland
Porvoon Alueverkko Oy	33.33%	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Finland
Terra Ltd.	50.00%	Bermuda
Vaskiluodon Kalliovarasto Oy	50.00%	Finland

## 34 Contingencies and commitments

### Contingent liabilities

MEUR	2013 Value of collateral	2012 Value of collateral
On own behalf for commitments		
Real estate mortgages	17	26
Pledged assets	0	1
Other contingent liabilities	16	12
Total	33	39
On behalf of associates and joint ventures		
Guarantees	1	1
Total	1	1
On behalf of others		
Guarantees	2	1
Other contingent liabilities	3	3
Total	5	4
	39	44

### Operating lease liabilities

MEUR	2013	2012
Due within one year	58	69
Due between one and five years	82	116
Due later than five years	66	79
	206	264

### Operating leases

Lease rental expenses amounting to EUR 65 million (2012: EUR 76 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

### Commitments

MEUR	2013	2012
Commitments for purchase of property, plant and equipment	36	10
	36	10

The Group's operating lease commitments primarily relate to time charter vessels, land and office space.

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligation. The total fixed fees payable under the agreements during 2011–2026 as at 31 December 2013 are presented in the table below.

#### Fixed fees payable under take-or-pay contracts

MEUR	2013	2012
Payable	15	16
Payable after the financial period	188	211
Total payable	203	227

#### Other contingent liabilities

Neste Oil Corporation has a collective contingent liability with Fortum Heat and Gas Oy related to liabilities of the demerged Fortum Oil and Gas Oy based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act.

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## 35 Disputes and potential litigations

Finnish Customs has levied a penalty payment totaling approximately EUR 44 million on Neste Oil because Finnish biofuel mandate requirements were not met in 2009 and 2010. Biofuel mandate legislation requires that companies distributing liquid fuels must provide the appropriate energy content specified for biofuels in the fuel that they supply for use by customers. The legislation in question is intended to increase the use of biofuels and thereby reduce emissions. Neste Oil has supplied the amount of biofuels required by legislation in 2009 and 2010. Neste Oil disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. The disagreement between Neste Oil and Finnish Customs covers how the legislation on biofuel mandate should be interpreted. Neste Oil has appealed the Finnish Customs' decision and considers the penalty payment unjustified and it will not affect the company's result or balance sheet for 2013. The penalty payment was paid in January 2014, when it impact the company's cash flow.

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 Group's financial position.

Financial Statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 36 Events after the balance sheet date

## 36 Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.

## Parent company income statement

MEUR	Note	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
<b>Revenue</b>	<b>2</b>	<b>11,823</b>	11,992
Change in product inventories		-20	-97
Other operating income	<b>3</b>	<b>21</b>	16
Materials and services	<b>4</b>	<b>-10,973</b>	-10,939
Personnel expenses	<b>5</b>	<b>-198</b>	-183
Depreciation, amortization and write-downs	<b>6</b>	<b>-140</b>	-142
Other operating expenses	<b>7</b>	<b>-304</b>	-332
<b>Operating profit</b>		<b>209</b>	315
Financial income and expenses	<b>8</b>	<b>17</b>	-65
<b>Profit before extraordinary items</b>		<b>226</b>	250
Extraordinary items	<b>9</b>	<b>161</b>	-130
<b>Profit before appropriations and taxes</b>		<b>387</b>	120
Appropriations	<b>10</b>	<b>-10</b>	-7
Income tax expense	<b>11</b>	<b>-73</b>	-24
<b>Profit for the year</b>		<b>304</b>	89

## Parent company balance sheet

MEUR	Note	31 Dec 2013	31 Dec 2012
<b>ASSETS</b>			
<b>Fixed assets and other long-term investments</b>	<b>12, 13</b>		
Intangible assets		43	39
Tangible assets		1,639	1,638
Other long-term investments		2,547	2,607
		4,229	4,284
<b>Current assets</b>			
Inventories	14	843	823
Long-term receivables	15	88	231
Short-term receivables	16	817	992
Cash and cash equivalents		358	361
		2,106	2,407
<b>Total assets</b>		<b>6,335</b>	<b>6,691</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	<b>17</b>		
Share capital		40	40
Retained earnings		938	947
Profit for the year		304	89
		1,282	1,076
<b>Accumulated appropriations</b>	<b>18</b>	<b>928</b>	<b>917</b>
<b>Provisions for liabilities and charges</b>	<b>19</b>	<b>2</b>	<b>1</b>
<b>Liabilities</b>	<b>20</b>		
Long-term liabilities		2,332	2,339
Short-term liabilities		1,791	2,358
		4,123	4,697
<b>Total equity and liabilities</b>		<b>6,335</b>	<b>6,691</b>



