NESTE

Faster, bolder and together

Annual Report 2019

Content

2019 in brief

Revenue
€15,840M

Comparable operating profit
€1,962M

Our dividend proposal for 2020 per share
€0.92 + €0.10*

* Extraordinary dividend

Return on average capital employed after tax (ROACE)
26.6%

Investments
€890M

Leverage ratio
–3.3%

Neste is in the business of combating climate change. We help transport and cities, as well as customers in the aviation, polymers and chemicals sectors make their business more sustainable.

Faster, bolder and together. In 2019 we renewed our strategy and set out on a course to become a global leader in renewable and circular solutions. We continued to be the world's largest producer of renewable diesel produced from waste and residues, but also ramped up our renewable jet fuel production capacity and built new business around renewable polymers and chemicals. In addition to these, we explored ways to introduce liquefied waste plastic as a raw material for new plastics and chemicals.

The year 2019 was full of new achievements and exciting announcements. What made it so inspiring? Watch the video to discover more.

Our renewable products helped reduce greenhouse gas emissions
9.6 Mt

The share of waste and residues in the renewable raw materials
80%

Safe days
314

Average number of personnel
5,474

Faster, bolder, and together

2019 was a year of growth, change and excellent strategy execution for us. We achieved the best ever quarterly financial results in Q4 and posted outstanding results for the whole year. We became a truly international company with hundreds of new employees, new offices, and end-markets all over the world. In addition, we were placed in the top 3 on the Global 100 list of the world's most sustainable companies again. All this with the best ever process safety results.

Our new strategy is called "Faster, Bolder and Together" and our aim is to become a global leader in renewable and circular solutions. This reflects the understanding that there is no time to lose in combating the climate crisis. In order to succeed, we need to act, innovate new solutions and deliver them faster and bolder than ever before.

At Neste, we are in a unique position to help our customers with their ambitious emission reduction targets. We have made a promise to help our customers to reduce their climate emissions by 20 million tons annually by 2030.

Promising to help our customers reducing their climate emissions is, however, not enough. Therefore we have made a second promise to reduce our own carbon footprint in production ahead of the EU's climate and energy targets.

We have made a promise to help our customers to reduce their climate emissions by 20 million tons annually by 2030. In addition, we will reduce our own carbon footprint in production ahead of the EU's climate and energy targets.

Platform for change

Neste is more than just a company. Our purpose of creating a healthier planet for our children is what drives us every day to aim higher. We are ready and willing to take the role of a change maker.

We want to be a platform for change where discussions take place, innovations are made, and solutions are found. This translates into new business opportunities for us and for others as well. Providers of sustainable solutions should think of themselves as collaborators first, and competitors second.

Our ambition is reflected in our new vision "Leading the way towards a sustainable future together", and in our newly renewed values. I believe we can still solve the climate crisis, but only if we act now – together. We need to collaborate and build partnerships, whether it is with our customers, researchers and academia, or with governments and civil society.

A truly global company

Last year was a year of growth for Neste in many ways. We expanded our global reach with new offices in Düsseldorf, Amsterdam, Shanghai, and Melbourne, and strengthened our presence in Houston and Singapore. The new offices in the Netherlands and Germany also serve as global business hubs for the Renewable Aviation and Renewable Polymers and Chemicals business units, respectively.

The office in Shanghai will serve our renewable raw material sourcing operations for China, and the Melbourne office for Australia and New Zealand. New locations support the expanding sourcing of waste and residue raw materials for the production of our renewable diesel, renewable jet fuel as well as other renewable solutions globally.

In Singapore, we started the construction of our EUR 1.4 billion investment and expansion project to produce renewable jet fuel and other renewable products. This biggest ever investment in our history is on track. It will expand our annual renewable capacity by up to 1.3 million tons in Singapore, and extend our total renewable product capacity close to 4.5 million tons annually in 2022.

We have gone into new markets with our renewable and circular solutions. In road transportation, Neste MY Renewable Diesel™ is now sold in Finland, Sweden, all the Baltic countries, the Netherlands and California and Oregon in the US.

In our Renewable Aviation business, we have moved from feasibility to execution and ramped up our capacity to produce up to 100,000 tons of renewable jet fuel. With further production expansion on the way, we will have the capacity to produce over 1 million tonnes of renewable jet fuel globally by 2022. In 2019, we also started collaboration with companies such as Air BP, Lufthansa and KLM to support these industry players in reducing aviation-related emissions.

In the Renewable Polymers and Chemicals business, we have partnered with actors like LyondellBasell and Borealis to achieve the first-ever commercial-scale production of bio-based plastics from renewable material.

All the work we put into operational excellence and efficiency is absolutely crucial not just for business, but for our entire company: who we are and what we stand for. In 2019, we have been able to increase our EBIT by approximately EUR 33 million through the successful execution of Neste Excellence projects aiming at operational excellence and efficiency. In addition, we sold non-strategic offices of Neste Engineering Solutions and entered into a strategic partnership with Rejlers. We further successfully divested our fuel retail business in Russia to PJSC Tatneft.

Innovation is in our DNA

Approximately 25% of our people are working in Innovation and Technology. It is safe to say that innovation is key to our current and future success: it has brought us to the point where we are now, and it will take us forward.

Still we need to look further ahead. We need to generate breakthroughs for future solutions as well, both those that could be available in the next 3 to 5 years and those that might be a reality in 20 years.

With this in mind, we have set three business platforms to develop scalable future feedstocks and required technologies, looking beyond the present raw material sources. These platforms are lignocellulosic fuels, chemicals, and materials; scalable feedstocks for aviation fuels including algae and solid municipal waste; and renewable hydrogen and Power-to-X, utilizing renewable electricity to convert CO_2 into fuels and chemicals.

As we believe in cooperation and succeeding together, we are actively looking into new partnerships and forms of collaboration to accelerate new innovations in multiple areas.

Our people make Neste what it is

A company's success is always based on people. I have been overwhelmed with our people's support and the hard work they put into their work every day. Our people have been and continue to be the driving force behind Neste's transformation to become a global leader in renewable and circular solutions. Their passion for creating a healthier planet for our children is what makes this company so unique.

In 2019, we hired more new people than ever before. I am extremely delighted that so many people around the world, with such talent and ambition want to join our journey. It is our task to integrate all new people into our Neste family. At the same time, we must take care of our existing staff.

Our new growth strategy and organizational structure have meant new roles for many of our people. Since the launch of the new strategy, we have conducted systematic surveys throughout the organization. The results show that the new strategy is clear, well communicated and our people understand the need for change across the organization. Of course, transformation brings new challenges for our people – and we all have our own ways to face them. Some see them as exciting opportunities while others might at times feel overwhelmed with the pace of the changes. I hope all Neste people feel supported in this transformation. Wellbeing and caring are of utmost importance to us, and one of our renewed values.

Systematic development leap in safety

Safety is at the core of Neste's operations. Our people have made a systematic development leap in safety during the past years. The hard work has paved the way for the best ever process safety results in 2019, 1.4. We did very well also in operational safety and continued collaboration with our contractors to further develop contractor safety. There is of course still work ahead but our strong commitment to safety continues – that work can and will never stop.

I believe that a safe way of working on all levels can be achieved when everyone is truly committed. This way we can achieve "No harm, together", as our renewed safety target states.

Our people have made a systematic development leap in safety during the past years. The hard work has paved the way for the best ever process safety results in 2019.

Faster, bolder and together into 2020

In 2020, we will continue on our journey to become a global leader in renewable and circular solutions. In all our business units, we look forward to new and continued partnerships, collaboration and initiatives with leading companies and brand owners.

Heavy road transportation will continue to grow and overall diesel demand is expected to increase globally. Climate targets require solutions to reduce emissions from heavy transportation. We will work to develop new geographical markets, aiming to make our Neste MY Renewable Diesel more widely available for corporate and private customers.

The Renewable Aviation business unit is ready to strengthen the commercialization of our Neste MY Renewable Jet Fuel™ and open up new markets for it. In the Renewable Polymers and Chemicals business unit, we will focus on building the business further. Demand from consumers and the market for sustainable chemicals and polymers are strong, in addition to brand owners' commitments on renewable and recycled chemicals and polymers.

To ensure all this, we need to build more capacity in renewables to enable future growth. In addition, we need to ensure the safe execution of the Singapore expansion project. We shall continue capacity debottlenecking but also continue our research for future investments.

We will also continue to focus on innovation, exploring new raw materials and technologies. For example, we have started a development project aiming to use liquefied waste plastic as a raw material in our fossil refinery.

In the Oil Products business unit, we see good potential in our new IMO2020-compliant low-sulfur marine fuel. The successful execution of Turnaround 2020 at the Porvoo refinery will also be especially important. It is a remarkable investment, increasing the safety, availability, and competitiveness of the Neste refinery in Porvoo for the next operating cycle. Around 6,000 people from different countries will participate in the turnaround. Everyone's input is important. Our goal is to execute a safe turnaround that we all can be proud of.

The Marketing & Services business unit is aiming at expanding the availability of our Neste MY Renewable Diesel in our station network and further improve customer experience through sustainable partnerships, digitalization, and services.

I want to take this opportunity to thank our people, our customers, partners and other stakeholders for their trust and excellent cooperation in 2019. As mentioned, I firmly believe we can solve the climate crisis when we act faster, bolder – and together.

Peter Vanacker
President and CEO
@peter_vanacker

Strategy 01

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

Strategy

Our strategy is guided by our purpose to create a healthier planet for our children. We aim to become a global leader in renewable and circular solutions.

With our renewable products and solutions, we help our customers reduce their greenhouse gas emissions and increase sustainability in their operations.

Our high aspirations:

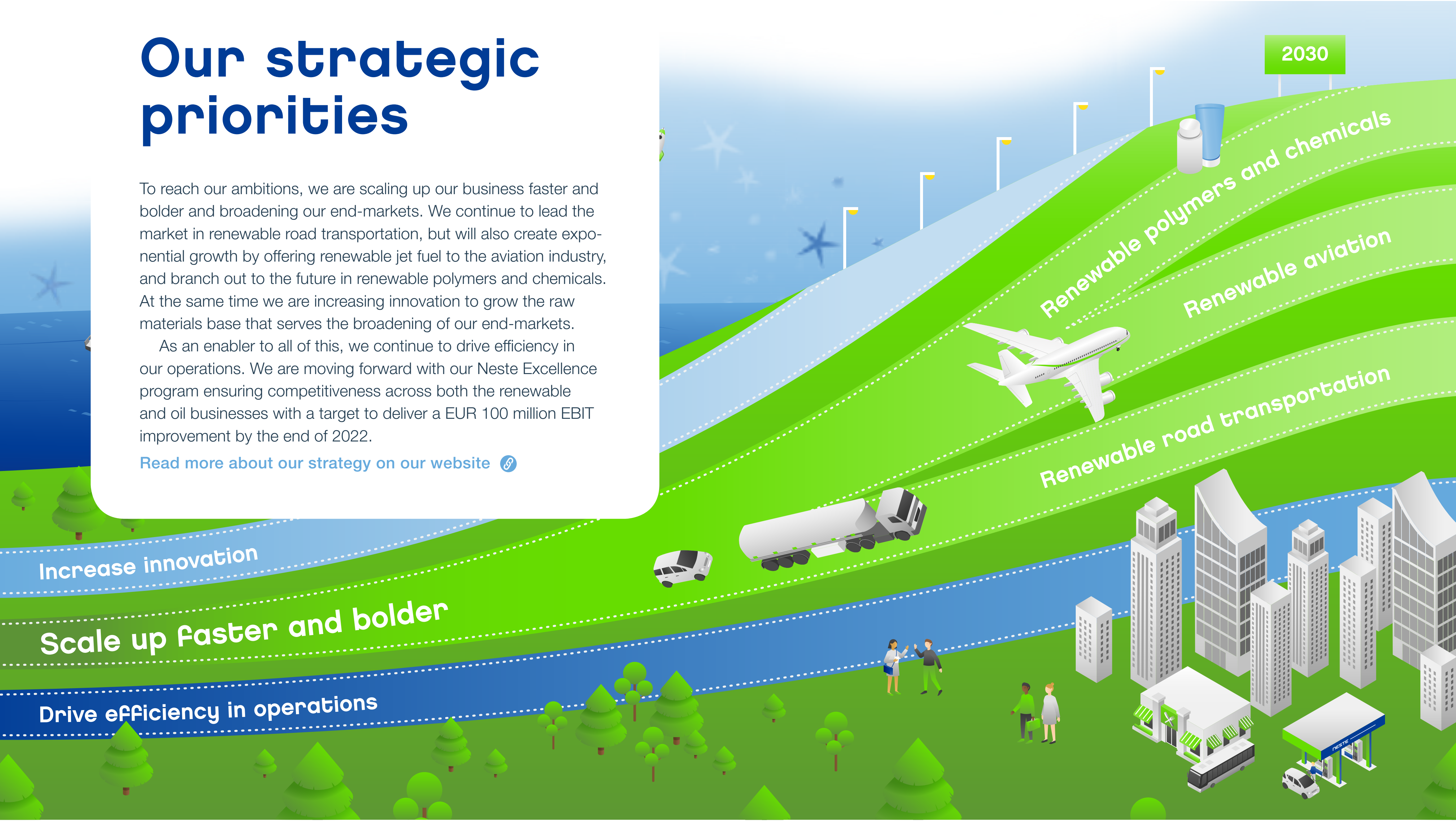
- Reduce our customers' greenhouse gas emissions every year by at least 20 million tons CO_2 equivalent by 2030.
- Lower our carbon footprint in production ahead of the EU's climate and energy targets.
- Broaden our end markets into renewable aviation and the polymers business.
- Become a solution provider for chemical recycling.
- Expand our unique global waste and residue feedstock platform.
- Continue leadership in renewable products production capacity with at least 40% market share.
- Outperform our peers in value creation.

Our strategic priorities

To reach our ambitions, we are scaling up our business faster and bolder and broadening our end-markets. We continue to lead the market in renewable road transportation, but will also create exponential growth by offering renewable jet fuel to the aviation industry, and branch out to the future in renewable polymers and chemicals. At the same time we are increasing innovation to grow the raw materials base that serves the broadening of our end-markets.

As an enabler to all of this, we continue to drive efficiency in our operations. We are moving forward with our Neste Excellence program ensuring competitiveness across both the renewable and oil businesses with a target to deliver a EUR 100 million EBIT improvement by the end of 2022.

Read more about our strategy on our website



Innovation

Innovation and technology have always been in Neste's DNA. Our approach has been to convert low-quality raw materials into sustainable, high-quality products and solutions.

Approximately 25% of our personnel are dedicated to work with innovative research, product development, and engineering. This includes Neste Engineering Solutions which plays a key role in enabling Neste's strategy implementation by participating in research and development programs with core modelling, automation, and process engineering know-how.

Strengthening innovation to create new business

For years, the majority of Neste's research and development expenditure has been directed to exploring new raw material pools and technology platforms to enable their use. In 2019 and as part of our renewed strategy, we decided to increase our focus on innovation. Our two-fold aim is to develop our existing businesses to stay ahead of the competition, and build new growth platforms in renewable and circular solutions.

Lignocellulosic fuels, chemicals and materials, scalable feedstocks for renewable aviation fuels including algae and solid municipal waste, as well as renewable hydrogen and Power-to-X are all promising new platforms for us.

Our Innovation function is helping the current businesses to widen the supply of renewable waste and residues and develop business around the chemical recycling of waste plastics. The development of new businesses takes place on three new platforms formed around scalable feedstock pools which are not yet utilized today:

- lignocellulosic (e.g. agricultural and forest harvesting residues) fuels, chemicals, and materials;
- scalable feedstocks for renewable aviation fuels including algae and solid municipal waste;
- renewable hydrogen and Power-to-X, utilizing renewable electricity to convert CO_2 to fuels and chemicals.

Innovation is one of the key enablers for our strategy of scaling up business faster and bolder.

Extensive collaboration network

Innovation does not happen in isolation. We already have a network of 25 leading universities, R&D centers, and technical institutes and we continue to expand and intensify our collaboration with them. We are also continuously exploring opportunities to join forces with technology developers and different value chain partners including start-ups and industrial players to accelerate new innovations in multiple areas.

Our businesses

Neste is the world's largest producer of renewable diesel and renewable jet fuel refined from waste and residues, introducing renewable solutions also to the polymers and chemicals industries.

We are also a technologically advanced refiner of high-quality oil products, exploring ways to start using waste plastics as a raw material to produce new plastics. Our station network of nearly 1,000 stations covers four countries in the Baltic Sea region: Finland, Estonia, Latvia, and Lithuania.

We invest heavily in researching, testing and deploying new raw materials. Neste Engineering Solutions delivers high-quality technology and engineering services for the group and its external customers.

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

Renewable Products

Renewable Road Transportation | Renewable Aviation | Renewable Polymers and Chemicals

Renewables Platform

Oil Products

Marketing & Services

Our businesses

Renewable Products

Renewable Road Transportation business unit offers Neste MY Renewable Diesel and enables its customers to reduce their greenhouse gas (GHG) emissions by up to 90% compared to fossil diesel over the life-cycle.

Renewable Aviation business unit is expected to play a significant role in helping the aviation industry with its emission reduction targets. Our capacity will be to produce over 1 million tons of renewable jet fuel annually in 2022. Over the life-cycle, neat Neste MY Renewable Jet Fuel has up to 80% smaller carbon footprint compared to fossil jet fuel.

Renewable Polymers and Chemicals business unit develops renewable and circular solutions for the plastics and chemicals sectors together with value chain partners. Our solutions help reduce crude oil dependency and tackle climate change and global plastic waste challenge.

Renewables Platform enables Neste to further expand its production capacity and raw material platform. We have more than 10 different globally sourced renewable raw materials in our portfolio.

Capacity: ca. 3 million tons of renewable products annually.

Main market areas: Europe and North America.

Customers: Retailers, wholesale customers such as transport service companies and municipalities, aviation industry, fleets as well as polymers and chemicals producers.

Oil Products

We offer high-quality oil products and related services for road transport, aviation and marine sectors as well as for oil and petrochemical industries.

We are known for reliability and flexibility with a comprehensive offering, high supply security and efficient operations. As part of our systematic business development, we are exploring ways to increase the sustainability of our operations and increase the share of renewable and recycled feedstock as future raw materials for fossil refining.

Crude oil refining capacity: ca. 14 million tons annually.

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

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

Marketing & Services

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

Our network of nearly 1,000 stations covers four countries in the Baltic Sea region: Finland, Estonia, Latvia, and Lithuania.

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

Main market areas: 779 stations in Finland, and 212 stations in the Baltic countries (Estonia, Latvia and Lithuania).

Customers: Consumers, transport service, customers in the aviation, shipping, industrial and agricultural sectors, municipalities, heating customers, and distributors.

Renewable Products

Strengths:
- High-quality renewable products as solutions to reduce greenhouse gas emissions (80% of renewable raw materials used in 2019 were waste and residues).
- Reliable production technology enabling flexible use of different sustainably-produced renewable raw materials.
- Capability to pretreat low-quality waste and residue raw materials to enable their use in the production of high-quality products.
- Global feedstock supply network and customer base.

Main demand factors:
- Climate change and greenhouse gas reduction targets around the world.
- Increasing renewable energy requirements in transport, particularly in Europe and the U.S.
- Need to develop alternatives to fossil oil and solutions to the global plastics waste challenge.
- Leading brands who want to provide consumers more sustainable renewable and circular solutions.

Market position: Neste is the world's largest producer of renewable diesel. Its share of the world's total renewable diesel production capacity is approximately 50%. Neste is also a leading provider of renewable jet fuel, and an expert in delivering drop-in renewable chemical solutions.

Main competitors: Other renewable diesel and renewable jet fuel producers in the U.S. and Europe as well as producers of conventional biodiesel. Other providers of renewable and circular solutions for the polymers and chemicals sectors.

Oil Products

Strengths:
- Extensive selection of high-quality solutions combining fossil and renewable products.
- Technologically advanced refineries.
- Flexibility in raw materials.
- Flexible and reliable customer solutions.

Main demand factors:
- Demand for premium quality and high performing products.
- Increasing demand for solutions containing both fossil and renewable fuels.
- Customers' requirements for flexibility in supply chain.

Market position: Leading position in the Baltic Sea wholesale markets and strong global operator of high-quality base oils.

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

Marketing & Services

Strengths:
- Best customer experience.
- High-quality and sustainable solutions: Neste MY Renewable Diesel as preferred choice.
- Strong brand and extensive station network.
- Customer solutions that create additional value.

Main demand factors:
- Developments in traffic and transport volumes.
- Customers' growing expectations for services and more sustainable solutions.
- Requirements by municipality, cities and industry for cleaner energy solutions.

Market position: Leading market position in Finland. Among the leading operators in Estonia, Latvia, and Lithuania.

Main competitors: Other large retailers in Finland and in the Baltic countries.

Key events 2019

Faster, bolder and together

We renewed our strategy with the aim to become a global leader in renewable and circular solutions.

Read more

New organisation to support our strategy

In May, we restructured our organization to better support the renewed strategy. For example, the Renewable Products business area was divided into three business units and one operational platform: Renewable Road Transportation, Renewable Aviation, Renewable Polymers and Chemicals, and the Renewables Platform.

Read more

New offices to serve as global business hubs

We opened new offices to serve as global business hubs: Hoofddorp in the Netherlands for the Renewable Aviation business and Düsseldorf in Germany to lead our Renewable Polymers and Chemicals business unit.

Read more **Read more**

Focus on safety

In total, we reached 314 safe days. Our occupational safety performance, TRIF, was 1.7 and the process safety event rate, PSER, was 1.4.

Read more on page 59.

Strengthening renewable raw material sourcing in Asia and Australia

Our new Shanghai office will serve the renewable raw material sourcing operations for China, and the Melbourne office will serve Australia and New Zealand. The new locations will support the expanding sourcing of waste and residue raw materials for the production of our renewable diesel, jet fuel as well as other renewable solutions globally.

Read more **Read more**

Strategic climate targets set

We set two new strategic climate targets: to reduce customers' greenhouse gas emissions with our renewable and circular solutions by at least 20 million tons CO_2eq* annually by 2030 and to reduce the carbon footprint of our own production ahead of the EU's climate and energy targets.

Read more

Neste MY Renewable Diesel™ launched in new markets

Neste MY Renewable Diesel is now available for customers in Finland, Sweden, Estonia, Latvia, Lithuania, the Netherlands and the US in California and Oregon.

Read more **Read more**

Singapore expansion construction started

Following up the EUR 1.4 billion investment to expand the renewable products production capacity by up to 1.3 million tons annually in Singapore, construction started at the beginning of the year. The expansion will extend our total renewable product capacity close to 4.5 million tons annually in 2022.

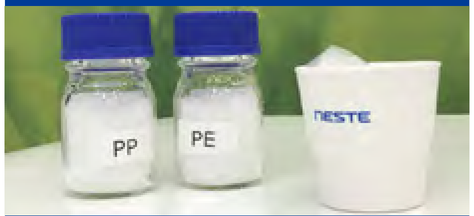
Read more

Strengthening our contribution to the circular economy

Neste started collaborating with recycling companies Ravago and Remondis to accelerate the development of chemical recycling capacity. Neste's target is to process more than one million tons of plastic waste annually from 2030 onwards.

Read more **Read more**

Plastic from renewable raw materials



Neste and LyondellBasell have produced bio-based plastics from renewable materials on a commercial scale. Cooperation also started with Borealis to produce renewable polypropylene from Neste's renewable propane.

Read more **Read more**

Low-sulphur marine fuel introduced

Neste introduced a new IMO2020-compliant marine fuel, Neste Marine™ 0.5, to the market. This high-quality product helps shipping companies to respond to the tightening regulations on sulphur dioxide emissions.

Read more

NES and Rejlers entered into a strategic partnership

Neste Engineering Solutions entered into a strategic partnership with the engineering consultancy services company Rejlers. Rejlers acquired the Regional Business Unit of NES, which consisted of personnel and operations in Turku, Kotka, Oulu, Sweden and UAE, except for the NAPCON business unit.

Read more

Enhancing sustainability in our supply chain

To support our commitment to working with sustainable suppliers, the new Supplier Code of Conduct was implemented, new processes were piloted, and the Supplier Sustainability Portal (SSP) was gradually taken into use.

Read more on page 46.

Helping the aviation industry with its emission targets

We strengthened our collaboration with Air BP, Lufthansa, and KLM to accelerate the development of renewable solutions for aviation. Neste has already ramped up capacity to produce up to 100,000 tons of renewable jet fuel annually.

Read more

Strategic innovation partnerships in Finland

Neste entered into strategic cooperation with Åbo Akademi University, with the aim to increase Finnish chemical industry expertise. Neste and VTT strengthened their partnership through research investments in Finland, aiming at enhancing expertise in the bioeconomy and circular economy as well as developing cleaner fuel solutions.

Read more **Read more**

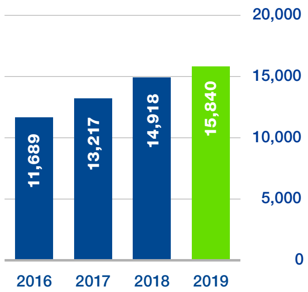
Fuel retail business in Russia divested

Neste divested its fuel retail business in Russia and sold it to the oil and gas company PJSC Tatneft. The transaction enables Neste to focus on strategic priorities with the aim to become a global leader in renewable and circular solutions.

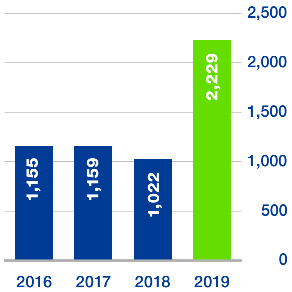
Read more

Key figures 2019

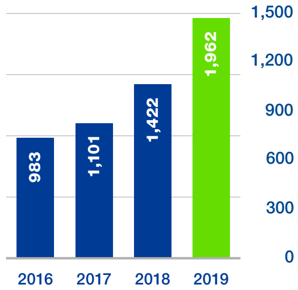
Revenue, EUR million



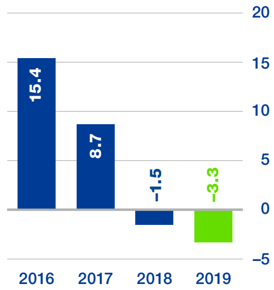
Operating profit, EUR million



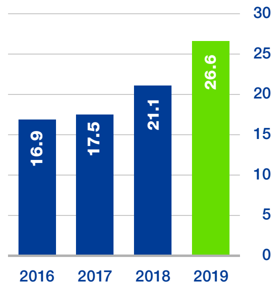
Comparable operating profit, EUR million



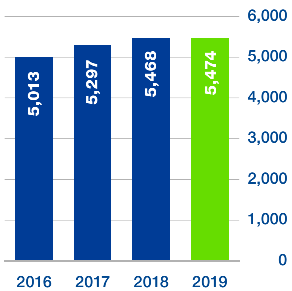
Leverage ratio, %



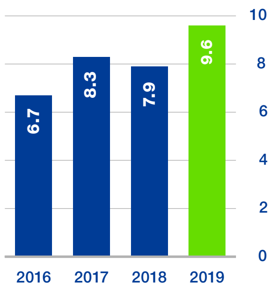
Return on average capital employed after tax (ROACE), %



Personnel, on average

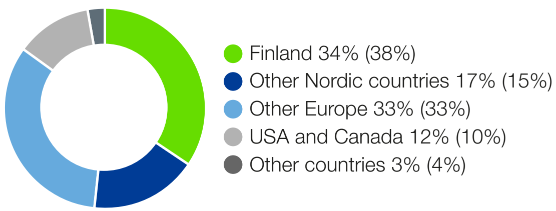


GHG reduction achieved with Neste's renewable products, Mt*

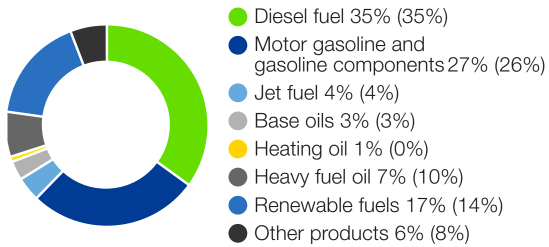


* Compared to crude oil based diesel

Sales by region from in-house production, %



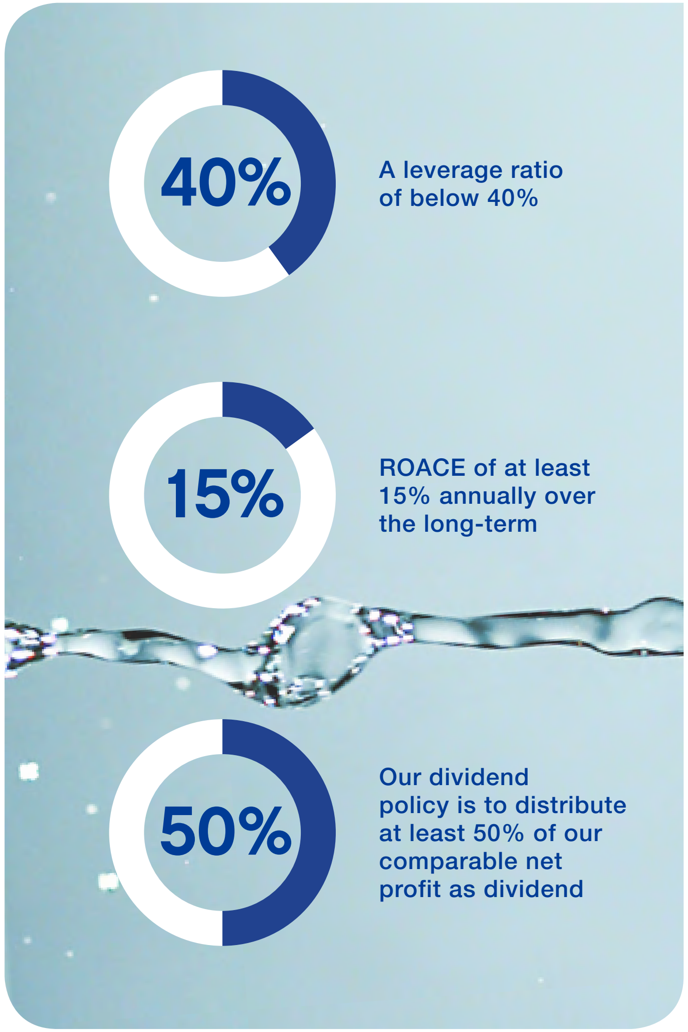
Sales by product from in-house production, %



	2019	2018	Change, %
Income statement			
Revenue, MEUR	15,840	14,918	6
Operating profit, MEUR	2,229	1,022	118
Comparable operating profit, MEUR	1,962	1,422	38
Profit before income taxes, MEUR	2,067	947	118
EBITDA, MEUR	2,731	1,636	67
Comparable net profit, MEUR	1,564	1,150	36
Profitability, %			
Return on equity (ROE), %	35.8	17.3	107
Return on average capital employed, after tax (ROACE), %	26.6	21.1	26
Financing and financial position			
Total equity, MEUR	5,922	4,616	28
Interest-bearing net debt, MEUR	–191	–70	172
Leverage ratio, %	–3.3	–1.5	116
Equity-to-assets ratio, %	60.8	56.4	8
Net cash generated from operating activities, MEUR	1,456	1,452	0
Other indicators			
Capital employed, MEUR	7,243	5,756	26
Capital expenditure and investment in shares, MEUR	890	438	103
Research and development expenditure, MEUR	54	48	13
Average number of personnel	5,474	5,468	0
Total refining margin, USD/bbl	10.56	11.18	–6
Total Recordable Injury Frequency per million hours worked (TRIF)	1.7	1.7	0
Share-related indicators			
Earnings per share (EPS), EUR	2.33	1.01	131
Comparable earnings per share, EUR	2.04	1.50	36
Equity per share, EUR	7.71	6.01	28
Cash flow per share, EUR	1.90	1.89	0
Price/earnings ratio (P/E)	13.32	22.24	–40
Dividend per share, EUR	1.02 [1)]	0.76	34
Dividend payout ratio, %	43.8 [1)]	75.3	–42
Dividend yield, %	3.3 [1)]	3.4	–3
Dividend per comparable earnings per share, %	50.1 [1)]	50.7	–1
Share price at the end of the period, EUR	31.02	22.45	38
Average share price, EUR	29.85	21.72	37
Lowest share price, EUR	22.19	17.37	28
Highest share price, EUR	33.33	25.51	31
Market capitalization at the end of the period, MEUR	23,861	17,271	38

[1)] Board of Directors' proposal to the Annual General Meeting. 2019 key figures include extraordinary dividend.

Financial targets



Information for investors

Neste shares are mainly traded on NASDAQ Helsinki under the trading code NESTE. The company had 77,889 (61,071) shareholders at the end of 2019.

Annual General meeting

Neste Corporation's Annual General Meeting will be held on Tuesday, 7 April 2020 at 1 p.m. EET at Messukeskus at Messuaukio 1, Helsinki. Registration and the distribution of voting papers will begin at 12 a.m. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4 p.m. on 1 April 2020 at the latest by:

- visiting neste.com and following the instructions given there.
- calling by phone +358 (0)20 770 6862 (Monday–Friday, 9 a.m.–4 p.m. EET).
- writing to Neste Corporation, Annual General Meeting, POB 95, FI-00095 Neste.

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4 p.m. on 1 April 2020 at the latest.

The Board of Directors proposes to the AGM that a dividend of EUR 0.92 per share be paid on the basis of the approved balance sheet for 2019 plus an extraordinary dividend of EUR 0.10 per share. The company intends to distribute the annual dividend in two installments, and this will also be proposed to the Annual General Meeting 2020.

Dividend payment in 2020

- 26 March 2020: AGM record date.
- 9 April 2020: Dividend payment record date for the first installment.
- 20 April 2020: Dividend payable for the first installment.
- 13 October 2020: Dividend payment record date for the second installment and for the extraordinary dividend.
- 20 October 2020: Dividend payable for the second installment and for the extraordinary dividend.

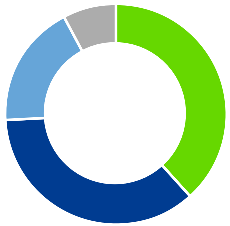
Interim reports in 2020

Neste Corporation will publish financial reports in 2020 as follows:

- **Interim Report January–March 2020:** 24 April 2020
- **Half Year Financial Report January–June 2020:** 23 July 2020
- **Interim Report January–September 2020:** 22 October 2020

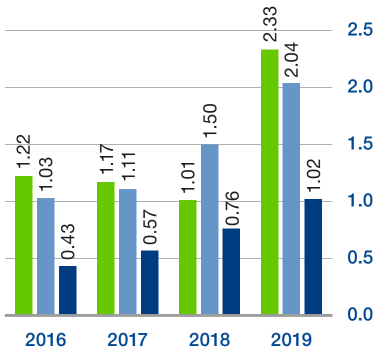
The Interim Reports are published in Finnish and English and can be downloaded at neste.com/investors.

Shareholder structure on 31 December 2019, %



- Non-Finnish Shareholders 38.0% (37.6%)
- Finnish State 36.0% (36.4%)
- Finnish institutions 18.2% (18.3%)
- Households 7.8% (7.7%)

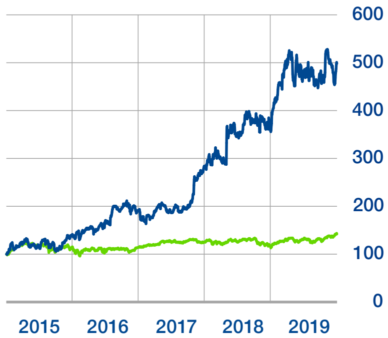
Earnings per share and dividend per share, EUR



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

* 2019: Board's proposal to the Annual General Meeting

Shareholders' total return, indexed



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

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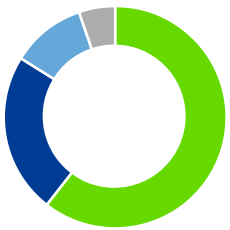
Neste's general e-mail address for investors:
investors@neste.com

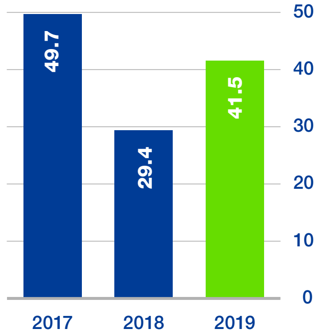
Neste share's trading volumes in 2019, %



- Nasdaq Helsinki 60.5% (59.5%)
- Chi-X Europe 23.3% (23.7%)
- BATS Europe 10.8% (10.4%)
- Turquoise 5.4% (6.3%)

Neste's share performance 2015–2019, EUR

Total shareholder return, %



Sustainability 02

Our purpose is to create a healthier planet for our children.

Sustainability highlights 2019

Climate

9.6 Mt The amount of greenhouse gas emissions our customers reduced with our renewable products in 2019

= equaling the annual emissions from **3.5** million passenger cars

or the annual carbon footprint of **1.5** million average EU citizens.

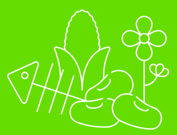
2016	2017	2018	2019	Target 2030
6.7 Mt	8.3 Mt	7.9 Mt	9.6 Mt	20 Mt

Circular economy

Waste and residues accounted for

80%

of our total raw material usage to produce renewable products.



All our units producing renewable products have a technical capability to run on waste and residues

100%

We aim at processing

>1 Mt

of plastic waste annually from 2030 onwards

People

314

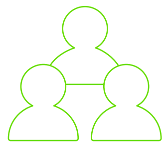
safe days (314 in 2018)

1,140

number of new hires in 2019

41.5%

of new employees say Neste's sustainability focus is the key reason or one of the key reasons for joining the company.



Managing sustainability

Our strategy is guided by our purpose to create a healthier planet for our children, and we are committed to combating climate change and driving the circular economy.

Neste's transformation journey has taken the company from being a local oil refining company to become a global leader in renewable and circular solutions. Our renewed long-term strategy is rapidly moving us to more boldly realize our sustainability aspirations while growing profitably.

We have consciously invested in enhancing our innovation culture. In 2019, our research and development expenditure was EUR 54 million. The long-term R&D work has resulted in new business areas – first renewable transportation fuels, followed by renewable aviation, and renewable polymers and chemicals.

Neste´s sustainability work described in this report is managed by Sustainability, Human Resources and Health, Safety and Environment (HSE) organizations.

"Sustainability and innovation have always been key enablers of our business. Companies are expected to manage their operations in a way that is good for the environment, people and climate. We believe that collaboration with other businesses, research institutions, and with customers is crucial. This is the way of the future – we need a variety of solutions and deep cooperation to combat climate change."

Simo Honkanen
SVP, Sustainability, Public Affairs and Communications

In 2019, we established an external independent Advisory Council on Sustainability and New Markets. The council met for the first time in October 2019. The Council consists of a group of carefully selected experts, able to provide strategic insight, guidance and assistance. They are committed to help accelerate Neste's transformation and extend its leadership activities. The Council convenes three times a year and is chaired by John Elkington, one of the pioneers of the global sustainability movement.

Our climate impact

As part of our renewed strategy, we set two new ambitious climate targets in April 2019:

- To reduce customers' greenhouse gas emissions with our renewable and circular solutions by at least 20 million tons CO_2eq annually by 2030;
- To reduce the carbon footprint of our own production ahead of the EU's climate and energy targets.

We support Finland's target of achieving carbon neutrality by 2035, and the Chemical Industry Federation of Finland´s ambition to strive for the sector's carbon neutrality by 2045.

Read more about our carbon handprint and footprint

One example of our commitment to these targets is a new EUR 1.2 billion multi-currency revolving credit facility ("RCF") signed in December 2019 with a syndicate of 13 core relationship banks. The margin under the RCF will be adjusted based on Neste's progress to meet its greenhouse gas emission reduction target.

Another concrete example of our climate work is our long-term agreement on wind power with energy company Fortum, announced in October 2019. The total capacity of the agreement is more than 60 MW, and the energy produced will correspond to around 20% of the electricity consumption at the Neste Porvoo and Naantali sites. The wind power deliveries are expected to begin in early 2021. The shift to wind power will reduce the indirect greenhouse gas emissions of electricity purchases at Neste's production sites annually by approximately 40 kilotons.

New and updated policies guiding our work

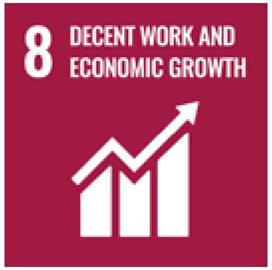
We launched our Responsible Sourcing Principle in January 2019. The updated Supplier Code of Conduct and a Principle on Supplier Sustainability Approval were approved by the Neste Executive Committee in November 2019, and will be implemented during 2020.

Sustainability risk management

The most significant sustainability risks are identified and assessed as a part of the annual risk management cycle facilitated by Neste's risk management team. The risk management team monitors the level of risks, and ensures that the risks are mitigated appropriately by Neste's business units, functions, and country units. Our sustainability risks are further described in our Non-Financial Information (NFI) Statement.

Our climate impacts are reviewed and monitored frequently on many levels of the company in addition to the Board of Directors. Sustainability related work, including climate change related work, is steered by the company's Senior Vice President, Sustainability, Public Affairs and Communications, who is a member of the Executive Committee and reports to the President and CEO.

As a part of our renewed strategy, we have set ambitious climate targets.



In November 2019, we committed to supporting Task Force on Climate-related Financial Disclosures (TCFD) reporting. TCFD develops consistent climate-related financial risk and opportunity disclosures for business in providing information to investors and other stakeholders. TCFD distinguishes between physical and transition risks. Physical risks are divided to acute and chronic risks. Transition risks include policy and legal, technology, market and reputation risks. The disclosures are associated with climate change, and what constitutes effective financial disclosures across industries. Our initial TCFD reporting in this report will take place in the NFI Statement in the Review by the Board of Directors, where it also aligns with the European Commission's Guidelines on reporting climate-related information.

Materiality assessment

This Sustainability Report focuses on the most material topics for Neste and its stakeholders. We conduct a materiality assessment every two years. The most recent one was conducted with 161 stakeholder representatives in the spring of 2018. It identified nine material topics that create the frame for our sustainability work. The next analysis will be conducted in 2020. Conducting materiality assessments with our stakeholders also demonstrates our commitment to the principles of the AA1000APS (2008) standard, consisting of inclusivity, materiality, and responsiveness.

You can read more about the most recent materiality analysis on our website.

Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) define international sustainable development focus areas and goals to be achieved by 2030. The SDGs can offer business opportunities and create value for our stakeholder groups.

In 2019, we analyzed the SDGs further and concluded with the six SDGs we see as having the greatest impact from our perspective: SDG 8 Decent Work and Economic Growth, SDG 9 Industry, Innovation and Infrastructure, SDG 11 Sustainable Cities and Communities, SDG 12 Responsible Consumption and Production, SDG 13 Climate Action; and SDG 17 Partnerships for the Goals. On these specific prioritized SDGs we see that we can contribute most. The prioritization process for the chosen SDGs has been based on the materiality analysis, impact evaluation study, an external review as well as internal expert analysis. We are working on with the company-specific targets in order to respond to the global challenges addressed by the SDGs.

External recognitions in 2019:

- Energy Globe World Award 2019 in the Air category together with other organizations for "Geothermal Energy for district heating of Espoo and Renewable Fuels for sustainable transportation."
- European Chemical Industry Council's Responsible Care Award for Sustainable Workplace.
- Clean Air Champion by East Bay Clean Cities Coalition.
- Among the sustainability leaders in the Dow Jones Sustainability Indices for the 13th consecutive time.
- Among the most sustainable companies in the world in the leadership category based on CDP Climate Change assessment.
- The world's 3rd most sustainable company on the Global 100 list.
- Circular Economy Award by Sitra, the Finnish Innovation Fund, and Laatukeskus, the Finnish Quality Association for pioneering work on the circular economy (information in Finnish).

Read more about how we manage sustainability at Neste

Neste business model

Neste helps transport and cities, as well as customers in the aviation, polymers and chemicals sectors make their business more sustainable.

Input

Economic / Governance

Indirect upstream

- Number of suppliers in
  - Renewable Products 95 (+160 Demeter suppliers)
  - Oil Products 48[1]
  - Indirect procurement 7,607
- Operations in 11 countries
- Production in 4 countries

Direct upstream

- Total equity 5,922 MEUR
- R&D expenditure 54 MEUR
- Interest-bearing net debt -191 MEUR
- Purchases of
  - refinery feedstocks 12,299 MEUR,
  - other goods and services 413 MEUR
- Use of renewable raw materials 3.5 Mt
- Sourced crude oil and fossil feedstock 15.6 Mt
- Indirect procurement spend 2,518 MEUR
- Cash-out investments 568 MEUR

Social

Indirect upstream

- 100% of approved renewable raw material suppliers screened using social criteria[3]

Direct upstream

- Highly skilled employees
  - Number of employees 5,474[4]
  - Hiring rate of permanent employees 14.0%
  - Leaving rate of permanent employees 7.4%
  - Recorded average training hours per FTE[5] 33.0
- 36,947 palm oil smallholders in Neste's supply chain

Environmental

Indirect upstream

- 100% of our palm oil[8] use is certified and traceable to plantations
- 99% of our PFAD[9] supply chains mapped to palm oil mills and 71% to plantations
- 100% of the new indirect supplier contracts, 100% of the renewable raw material volume[3] and 88% of the fossil raw material volume covered by the Neste Supplier Code of Conduct or equivalent
- Scope 2[10] and 3 emissions from upstream value chain: 5.7 Mt CO_2eq

Direct upstream

- Waste and residue raw materials used to refine renewables 2.8 Mt, 80% of the total renewable feed
- Water intake 9,120,000 m³/a
- Energy consumption 12.8 TWh

Our businesses

Renewable Products

Offering renewable diesel and jet fuel refined from waste and residues, and renewable solutions to the polymers and chemicals industries.