# Parent company cash flow statement

MEUR	1 Jan–31 Dec 2013	1 Jan–31 Dec 2012
<b>Cash flows from operating activities</b>		
Profit before extraordinary items	226	250
Depreciation, amortization and write-downs	140	142
Other non-cash income and expenses	6	7
Financial income and expenses	-17	65
Divesting activities, net	-1	0
<b>Operating cash flow before change in working capital</b>	<b>354</b>	<b>464</b>
Change in working capital		
Decrease (+)/increase (–) in interest-free receivables	238	-80
Decrease (+)/increase (–) in inventories	-20	28
Decrease (–)/increase (+) in interest-free liabilities	-98	61
Change in working capital	120	9
<b>Cash generated from operations</b>	<b>474</b>	<b>473</b>
Interest and other financial expenses paid, net	-68	-64
Dividends received	89	18
Income taxes paid	-63	1
Realized foreign exchange gains and losses	-15	-23
Group contributions, net	-130	-31
<b>Net cash from operating activities</b>	<b>287</b>	<b>374</b>
<b>Cash flows from investing activities</b>		
Capital expenditure	-152	-183
Proceeds from sale of fixed assets	1	3
Investments in shares in subsidiaries	0	0
Investments in shares in other shares	0	-1
Proceeds from shares in subsidiaries	50	0
Proceeds from sale of other shares	0	0
Change in other investments, increase (–)/decrease (+)	207	-94
<b>Net cash used in investing activities</b>	<b>106</b>	<b>-275</b>
<b>Cash flow before financing activities</b>	<b>393</b>	<b>99</b>

<b>Cash flows from financing activities</b>		
Proceeds from long-term liabilities	<b>410</b>	1,039
Payments of long-term liabilities	<b>-465</b>	-908
Change in short-term liabilities	<b>-243</b>	-11
Dividends paid	<b>-97</b>	-90
<b>Cash flow from financing activities</b>	<b>-395</b>	30
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	<b>-3</b>	130
Cash and cash equivalents at the beginning of the period	<b>361</b>	231
Cash and cash equivalents at the end of the period	<b>358</b>	361
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	<b>-3</b>	130

# 1 Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in thousands of euros unless otherwise stated.

## Revenue

Revenue include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Trading sales include the value of physical deliveries and the net result of derivative financial instruments.

## 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.

## Derivative financial instruments

Neste Oil uses derivative financial instruments mainly to hedge oil price, foreign exchange and interest rate exposures.

Oil commodity derivative contracts hedging future cash flow are booked once the underlying exposure occurs. Unrealized losses on derivatives held for trading purposes are booked immediately, but gains are booked only at maturity or when the open exposure is closed with a similar instrument.

There are two different types of foreign exchange derivative contracts: hedges for future cash flow and hedges of balance sheet items. Gains or losses on derivative financial instrument that hedge future cash flows are recognized once the underlying income or expense occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognized in the income statement. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures.

Gains or losses for derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

## Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated.

The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 years

## Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

## Research and development

Research and development expenditures are expensed as incurred with the exception of investments in buildings and equipment.

## Pension expenses

An external pension insurance company manages the pension plan. The pension expenses are booked to income statement during the year they occur.

## Extraordinary items

Extraordinary items consist of received or given group contributions from or to Neste Oil Group companies.

## 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 Oil 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

MEUR	2013	2012
Oil Products	11,778	11,945
Renewable Fuels	2	0
Oil Retail	0	0
Other	111	114
Eliminations	-68	-67
	11,823	11,992

### Revenue by market area

MEUR	2013	2012
Finland	5,604	6,424
Other Nordic countries	1,779	1,981
Baltic countries, Russia and Poland	789	681
Other European countries	2,589	1,873
North and South America	707	860
Other countries	355	173
	11,823	11,992

## 3 Other operating income

MEUR	2013	2012
Rental income	8	9
Gain on sale of intangible and tangible assets	1	0
Insurance compensations	6	2
Government grants	2	3
Other	4	2
	21	16

## 4 Materials and services

MEUR	2013	2012
Materials and supplies		
Purchases during the period	11,015	10,992
Change in inventories	-47	-59
	10,968	10,933
External services	5	6
	10,973	10,939

## 5 Personnel expenses

MEUR	2013	2012
Wages, salaries and remunerations	149	137
Indirect employee costs		
Pension costs	38	36
Other indirect employee costs	11	10
	198	183

### Salaries and remuneration

Key management compensations are presented in Note 32 in the Neste Oil Group consolidated financial statements.