Oil Products

Producing a wide variety of traditional oil products and related services

Marketing & Services

We market and sell a wide variety of services and high-quality products

Our goal

To become a global leader in renewable and circular solutions.

Our People

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

Material topics

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

Output

Economic / Governance

Direct downstream

- Market cap 23,861 MEUR (at the end of 2019)
- Comparable operating profit 1,962 MEUR
- ROACE 26.6%
- Dividends 783 MEUR from 2019
- Net sales 15,840 MEUR
- Share of Clean Revenue 25.5%[2]
- Neste MY Renewable Diesel sales 0.5 Mt
- Sales from in-house production, Oil Products 14.4 Mt
- 991 service stations in 4 countries
- Oil Products and Renewable Products in the wholesale market sold in 50 countries to approx 310 customers

Indirect downstream

- Increase in the value of the shares and dividends
- New business opportunities
- Renewables help customers to meet their greenhouse gas emission (GHG) reduction commitments and support UN Sustainable Development Goals
- Helping end users to avoid infrastructure and other investments with drop-in solutions
- M&S B2B Customer satisfaction: Net Promoter Score (NPS) 59%
- Taxes and tax-like fees paid and remitted by Neste 4.1 billion euro

Social

Direct downstream

- Wages and salaries 316 MEUR
- Other personnel expenses 75 MEUR, including training costs 4.2 MEUR
- 69.8% men and 30.2% women
- 3/8 members of the Board of Directors and 2/11 members of the Neste Executive Committee are women
- Employee safety TRIF 1.1[6]
- Safe days 314[7]

Indirect downstream

- Contractor TRIF 2.7
- Charity work and sponsorship 1.8 MEUR
- Number of Neste employees who participated in volunteer work 291

Environmental

Direct downstream

- Energy saving measures 16 GWh
- Waste generated 166,600 t of which 34% recycled
- Wastewater 8,159,000 m³/a
- Scope 1, direct CO_2 emissions 2.46 Mt CO_2
- Scope 3 emissions from downstream value chain 44.2 Mt CO_2eq

Indirect downstream

- GHG reduction achieved with Neste's renewable fuels: 9.6 Mt[11]
- Neste MY Renewable Diesel enables up to 50%-90% smaller greenhouse gas emissions over the fuel's life cycle compared to fossil diesel[11]

Outcome

Impact

Economic / Governance

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

Social

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

Environmental

- Replacing fossil oil use with more sustainable alternatives
- Improving air quality
- Reducing deforestation
- Supporting circular economy
- Mitigating climate change
- Influencing operating environment and regulation

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

[1] Includes also natural gas and industrial gas suppliers. [2] Total revenue of Renewable Products segment divided by Group revenue. [3] Demeter suppliers excluded from the figure due to the integration in progress. [4] Annual average number of employees. [5] Full-time equivalent (FTE). Excluding Russia. [6] Total Recordable Injury Frequency [7] A day without a TRI accident, process safety events, fire or ignition, breach of environmental permit, or traffic accident. [8] Contains the use of crude palm oil (CPO), refined bleached deodorized palm oil (RBDPO) and refined bleached deodorized palm stearin (RBDPS) that we have physically transferred out of our production plants within the year 2019. [9] Palm fatty acid distillate [10] Scope 2 market-based emissions include only CO_2 [11] Compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC).

Neste as a part of society

Our vision, leading the way towards a sustainable future together, conveys that we believe in collaboration and want to be actively involved in developing a more sustainable future. We participate in the development of our industry, relevant associations, NGO´s and aim to actively engage in open dialogue with all our stakeholders. We support the work of legislators and other decision makers by offering expertise and information from our field to support decision making. We cooperate with a number of international universities and research institutions.

Climate

Combating climate change by developing sustainable solutions for the needs of cities, transport, businesses, and consumers to enable emission reductions in various fields.

- Low-carbon and circular solutions: renewable fuels and raw material for renewable chemicals and polymers.

Environment

Protecting the environment and biodiversity to safeguard them for future generations.

- Sustainability of raw materials
- Resource efficiency
- Protecting biodiversity and preventing deforestation

People

Valuing our employees, as well as people, communities, and societies.

- Human rights
- Incident-free operation and safety of our people and society
- Fair and equal employment
- Good corporate citizenship and ethics

Stakeholder engagement

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

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

We look forward to contributing to shaping the specific initiatives and legislation under the EU Green Deal.

In this section, we describe the most significant political processes and new legislation that have an impact on Neste's business and operational environment. Active engagement is essential for us throughout our value chain, and in the collaboration with suppliers and non-governmental organizations.

Our stakeholders play an important role in defining the most material sustainability topics for Neste in a materiality assessment, conducted once every two years.

Read more about our materiality assessment

New initiatives and memberships

In 2019, we rejoined Cefic, the European Chemical Industry Council, a not-for-profit organization which represents chemical companies across Europe. In January 2020, we became a member of the World Business Council for Sustainable Development (WBCSD).

In 2019, our Renewable Polymers and Chemicals (RPC) business unit structured its engagement with stakeholders in a stakeholder engagement roadmap. During the process, key stakeholder groups, trends and issues were identified, and strategic priorities defined. To complete the process, an action plan was developed, with an implementation plan for 2020.

Ambitious legislation accelerates markets for renewables

The agreement on EU Renewable Energy Directive for 2021–2030 (RED II) came into force in December 2018. It sets an EU-wide target of 32% for renewable energy sources in 2030, and 14% for renewables in transport in 2030. The member states must update their legislation accordingly by the end of June 2021.

In December 2019, the European Commission announced an "EU Green Deal" strategy with ambitious climate targets and a renewed circular economy action plan. We look forward to contributing to shaping the specific initiatives and legislation under the Green Deal in the coming years.

In Finland, the Parliament voted in February 2019 in favor of a law that seeks to gradually increase the share of biofuels in road transport to 30% by 2029.

In addition, the Parliament approved a law for the distribution obligation of bio-based light fuel oil. According to the new law, a share of light fuel oil intended for heating, construction machines, and fitted motors will be replaced by bio-based fuel oil starting in 2021. The new law is an important step toward lower-emission transport, to which Neste as a company is fully committed.

Two other Nordic countries, Sweden and Norway, have corresponding legislation in place to reduce climate emissions and increase the circularity of materials. The Finnish Government Programme, introduced in June 2019, includes ambitious climate targets and a goal for a carbon neutral Finland in 2035. As part of reducing transport-related emissions, the share of biofuels in aviation is targeted to be 30% through a blending obligation.

Sweden has announced a proposal for decarbonizing aviation as part of its target of being fossil-free by 2045. The proposal suggests that Sweden would introduce a greenhouse gas reduction mandate for aviation fuel sold in Sweden. The reduction level would be 0.8% in 2021 and gradually increase to 27% in 2030.

The Norwegian government's target is to increase the share of renewable fuels in aviation to 30% by 2030. As a first step, a law was passed in 2018 obligating aviation fuel suppliers to blend at least 0.5% of biofuel into their products starting from 2020.

In the Netherlands, the renewable energy mandate was updated in 2011 to increase from 4.25% to 10% in 2020, in line with the EU RED target. In 2018, the Dutch government raised the biofuel mandate to 16.4% by 2020, including double-counting. The country increased the advanced biofuels mandate from 0.6% in 2018 to 1% by 2020. These regulations have paved the way for us to launch Neste MY Renewable Diesel in the Netherlands.

In North America, Canada has begun preparing a federal Clean Fuel Standard (CFS). Among the Canadian provinces, Quebec is considering a new Provincial biofuel mandate. If Quebec takes a forerunner approach including elements such as an ambitious carbon reduction target and incentives for advanced biofuels, such a regulatory framework would give a positive boost for Neste's collaboration with Bioenergy La Tuque in developing biofuel production capacity based on forest residues.

In the United States, California has updated its Low Carbon Fuel Standard so that a sustainable aviation fuel producer can contribute to the biofuel mandate by providing low-carbon jet fuel. In Oregon, where a Low Carbon Fuel Standard has been in place, Neste entered the market by a partnership with a distributor McCall Companies.

In December 2019, the US Blender's Tax Credit (BTC) was approved retroactively for 2018 and 2019, as well as for 2020–2022. Qualified biofuel blenders in the US are eligible for a Blender's Tax Credit of $1.00 per gallon of biodiesel or renewable diesel used in the blending process.

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

Strategic research cooperation

In 2019, we started and strengthened our collaboration with several research institutions:

- Strategic cooperation with VTT which fosters the joint use and development of research infrastructures in Finland;
- Strategic cooperation with Åbo Akademi University on strategic cooperation, with the aim of improving the competitiveness of both parties while increasing Finnish chemical industry expertise, including in such fields as chemical and process engineering, bioeconomy, and the circular economy;
- Climate University challenge in collaboration with several companies, eleven universities, Ministry of Education and Culture and Finnish Innovation Fund Sitra.

We share our views on laws regularly with officials and legislators, and are glad to see countries and states elevating their ambition level to tackle climate emissions from transport.

Collaboration for tackling social exclusion among young people

Neste and Mantsinen Group joined forces to tackle one of society's most difficult challenges: the social exclusion of young people. The problem is vast: One in five children in developed countries lives in poverty *).

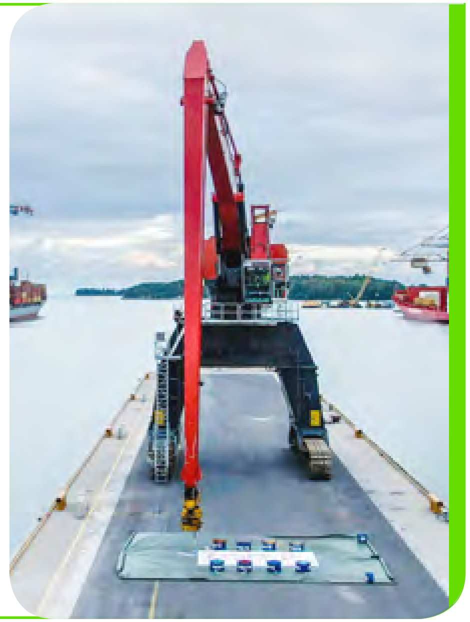
Through the Zero Exclusion campaign, Neste and Mantsinen pledged to get the voices of these young people heard and raise funds to tackle social exclusion. The campaign brought together young artists from Finland, the home-country for both companies, one of the leading international art galleries, and the world's largest hydraulic harbor crane.

The Zero Exclusion campaign featured 42 paintings by three young artists created using a 300-tonne harbor crane fitted with specially designed paint brushes. Neste MY Renewable Isoalkane-based coating, developed for the campaign by Teknos, was used for the first time in some of the paintings.

The paintings were created in two stages. The first was at the harbour, using Mantsinen 300 as the brush. The second stage was done at the Albright-Knox, Buffalo, one of the leading modern art museums. At this stage, the harbor-scale canvases were cut in smaller individual works and then finalized using various methods. Albright-Knox provided artistic coaching for the teens throughout the process.

The artworks were displayed at Bio Rex, Helsinki, and online at the Zero Exclusion campaign site. They were available to purchase on the same website. All the proceeds, which amounted for more than EUR 50,000 from the paintings went to the NGO Hope and their work against the social exclusion of young people.

Read more at neste.com



*) UN News: One in five children in rich countries lives in poverty, UNICEF "wake-up call" report shows

Hours well spent for good causes

In 2018, on our 70th birthday, we implemented a pilot project in volunteering to engage with local communities around us. Based on the positive experiences and feedback, we decided to do the same in 2019, offering our employees the opportunity to dedicate half a day for voluntary work.

For Neste, volunteering is one way to give back to the societies we are working with and within. Our pilot proved last year that volunteering adds to the meaningfulness of work, as well as work satisfaction and motivation. After the pilot, many Neste employees said they felt proud to work for an employer that encouraged its employees to take action in social issues.

At Neste, our employees, teams, and sites can choose where they want to do voluntary work. Voluntary work needs to be in line with our values. We also exclude high risk work, political parties, and religious entities.

In 2019, our employees cleaned beaches in Singapore and on the Baltic Sea coastline, collected donations for cancer prevention, helped elderly people to get some fresh air, collected and sorted clothing donations for poorer families – just to name a few.

Again, those who took part in volunteering saw it as inspiring. As the team at Fuel Products stated: "We would happily do this again!"

Sustainability KPIs

Sustainability theme	Material topic	Targets	Achievements in 2019
Climate	Low-carbon solutions	GHG emissions reduction achieved with Neste's renewable fuels compared to crude oil based diesel, million tons. [1)] Target to achieve 14 Mt GHG emissions reduction by 2023 and 20 Mt GHG emissions reduction by 2030.	GHG emissions reduction: 9.6 Mt (7.9 Mt). We introduced an updated emission reduction target for 2030.
Climate	Low-carbon solutions	To further develop our solutions portfolio for more sustainable transport, aviation, and chemical sectors.	Share of Renewable Products business area revenue from Group revenue (Clean Revenue) 25.5% (21.7%).
Circular Economy	Low-carbon solutions	Maximizing the share of waste and residue raw materials in our raw material mix provides the highest possible reduction in greenhouse gas emissions when compared to products derived from crude oil.	Waste and residues accounted for 80% of the total raw material usage to produce renewable products.
Circular Economy	Low-carbon solutions	Process more than 1 Mt of liquefied waste plastics by 2030 to reduce crude oil dependence in refining and petrochemical processes.	In 2019 we made progress towards our aim to introduce liquefied waste plastic as a future raw material for producing chemicals and raw materials for new plastics.
Environment	Protecting biodiversity and preventing deforestation	Introduce a system to measure and monitor how our suppliers implement Neste Responsible Sourcing Principle throughout their entire supply chain, including third party suppliers. Starting from 2020 to identify key pressure points related to biodiversity in the renewable raw materials portfolio of Neste and to provide suggestions on mitigating the effects.	Our No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock has been updated since 2017. The renewed guidelines are nowadays known as Neste Responsible Sourcing Principle. In 2019, our supplier guidelines, including the Neste Responsible Sourcing Principle, were benchmarked against the Accountability Framework Initiative (AFi).
	Protecting biodiversity and preventing deforestation	In 2017, to have our entire PFAD supply chain is mapped to palm oil mills. In 2020, to have our PFAD supply chain is mapped to oil palm plantations.	By end 2019, 99% of our PFAD supply chain has been independently mapped to the supplying mills and 71% all the way to plantations.
	Sustainability of raw materials	In 2019, to build a Supplier Sustainability Portal (SSP) to facilitate and enhance evaluation of both potential and existing renewable raw material suppliers, to support performance monitoring, and active engagement with our suppliers. In addition in 2020, to have SSP in operational use across the supply base, and support available for the users in English and in Chinese.	The SSP was taken partially in use in 2019 and deployment will continue in 2020. The number of renewable raw material supplier's Due Diligence and their outcome in 2019: Total: 91 (87), New approved suppliers: 52 (41), All approved: 55 (52), Pending: 36 (35), Failed: 0 (0). [2)]
	Sustainability of raw materials	In 2019, our Supplier Code of Conduct (SCoC) updated. In 2020, to have all new suppliers to commit to the requirements of the renewed SCoC, all renewable raw material suppliers assessed against the requirements of the new SCoC, and all purchasing personnell trained on the new SCoC requirements. Long-term target: Everyone supplying raw materials or services to us will meet the Neste Supplier Code of Conduct or similar requirements.	Our Supplier Code of Conduct was updated in 2019. 100% (100%) of the new indirect supplier contracts, 100% (100%) of the renewable raw material volume [3)] and 88% (91%) of the fossil raw material volume delivered to Neste in 2019 were covered by the Neste Supplier Code of Conduct or equivalent.
	Resource efficiency	Enhance Neste's energy consumption by 500 GWh during 2017–2025.	Energy efficiency, energy-saving measures: 16 GWh (57 GWh).
		Number of permit violations. Target: Halve the number of incidents within Oil Products (OP) in 2019 compared to the average number of incidents in 2016–2017. Long-term target for OP and Renewable Products (RP): zero permit violations.	Permit violations: 3 (2), of which 2 (2) in OP and 1 (0) in RP.
		Availability of pollution prevention technology. Long-term target: 100% availability of pollution prevention technology at refineries and terminals.	Availability of pollution prevention technology on average 88% in Oil Products and Renewable Products.

Sustainability KPIs

Sustainability theme	Material topic	Targets	Achievements in 2019
People	Safety and incident-free operation	Total Recordable Incident Frequency (TRIF)[4] target: 1.5 for 2019. Long-term target: Zero accidents.	TRIF 1.7 (1.7)
		Process Safety Event Rate (PSER)[5] target: 1.5 for 2019. Long-term target: Zero safety deviations.	PSER 1.4 (2.1)
		Target for 2019: 320 Safe Days. Long-term target: Continuously increasing the number of Safe Days.	314 (314) Safe Days
		Long-term target: Zero incidents. Continuously increasing awareness by focusing on preventive measures such as safety observation tours, safety discussions, and reporting.	Number of preventive safety measures 30,746 (31,677)
	Fair and equal employment	Employee engagement. Target: Maintain the level of global benchmark or above.	According to the engagement survey conducted early 2019 the employee engagement score was 71, which was in line with global benchmark result. Majority of employees thought favorably of working at Neste and said they would recommend Neste as a workplace. 72% felt happy working at Neste, 68% understood how Neste plans to achieve its strategic goals, 82% thought Neste acts in a responsible way, 85% saw safety as a priority for Neste.
		Long-term target: To attract and retain highly skilled employees. Substantial effort is put into maintaining and developing the skills base within the company.	Leaving rate of permanent employees 7.4% (11.4%). Hiring rate of permanent employees 14.0% (10.9%).
	Human rights	Managing human rights risks in renewable raw material supply chain. Target: To strengthen the human rights criteria in tracking and measuring suppliers' performance on social (and other sustainability) issues with the digital supplier management system, Supplier Sustainability Portal.	A supplier sustainability management system and corresponding criteria to measure performance has been developed (refering to major musts for supplier onboarding and minimum requirements that are outlined in the new Supplier Code of Conduct).
		Internal capacity to manage human rights risks. Target for 2019: Most critical functions have initiated human rights due diligence process to evaluate and strengthen internal capacity to mitigate potential adverse human rights impacts.	The gap assessments which began in 2018 for three internal units (Human Resources, Marketing & Services and Indirect Procurement) were concluded in 2019. Based on the gap assessments and analyses, an action plan was created for each business unit with focus areas for improvements. Implementation of the action plans began in 2019.
	Good corporate citizenship and ethics	To further encourage employees and external stakeholders to report observed or suspected misconduct.	A total of 13 (13) suspected misconducts were reported in person or via the whistleblowing line to the Investigations Group in the following categories: HR 2 reports, conflict of Interests 1, bribery and corruption 1, fraud 2, discrimination and harassment 2, and 5 reports belong to category “other”.

[1] Cumulative greenhouse gas (GHG) reduction achieved with Neste’s renewable fuels compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (RES 2009/28/EC). Neste regularly updates its GHG emission factors in line with the updates in legislation and the certification schemes.
[2] All figures except “New approved suppliers” include existing suppliers, which undergo a DD process every 3-5 years. 2019 Supplier data includes only main contractual parties, excluding sub-suppliers. The calculation process has changed from previous year, hence the numbers are not fully comparable.
[3] Demeter suppliers excluded from the figure due to the integration in progress.
[4] Number of cases per million hours worked. The figure includes both Neste’s and contractors’ personnel. Working hours for own personnel are estimated based on previous years. Estimation error is insignificant.
[5] Number of cases per million hours worked. Working hours for own personnel are estimated based on previous years. Estimation error is insignificant.

Our climate impact

We are committed to combating climate change and reducing climate emissions through both global and local efforts.

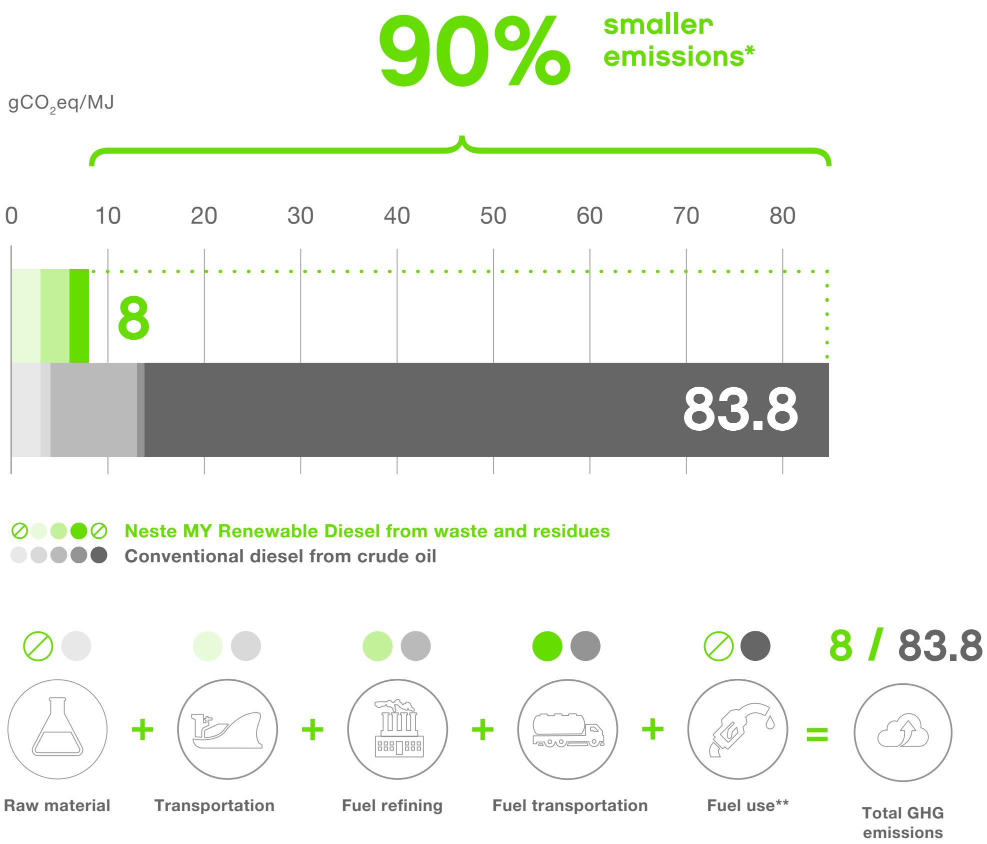
In April 2019, we introduced two ambitious new climate targets as part of our renewed strategy:

- To reduce customers' greenhouse gas (GHG) emissions with our renewable and circular solutions by at least 20 million tons of CO_2eq annually by 2030;
- To reduce the carbon footprint of our own production ahead of the EU's climate and energy targets.

We also continuously identify, analyze, and measure the financial implications of climate change for our business. In 2019, we committed to applying the Task Force on Climate-related Financial Disclosures (TCFD) reporting principles to disclose climate-related financial risks in future reporting.

Reducing greenhouse gas emissions with Neste MY Renewable Diesel™

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



* Calculation method complies with the EU Renewable Energy Directive (2009/28/EC).
** Carbon emissions from the use of renewable diesel amount to zero, as the amount of bio-based carbon dioxide released upon combustion equals the amount that renewable raw material has absorbed earlier.

Our environmental handprint

In 2019, our customers were able to reduce greenhouse gas (GHG) emissions by a total of 9.6 Mt (7.9 Mt) with our renewable products. Our renewable and circular products offer annually climate savings which are more than twice as large as the annual emissions from Neste's fossil and renewable refineries' operations and all logistics combined.

We aim to achieve our climate targets with the portfolio of renewable, low-emission, and circular solutions for transportation, aviation, and marine uses, as well as for the plastics and chemicals industries. We have also established an operational excellence program, ensuring competitiveness across both renewable and oil businesses.

With the VTT Technical Research Centre of Finland and Lappeenranta University of Technology, we have been developing the world's first science-based method for carbon handprint calculation and communication. It helps to calculate the beneficial environmental and climate impacts of products and services, offering both scientific and practical guidelines.

In 2019, we continued to contribute to the development of environmental handprint methodology. For example, we conducted a study with the Lappeenranta University of Technology about the air quality handprint of Neste MY Renewable Diesel. As a result, it was confirmed that replacing fossil diesel with Neste MY Renewable Diesel in the Finnish passenger car fleet would reduce nitrogen oxides and particulate matter emissions, and thus have a positive impact on local air quality on top of positive climate impact. We also supported the Finnish Climate Leadership Coalition (CLC) in encouraging other companies to calculate their carbon handprints to showcase the positive climate impacts of the Finnish industries.

Carbon footprint of our production

One concrete example of our climate work is the long-term agreement on using wind power in our production sites in Porvoo and Naantali. Wind power does not generate emissions to air, land, or water. The shift to wind power will reduce the indirect greenhouse gas emissions of electricity purchases at our production sites by approximately 40 kilotons annually. The wind power deliveries are expected to begin in early 2021.

In 2019, we instigated an ambitious project to reduce our own carbon footprint significantly in the future. The execution and implementation of this climate strategy will continue in 2020.

Circular solutions for the plastics and chemicals industries

We also mitigate climate change with our circular economy solutions. By recirculating materials, we can contribute to the global reduction of greenhouse gas emissions and combating the global plastic waste challenge.

Circular economy business models are central to us. Waste and residues account for approximately 80% of our renewable raw materials usage annually. We also have the capability of producing renewable diesel from 100% waste and residue raw materials.

We continuously investigate opportunities to utilize even lower-quality waste and residues. We are committed to becoming a solution provider for chemical recycling. Chemical recycling can complement traditional mechanical recycling in diverting valuable materials away from landfill and incineration. It has the potential to significantly increase recycling rates, as it can utilize a wider range of waste plastic, which has low or no value in mechanical recycling.

Collaborations to develop new solutions

Our renewable polymers and chemicals business, and developing chemical recycling, are built on partnerships and collaboration in the value chain. We need downstream partners to help produce renewable and circular polymers and chemicals. For chemical recycling, upstream partners are needed to collect, sort and process plastic waste. In addition, the technologies needed to process new raw materials may be developed by or with partners.

Examples of our collaboration with value chain partners in 2019:

- The first parallel production of bio-based polypropylene and bio-based low-density polyethylene on a commercial scale with LyondellBasell. The project successfully produced several thousand tons of bio-based plastics which are approved for the production of food packaging.
- Strategic cooperation with Borealis to enable production of renewable polypropylene (PP).
- Clariant launched drop-in additive solutions, based on Neste's mass balance certified renewable hydrocarbons.
- Development of chemical recycling of plastic waste with the aim of achieving significant industrial scale with Ravago.
- Collaboration with REMONDIS in the development of chemical recycling of plastic waste.

Renewable polypropylene plastic was studied in an EU project "Environmental impact assessments of innovative bio-based product, BIOSPRI". The study confirms clear environmental advantages of using Neste renewable product as sustainable feedstock for plastics production.

Read more about our renewable and circular plastics solutions here and here.

We aim to become a solution provider for chemical recycling to contribute to solving the waste plastic challenge.

Reducing emissions from transport and in cities

Cities and municipalities play a key role in combating climate change, as urban activities are major sources of greenhouse gas emissions. Estimates suggest that cities are responsible for 75% of global CO_2 emissions, with transportation and buildings among the largest contributors. It is essential, therefore, to make cities an integral part of the solution in fighting climate change. Many cities are already doing a lot by using renewable energy sources, cleaner production techniques, and regulations or incentives to limit industrial emissions. Reducing emissions will also decrease local pollution from industries and transportation.

In 2019, we started collaboration with several new cities and municipalities. These have been able to reduce emissions of their own fleets by using Neste MY Renewable Diesel. It enables up to 90% less greenhouse gas emissions over the fuel's life cycle compared to fossil diesel. It can also reduce local emissions, such as fine particulates and nitrogen oxides, which helps to improve air quality in urban areas. It is a drop-in solution for all diesel-powered vehicles, and does not need any alterations to the existing engines or logistics.

The availability of Neste MY Renewable Diesel expanded in 2019 in Finland, Sweden, Estonia, Lithuania, Latvia, the Netherlands, and in the US. Now many more transport companies and consumers are able to reduce their carbon footprint immediately.

Read more about our collaboration and partnerships in sustainable transportation:

- Waste feedstock from the City of Oakland is being converted to Neste MY Renewable Diesel to fuel the city's fleet.
- Savonlinja in Finland has launched a low-emission Green Travel service for bus passengers.
- Niemi Services in Finland has announced that it will introduce Neste MY Renewable Diesel in all its diesel vehicles and stop using fossil fuels altogether.
- In the US, we have opened more commercial fueling sites in Northern and Central California, and broadened the availability of Neste MY Renewable Diesel from California to Oregon through a partnership with a distributor McCall Companies.

From waste to fuel in the city of Oakland

Since April 2019, Neste and the city of Oakland have collaborated to gather waste cooking oils from restaurants and other businesses in the Oakland metropolitan area. Waste feedstock is now being converted to Neste MY Renewable Diesel for the city's fleet.

By making waste more valuable and supporting jobs that collect and treat it, this concept helps the local economy in the city while the cleaner-burning Neste MY Renewable Diesel improves the lives of its residents by reducing greenhouse gas emissions from the city's fleet.

Read more at neste.com

Sustainable solutions for aviation

Commercial aviation is responsible for about 2% of the global carbon emissions. Over the life-cycle, neat Neste MY Renewable Jet Fuel has up to 80% smaller carbon footprint compared to fossil jet fuel. Blended up to 50% with fossil jet fuel, aviation companies can achieve significantly less greenhouse gas emissions with Neste MY Renewable Jet Fuel. It also reduces harmful particulate SO_x and NO_x emissions and it is free of sulfur, oxygen, and aromatics.

Decreasing aviation industry's emissions calls for close cooperation between different aviation stakeholders. The International Air Transport Association (IATA) has set targets to mitigate CO_2 emissions from air transport:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;
- A cap on net aviation CO_2 emissions from 2020 onwards (carbon-neutral growth);
- A reduction in net aviation CO_2 emissions of 50% by 2050, relative to 2005 levels.

In 2019, the commercial production of Sustainable Aviation Fuel (SAF) increased from an average of 0.29 million liters per year (2013–2015) to 6.45 million liters per year (2016–2018). By 2032, up to 6.5 Mt (8 billion liters) of SAF production capacity may become available annually. This would almost cover IATA's 2% goal.

We support these objectives, and collaborate with the aviation industry and other stakeholders toward more sustainable aviation.

In 2019, we started several new partnerships and continued developing further existing ones:

- We deliver our sustainable aviation fuel to Lufthansa that will use Neste's renewable jet fuel blended with fossil jet fuel on flights departing from Frankfurt.
- We supplied sustainable aviation fuel to KLM and joined KLM's Corporate BioFuel Programme (CBP), which enables businesses with a corporate contract to ensure that some of their corporate travel is undertaken using sustainable aviation fuel. KLM uses Neste's annual contribution within the same calendar year to purchase sustainable aviation fuel.
- In partnership with Air BP, we delivered sustainable aviation fuel to Swedavia-operated airports in Sweden and Caen airport in France.
- We signed a Memorandum of Understanding on a joint sustainable fuel initiative with the Port Authority of New York & New Jersey (PANYNJ). We shall be working together to facilitate the use of sustainable transportation fuels at the Port Authority and in its fleet vehicles and equipment, including renewable jet fuel, renewable diesel, renewable propane and other sustainable fuel products.
- We continue to collaborate with San Francisco International Airport (SFO) to promote the use of sustainable aviation. This includes having renewable jet fuel as an opt-in fuel to generate credit under the Low Carbon Fuel Standard (LCFS). Groundwork is also in place to supply our partners with sustainable aviation fuel at SFO, starting in the first quarter of 2020.
- In January 2020, Jet Blue agreed to purchase Neste´s renewable jet fuel for flights from San Francisco.

Sustainable marine solutions

More than 90% of the world's trade is carried by sea, making maritime transport essential to the global economy. Shipping is an industry where even incremental change can deliver massive benefits. We help shipping companies to reduce their emissions and to respond to the tightening regulations on sulfur dioxide emissions with low-sulfur fuels.

In August 2019, we brought Neste Marine 0.5 fuel to the market, and in November, we announced a partnership with the German BMT Bunker und Mineralöltransport GmbH. The agreement covers distribution and sales of Neste Marine™ 0.5 in Bremerhaven, Germany.

Vessels operating outside the Emission Control Areas (ECAs) defined by the International Maritime Organization (IMO) in global waters will be required to use fuel with a maximum sulfur content of 0.5%, unless they use exhaust gas cleaning systems.

Those operating within the Emission Control Areas (ECA), in some very fragile ecosystems such as the Baltic Sea, the North Sea and the English Channel, will continue to be required to use fuel with a maximum sulfur content of 0.1%. Neste Marine™ 0.1 fulfills the current requirements of the EU Sulphur Directive.

In 2018, we started a new R&D project on renewable marine fuels. We hosted an international forum for invited guests such as shipowners, engine manufacturers, industry stakeholders, as well as IMO and the International Bunker Industry Association representatives. The aim was to discuss how the IMO's target of reducing the shipping sector's overall greenhouse gas emissions CO_2eq output by 50% by 2050 would impact shipping and how the shipping industry is planning to comply with the new regulation.

As we continue our efforts to develop sustainable solutions for different industries, low-carbon, renewable fuels are among the top priorities in the research and development program of our marine services.

We help shipping companies to reduce their emissions and to respond to the tightening regulations.

Renewable and recycled raw materials

We develop solutions based on renewable and recycled raw materials for various areas of life.

Although we continue to use crude oil as a raw material in our traditional oil products, such as low-sulfur marine fuel, we are making progress in developing chemical recycling of waste plastic to introduce liquefied waste plastic as a new raw material at our fossil oil refineries. Liquefied plastic waste can be used e.g. to produce chemicals and raw material for new plastics.

Bio-based waste and residue raw materials at center stage

We use approximately ten different renewable raw materials each year to produce renewable products, such as renewable transportation and aviation fuels, as well as feedstock for the production of renewable polymers and chemicals.

2 Mt

The amount of non-renewable resource use that Neste's renewable and circular solutions helped replace in transport, aviation and polymers and chemicals sectors.*)

*) Calculation principles can be found on page 68

In 2019, we continued to focus on waste and residue raw materials, which accounted for 80% (83%) of our total renewable raw material usage globally.

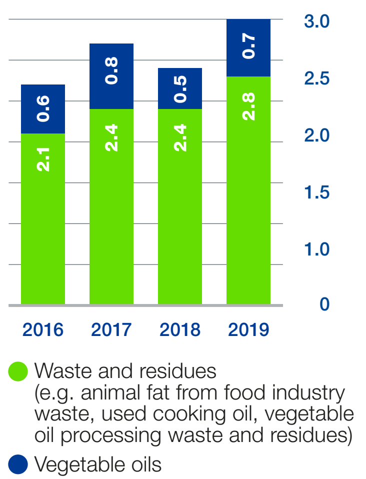
Due to preferences in specific markets, we also continue to use sustainably-produced vegetable oils, such as palm oil. Sustainably produced, 100% certified and 100% traceable palm oil accounted for 21% of our total renewable raw materials usage globally.

Production capacity growth requires increasing volumes of renewable raw material

One of our competitive advantages is our capability to source, transport and flexibly use various mixes of renewable raw materials to produce a wide range of high-quality renewable products with our proprietary NEXBTL refining technology. Another advantage is our unique capability of pre-treating, i.e. purifying, low-quality raw materials to remove impurities. This enables us to use primarily waste and residue raw materials to produce our renewables. All our refineries producing renewable products are technically capable of running on 100% waste and residues.

Our Sluiskil plant in the Netherlands, for example, specializes in pre-treating renewable raw materials for our renewable products refineries. Our production capacity expansion project ongoing at the Singapore refinery will further improve our raw material pre-treatment capacity, enabling us to use even lower-quality waste and residue raw materials that would otherwise be difficult or impossible to process.

Use of renewable raw materials, million tons



Moving closer to our raw material suppliers

We accelerated our work aiming to capture a greater share and wider scope of waste and residue streams with a continued focus on sustainability. We analyzed the availability of renewable raw materials globally and are confident that sufficient waste and residue volumes will be available to secure future growth.

We have continued to build a global platform for ensuring better access to waste and residue raw materials. In 2018, we acquired 51% of the shares of Demeter, one of the largest animal fat traders in Europe, to integrate ourselves further into raw material value chains. In September 2019, we opened an office in Shanghai focusing on renewable raw material sourcing in China. There we started sourcing certified volumes of used cooking oil (UCO), with the aim of also sourcing other waste and residue raw materials from local collectors on the east coast of China, especially in the regions around Shanghai, but later in other big cities as well.

In November 2019, we opened an office in Melbourne for waste and residue raw material sourcing in Australia and New Zealand. Strengthening of our local presence in the regions where we source raw materials provides us with better visibility into the supply chain, enables closer engagement with our suppliers, and provides us with more control to ensure high-level sustainability performance.

Read more about our supplier engagement

Strenghtening our local presence in regions where we source raw materials enables closer engagement with our suppliers.

Raw material development in the short- and mid-term

We continued to work towards increasing the availability of emerging, lower-quality waste and residue raw materials. For example, we explored various oils, derived from refining processes of a variety of oils and fats. We also studied palm effluent sludge (PES), palm oil mill effluent i.e. the remaining oily waste skimmed from the palm oil mill's wastewater (POME), municipal solid waste, wastewater-derived grease (also known as "brown grease"), as well as derivatives from forest-based wastes and residues.

Our long-term raw material development continued to focus on scalable sustainable raw materials, such as lignocellulosics, microalgae, and sugars. In addition to raw materials themselves, we have explored technologies to lower their greenhouse gas emissions and others which enable the use of new raw materials in the production of fuels, chemicals, and materials.

Our long-term raw material development continued to focus on scalable sustainable raw materials, such as lignocellulosics and microalgae.

Novel vegetable oils from advanced agricultural concepts

As part of our mid- to long-term renewable raw material development efforts, we explored advanced agricultural concepts with the aim of increasing the availability of additional vegetable oils. These new additional volumes may become available as a result of improved, more sustainable agricultural practices, such as:

- "winter cropping", i.e. using the full potential of agricultural land to cultivate additional crops without replacing the main crop cultivated on the same land during other seasons;
- "silvopasture", e.g. cultivating crops on pasture land alongside cattle; or
- cultivating crops on severely degraded or abandoned land.

The key sustainability benefit provided by these advanced agricultural concepts is that cultivation of crops provides additional yields from degraded or pre-existing agricultural land. Advanced agricultural concepts to produce these new volumes of vegetable oils aim to minimize the indirect land use change (ILUC) risk. They do not require the replacement of any existing cultivation, nor create any demand for additional agricultural land elsewhere for biofuels or for food and feed production purposes.

These advanced agricultural concepts are not yet widely practiced, and commercial volumes of these raw materials are not yet available. Once available, the use of these additional volumes of raw materials in biofuels production will fully comply with all the sustainability requirements and criteria included in the EU RED II, coming into force in 2021. Besides being used in the transportation and aviation sectors, novel vegetable oils could be used to produce our renewable solutions for the polymers and chemicals sectors.

We accept only sustainably produced renewable raw materials

- We source sustainably produced renewable raw materials only from suppliers who meet our strict criteria for sustainability. This is embedded into our policies and principles, as well as the regulatory requirements in our key markets.
- We select our renewable raw material suppliers carefully, based on a systematic approach.
- All the renewable raw materials we use meet the sustainability criteria defined in the EU RED for the European markets and the US EPA's requirements for North America. The raw material mixes used for products in specific markets additionally meet local market-specific and/or industry-specific regulatory requirements.
- We accept only renewable raw materials which are traceable to production or cultivation sites.
- We ensure that the production of our raw materials has not caused deforestation, threatened biodiversity, and that human rights have been respected.
- We ensure that the renewable raw materials that we use to produce renewable fuels always provide at least 50% lower greenhouse gas emissions over the fuels' life cycle compared to similar emissions from fossil alternatives.
- All the renewable raw materials we use are either certified, or their compliance with applicable laws and regulations is verified according to the legislation of the country to which the end product will be supplied.

Read more about our supplier engagement

We take a clear stand against actions that cause deforestation. For example, slashing and burning of natural forests is unacceptable.

PFAD as a sustainable raw material

Palm fatty acid distillate (PFAD), a processing residue removed during the final stages of refining food-grade palm oil, is one of the many waste and residue raw materials in our portfolio. Replacing crude oil with waste and residue raw materials, for example, in the production of transport fuels offers significant climate benefits. Their use reduces the pressure to clear new areas of land for the cultivation or production of virgin raw materials, such as vegetable oils.

We buy PFAD only from suppliers that are committed to sustainable working practices and meeting or exceeding strict sustainability criteria embedded in the biofuels regulation. These criteria include a proactive approach to preventing deforestation and mitigating its risk.

Traceability of PFAD

From a legal standpoint, the use of residues like PFAD in biofuels production continues being fully accepted worldwide. PFAD use continued to be legally approved also in those countries that have classified PFAD as a co-product.

Biofuels producers are required by law (eg. EU RED) to use only traceable raw materials. We always meet the traceability requirements in each market. If PFAD is classified as a residue, we ensure traceability to the palm oil refineries where PFAD is removed to produce food-grade palm oil. If PFAD is classified as co-product, traceability is ensured to the oil palm plantations.

Progress made in PFAD supply chain mapping

We have a public target of working towards mapping our entire PFAD supply chain to oil palm plantations by the end of 2020. 99% of our PFAD supply chain was independently mapped and validated to the supplying mills in 2018. In 2019, we were able to map 71% (44%) of our PFAD supply chain all the way to palm oil plantations. This significantly surpasses the current regulatory requirement for residue raw materials.

Working toward our 2020 target has required us to map large parts of previously unmapped food industry palm oil supply chains with good progress.

The food industry, representing approximately 70% of global palm oil use, does not generally require its palm oil volumes to be traceable. Very limited volumes of certified PFAD are available that are traceable to the oil palm plantations.

See our traceability dashboard for the most recent detailed information on key aspects of our palm oil and PFAD supply chains (for example, certifications). In 2019, we increased the frequency of dashboard updates from one to two times per year.

Feedback gathered on the Traceability To Plantations (TTP) method

We continued to develop “Traceability to plantations” (TTP) approach for palm oil-based waste and residues, such as PFAD. Our aim is to develop a common approach to tracing palm oil-based waste and residues.

The TTP approach prioritizes gathering more data from suppliers sourcing raw material in higher risk areas, such as those in close proximity to forests, uncultivated peat, and protected areas. During 2018 and 2019, we engaged with all our palm oil suppliers and more than ten others to introduce the approach and gather feedback. Building industry-wide acceptance for the approach could significantly improve the overall transparency of palm oil supply chains, and those that are primarily serving industries and do not have legal traceability requirements similar to those in the biofuels sector.

Read more about our TTP approach

Collaboration with palm oil smallholders

In 2019, our supply chain included more than 36,900 (40,000) Indonesian palm oil smallholders, organized into cooperatives. Our cooperation with palm oil producing smallholders aims to support the development of their sustainability awareness and expertise. The adoption of sustainable practices enables smallholders to get certified; Neste requires a commitment to certification from all its palm oil suppliers.

Since 2017, we have co-funded the Wild Asia Group Scheme (WAGS) project, coordinated by the Malaysian non-governmental organization Wild Asia, involving smallholders producing palm oil in Malaysia. The goal of the project is to improve the sustainability of the smallholders´practices in the Sabah region in Borneo. In 2018, we focused on improving smallholders' practices in farming, chemical use, and using waste materials as organic fertilizers. These efforts have continued in 2019, with development plans to reach out to more small growers (i.e. smallholders with bigger land holdings) and farmers.

In 2019, we continued partnering also with Wild Asia and KLK, and managed to help 61 smallholders and four small growers get certified. They represent approximately 620 hectares of land. The project is part of a larger Kinabatangan project through which 339 smallholders were certified, with a total of approximately 2,080 hectares of land.

Collaborative sustainability projects in Southeast Asia

We continued our collaboration with palm oil producers Golden Agri and Musim Mas in a landscape project, aiming for a large-scale transformative sustainability impact in the Siak region in Indonesia. We completed benchmarking other sustainability initiatives in the region during the first half of 2019 and entered into an implementation phase. The project aims to develop deforestation-free supply chains for multiple commodities, such as palm oil. The project involves a coalition of companies – Cargill, Danone, Musim Mas, Neste, PepsiCo, Sinar Mas Agribusiness and Food, and Unilever – as well as Daemeter, Proforest, and the Siak government.