### Average number of employees

	2013	2012
Oil Products	1,578	1,558
Other	735	729
	2,313	2,287

## 6 Depreciation, amortization and write-downs

MEUR	2013	2012
Depreciation according to plan	140	142
Write-offs	0	0
	140	142

## 7 Other operating expenses

MEUR	2013	2012
Operating leases and other property costs	18	20
Freights relating to sales	74	86
Repairs and maintenance	87	88
Other	125	138
	304	332
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	0	15

### Fees charged by the statutory auditor

EUR thousands	2013	2012
Audit fees	357	349
Auditor's mandatory opinions	6	5
Tax advisory	90	8
Other advisory services	193	279
	646	641



## 8 Financial income and expenses

MEUR	2013	2012
Dividend income		
From Group companies	89	18
From associated companies	0	-
From others	0	0
Dividend income total	89	18
Interest income from long-term loans and receivables		
From Group companies	0	1
From others	0	0
Interest income from long-term loans and receivables total	0	1
Other interest and financial income		
From Group companies	1	5
Other	0	0
Other interest and financial income total	1	5
Write-downs on long-term investments	-3	-
Interest expenses and other financial expenses		
To Group companies	-3	-4
Other	-67	-75
Interest expenses and other financial expenses total	-70	-79
Exchange rate differences	0	-10
Financial income and expenses total	17	-65

### Total interest income and expenses

MEUR	2013	2012
Interest income	1	6
Interest expenses	-62	-72
Net interest expenses	-61	-66

## 9 Extraordinary items

MEUR	2013	2012
Group contributions		
Group contributions received	161	35
Group contributions given	-	-165
	161	-130

## 10 Appropriations

### Change in depreciation difference

MEUR	2013	2012
Difference between depreciation according to plan and depreciation in taxation	-10	-7

## 11 Income tax expense

MEUR	2013	2012
Income taxes on regular business operations	35	54
Income taxes on extraordinary items	39	-32
Change in deferred tax assets	-1	2
	73	24

## 12 Fixed assets and long-term investments

### Change in acquisition cost 2013, MEUR

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2013	1	108	109
Increases	-	12	12
Decreases	-	4	4
Transfers between items	-	0	0
Acquisition cost as of 31 December 2013	1	116	117
Accumulated depreciation, amortization and write-downs as of 1 January 2013	1	69	70
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	0	0
Depreciation and amortization for the period	0	4	4
Accumulated depreciation, amortization and write-downs as of 31 December 2013	1	73	74
Balance sheet value as of 31 December 2013	-	43	43
Balance sheet value as of 31 December 2012	-	39	39

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 2013	25	1,085	2,168	80	120	3,478
Increases	0	55	66	4	13	138
Decreases	0	0	1	0	1	2
Transfers between items	0	0	0	0	0	0
Acquisition cost as of 31 December 2013	25	1,140	2,232	84	132	3,614
Accumulated depreciation, amortization and write-downs as of 1 January 2013	0	510	1,329	32	-	1,871
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	0	1	0	-	1
Depreciation, amortization and write downs for the period	0	32	101	2	-	135
Accumulated depreciation, amortization and write-downs as of 31 December 2013	0	542	1,430	34	-	2 005
Revaluations	6	24	-	-	-	30
Balance sheet value as of 31 December 2013	31	623	803	50	132	1 639
Balance sheet value as of 31 December 2012	31	600	839	48	120	1,638
Balance sheet value of machinery and equipments used in production						772

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 2013	2,579	11	1	0	4	12	2,607
Increases	0	0	0	0	0	0	0
Decreases	52	6	0	0	0	2	60
Acquisition cost as of 31 December 2012	2,527	5	1	0	4	10	2,547
Accumulated depreciation, amortization and write-downs as of 1 January 2013	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2013	-	-	-	0	0	0	0
Balance sheet value as of 31 December 2013	2,527	5	1	0	4	10	60
Balance sheet value as of 31 December 2012	2,579	11	1	0	4	12	2,607

#### Interest-bearing and interest-free receivables

MEUR	2013	2012
Interest-bearing receivables	5	12
Interest-free receivables	11	12
	16	24

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## 13 Revaluations

MEUR	Revaluations as of Jan 1, 2013	Revaluations as of Dec 31, 2013
Land areas	6	6
Buildings	24	24
	30	30

#### 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.

## 14 Inventories

MEUR	2013	2012
Raw materials and supplies	344	306
Products/finished goods	493	512
Advance payments on inventories	6	5
	843	823
Replacement value of inventories	850	824
Book value of inventories	843	823
Difference	7	1

## 15 Long-term receivables

MEUR	2013	2012
Receivables from Group companies		
Other long-term receivables	86	230
Deferred tax assets	2	1
	88	231

## 16 Short-term receivables

MEUR	2013	2012
Trade receivables	367	490
Receivables from Group companies		
Trade receivables	258	364
Other receivables	160	35
Accrued income and prepaid expenses	2	2
Total	420	401
Receivables from associated companies		
Trade receivables	0	0
Other receivables	1	1
Total	1	1
Other receivables	17	80
Accrued income and prepaid expenses	12	20
	817	992

### Short-term accrued income and prepaid expenses

MEUR	2013	2012
Accrued interest	5	6
Accrued taxes	-	1
Other	8	15
	13	22

## 17 Changes in shareholders' equity

MEUR	2013	2012
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Retained earnings at 1 January	1,035	1,036
Dividends paid	-97	-90
Profit for the year	304	89
Retained earnings at 31 December	1,242	1,035
Distributable equity	1,242	1,035

## 18 Accumulated appropriations

MEUR	2013	2012
Depreciation difference	928	917

## 19 Provisions for liabilities and charges

MEUR	Provision for environment	Total
Provisions as of 1 January 2013	1	1
Increase	1	1
Decrease	0	0
Provisions as of 31 December 2013	2	2



## 20 Liabilities

### Long-term liabilities

MEUR	2013	2012
Bonds	1,294	1,292
Loans from financial institutions	124	487
Liabilities to Group companies		
Other long-term liabilities	903	551
Other long-term liabilities	5	7
Accruals and deferred income	6	2
	2,332	2,339

### Interest-bearing liabilities due after five years

MEUR	2013	2012
Bonds	398	447
Loans from financial institutions	17	23
Liabilities to Group companies	858	511
	1,273	981

### Short-term liabilities

MEUR	2013	2012
Loans from financial institutions	165	342
Advances received	0	1
Trade payables	997	1,022
Liabilities to Group companies		
Advances received	0	0
Trade payables	116	107
Other short-term liabilities	139	422
Accruals and deferred income	0	0
Total	255	529
Liabilities to associated companies		
Trade payables	8	2
Other short-term liabilities	0	0
Total	8	2
Other short-term liabilities	261	368
Accruals and deferred income	105	94
	1,791	2,358

**Short-term accruals and deferred income**

MEUR	2013	2012
Salaries and indirect employee costs	49	42
Accrued interests	26	29
Accrued taxes	28	18
Other short-term accruals and deferred income	2	5
	105	94

**Interest-bearing and interest-free liabilities**

MEUR	2013	2012
Long-term liabilities		
Interest-bearing liabilities	2,324	2,332
Interest-free liabilities	8	7
	2,332	2,339
Short-term liabilities		
Interest-bearing liabilities	304	608
Interest-free liabilities	1,487	1,750
	1,791	2,358

## 21 Contingent liabilities

### Contingent liabilities

MEUR	2013	2012
<b>Operating lease liabilities</b>		
Due within a year	3	3
Due after a year	5	4
	8	7
<b>Contingent liabilities given on own behalf</b>		
Real estate mortgages	17	24
Pledged assets	0	1
Other contingent liabilities	2	2
	19	27
<b>Contingent liabilities given on behalf of Group companies</b>		
Real estate mortgages	-	2
Guarantees	323	238
	323	240
<b>Contingent liabilities given on behalf of associated companies</b>		
Guarantees	1	1
	1	1
<b>Contingent liabilities given on behalf of others</b>		
Guarantees	2	1
	2	1
<b>Contingent liabilities total</b>	<b>353</b>	<b>276</b>

## 22 Derivative financial instruments

### Interest and currency derivative contracts and share forward contracts

MEUR	2013			2012		
	Contract or notional value	Fair value	Not recognized as an income	Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	800	17	-4	1,030	26	-6
Forward foreign exchange contracts	1,452	11	10	1,945	15	11
Currency options						
Purchased	196	2	2	113	0	0
Written	192	3	3	92	2	2

### Oil and freight derivative contracts

	2013			2012		
	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	6	-11	-11	19	13	13
Purchase contracts	8	10	10	17	-10	-10

The fair values of foreign exchange currency derivative contracts are based on market values at the balance sheet date. The fair values of interest rate swaps are the present values of the estimated future cash flows and the fair values of currency options are calculated with option valuation model.