Neste also continued serving as a steering committee member of the SUSTAIN initiative, bringing together oil palm growers, processors, users, sustainability experts, and technology partners to collaboratively drive innovation in addressing region-specific sustainability issues. The initiative, for example, aims to develop a blockchain-based sustainability assurance platform to facilitate the collection and sharing of sustainability and traceability information.

Read more about our cooperation with other organizations

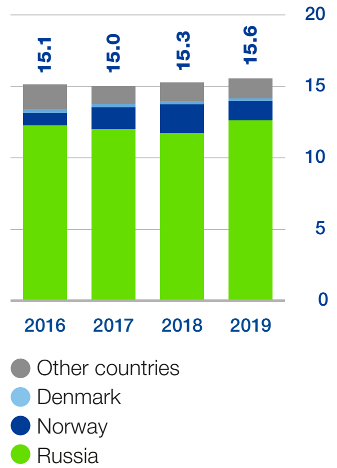
Sustainability in the crude oil supply chain

As we are transforming from a traditional oil refiner into a provider of renewable and circular solutions, we continue to produce high-quality oil products from crude oil and condensates.

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

We collaborated with several other companies in a project that aims to develop deforestation-free supply chains.

Crude oil and fossil feedstock sources by region, million tons



We see a combination of solutions, e.g. mechanical recycling, chemical recycling and bio-based material solutions, as an essential approach to the EU's Plastics Strategy agenda.

Chemically recycled plastic waste replacing fossil oil

Mechanical recycling of plastic waste has been making a positive contribution to circular economy, raw material security, and climate protection for decades. To complement mechanical recycling, with several value chain partners, we are committed to becoming a solution provider for the chemical recycling of plastic waste. We are developing capacity to chemically recycle post-consumer plastic waste, which is currently difficult or impossible to recycle mechanically. Our track record in upgrading challenging refinery raw materials, both crude oil and low-quality renewable raw materials, provides a solid foundation for demonstrating and scaling up chemical recycling quickly.

Chemical recycling increases circularity of materials

The development of chemical recycling capacity supports our strategic target of becoming a global leader in circular solutions. It is also aligned with our aim of reducing climate emissions and reducing crude oil dependency in society. In addition, the development supports the European Strategy for Plastics in the Circular Economy and the Circular Plastics Alliance target of introducing 10 million tons of recycled plastics into products in the European Union by 2025.

In 2018, Neste set a target of annually processing more than one million tons of plastic waste from 2030 onwards. This target was submitted to the European Commission and published among other voluntary Plastics Pledges by various business organizations in March 2019.

In particular, we focus on developing technologies and processes to produce liquefied, synthetic raw material similar to crude oil from waste plastic. This liquefied plastic waste can be used as a raw material in fossil oil refineries and be turned into chemicals and raw material for new plastics.

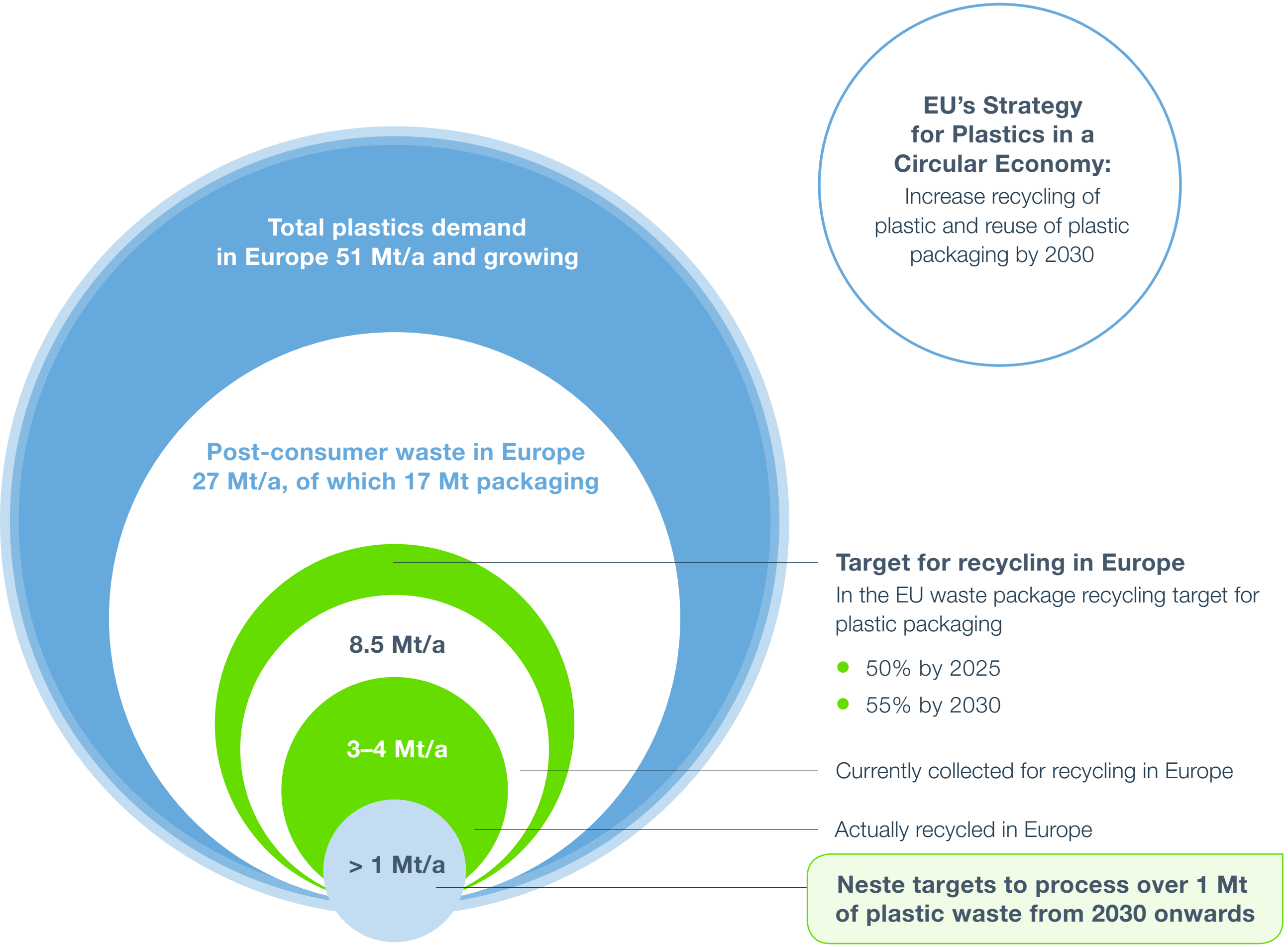
New partnerships to develop chemical recycling

In 2019, we announced new collaborations with REMONDIS and Ravago, companies which have specific expertise and insight into waste streams and recycling. They are helping us gain access to European post-consumer plastic waste, and understand which waste plastic streams will not compete with mechanical recycling and are technically best suited for liquefaction, currently and in the future.

Our collaboration aims to achieve industrial scale volumes once we have tested the chemical recycling concept successfully with smaller volumes of plastic waste. Through our projects with the two companies, we aim to develop a new chemical recycling capacity to process 400,000 tons of waste plastic as part of our overall target of reaching one million tons by 2030.

Preparations ongoing for an industrial-scale test run on liquefied plastic waste

We are preparing for our first industrial-scale test run on liquefied plastic waste at our refinery in Finland. We will co-process liquefied post-consumer plastic waste with crude oil to produce commercial volumes of chemicals and raw material for new plastics.



Sources of figures: Plastics Europe, Deloitte, 2017

Chemical recycling means transforming waste plastic back into raw material similar to crude oil and processing it into high-quality materials. This offers several benefits, such as:

- accelerating circularity of materials by diverting valuable materials away from landfills and incineration;
- complementing traditional mechanical recycling and can help increase recycling rates by recycling of a wider range of waste plastics (for example, mixed, multi-layer, multimaterial and colored plastics) than mechanical recycling;
- contributing significantly to reducing crude oil dependency in society and the reduction of the related fossil-based carbon emissions into the atmosphere;
- enabling production of high-quality materials which can be used in all current applications, even in the most sensitive ones, such as in primary food packaging, as well as pharmaceutical and healthcare applications;
- enabling Neste to contribute to the global development of efficient new solutions to tackle the global plastic waste challenge.

Read more about our other partnerships to create circular business solutions

Read more about how we engage with renewable raw material suppliers

Supplier engagement

Selection of partners is crucial for the sustainability of the supply chain. Therefore, ensuring the sustainability of our supply chain begins long before any agreements have been signed, or even a drop of raw material has been delivered. We cooperate with our long-term partners in the fields of training and communication, among others.

Knowing the origin of our renewable products is a basic requirement on which we will not compromise. Independent experts verify annually that various strict sustainability requirements for renewable products are followed.

Our principles for responsible sourcing

Neste's supply chain management is based on the company's sustainability policies and principles. All our suppliers are required to fulfill the requirements of our Supplier Code of Conduct. It was updated in 2019 to ensure its correspondence with existing norms and regulations, as well as stakeholder expectations and needs. We operate with integrity towards our suppliers and treat them professionally, fairly, and equally. A supplier's ability to meet the requirements of the Supplier Code of Conduct is regarded as a significant factor when Neste is deciding an initiation or continuation of a business relationship with a supplier. In 2020, we will ensure that the updated code is implemented, and the minimum requirements for suppliers are always interpreted the same way.

Our renewable raw material suppliers are aditionally required to meet the requirements of our Responsible Sourcing Principle, as well as adhere to our Human Rights Commitment and Principles, and industry and market-specific legal requirements.

Supplier Sustainability Portal

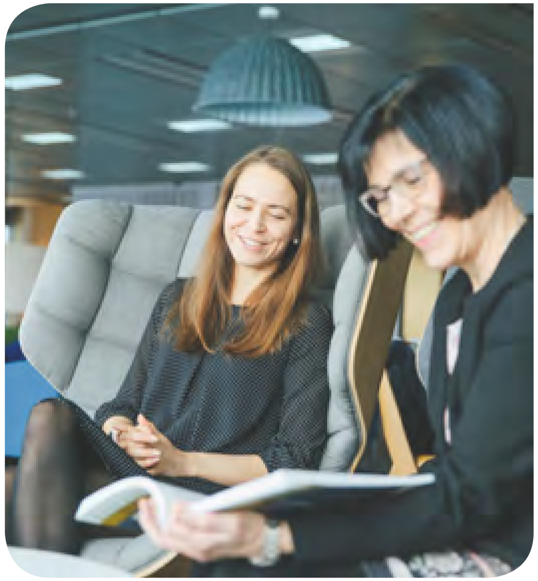
Our core processes for sustainable sourcing of renewable raw materials, such as supplier evaluation, supplier due diligence, engagement, and submission of proof of sustainability documents, will be managed by our Supplier Sustainability Portal (SSP). It is a digital sustainability platform for Neste's renewable raw material suppliers and compliance processes. These enable our global sourcing of renewable raw materials growth, sustainably and efficiently.

We have been developing the portal collaboratively with our suppliers since 2017. The first operational version was launched in December 2018. In 2019, the system development continued in parallel with testing. The aim is to develop a system to support our suppliers regardless of their location, supplied materials, or mode of transportation.

The portal has been taken partially in use, and deployment to the majority of our supply base will continue in 2020. All new suppliers are already being on-boarded with the portal, while we continue expanding the deployment across our existing supply base. We have set a target to manage all Neste's renewable raw material suppliers' sustainability and delivery information via the portal by the end of 2020.

Engagement with oil suppliers

We continued introducing our Supplier Code of Conduct to companies supplying crude oil to us, with the aim of getting them to commit to compliance. In 2019, 88% (91%) of the total supplied volumes of crude oil and fossil feedstocks were covered by Neste's Supplier Code of Conduct or similar schemes.



Our supplier Code of Conduct was updated in 2019. All our suppliers are obliged to fulfill its requirements.

Our approach to supplier sustainability due diligence is to work together with suppliers. We aim mutually enhance sustainability performance through continuous engagement, collaboration and improvement.

Piloting and improving supplier sustainability due diligence

The Neste Supplier Sustainability Due Diligence Framework was further developed in 2019, when a new Principle on Renewable Products (RP) Supplier Sustainability Approval was approved. The principle applies worldwide to any Neste company which is establishing a business relationship with a supplier supplying renewable raw material for Neste's renewable products. Supplier sustainability approval is part of our framework for counterparty risk management, which consists of credit control, a compliance review, and a sustainability due diligence process. The Principle sets the minimum requirements for supplier sustainability approval through a six-step sustainability due diligence process:

1. Review of raw material approval;
2. Sustainability risk assessment;
3. Supply chain identification;
4. Review of certain requirements of market compliance and Neste compliance;
5. ESG evaluation; and
6. Onboarding audit (desktop and/or on-site).

The ESG evaluation encompasses a comprehensive range of Environment, Social and Governance (ESG) topics that align with Neste's Supplier Code of Conduct adopted in November 2019, and other relevant policies such as the Human rights principle and Responsible sourcing principle. The ESG topics include governance, labor standards and practices, labor and human rights, environment and health and safety. The supplier sustainability due diligence process is managed through Neste's Supplier Sustainability Portal (SSP).

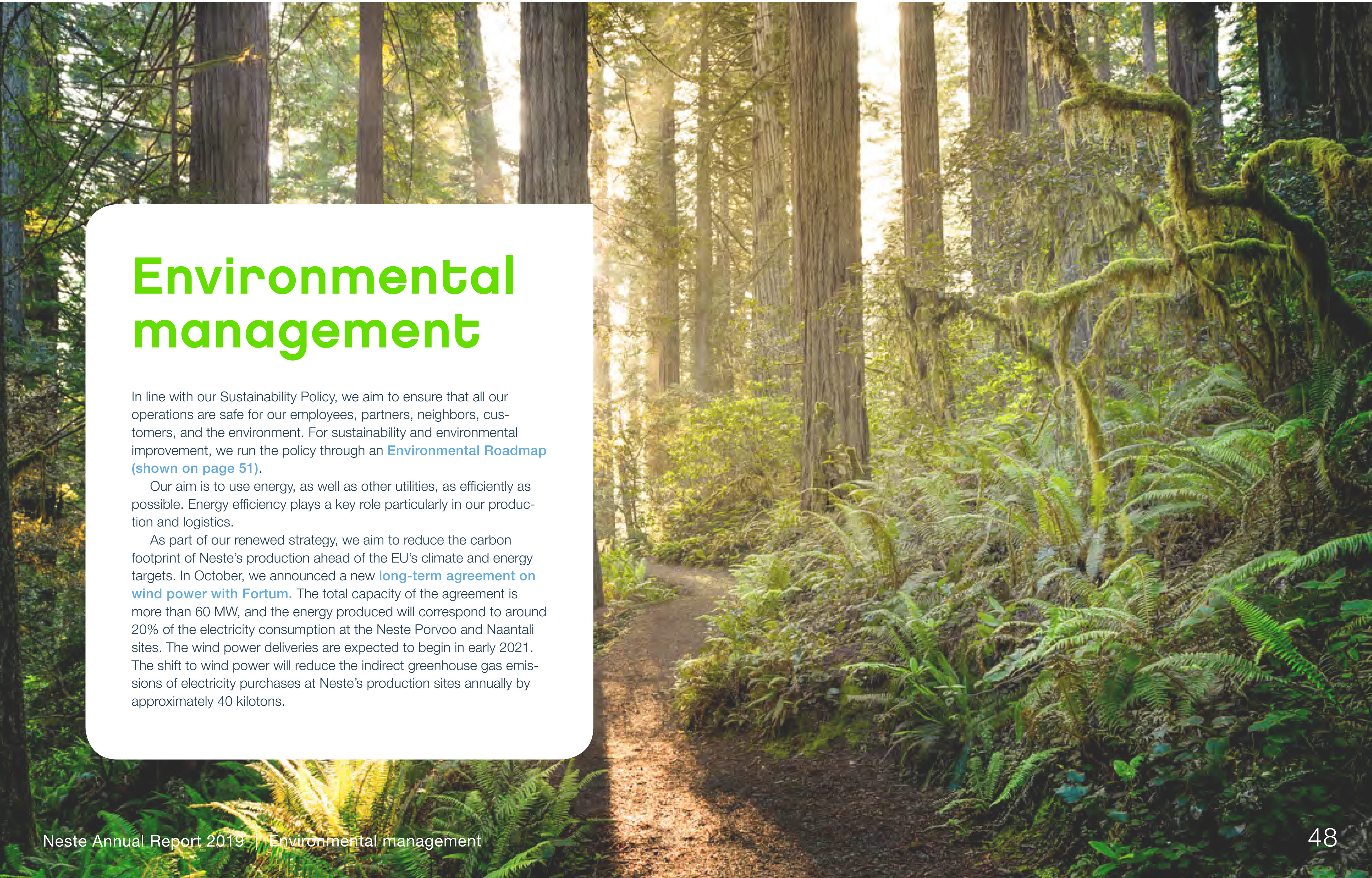
Our overall approach to supplier sustainability due diligence is to work together with suppliers. The aim is to mutually enhance sustainability performance through continuous engagement, collaboration, and improvement. In addition to understanding the sustainability performance of our direct suppliers, we also want to gain visibility on practices throughout the entire raw material supply chain, including our suppliers' suppliers.

In September 2019, we continued to develop our supplier sustainability due diligence process by piloting an on-site audit for a supplier of used cooking oil. In November, we also conducted an on-site audit for a palm supplier, using the approach developed during our palm pilot in 2017. We combined the Neste Supplier Code of Conduct scope with the Neste-led supplier audit for certifications covering EU RED, EPA RFS, and market compliance. Aligning these audit methodologies and scopes enabled us to further improve our processes for on-site ground supplier sustainability due diligence.

We started updating our No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock together with our partner Consortium of Resource Experts (CORE) in 2017. Implementation of the guidelines, nowadays known as the Neste Responsible Sourcing Principle, has been applied since the spring of 2019. It is applicable to all our renewable raw materials sourcing.

In 2019, our supplier guidelines – Supplier Code of Conduct, Responsible Sourcing Principle and Human Rights Principle – were benchmarked against the Accountability Framework Initiative (AFi). AFi is a collaborative effort to establish common definitions, norms, and good practices for delivering across various agricultural commodity commitments. The guidelines were co-created through a consultative process with a wide range of stakeholders including producers, refiners/traders, consumer goods manufacturers, non-profit organizations and other stakeholders.

In 2020, we plan to pilot a supplier sustainability due diligence framework with additional raw material suppliers.



Environmental management

In line with our Sustainability Policy, we aim to ensure that all our operations are safe for our employees, partners, neighbors, customers, and the environment. For sustainability and environmental improvement, we run the policy through an Environmental Roadmap (shown on page 51).

Our aim is to use energy, as well as other utilities, as efficiently as possible. Energy efficiency plays a key role particularly in our production and logistics.

As part of our renewed strategy, we aim to reduce the carbon footprint of Neste's production ahead of the EU's climate and energy targets. In October, we announced a new long-term agreement on wind power with Fortum. The total capacity of the agreement is more than 60 MW, and the energy produced will correspond to around 20% of the electricity consumption at the Neste Porvoo and Naantali sites. The wind power deliveries are expected to begin in early 2021. The shift to wind power will reduce the indirect greenhouse gas emissions of electricity purchases at Neste's production sites annually by approximately 40 kilotons.

Material and energy efficiency

We have made a commitment to the efficiency program for Finland's energy-intensive industries. During the agreement period 2017–2025, we aim to save 500 GWh from the 2014 level. In 2019, our energy saving measures were 16 GWh.

A new combined heat and power plant built in Porvoo, Finland by Kilpilahti Power Plant Ltd (KPP), will start its operations during 2020. The steam generation capacity of the new plant is 450 MW, and its electricity generation capacity is 30 MW. The plant was constructed in accordance with the latest environmental regulations, including the European Commission's Industrial Emissions Directive (IED). It is expected to reduce the power plant greenhouse gas emissions by approximately 20% compared to the previous situation. More than 80% of the fuels for the new power plant will come from the side streams of the Neste's Porvoo refinery's and Borealis' petrochemical processes. Neste and Veolia Energie International both own 40% of KPP, and Borealis Polymers 20%. The plant is operated by Veolia.

Neste and Borealis Polymers, in co-operation with the energy companies Fortum, Helen, and Keravan Energia, have conducted a preliminary study on recovering and utilizing excess heat generated at the Neste and Borealis industrial manufacturing facilities in Kilpilahti. On the basis of the study, the use of excess heat in the production of district heating is technically feasible. Excess heat from the Kilpilahti plants could cover approximately one quarter of the district heating volume required in the Helsinki region. Even more excess heat would be available, but its use is limited by the decreased need for heat in the summer season. In addition to the Helsinki metropolitan area, some of the studied options allow excess heat also to be used, for example, in Porvoo and Sipoo.

The preliminary study showed that the investments required, the price of the electricity consumed by the heat pumps, and the level of relevant excise taxes and duties will all have a significant impact on the costs of heat production and the profitability of the project. If implemented, the project would require a significant amount of construction work and, according to the preliminary study, the delivery of heat could be started no earlier than in 2025.

The project would have a significant effect to Finnish greenhouse gas emissions, and the parties have therefore been interested in further clarifying the potential and restrictions. For this reason, the parties launched a feasibility study phase for the project in the beginning of 2020. The duration of this phase will be six months, and decisions on the next steps will be taken by the end of this year.

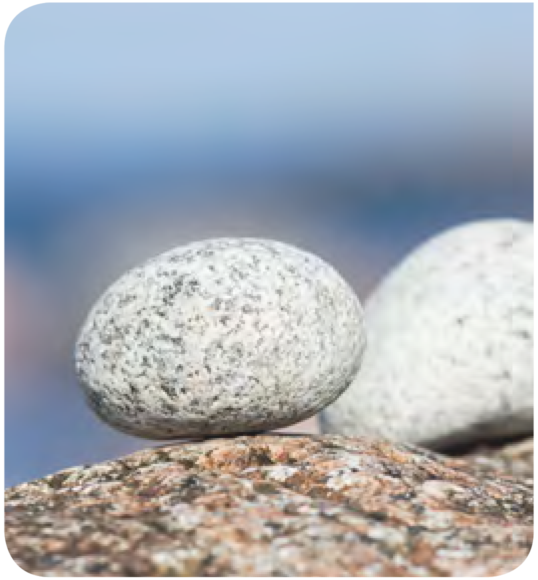
At our Sluiskil plant in the Netherlands, the burner of the steam boiler was replaced by a smaller one, reflecting the capacity required for Neste's operations. The initial burner was designed for all the operations at the Sluiskil facility, while Neste utilizes only the pre-treatment and storage capacity. With the replacement, the plant's NOx emissions have decreased.