The fair value of exchange traded oil commodity futures and option contracts are based on the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is based on the net present value of the forward contracts quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the 'Derivative financial instruments' table.

## 23 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.

## 24 Shares and holdings

	Country of incorporation	No of shares	Holding-%	Book value 31 Dec 2013 EUR thousands
<b>Subsidiary shares</b>				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	39,725
Kilpilahden Sähkösiirto Oy	Finland	2,500	100.00	3
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Neste Eesti AS	Estonia	10,000	100.00	5,927
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste Oil AB	Sweden	2,000,000	100.00	23,972
Neste Oil BR Ltd	Belarus	1	100.00	-
Neste Oil Components Finance B.V.	The Netherlands	40	100.00	8,022
Neste Oil Finance B.V.	The Netherlands	26,090	100.00	19,177
Neste Oil Holding (U.S.A.), Inc.	USA	1,000	100.00	18,428
Neste Oil Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste Oil N.V.	Belgium	4,405,414	99.99	414,753
Neste Oil (Suisse) S.A.	Switzerland	200	100.00	62
Neste Oil US, Inc.	USA	1,000	100.00	1,100
Neste Renewable Fuels Oy	Finland	200	100.00	1,826,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,526,854
<b>Associated companies</b>				
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Neste Arabia Co. Ltd.	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				794

<b>Other shares and holdings</b>				
CLEEN Oy	Finland	100		100
East Office of Finnish Industries Oy	Finland	1		10
Ekokem Oy Ab	Finland	75,000	2.13	125
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
				3,465
<b>Telephone shares</b>				
Kymen Puhelin Oy	Finland	1		0
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Osuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
<b>Connection fees</b>				65
<b>Total</b>				2,531,179

Financial Statements ► Parent company financial statements ► Notes to the parent company financial statements ► 25 Disputes and potential litigations

## 25 Disputes and potential litigations

Finnish Customs has levied a penalty payment totaling approximately EUR 44 million on Neste Oil because Finnish biofuel mandate requirements were not met in 2009 and 2010. Biofuel mandate legislation requires that companies distributing liquid fuels must provide the appropriate energy content specified for biofuels in the fuel that they supply for use by customers. The legislation in question is intended to increase the use of biofuels and thereby reduce emissions. Neste Oil has supplied the amount of biofuels required by legislation in 2009 and 2010. Neste Oil disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. The disagreement between Neste Oil and Finnish Customs covers how the legislation on biofuel mandate should be interpreted. Neste Oil has appealed the Finnish Customs' decision and considers the penalty payment unjustified and it will not affect the company's result or balance sheet for 2013. The penalty payment was paid in January 2014, when it impact the company's cash flow.

## 26 Separated Financial Statements

### Separation according to Electricity Market Act

Neste Oil Corporation has separated electricity network operations from other operations in accounting according to Chapter 12 of Electricity Market Act (588/2013) since the act came into force 1 September 2013.

Electricity network operation covers owning a company's distribution network, electricity distribution and other related activities in Kilpilahti, Porvoo since the act came into force. Other operations include the company's oil refining operations for the entire financial period.

Separated financial statements have been prepared on the basis of company's general accounting and separate calculation in internal accounting. Revenues of Electricity network operations includes electricity transfer fees. Expenses and income have been allocated based on origin or if not applicable, a proportional allocation key has been used. Depreciation have been calculated in accordance with the existing depreciation plan.

Balance sheet items have been allocated based on origin or if not applicable, a proportional allocation key have been used. Only assets that have been considered to be necessary to carry out electricity network operations have been included in separated balance sheet. Share capital has been allocated in proportion to fixed assets and other long-term investments and long-term liabilities in proportion to fixed assets and inventories. Separated balance sheet has been balanced using other short-term liabilities.