Improvements to wastewater treatment plants at Porvoo and Rotterdam refineries

The renewal of the chemical and biological treatment systems of the wastewater treatment plant at our refinery in Porvoo was completed in November 2019. The investment, EUR 50 million, was carried out in cooperation with Borealis Polymers, the other user of the plant, and it also fulfills the requirements of the Best Available Technology (BAT) in disruptions. The renewal has almost doubled the capacity of the plant. A new nitrogen removal phase was also installed in order to decrease the nitrogen emissions which contribute to the eutrophication in the nearby sea area.

At our Rotterdam refinery, design options for more stable operations and efficient nitrogen removal in the wastewater treatment were assessed. Based on the assessment, we have made process adjustments to the wastewater treatment which have resulted in a decrease in the nitrogen emissions into the surface water in the sea harbor area. We have also started a feasibility study about a completely new set-up for wastewater treatment.

The Kilpilahti excess heat project has proceeded to the feasibility study phase. If executed, it would supply a quarter of the district heating of the Helsinki region.



We improve our environmental and people safety with response programs.

The long-term secondary containment response program at the Porvoo refinery was accomplished. In Naantali, a corresponding program is due to run until 2028. A containment basin is a secondary reservoir surrounding a tank, with the aim of protecting the surrounding in the event of an incident. With such response programs, we improve our environmental and people safety.

Continuous environmental quality monitoring at our sites

Continuous air quality monitoring and other environmental monitoring, like marine and groundwater monitoring, continued in the vicinity of the Porvoo and Naantali refineries. The area impacted by emissions has diminished over the past 20 years and the air quality around our refineries remained good in 2019.

We have three automatic air quality measuring measurement stations in Porvoo. The air quality measurement data they generate is part of the national data, which is verified and published by the Finnish Meteorological Institute on its air quality portal.

Other environmental improvements

- New burners for a hot oil heater and new liquid tight sewer system for Sluiskil plant.
- Renewal of sulfur recovery unit safety system finalized at Porvoo refinery.
- Secondary containment improvements for storage tanks at Naantali refinery.
- Renewal of emission online analyzer at Naantali refinery.
- Production energy analysis was completed in oil production.
- Soil and groundwater protection solutions for our fuel station network sites located at groundwater catchment areas in Finland.
- Carbon capture: 1st-generation CO_2 capture processes online in Porvoo and in Singapore by our partners.

Preparing for changes in regulation

The European Parliament and the Council amended six directives concerning the waste sector in 2018. The key objective of the reform is to set new and more ambitious targets for the preparation of the reuse and recycling of municipal and packaging waste, and reducing the landfilling of municipal waste. The directives must be implemented in the national legislation by 5 July 2020.

The amendments will have an effect on Neste, as approximately 80% of the production of our renewable products is based on waste and residues. In 2019, we analyzed particularly the potential impacts of the new end-of-waste criteria for our operations. End-of-waste criteria specify when certain waste ceases to be waste and obtains a status of a product or a secondary raw material.

Our refineries in Porvoo and Naantali received new environmental permits under the new Environmental Protection Act. The permits are based on the EU's BAT requirements. At the Singapore refinery, the Pollution Control Study was completed and submitted to the local authorities.

At the Rotterdam refinery, we started a study to reduce the refinery's Volatile Organic Compound (VOC) emissions. The VOCs are present in very low concentrations in the feedstock used at the refinery. The annual emission load is not very high, but the emissions will be reduced by implementing the suitable BAT, as defined in the EU regulations.

Environmental permit-related incidents

In 2019, we had three minor environmental permit-related incidents at our refineries. In the production of renewable fuels at Rotterdam, small-scale continuous flaring occurred. The monthly permit limit for phenol in treated wastewater was slightly exceeded once in Porvoo, and the monthly permit limit for oil once at the Naantali refinery.

There were also two leakages into the soil at the Kilpilahti refinery. A larger motor gasoline leakage was limited to the leakage area, and a middle distillate leakage soaked into the soil inside the refinery area. In both incidents, we managed to limit the environmental impacts locally.

Neste's environmental roadmap – examples of progress areas

Increasing level of ambition

Raw materials	Production	Products and solutions	Distribution	Challenges
Continued focus on waste and residues in renewables production – Neste acquired majority shares of Dutch animal fat trader Demeter – R&D on lower-grade waste and residue raw materials	Exploring means to reduce carbon footprint of our renewables refineries – Additional production capacity for renewable products to support achieving the 14 Mt GHG reduction by 2023. GHG reduction targets set for 2030.	More sustainable transport, aviation, and the chemical industry – New climate target Study to utilize excess heat in district heating systems finalized	Green Hub concept to promote renewable jet fuel use Expanding Neste MY Renewable Diesel distribution further	Climate change
New method for reducing and verifying methane emissions at oil palm mills developed – Research article on the method's emission reduction potential published and referred to by e.g. certifying body ISCC. – Signed a contract on a wider methane reduction project starting in 2020.	Efforts to improve production efficiency in oil refining – New target to process annually more than 1 Mt plastic waste from 2030 onwards. Singapore Expansion project has submitted Pollution Control Study. Renewed commitment to energy efficiency in 2017 – Achieved 16 GWh energy efficiency saving	Chemical recycling of plastic waste - Technical risk assessments ongoing	We promote and use sustainable soil remediation. The equipment from the closed stations will be reused as spare parts.	Resource efficiency
Multiple efforts to prevent deforestation to combat climate change – Smallholder collaboration – Sustainability cooperation contract signed with several stakeholders to achieve transformative sustainability change in Indonesia – Renewed Neste Responsible Sourcing Principle including No-Deforestation requirements	Environmental quality at our sites Improving water protection and wastewater treatment – Improvements to wastewater treatment plants at the new unit in Porvoo and Rotterdam refineries. Porvoo new unit is in use. Membrane bioreactor in waste water treatment is reducing N-discharge to surface water at Rotterdam. PFAS risk study of Kilpilahti area with Finnish Institute for Health and Welfare	– NEXBTL Diesel soil behavior study completed	Improving soil protection measures at Neste's station network sites	Local environmental impact
Neste Supplier Code of Conduct (SCoC) – SCoC approved – Implementation of SCoC in 2020	Environmental management improvements – New leading environmental indicators developed further – Compulsory environmental training	Ensuring product and chemical safety	Development of maintenance improvement program for Neste station network performance program implemented. Maintenance training. Station caretakers training. E-learning materials published. Station registration done within set period.	Compliance and operational discipline

2019 achievements in green text.

Our people

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

Human rights

In 2019, our human rights gap assessments continued. One of the key development areas for our sustainability in recent years has been strengthening our **human rights** approach. We respect the human rights of our employees, the workers in our value chains, and those affected by our operations. In 2019, we continued implementing our key human rights activities in alignment with the Neste Human Rights Commitment and Principles, which was first introduced in 2015.

In July 2018, we initiated human rights due diligence (HRDD) workshops and gap assessments of three internal units and departments, based on the UN Guiding Principles on Business and Human Rights (UNGP). The gap assessments were concluded in 2019. Based on the gap assessments and analyses, an action plan was created for each business unit with focus areas for improvements. Implementation of the action plans began in 2019.

Neste's human rights activities 2017–2019

Q4 2017 | **Q1 2018** | Q2 | Q3 | Q4 | **Q1 2019** | Q2 | Q3 | Q4

Implementation across business lines

Development of a supplier sustainability due diligence aligned with Neste Supplier Code of Conduct.
October 2017 – February 2018

Supplier sustainability due diligence site visit – pilot (palm)
Aligned with Neste Supplier Code of Conduct Requirements.
December 2017

Neste 3rd Supplier Workshop
4–5 April 2018

Neste Supplier Sustainability Portal
Self-assessment questionnaire was strengthened with human rights criteria and is now aligned with Neste's Supplier Code of Conduct.
July 2016 – December 2018

Neste 4th Supplier Workshop
10–11 April 2019

Continued development of supplier sustainability due diligence process for site visits (audits), aligned with Neste Supplier Code of Conduct.
August 2019 – January 2020

Supplier sustainability due diligence site visit - pilot (used cooking oil) aligned with Neste Supplier Code of Conduct Requirements.
September 2019

Supplier sustainability due diligence site visit (palm) aligned with Neste Supplier Code of Conduct requirements and combined with audit for market compliance.
November 2019

Collaboration with BSR and Wilmar on a program for Protecting the Rights of Children Living in Plantations.
June 2019

Implementation at corporate level

Human rights due diligence and workshops with internal units and departments.
Phase I
July 2018

Gap Assessment for human rights due dilligence carried out on three internal units.
July 2018 – March 2019

Creation and implementation of action plan to address gaps identified in gap assessment for three internal units.
Q2 onwards

We strengthened the human rights criteria in our supplier sustainability due diligence framework.

Collaboration to protect children's rights

We are working with NGOs, our partners, and suppliers to protect childrens' rights in our supply chain. In 2019, Neste and several major brands partnered with Business for Social Responsibility (BSR) and Wilmar on a program aimed at protecting the rights of children living on palm plantations. The program includes developing a Child Protection and Safeguarding Implementation Manual, as well as a series of capacity building workshops. These enable palm suppliers to learn, discuss, and implement pragmatic measures to strengthen the rights and protection of children. The program will continue until the spring of 2020.

Human Rights Criteria for Supplier Sustainability Due Diligence

In 2019, we strengthened the social criteria in our supplier sustainability due diligence framework. The criteria have a strong human rights focus, and cover topics such as fair wages and favourable work conditions, health & safety, freedom of association, diversity, labour standards, impacts on neighboring communities, and the rights of vulnerable groups such as children, migrant workers, and women. These criteria are used to review supplier practices in our site visits to raw materials suppliers. All site visits include conversations with a number of different rights holders, including with site workers and third-party employees.

Promoting equality and a non-discriminative culture

We are committed to promoting diversity, inclusion, equality, and non-discriminative culture based on Neste's renewed Equality and Non-Discrimination Principle. We promote equality by, for example, ensuring that we follow non-discriminatory practices in personnel decisions such as recruitment, task distribution, access to training, and remuneration.

In 2019, Neste's Equality and Non-Discrimination Working Group focused on renewing the principle to better address our global set-up, developing indicators for diversity and inclusion follow-up. We aim to achieve a truly diverse workplace culture, covering not only gender but also other diversity aspects.

Employees and employment

Neste launched an updated strategy in February 2019, which was supported by a reorganizational change implemented during 2019. Neste's Renewable Products business area was divided into three business units and one operational platform: Renewable Road Transportation, Renewable Aviation, Renewable Polymers and Chemicals, and the Renewables Platform.

Our growth and new businesses offer learning and career growth opportunities for both our existing and new employees. Approximately half our people were impacted by the reorganization, either by having a new role or superior, or by new requirements in their role. When nominating new leadership teams, we paid attention to diversity aspects, such as age, gender, and nationality.

With the reorganization, the number of teams with multinational membership increased by 20% compared to the previous year, and approximately 10% of our teams are now multinational.

We had the highest ever number of closed recruitments in 2019: Altogether approximately 1,140 new employees were hired globally by the end of 2019, of which approximately 51% were permanent. According to the Neste New Joiner Survey, our purpose speaks to the newcomers: 41.5% of new employees who joined between April and July 2019 list Neste's sustainability focus as the key reason or one of the key reasons for joining the company. Of all reasons for joining the company, sustainability themes accounted for 22%.

Opportunities for future talents

Every year Neste offers summer trainee opportunities for future young talents from different backgrounds to work at Neste's business units. This year Neste hired a record-breaking number of 400 summer trainees. After the summer, Neste traditionally hires almost one third of its summer employees to continue to pursue their career at Neste.

Neste sees traineeships as important and a way to get ahead of a competition by bringing enthusiastic young professionals with fresh ideas into the business. It is very important for Neste to provide a successful and responsible trainee experience and a positive outlook for future working life. Taking care of employees' wellbeing is vital for Neste's success.

At the end of every summer, Neste arranges a feedback survey to gather trainees' views and ideas to improve leadership, security, agility, and digitalization. These proposals are then forwarded to the Neste Board to help Neste to improve and deliver even better summer trainee experiences in the future.

Traditionally, Neste wants to remember its summer trainees with a small gift. Instead of material gifts, Neste makes an EUR 10 donation per employee to a chosen charity. This year Neste made an EUR 4,000 donation to Syöpäsäätiö, which was selected by the trainees.

#SummerWithNeste

Human Resources policy and related principles revised

Neste's Human Resources policy was revised in 2019, and it was approved by Neste's Board of Directors in December. The revised policy reflects Neste's strategy and the changing operating environment, and is compliant with the Neste Management System. Following the revision of the Human Resources policy, all HR principles and standards have been revised accordingly.

In 2020, the new policy, principles, and standards will be implemented and communicated throughout the organization.

Following the reorganization, we updated our values which are aligned with our company purpose, and reflect our strategy of a faster and bolder growth journey. Our new values, which are the result of engaging the whole organization into an open discussion.

We updated our values which are aligned with our company purpose.

1. We care

- We care for the environment, society and the generations to come while being responsible for driving a successful business.
- We care about the safety and wellbeing of each other and the people around us.
- We include and welcome everyone on this journey, caring for diversity and everyone's right to be their own true selves.

2. We have courage

- We lead the way by exploring opportunities and creating new solutions.
- We strive for renewal and excellence in the innovative way we work and do business.
- We dare to think fast, act fast, and learn fast. Honest dialogue and continuous development are at the core of our thinking.

3. We cooperate

- We succeed together in reaching our targets.
- We bring together our people, customers, partners, and societies – our success is built on collaboration and innovation.
- We encourage each other and grow together through sharing knowledge and feedback.

In 2020, the values will be implemented throughout the organization, and integrated into all our people processes.

Our purpose speaks to the newcomers: 41.5% of new employees list our sustainability focus as the key reason for joining the company.

Employer branding to support our growth strategy

We were ranked the 9th best employer in the Forbes' Global 2000: The World's Best Employers ranking. In Finland, according to the latest Universum survey, more and more professionals in engineering, business, and natural sciences see us as a top choice for an employer.

The implementation of our new strategy requires more employees in new locations and business units. It requires people with new capabilities among our existing personnel. A positive employer image provides a solid foundation for talent acquisition. However, we have identified a need to increase Neste's brand awareness in new markets such as Australia, China, Germany, and the Netherlands to fulfil our recruitment needs.

Our employer branding is conducted in full alignment with our strategy, brand, and values. We use five main employer branding themes – sustainability, meaningfulness, wellbeing, development, and innovation – to engage with the target groups.

We collaborate with external recruitment partners, and have instructed them to consider diversity and inclusion aspects when shortlisting candidates.

Strategic capabilities support our targets

As part of the performance planning process, we explore and plan organizational capability development through the structures, processes, leadership, and capabilities required to achieve our targets. In 2019, we focused on developing capabilities in areas vital for implementing our growth strategy, such as the Singapore expansion, new renewable raw materials feedstock, and transformation and leadership, among others.

Transformation brings new challenges for our people – but the change is an exciting opportunity

Neste regularly conducts a comprehensive personnel survey to capture a view on people engagement and development matters. The most recent are from January 2019 and January 2020. Quarterly pulses, focusing on selected specific and topical issues, complement the larger survey.

The survey from January 2019 shows that people at Neste are engaged and consider their work important. Manager and team relationships are strong. However, people do not always feel supported through changes, and there are barriers that prevent them from delivering their work efficiently.

In the quarterly pulse surveys in July and October 2019, we wanted to specifically explore how Neste's updated strategy and the reorganizational change have been received among our people. The results show that the new strategy is clear and has been well communicated, and that our people understand the need for change across the organization.

However, Neste's rapid growth and transformation have brought challenges to our people as individuals and team members. The pace of change is impacting the role clarity and change adaptation.

We take the messages from our people very seriously. To support our personnel in adapting to changes, the survey results are discussed and actions agreed in teams at all levels. Wellbeing will be a key topic in the Forward discussions between team members and line managers in 2020, and alongside the value discussion in 2020, there will be a broader discussion about ways of working.

Read more at neste.com

Safety

Improving safety and operational excellence enables us to achieve our strategic targets. They are also the cornerstones of our daily work. We continue to aim for zero injuries and incidents, and want to be among the best compared to the European Downstream Oil Industry in terms of safety.

In 2019, we evaluated our strategic value creation program, Way Forward to Safety. Key achievements include:

- Our teams are publicly committed to safety, and safety is now an integral part of the induction of new hires.
- Life Saving Rules are well understood.
- Common "I Act Safe" training is improving safety awareness and leadership.
- A common contractor management process has been implemented, and further development is ongoing.
- We have established an Operations Excellence Management System, and full implementation of the requirement is proceeding as planned. High focus is given to improve process safety management.
- Incident Review Boards and improved incident management process have enhanced learning from incidents.
- Our safety performance has improved.

Key development activities in 2019

Safety development continued in 2019 according to a new Corporate Operational Excellence model, with the aim for continuous improvement. Neste's Human Resources Policy, Sustainability Policy, Life-saving rules, 15 operations excellence (OE) principles, and supplementary detailed standards set requirements and guidelines for how we manage and improve safety.

In 2019, our corporate safety development program was transformed to Operations Excellence governance and continual improvement. The work is steered by the Operations Excellence governance group, with senior managers from business units.

The Operations Excellence governance has four focus areas:

- Commitment to operations excellence
- Understanding hazards and risks
- Managing risks and excellence
- Learning from experience

Our business units have conducted systematic gap analyses based on the 15 OE principles and relevant standards, and defined action plans to reach full compliance with the requirements. The analyses and action plans will be updated annually.

One of the focus ares was the improvement of process safety risk management. The Process Hazard Analysis (PHA) practice was further developed, a thorough assessment was made, and an action plan was created to meet the updated requirements.

The other major initiatives to improve safety performance included the introduction of a transparent reporting practice. This enables better understanding of performance and risks, the development of Neste process safety competency model, and the integrated safe systems of work (ISSOW) practice. The implementation of these practices will continue in 2020.

Neste-level focus areas for HSSEQ in 2020 are: key project execution, further improvements in safety leadership, awareness and communication, and on the full implementation of the operations excellence system, including new developments.

Operations excellence governance model

Commitment to operations excellence	**Operations excellence leadership**					
Understand hazards & risks	**Hazard and risk identification & analysis**					
Manage risks and excellence	Safe transportation	Occupational health	Productivity and efficiency	Environmental management	Operational safety	Emergency management
	Product and chemical safety	Contractor management	Asset integrity and reliability	Management of change	Marine risk management	Security management
Learn from experience	**Continual improvement**					

To continue and further inspire our safety work, we launched new "No harm. Together." safety concept.

Developing safety leadership and culture

We continued the safety leadership and awareness training program "I Act Safe" for our people and selected contractors. An external safety assessment in selected organizations confirmed positive development but also raised the need for improvements. Actions were defined to drive further improvements.

We also received external recognition. In April 2019, we were granted the Finnish chemical Industry's Safety Award in the large companies category. In October, our health and safety work received recognition when Neste won the Sustainable Workplace Award 2019 from the European Chemical Industry Council (Cefic).

To continue and further inspire our safety work, we launched the new "No Harm. Together" safety concept in October. With the new program, we will introduce standards for safety visibility in all our locations, as well as Neste house rules for all offices. All production sites will make their own safety awareness and communication plans with clear signs and visualizations of safety and work procedures. The "No Harm. Together" program is supported by active communication and seasonal safety campaigns.

Contractor safety

In 2019, we continued implementing the contractor safety management model. We are continuously driving improvements with our contractors trough auditing, regular performance evaluation, and mutual feedback to drive improvement.

In Marketing & Services, we introduced more precise new safety requirements in contractor agreements, and enhanced preventive risk management in investment projects and turnarounds. Further, special attention was paid to preventing slips, trips, and falls in the station network, terminal areas, and at customer premises. Winter time preparedness has been improved.

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

We are developing safety-related technology in the transportation fleet with our partners. For example, tire pressure indicators and alcolock systems have been mandatory requirements for several years. The more recent developments include fire extinguishers in the engine compartment and monitoring driving bevior with automated systems, such as advanced driver assistance systems, lane departure warning, and collision mitigation system.

Safety performance in 2019

Neste's occupational safety performance, measured by the key indicator Total Recordable Injury Frequency (TRIF), was the same as the previous year. Contractor safety, of our key focus areas, was slightly weaker than in 2018, due to a higher accident rate at our contractors. The long-term contractor management and cooperation program continues as planned, and new actions have been defined during the year. These actions include effective induction, construction site safety improvements, and learning from incidents.

Process safety, measured by the "Process Safety Event Rate" or the PSER indicator, improved further from the previous year's level. A high focus on process safety continues in all operations, for example, by ensuring effective process hazard analysis in all operations, and through investments in process safety improvement.

Our Singapore expansion project continues at a good safety level. Pre-turnaround operations for the major turnaround in our Porvoo refinery in 2020 were carried out for 700 work days without any injuries. In addition, our R&D department had a record result of more than 1,000 work days with zero injuries.

TRIF in Road Logistics increased from 2018 due to slips and falls. No road accidents with severe consequences took place in 2019.

Read more about safety in logistics at neste.com

Product and chemical safety in 2019

We continued toward ensuring that the products and raw materials are in compliance with relevant chemical regulation, and that all chemicals, liquified waste plastics included, will be handled safely by our employees.

We are actively following and reacting to the PetCo Working Group, consisting of the EU Commission, European Chemicals Agency, and Industry on prioritizing and addressing hydrocarbon substances.

We continued preparations for complying with the new EU requirement on harmonized poison center notifications. Workability issues have been raised, and we participated in Concawe's activities to solve the issues of petroleum products.

A national chemical reporting portal, KemiDigi, was introduced in Finland. We developed our processes to ensure its workability for Neste to ensure national authorities get the required chemicals information efficiently.

Handheld direct-reading hydrocarbon measurement devices for our work permit issuers were introduced successfully. These devices will improve occupational hygiene and safety at our refineries and terminals in Finland, and enhance our practices to avoid hydrocarbon exposures at work.

Neste joined the Cefic REACH initiative update statement, and participates in reporting of review and actions on the quality of REACH registration dossiers.

Product and chemical safety training are a very important part of keeping all employees updated regarding these issues. By the end of 2019, over 60% of employees in production in Finland had completed the Chemical Safety e-learning package. We aim to reach 100% during 2020.