**Separated Income Statement**

MEUR	Electricity network operations 1 Sep–31 Dec 2013	Other operations 1 Jan–31 Dec 2013
<b>Revenue</b>	2	11,821
Internal revenue	4	-4
Change in product inventories	-	-20
Other operating income	-	21
Materials and services	0	-10,969
Network losses	-1	-
Cost of upstream network	-2	-
Personnel expenses	0	-198
Depreciation, amortization and write-downs	-2	-138
Other operating expenses	-1	-304
<b>Operating profit</b>	0	209
Financial income and expenses	0	17
<b>Profit before extraordinary items</b>	0	226
Extraordinary items	-	161
<b>Profit before appropriations and taxes</b>	0	387
Appropriations	0	-10
Income tax expense	0	-73
<b>Profit for the year</b>	0	304

**Separated Balance Sheet**

MEUR	Electricity network operations 31 Dec 2013	Other operations 31 Dec 2013
<b>ASSETS</b>		
<b>Fixed assets and other long-term investments</b>		
Intangible assets	-	43
Tangible assets	77	1,562
Other long-term investments	-	2,547
	77	4,152
<b>Current assets</b>		
Inventories	0	843
Long-term receivables	-	88
Short-term receivables	0	817
Cash and cash equivalents	-	358
	0	2,106
<b>Total assets</b>	<b>77</b>	<b>6,258</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	1	39
Retained earnings	-	938
Profit for the year	0	304
	1	1,281
<b>Accumulated appropriations</b>	<b>30</b>	<b>898</b>
<b>Provisions for liabilities and charges</b>	<b>-</b>	<b>2</b>
<b>Liabilities</b>		
Long-term liabilities	35	2,297
Short-term liabilities	11	1,780
	46	4,077
<b>Total equity and liabilities</b>	<b>77</b>	<b>6,258</b>
<b>Return on capital employed</b>	<b>3.5%</b>	

## 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 2013 stood at EUR 1,242 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.65 per share for 2013, totalling EUR 167 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 3 February 2014

Jorma Eloranta

Per-Arne Blomquist

Michiel Boersma

Maija-Liisa Friman

Laura Raitio

Willem Schoeber

Kirsi Sormunen

Matti Lievonen

President & CEO

## Auditor's report

### To the Annual General Meeting of Neste Oil Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Neste Oil Corporation for the financial period 1.1. - 31.12.2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO 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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In

making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

### Other opinions

We support that the 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 of the parent company and the President and CEO should be discharged from the liability for the financial period audited by us.

Espoo, February 3, 2014

Ernst & Young Oy  
Authorized Public Accountant Firm

ANNA-MAIJA SIMOLA  
Anna-Maija Simola  
Authorized Public Accountant

## Quarterly segment information

### Revenue

MEUR	10-12/2013	7-9/2013	4-6/2013	1-3/2013	10-12/2012	7-9/2012	4-6/2012	1-3/2012
Oil Products	3,492	3,476	2,996	3,307	3,607	3,389	3,224	3,544
Renewable Fuels	732	713	535	513	505	597	595	466
Oil Retail	1,116	1,174	1,085	1,153	1,258	1,266	1,181	1,190
Others	47	51	54	52	45	48	54	52
Eliminations	-783	-784	-700	-767	-818	-795	-757	-798
Total	4,604	4,630	3,970	4,258	4,597	4,505	4,297	4,454

### Operating profit

MEUR	10-12/2013	7-9/2013	4-6/2013	1-3/2013	10-12/2012	7-9/2012	4-6/2012	1-3/2012
Oil Products	93	104	10	79	128	248	-80	195
Renewable Fuels	93	116	34	9	-43	-73	-59	-8
Oil Retail	15	29	65	11	5	23	15	15
Others	-14	0	0	-12	-40	2	3	-7
Eliminations	-2	0	3	-1	2	-4	6	-4
Total	185	249	112	86	52	196	-115	191

### Comparable operating profit

MEUR	10-12/2013	7-9/2013	4-6/2013	1-3/2013	10-12/2012	7-9/2012	4-6/2012	1-3/2012
Oil Products	72	67	30	111	116	154	49	77
Renewable Fuels	94	120	33	26	-2	-19	-33	-2
Oil Retail	14	29	22	11	5	23	15	15
Others	-14	0	-1	-12	-42	3	3	-7
Eliminations	-2	1	4	-1	0	-2	6	-4
Total	164	217	88	135	77	159	40	79