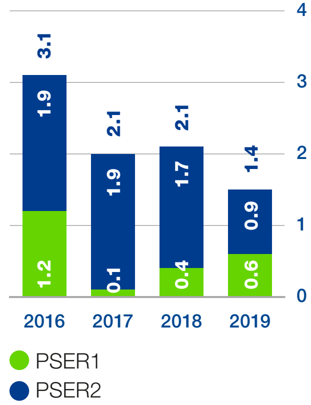
Focus areas for 2020

Our key Neste HSSEQ development actions for 2020 are:

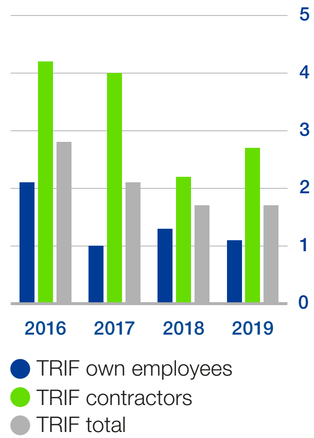
- Integrated HSSEQ reporting
- Safety Starts Here campaign refresh
- Full implementation of the operations excellence management system, also covering new business models
- Process safety competency model further developed and finalized

In business units, our key activities will focus on selected high-priority processes, such as Integrated Safe Systems of Work (ISSOW) and Process Hazard Analysis (PHA).

Process Safety Event Rate (PSER)



Total Recordable injury Frequency (TRIF)



Performance and sustainability reporting in 2019

Our 2019 Sustainability report was prepared in accordance with the GRI (Global Reporting Initiative) Sustainability Standards where applicable. The selected economic, social, and environmental indicators of the report in English have been assured by an independent third party, PricewaterhouseCoopers Oy. The scope of the assured information is indicated in the independent practitioner's assurance report. A congruence check has been conducted for the Finnish version's numerical sustainability information. In our report, we have aimed to focus on the most essential, based on our materiality assessment conducted in the spring of 2018.

We are focusing on our reporting on the subjects that are the most essential for us.

Neste is committed to complying with the UN Global Compact Principles, and our report includes the information corresponding to the reporting requirements of the Global Compact Initiative. The reported indicators and the Global Compact Principles are listed in connection with the GRI Content Index. Our reporting meets the requirements of the EU Directive on disclosure of non-financial and diversity information and the Finnish Accounting Act. The required non-financial information is disclosed in the Corporate Governance Statement and the Review by the Board of Directors, whereas in our Sustainability Report, we respond to broader stakeholder expectations and the requirements of several international indices.

We published our 2018 Annual Report and the included Sustainability Report on the March 5th 2019 in PDF format on our website.

Reporting principles and guidelines

Our financial reporting complies with the international IFRS accounting standards, and governance-related reporting complies with the legislation on listed companies and the Finnish Corporate Governance Code. The disclosure of environmental costs and liabilities is based on the Finnish Accounting Act. The reported financial indicators are based on audited information. The general guideline issued by the Accounting Board on the preparation of review by the Board of Directors is followed in calculating the personnel-related figures.

Calculations related to safety-related accident frequency rates comply with the calculation principles of Concawe (the oil companies' European association for environment, health and safety in refining and distribution).

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

Scope of the report

Similarly to the Annual Report, the reporting period of the Sustainability Report is the financial year, January 1 – December 31, 2019. The safety and environmental reporting for 2019 covers the refineries in Finland and abroad in which the company has a holding of more than 50%. In addition, safety and environmental reporting covers the company's terminals, offices, and country-specific retail companies. The company does not report environmental information on sites in which the company only has a minor part of the premises of an office building in its use. Such sites include the company's offices in Houston, Oulu, and Vilnius. The reporting of safety information also covers service providers and contractors. The average number of personnel includes all operations and acquisitions. Currently some of the employee indicators only partly cover Neste Demeter B.V., which delivers raw materials to Neste's renewable product refineries. Some of the supplier data of Neste Demeter B.V. is excluded from specific calculations due to the ongoing integration process. This is communicated in connection with the relevant indicators.

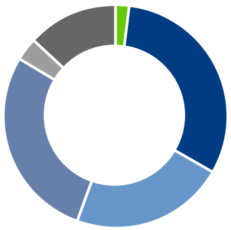
Reporting systems

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

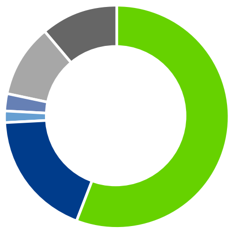
Performance in figures

People

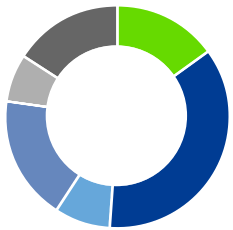
Educational level of employees as of 31 December 2019, %



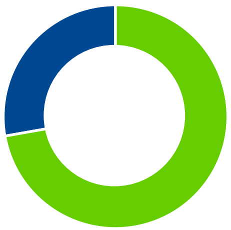
Educational background of employees as of 31 December 2019, %



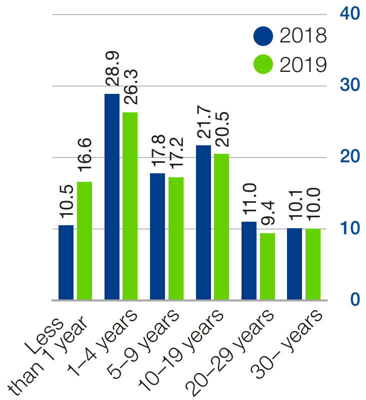
Personnel by segment as of 31 December 2019, %



Personnel by personnel group as of 31 December 2019, %

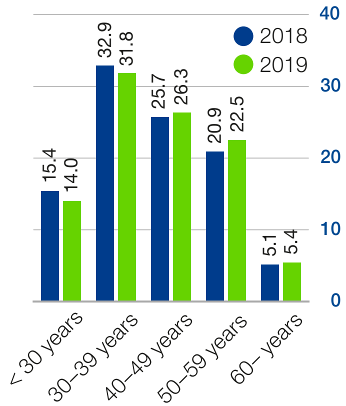


Length of employment of employees as of 31 December 2019, % *)



*) The figures do not include Russia. Also 2018 has been revised accordingly.

Breakdown by age as of 31 December 2019, %



Gender ratio as of 31 December 2019, %

	Women 2019	Women 2018	Men 2019	Men 2018
All employees	30.2	37.5	69.8	62.5
Managers	27.8	30.8	72.2	69.2
Senior management	22.0	23.4	78.0	76.6
Neste Executive Committee	18.2	22.2	81.8	77.8
Board of Directors	37.5	37.5	62.5	62.5

Type of employment according to working hours as of 31 December 2019, %

	2019	2018
Part-time	2.0	1.6
Full-time	98.0	98.4

Type of employment contract as of 31 December 2019, %

	2019	2018
Temporary	5.6	4.6
Permanent	94.4	95.4

Performance in figures

Climate and the environment

	2019	2018	2017
Emission limits and overruns: Deviations from environmental permits	3	2	10
Emissions into the air, tons			
Direct CO_2 emissions (Scope 1)	2,464,000	2,252,000	2,359,000
Indirect CO_2 emissions (Scope 2, location-based)	518,000	599,000	634,000
Indirect CO_2 emissions (Scope 2, market-based)	941,000	853,000	880,000
Other indirect GHG emissions (Scope 3)	49,000,000 [1)]	48,000,000	48,000,000
Purchased goods and services	3,900,000	3,600,000	3,900,000
Fuel and energy-related activities [2)]	100,000	< 50,000	< 50,000
Upstream transportation and distribution [3)]	800,000	800,000	300,000
Waste generated in operations	200,000	100,000 [4)]	100,000
Downstream transportation and distribution	800,000	500,000	400,000
Use of sold products	41,300,000	41,000,000	42,000,000
End-of-life treatment of sold products	1,900,000	1,800,000	1,700,000
VOC	3,920	4,210	4,460
NO_x	1,490	1,490	1,530
SO_2	4,110	4,100	4,760
Particulate matter	110	100	220
Energy use			
Total energy consumption, TWh	12.8	12.3	12.7
Fuels and natural gas, %	74.2	73.4	74.3
Purchased electricity, %	11.8	11.6	11.2
Purchased heat, %	14	15.0	14.5
Energy efficiency, energy-saving measures, GWh	16	57	4
Water, m³/a			
Water intake	9,120,000	9,460,000	9,110,000
Total water withdrawal by source			
Surface water	8,866,000	8,290,000	7,905,000
Ground water	200	6,000	6,000
Municipal water supplies	253,000	1,165,000	1,199,000
Other	N/A	N/A	N/A
Wastewater	8,159,000	8,473,000	9,931,000
Effluents to water, tons			
Effluents of oil to water	1.6	1.0	1.8
Chemical oxygen demand	299	300	399
Effluents of nitrogen to water	83	70	104
Effluents of phosphorus to water	1.2	1.2	2.7

	2019	2018	2017
Waste, tons			
Ordinary waste for disposal	5,380	21,400 [4)]	7,800
Waste for reuse	56,400	45,800 [4)]	58,800
Hazardous waste for disposal	104,800	75,500	55,100
Number and magnitude of significant releases	2 pc/ 75 m³	4 pc/ 1,032 m³	0
CO_2 recovered, tons	170,300	136,200	133,200
Washing lye sold, tons	10,590	10,010	10,970
Supply chain and raw materials			
Use of renewable raw materials, million tons	3.5	2.9	3.2
Share and use of waste and residue raw materials in refining renewables	80% 2.8 Mt	83% 2.4 Mt	76% 2.4 Mt
GHG emission reduction achieved with Neste's renewable products compared to crude oil-based diesel, million tons [5)]	9.6	7.9	8.3
GHG emission reduction with Neste's renewable diesel compared to crude oil-based diesel	50–90%	50–90%	50–90%
Number of all renewable raw material suppliers [6)] [7)]	95	53	53
Share and use of certified palm oil from all palm oil use [6)]	100% 674 kt	100% 445 kt	100% 663 kt
Number of palm oil smallholders	36,947	43,531	35,984
Number of palm oil suppliers	7	6	7
Number of palm oil estates	158	137	143
Number of palm oil mills	59	57	55
Share of palm oil from sources with methane capture or measures to prevent methane formation [6)]	29%	27%	36%
The number of renewable raw material suppliers' Due Diligence and their outcome [8)]	Total: 91 New approved suppliers: 52 Passed: 55 Ongoing: 36 Failed: 0	Total: 87 New approved suppliers: 41 Passed: 52 Ongoing: 35 Failed: 0	Total: 91 Passed: 46 Ongoing: 44 Failed: 1
Crude oil and fossil feedstock sources by region, million tons	15.6	15.3	15.0
Russia	12.6	11.7	12.0
Norway	1.4	2.0	1.5
Denmark	0.2	0.2	0.2
Other countries	1.4	1.3	1.2

1) Calculation principle changed. Figures are not comparable to previous years.
2) Only natural gas related emissions included
3) Part of upstream transportation emissions are accounted in other categories
4) Revised
5) Compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC).
6) Contains the use of crude palm oil (CPO) and Refined Bleached Deodorized Palm Oil (RBDPO) that we have physically transferred out of our production plants within the year 2019.
7) 160 Demeter suppliers excluded from the figure due to the integration in progress.
8) All figures except "New approved suppliers" include existing suppliers, which undergo a DD process every 3–5 years. 2019 Supplier data includes only main contractual parties, excluding sub-suppliers. The calculation process has changed from previous year, hence the numbers are not fully comparable.

GRI Content Index and UN Global Compact

UN GLOBAL COMPACT COMMUNICATION ON PROGRESS

GRI Standards

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 102: General Disclosures 2016			
1. Organizational profile			
102-1	Name of the organization	pp. 18–19 Information for investors	
102-2	Activities, brands, products, and services	pp. 11–13 Our businesses	
102-3	Location of headquarters	Espoo, Finland	
102-4	Location of operations	Operations in 11 countries: Finland, Estonia, Italy, Latvia, Lithuania, the Netherlands, Russia, Singapore, Sweden, Switzerland, the USA	
102-5	Ownership and legal form	pp. 18–19 Information for investors	
102-6	Markets served	pp. 11–13 Our businesses	
102-7	Scale of the organization	pp. 16–17 Key figures 2019	
102-8	Information on employees and other workers	p. 63 Performance in figures p. 68 Principles for calculating the key indicators	6
102-9	Supply chain	pp. 25 Neste creates value pp. 38–42 Renewable and recycled raw materials pp. 45–47 Supplier engagement pp. 52–54 Human Rights	
102-10	Significant changes to the organization and its supply chain	In 2019 Neste divested its fuel retail business in Russia, as well as Neste Engineering Solutions Regional Business Units in Turku, Kotka, Oulu, Sweden and UAE, except for NAPCON Business Unit.	
102-11	Precautionary Principle or approach	pp. 22–24 Managing sustainability Materiality assessment pp. 115–118 Risk management Risk Management	7
102-12	External initiatives	Sustainability policies and principles Certificates Involvement in organizations and joint projects	
102-13	Membership of associations	Involvement in organizations and joint projects	
2. Strategy			
102-14	Statement from senior decision maker	pp. 4–6 CEO's review	
3. Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	Our values	10
4. Governance			
102-18	Governance structure	pp. 72–88 Corporate Governance Statement 2019 pp. 79–80 Board Committees pp. 81–83 Neste Executive Committee	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
5. Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholder collaboration	
102-41	Collective bargaining agreements	3,686 persons, 83.7%	3
102-42	Identifying and selecting stakeholders	Stakeholder collaboration	
102-43	Approach to stakeholder engagement	p. 24 Materiality assessment pp. 27–30 Stakeholder engagement	
102-44	Key topics and concerns raised	p. 24 Materiality assessment pp. 27–30 Stakeholder engagement	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	pp. 61–62 Neste's sustainability reporting 2019 p. 68 Principles for calculating the key indicators Financial Statements 2019	
102-46	Defining report content and topic Boundaries	p. 24 Materiality assessment Materiality assessment	
102-47	List of material topics	p. 24 Materiality assessment Materiality assessment pp. 61–62 Neste's sustainability reporting 2019	
102-48	Restatements of information	No major changes during the reporting period. Possible changes in the previously disclosed key figures are disclosed in connection with the figure in question. pp. 61–62 Neste's sustainability reporting 2019 p. 68 Principles for calculating the key indicators	
102-49	Changes in reporting	No major changes during the reporting period. pp. 61–62 Neste's sustainability reporting 2019 p. 68 Principles for calculating the key indicators Materiality assessment	
102-50	Reporting period	pp. 61–62 Neste's sustainability reporting 2019	
102-51	Date of most recent report	pp. 61–62 Neste's sustainability reporting 2019	
102-52	Reporting cycle	pp. 61–62 Neste's sustainability reporting 2019	
102-53	Contact point for questions regarding the report	Sustainability, Safety, and Environment contacts	
102-54	Claims of reporting in accordance with the GRI Standards	pp. 61–62 Neste's sustainability reporting 2019	
102-55	GRI content index	pp. 65–67 GRI Content Index and UN Global Compact	
102-56	External assurance	pp. 69–70 Independent Practitioner's Assurance Report	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its Boundary	p. 24 Materiality assessment Managing sustainability Linking Neste's material topics and GRI	
103-2	The management approach and its components	p. 24 Materiality assessment Managing sustainability Linking Neste's material topics and GRI	
103-3	Evaluation of the management approach	p. 24 Materiality assessment Managing sustainability Linking Neste's material topics and GRI	
GRI 200: Economic topics			
GRI 201: Economic Performance 2016			
201-1	Direct economic value generated and distributed	p. 25 Neste creates value	
201-4	Financial assistance received from government	p. 152 Financial Statements 2019, Other income	
GRI 203: Indirect Economic Impacts 2016			
203-2	Significant indirect economic impacts	p. 25 Neste creates value	
GRI 205: Anti-corruption 2016			
205-2	Communication and training about anti-corruption policies and procedures	During 2019 Neste's Anti-Corruption Principle was renewed, and total of 3500 employees, completed Neste's Anti-Corruption e-learning p. 117 Anti-corruption and bribery matters	10
205-3	Confirmed incidents of corruption and actions taken	13 suspected misconducts were reported. p. 32 Sustainability KPIs p. 117 Anti-corruption and bribery matters	10
GRI 206: Anti-competitive Behaviour 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	No cases during the reporting period.	
GRI 300: Environmental topics			
GRI 302: Energy 2016			
302-1	Energy consumption within the organization	pp. 48–51 Environmental management p. 64 Performance in figures p. 68 Principles for calculating the key indicators	7, 8
302-4	Reduction of energy consumption	pp. 48–51 Environmental management p. 64 Performance in figures p. 68 Principles for calculating the key indicators	8, 9
GRI 303: Water 2016			
303-1	Water withdrawal by source	p. 64 Performance in figures p. 68 Principles for calculating the key indicators	7, 8
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	p. 64 Performance in figures p. 68 Principles for calculating the key indicators	7, 8
305-2	Energy indirect (Scope 2) GHG emissions	p. 64 Performance in figures p. 68 Principles for calculating the key indicators	7, 8
305-3	Other indirect (Scope 3) GHG emissions	p. 64 Performance in figures p. 68 Principles for calculating the key indicators	7, 8
305-5	Reduction of GHG emissions	pp. 33–37 Our climate impact pp. 48–51 Environmental management p. 64 Performance in figures	8, 9
305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	p. 49 Material and energy efficiency p. 64 Performance in figures	7, 8
GRI 306: Effluents and Waste 2016			
306-1	Water discharge by quality and destination	p. 64 Performance in figures p. 68 Principles for calculating the key indicators	8
306-2	Waste by type and disposal method	p. 64 Performance in figures	8
306-3	Significant spills	p. 64 Performance in figures	8
GRI 307: Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	No significant fines or non-monetary sanctions with environmental laws and regulations during the reporting period.	8
GRI 308: Supplier Environmental Assessment 2016			
308-1	New suppliers that were screened using environmental criteria	100% of Neste's renewable raw material suppliers screened using environmental criteria. Demeter suppliers excluded from the figure due to the integration in progress. p. 25 Neste creates value Sustainability policies and principles Neste Supplier Code of Conduct	8
GRI 400: Social topics			
GRI 401: Employment			
401-1	New employee hires and employee turnover	Leaving rate of permanent employees 7.4%. Hiring rate of permanent employees 14%.	6
GRI 403: Occupational Health and Safety 2016			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Sick leave percentage 2.04%. There has not been any fatalities since 2011. pp. 58–60 Safety	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 404: Training and Education 2016			
404-2	Programs for upgrading employee skills and transition assistance programs	p. 25 Neste creates value p. 56 Human Resources policy and related principles revised	
GRI 405: Diversity and Equal Opportunity			
405-1	Diversity of governance bodies and employees	p. 54 Promoting equality and a non-discriminative culture pp. 55–57 Employees and employment pp. 74–75 Corporate Governance Statement 2019 p. 63 Performance in figures p. 68 Principles for calculating the key indicators	6
405-2	Ratio of basic salary and remuneration of women to men	Women's mean basic salary in relation to men's by salary and employee category in Finland 85%–108%. p. 54 Promoting equality and a non-discriminative culture	6
GRI 407: Freedom of Association and Collective Bargaining 2016			
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	We have put in place a firm policy to mitigate this potential impact in our supply chain and the policy is being implemented in our due diligence process. The updated Neste Supplier Code of Conduct includes a minimum requirement to recognise and respect employees' right to organize freely and bargain collectively. pp. 52–54 Human Rights Neste Human Rights Commitment Neste Human Rights Principles Neste Supplier Code of Conduct	3
GRI 408: Child Labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	We have put in place a firm policy to mitigate this potential impact in our supply chain and the policy is being implemented with improved monitoring criteria in our due diligence process. The updated Neste Supplier Code of Conduct includes minimum requirements for all suppliers regarding child labor. pp. 52–54 Human Rights Neste Human Rights Commitment Neste Human Rights Principles Neste Supplier Code of Conduct	5

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 409: Forced or Compulsory Labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	We have put in place a firm policy to mitigate this potential impact in our supply chain and the policy is being implemented in our due diligence process. The updated Neste Supplier Code of Conduct includes minimum requirements for suppliers not use any forced labor and ensure that recruitment fees and associated costs are not borne by workers. pp. 52–54 Human Rights Neste Human Rights Commitment Neste Human Rights Principles Neste Supplier Code of Conduct	4
GRI 412: Human Rights Assessment 2016			
412-1	Operations that have been subject to human rights reviews or impact assessments	Three internal human rights due diligence gap assessments were concluded and two supplier sustainability review site visits were conducted with a strong focus on human rights issues. The number and percentage of operations that have been subject to the assessments are not applicable for 2019 as data collection for this is still being developed. pp. 52–54 Human Rights	1
GRI 414: Supplier Social Assessment 2016			
414-1	New suppliers that were screened using social criteria	100% of Neste's renewable raw material suppliers screened using social criteria. Demeter suppliers excluded from the figure due to the integration in progress. p. 25 Neste creates value Sustainability policies and principles Neste Supplier Code of Conduct	2
GRI 415: Public Policy 2016			
415-1	Political contributions	Neste does not make political contributions.	10
GRI 416: Customer Health and Safety 2016			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No cases during the reporting period.	
GRI 417: Marketing and Labeling 2016			
417-3	Incidents of non-compliance concerning marketing communications	One legal action in Lithuania during 2019, the case is closed.	

Principles for calculating the key indicators

Environment

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

Greenhouse gas emissions (GHG): For the Scope 1 emissions, the emission factors compliant with the fuel classification published by Statistics Finland were used in addition to Neste's in-house laboratory measurement data. Scope 2 covers emissions from indirect purchased electricity, steam and heat production. Market-based Scope 2 emissions are based mainly on energy supplier specific emission factors. Location-based Scope 2 emissions are based on country specific emission factors (e.g. Motiva and AIB). Scope 3 calculation is based on the principles of the GHG protocol (Corporate standard). The calculation of Scope 3 emissions is based on internal data sources (e.g. sales and supply data), information available from public sources (e.g. Renewable Energy Directive) and Neste's accredited in-house calculation data have been used as the emission factors. Only relevant scope 3 categories are included in the report.

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

Non-renewable resource use: The amount of non-renewable resource use that Neste's renewable and circular solutions helped replace in transport, aviation and polymers and chemicals sectors. Calculations include all fossil resource usage over renewable and circular production life cycles. An energy based comparison is made to relevant fossil references. The difference is expressed as the energy content of crude oil.

Safety

Total Recordable Injury Frequency (TRIF): Accidents at work resulting in absence from work, restriction to work, or medical treatment are included in the accident frequency figures. The formula for calculating accident frequency (number of accidents at work per million working hours): total number of accidents at work × 1,000,000 / hours worked. The calculation includes in-house personnel, Contractors and service providers working at Neste's sites. Workplace accidents: Accidents that occur at work/while performing work duties.

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

Hours worked: The hours worked by the whole personnel and the service providers during the period under review. When recording the working hours of service providers, an estimate (e.g. accounting hours) can be used if the accurate number of hours is not known. Workplace accidents: Accidents that occur at work/while performing work duties.

TRI (Total Recordable Injuries): All recorded accidents at work: the number of accidents at work resulting in absence from work, restriction to work or medical treatment.

Process safety event rate (PSER): Rate of process safety events per million hours worked. PSE1 (Process Safety Event): An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE1 classification.

Possible consequences:

1. Workplace accident leading to absence (LWI, RWI) or fatality.
2. Fires or explosions with direct expenses (excluding loss of production) higher than EUR 25,000.
3. Evacuation or taking cover indoors.
4. A leak exceeding the reporting threshold during a certain period, threshold according to Concawe (European Oil Company Organisation for Environment, Health and Safety).
5. A pressure relief device (PRD) discharge with above mentioned consequences.

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

PSE2 (Process Safety Event): An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE2 classification.

Possible consequences:

1. Workplace accident requiring medical treatment (MTC).
2. Fires or explosions with direct expenses (excluding loss of production) higher than EUR 2,500.
3. A leak exceeding the reporting threshold during a certain period, threshold according to Concawe.
4. A pressure relief device (PRD) discharge with above mentioned consequences.

HSEQ: Health, safety, environment and quality.

Personnel

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

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

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

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

Independent Practitioner's Assurance Report

To the Management of Neste Corporation

We have been engaged by the Management of Neste Corporation (hereinafter also the Company) to perform a limited assurance engagement on selected sustainability disclosures for the reporting period 1 January to 31 December 2019, disclosed in the "Sustainability" section of Neste Corporation's Annual Report 2019. In terms of the Company's GRI Standards reporting and GRI Standards Content Index, the scope of the assurance has covered selected economic, social and environmental sustainability disclosures listed within the Topic-Specific Disclosures and General Disclosures 102-8 and 102-41 as well as information presented in the "Neste creates value" and "Performance in figures" pages in Neste Corporation's Annual Report 2019 (hereinafter Sustainability Information).

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

Management's responsibility

The Management of Neste Corporation is responsible for preparing the Sustainability Information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the GRI Sustainability Reporting Standards of the Global Reporting Initiative where applicable. The Management of Neste Corporation is also responsible for such internal control as the management determines is necessary to enable the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or error.

The Management of Neste Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in the AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Sustainability Information and on the Company's adherence to the AA1000 AccountAbility Principles based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with the Company, this Standard requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters has come to our attention that cause us to believe that Neste Corporation does not adhere, in all material respects, to the AA1000 AccountAbility Principles and that the Sustainability 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 and an assessment of the risks of the Company's material nonadherence to the AA1000 AccountAbility Principles.

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

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability topics as well as assessing the Sustainability Information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as two sites in Finland and Singapore.

- Interviewing employees responsible for collecting and reporting the information presented in the Sustainability Information at the Group level and at the site.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Neste Corporation's Sustainability information for the reporting period ended 31 December 2019 is not properly 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.

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

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

Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Neste Corporation for our work, for this report, or for the conclusions that we have reached.

Observations and recommendations

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

- **Inclusivity:** Neste Corporation has processes in place for continuous stakeholder engagement. The Company engages proactively with stakeholders on material topics including engagements with supply chain related stakeholders. The Company has also invited a new independent Advisory Council on Sustainability and New Market. We recommend that the Company maintains proactive stakeholder dialogue practices with all stakeholders completing them with the views of the Advisory Council.
- **Materiality:** Neste Corporation has a systematic approach in place to define the materiality of sustainability topics. The Company has updated its materiality assessment during 2018. In 2019, the company has considered also the financial impacts of climate change. We recommend that the Company elaborates and updates its material aspects also from the viewpoint of the financial materiality.
- **Responsiveness:** Neste Corporation has processes in place for identifying and communicating stakeholder needs to the decision-making process of the Company. We recommend the Company to ensure that the views of the Advisory Council are integrated to those processes, too.

Practitioner's independence, qualifications and quality control

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

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

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

Helsinki, 2 March 2020
PricewaterhouseCoopers Oy

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

AA1000
Licensed Assurance Provider
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Neste observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2015 Corporate Governance Code.

Corporate Governance Statement 2019

Corporate Governance Statement 2019

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

Regulatory framework

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

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

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

Governance Bodies

The control and management of Neste is split between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President and Chief Executive Officer (President and CEO). Ultimate decision-making authority lies with shareholders at the AGM which appoints the members of the Board of Directors and the Auditor. The Board of Directors is responsible for Neste's strategy and overseeing and monitoring the Company's business. The Board of Directors appoints the President and CEO. The President and CEO, assisted by the Executive Committee (ExCo), is responsible for managing the Company's business and implementing its strategic and operational targets.

Neste's headquarters are located in Espoo, Finland.

Neste's Governance Bodies

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

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 AGM make decisions on matters including:

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

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

Under the Articles of Association, an invitation to a General Meeting of Shareholders shall be delivered to shareholders by publishing it on the Company's website neste.com no earlier than two months, and no later than three weeks prior to a meeting, but at least nine days before the record date set for the meeting under the terms of the Companies Act. In addition, the Company shall publish details on the date and location of the meeting, together with the address of the Company's website, in one or more newspapers within the same period of time.

Neste is not aware of any shareholders' agreements regarding the Company's shares.

2019

The 2019 AGM was held in Helsinki on 2 April 2019 and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2018, and discharged the Board of Directors, and the President and CEO from liability for 2018. The AGM approved the Board's proposal concerning a share issue without payment (share split) to the effect that new shares were issued to the shareholders in proportion to their holdings so that two new shares were issued for each share.

The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2018, authorizing payment of a dividend of EUR 2.28 per share. The first installment of dividend, EUR 1.14 per share, was paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for first dividend installment, which was 4 April 2019. The first dividend installment was paid on 11 April 2019. The second installment of dividend was paid to shareholders registered in the shareholders' register of the Company on the record date for second dividend installment, which was 4 October 2019. The second dividend installment was paid on 11 October 2019. As the AGM also approved the share split, the second installment was divided between one old and two new shares so that EUR 0.38 dividend was paid on each share.

The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Auditor.

Shareholders' Nomination Board

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

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

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

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

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

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

Composition of the Shareholders' Nomination Board prior to the 2020 AGM

On 18 September 2019, the following members were appointed to Neste's Shareholders' Nomination Board: The Chair, Director General Kimmo Viertola of the Ownership Steering Department in the Prime Minister's Office of Finland; Deputy CEO, Investments Reima Rytsölä of Varma Mutual Pension Insurance Company; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors.

Activities

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

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

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

Shareholders' Nomination Board members

Kimmo Viertola

M.Sc. (Econ.), Chair of the Shareholders' Nomination Board since 18 September 2019.
Born in 1961.
Director General of the Ownership Steering Department at the Prime Minister's Office of Finland. Member of the Board of Solidium Oy. Chair of the Shareholders' Nomination Board of Fortum Oyj.

Holdings in Neste Corporation on 31 December 2019: no holdings/ 0 shares. [1]
Prime Minister's Office: 276,603,132 shares. [2]

Reima Rytsölä

M.Soc.Sc, CEFA, AMP, Member of the Shareholders' Nomination Board.
Born in 1969.
Deputy CEO and Chief Investment Officer, Varma Mutual Pension Insurance Company. Member of the Board of Kojamo Plc. Member of the Board of Nordea Funds Ltd. Member of the Board of Ylva Services Ltd. Member of the Board of the Foundation for the Finnish Cancer Institute.

Holdings in Neste Corporation on 31 December 2019: no holdings/ 0 shares.[1]
Varma Mutual Pension Insurance Company 12,175,615 shares. [2]

Jouko Pölönen

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

Holdings in Neste Corporation on 31 December 2019: 2,400 shares. [1]
Ilmarinen Mutual Pension Insurance Company: 8,503,000 shares. [2]

Matti Kähkönen

M.Sc. (Engineering), Member of the Shareholders' Nomination Board.
Born in 1956.
Senior Advisor, Metso Corporation 2017–2019. Chair of the Board of Neste Oyj. Member of the Board of The Research Institute of the Finnish Economy (EVA/ETLA), Chair of the TT fund of the Confederation of Finnish Industries, and Chair of the super advisory board of the Ilmarinen Mutual Pension Insurance Company. Chair of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2019: 12,310 shares. [1]

Holdings in Neste Corporation on 31 December 2019:
[1] Own holdings and controlled entities.
[2] Shareholder's holdings represented by the member of the Shareholders' Nomination Board.

The Shareholders' Nomination Board convened 8 times between the 2019 AGM and 30 January 2020, and the members of the Shareholders' Nomination Board attended such meetings as follows:

	Attendance
Kimmo Viertola	8/8
Reima Rytsölä	7/8
Jouko Pölönen	8/8
Matti Kähkönen	8/8

The meeting on 30 January 2020 which accepted the proposals for the 2020 AGM was attended by all members of the Shareholders' Nomination Board.

Composition of the Shareholders' Nomination Board prior to the 2019 AGM

On 12 September 2018, the following members were appointed to Neste's Shareholders' Nomination Board: The Chair, Senior Financial Counsellor Jarmo Väisänen of the Ownership Steering Department in the Prime Minister's Office of Finland; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company; Executive Vice-President and Chief Investment Officer Reima Rytsölä of Varma Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors.

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

Due to the retirement of Mr. Väisänen, Director General Kimmo Viertola of the Government Ownership Steering Department in the Prime Minister's Office of Finland was appointed as the Chair of the Shareholders' Nomination Board as of 16 May 2019.

Board of Directors

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

Diversity of the Board of Directors

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

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

Neste's 2019 Board of Directors was composed of 8 members, all of whom hold a university-level degree, and two of whom have a doctorate. All of these degrees are from different fields, with technical fields being in the majority. Each member of the Board of Directors has international work experience in different types of positions, and has worked or is working in the Board of Directors or management of listed or unlisted companies. Three members have worked in managerial positions at major international oil companies. The Board of Directors is also diverse in terms of cultural backgrounds: its members come from five different countries and speak five different native languages. Women comprise 38% of all members of the Board of Directors. With regard to age, the members of the Board of Directors are divided evenly between 53 and 71 years of age. The duration of the terms of office of the Board members is divided as follows: three members have been on the Board of Directors for more than four years, while five members have been on the Board of Directors for less than four years.

Activities of the Board of Directors

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

Duties of the Board of Directors

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

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

2019

The 2019 AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Ms. Elizabeth (Elly) Burghout, Ms. Martina Flöel, Mr. Matti Kähkönen, Mr. Jean-Baptiste Renard, Mr. Jari Rosendal, Mr. Willem Schoeber and Mr. Marco Wirén. Ms. Sonat Burman-Olsson was elected as a new member. Mr. Matti Kähkönen was elected as Chair and Mr. Marco Wirén was elected as Vice Chair.

The Board convened 15 times in 2019. The attendance rate at the meetings was 97.5%. Pursuant to its agenda, the Board focused in 2019 on the Company's long-term strategy, continued performance development as well as on-boarding of the President and CEO that assumed his duties as of 1 November 2018. The Company announced in February 2019 its renewed strategy aiming at global leadership in renewable and circular solutions. In such context, the Company announced a new organizational structure the development of which has been closely followed by the Board, including also a focus on leadership matters and talent management. Other focus areas of the Board during 2019 were the expansion of the Company's renewables feedstock platform, the on-going capacity expansion investment in Singapore as well as the move from feasibility to execution in the Renewable Aviation and Renewable Polymers and Chemicals businesses. In addition to the above-mentioned agenda and matters set out in the Board Charter, the Board also paid continuous attention to the development of the Company's safety culture and performance. Further, the Board supervised strategy execution as well as evaluated the changes in the long-term operational environment and their impact on the Company's business operations from e.g. a sustainability perspective. The Board continuously monitored the Company's operational and financial performance as well as risk management. The Board has during the year participated in training and performed a self-evaluation of its work, including e.g. comprehensive interviews of all Board members by the Chair.

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 2019

	Position	Born	Education	Main Occupation	Independent of the company	Independent of major shareholders	Personnel and Remuneration Committee	Audit Committee	Attendance at meetings: Board	Attendance at meetings: Committees
Matti Kähkönen	Chair	1956	M.Sc. (Eng.)	Non-Executive Director	•	•	•		15/15	5/5
Elizabeth (Elly) Burghout	Member	1954	B.Sc. (Chem. Eng.)	Non-Executive Director	•	•	•		15/15	5/5
Sonat Burman-Olsson	Member	1958	M.Sc.(Econ), MBA	Non-Executive Director	•	•		•	11/12	3/4
Martina Flöel	Member	1960	PhD (Chem.)	Non-Executive Director	•	•		•	15/15	5/5
Jean-Baptiste Renard	Member	1961	M.Sc. (Eng.)	Non-Executive Director	•	•	•		15/15	5/5
Jari Rosendal	Member	1965	M.Sc. (Eng.)	President and CEO of Kemira	•	•	• (since 2 April 2019)	• (until 2 April 2019)	13/15	5/5
Willem Schoeber	Member	1948	Dr. (Tech.)	Non-Executive Director	•	•		•	15/15	5/5
Marco Wirén	Member	1966	M.Sc. (Econ.)	President of Wärtsilä Energy and Executive Vice President of Wärtsilä	•	•		•	15/15	5/5

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

Members of the Board of Directors

Matti Kähkönen

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

Senior Advisor, Metso Corporation 2017–2019. President and CEO, Metso Corporation 2011–2017. Executive Vice President and Deputy to the CEO, Metso Corporation 2010–2011. President, Mining and Construction Technology, Metso Corporation 2008–2011. President, Metso Minerals 2006–2008. President, Metso Automation, 2001–2006. President, Metso Automation, Field Systems Division, 1999–2001. Prior to year 1999, various managerial and development positions in Neles-Jamesbury and Rauma-Repola.

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

Holdings in Neste Corporation on 31 Dec 2019:
12,310 shares [1)]

Elizabeth (Elly) Burghout

(born in 1954)
B.Sc. (Chemical Engineering)
Member of the Board since 2018
Independent member

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

Holdings in Neste Corporation on 31 Dec 2019:
No holdings [1)]

Sonat Burman-Olsson

(born in 1958)
M.Sc. (Economics), Executive MBA, Strategic Management Studies
Member of the Board since 2019
Independent member

President & CEO COOP Sweden 2014–2017. Deputy CEO, ICA Gruppen 2007–2014. Vice President Electrolux Group, Global Marketing Strategies 1995–2006. Senior Vice President Electrolux Europe Operational Development. Vice President Electrolux New Markets. Prior to year 1995 Directoral positions within Siemens and BP. Member of the Board of ICC – International Chamber of Commerce, 2016–2018 and Swedish Trade Federation, 2014–2017. Chairman of the Swedish Food Retailers Association, 2014–2017. Member of the Board of Swedish National Pension fund, 2008–2016 and ICA Bank & RIMI Baltic, 2007–2014, iZettle 2018. Member of the Board of Directors of Lindab 2011–. Member of the Board of Directors of Postnord 2018– and Member of the Board of Directors of Lantmannen 2018–. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2019:
No holdings [1)]

Martina Flöel

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

CEO of Oxea 2007–2016. Managing Director and EVP, Europe of European Oxo in 2003–2007. Vice President Oxo Chemicals, Celanese Chemicals 2000–2003. Plant Manager Böhlen, Celanese Chemicals 1998–2000. Prior to year 1998, various managerial and directorial positions in the Hoechst Group. Member of the Sasol Board of Directors since January 2018. Member of Carl Bechem Board of Directors since January 2019. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2019:
No holdings [1)]

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

Jean-Baptiste Renard

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

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

Holdings in Neste Corporation on 31 Dec 2019:
22,950 shares [1)]

Jari Rosendal

(born in 1965)
M.Sc. (Eng.)
Member of the Board since 2018
Independent member

President and CEO at Kemira since 2014. Various divisional President and Directorial positions, including as Member of the Executive Board, at Outotec Oyj in 2001–2014. Various managerial and expert positions in the Outokumpu Group in Finland and the United States 1989–2001. Member of the Board of Directors and Audit Committee, Uponor Oyj, 2012–2018. Member of the Board of Directors since 2015 and Chairman of the Board of Directors 2017–2018 and Vice Chairman of the Board of Directors 2019–, Chemical Industry Federation of Finland. Member of the Board of Directors, CEFIC, 2014–. Member of the Board of Directors, Confederation of Finnish Industries (EK), 2017–2018. Member of the Board of Directors, 2011– and Chairman of the Board of Directors, Finnish Association of Mining and Metallurgical Engineers, 2017–. Member of the Board, TT fund of the Confederation of Finnish Industries starting in 2020. Member of Neste's Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2019:
No holdings [1)]

Willem Schoeber

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

Independent business consultant. Formerly Member of the Board of Directors of Societatea Energetica "Electrica" S.A. (Bucharest) 2016–2019. Chair of the Boards of Directors of EWE Turkey Holding AŞ, Bursagaz AŞ and Kayserigaz AŞ 2010–2015. Member of the Management Board of EWE AG, responsible for power generation and international business (Turkey and Poland) 2010–2013. Chair of the Management Board at swb AG (Bremen) 2007–2011. Several positions at Royal Dutch Shell Group's companies 1977–2007, in particular in oil refining. Presently Member of the Supervisory Board of Gasunie N.V. (Groningen) since 2013. Member of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2019:
6,000 shares [1)]

Marco Wirén

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

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

Holdings in Neste Corporation on 31 Dec 2019:
3,000 shares [1)]

Laura Raitio

– Member of the Board until AGM 2 April 2019

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

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

Board Committees

The Board has established an Audit Committee, which has four members, and a Personnel and Remuneration Committee, which has four members. A quorum exists when more than two members, including the Chair, are present. All members are elected from amongst the members of the Board for a one-year term. The tasks and responsibilities of each committee are defined in their Charters, which are approved by the Board. The schedule and frequency of committee meetings are determined by the Chair and committee members.

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

Committees meet at least twice a year. Each committee reports regularly on its meetings to the Board. Reports include a summary of the matters addressed and the measures undertaken. Each committee conducts an annual self-evaluation of its performance and submits a report to the Board.

Audit Committee

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

Duties

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

2019

Starting from 2 April 2019, the Audit Committee comprises Marco Wirén (Chair), Sonat Burman-Olsson, Martina Flöel and Willem Schoeber.

In 2019, the Audit Committee convened 5 times, and the attendance rate was 95%. In addition to the tasks specified in its Charter, including those relating to external and internal audit, the Audit Committee supervised and reviewed the Company's financial and other reporting. Another important focus area of the Audit Committee was risk and compliance management, including in relation to financial risks, market and geopolitical risks but also certain other risk areas, such as IT systems, segregation of duties and cyber security. In such context, the Company's program for reforming its ERP system continued to be a specific focus area of the Audit Committee. Moreover, the Audit Committee also monitored e.g. legal, compliance and privacy matters.

Personnel and Remuneration Committee

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

Duties

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

2019

Starting from 2 April 2019, the Personnel and Remuneration Committee comprises Matti Kähkönen (Chair), Elly Burghout, Jean-Baptiste Renard and Jari Rosendal.

The Personnel and Remuneration Committee convened 5 times in 2019, and the attendance rate was 100%. The Personnel and Remuneration Committee focused during 2019 on talent and organisational development of the Company in line with the renewed strategy and restructured organization as well as supporting in recruitment of new members for the Executive Committee. The Personnel and Remuneration Committee also focused on reviewing and updating Neste's long-term incentive program for 2020 and onwards to strengthen the alignment with long-term shareholder value creation, simplify overall plan structure and introduce additional flexibility. In line with duties coming from its Charter, the Personnel and Remuneration Committee also followed the functioning of short- and long-term incentive plans to ensure that they supported the achievement of the objectives and helped improve the Company's performance. Both the follow-up the ongoing performance period and outcomes of the rewarding based on 2018 results were in the scope. In addition, the Committee focused on the preparation of the EU Shareholder Rights Directive II compliant Remuneration Policy for 2020 shareholder vote.

President and CEO

Neste's President and CEO Peter Vanacker (b.1966, M.Sc., Chemical Engineering, Polymers Engineering), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President and CEO shall oversee the executive management of the company in accordance with instructions and orders given by the Board of Directors, and is responsible for ensuring that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The President and CEO is appointed by the Board of Directors, which evaluates the performance of the President and CEO annually and approves his remuneration on the basis of a proposal by the Personnel and Remuneration Committee. Information on the remuneration of the President and CEO can be found in the 2019 Remuneration Statement.

Executive Committee

The ExCo assists the President and CEO in managing the Company and in the deployment of the Company's strategic and operational goals. Members are appointed by the Board of Directors. The ExCo meets regularly, on average once a month. Information on the remuneration of the members of the ExCo can be found in the 2019 Remuneration Statement.

2019

The ExCo comprised nine members during the months of January to May, ten members during the months of May to September and eleven members during the months from September to December. The ExCo had 12 meetings during 2019, and also met outside such meetings in relation to specific themes. In addition to supporting the President and CEO in the fulfillment of his general duties, the ExCo worked during 2019 with the development and implementation of the renewed strategy aiming at global leadership in renewable and circular solutions. Against such background and given the Company's new organizational structure as of 1 May 2019, the ExCo invested a substantial amount of time in organizational development and capabilities build-up. The strategic focus areas included, among others, the expansion of the Company's renewables feedstock platform, the on-going capacity expansion investment in Singapore, the Company's operational excellence program as well as the move from feasibility to execution in the Renewable Aviation and Renewable Polymers and Chemicals businesses. In addition, a number of other matters were given special attention during the year, including the build-up of the Company's innovation program, the development of the Company's M&A capabilities as well as IT and cybersecurity matters. The Company's safety, financial and operational performance were closely monitored by the ExCo.

Members of the Neste Executive Committee 2019

Peter Vanacker

(born 1966)
President and CEO, Chair of the Executive Committee
M.Sc. Chemical Engineering, Polymers Engineering
President and CEO since 2018.

Joined the company in 2018. Served as CEO and Managing Director, CABB Group GmbH 2015–2018 as well as CEO & Managing Director of Treofan 2012–2015. Worked as Executive Vice President and Member of the Executive Board of Bayer MaterialScience (today Covestro AG) 2004–2012 with responsibility of the global Polyurethanes business and as Chief Marketing and Innovation Officer. Before that had several directorial and managerial positions in Belgium, Brazil, US and Germany at Bayer since 1990. Chair of the Advisory Board for the European Institute for Industrial Leadership.

Holdings in Neste Corporation on 31 Dec 2019:
30,429 shares.[1)]

Mercedes Alonso

(born 1966)
Executive Vice President, Renewable Polymers and Chemicals business unit
M.Sc. (Chem)
Member of the Executive Committee since 2019.

Joined the company in September 2019. Responsible for the Renewable Polymers and Chemicals business unit. Previously served as Marketing Director Advanced Polymer Solutions in LyondellBasell (2019), Managing Director Eng. Composites Europe 2016–2019, and Global Director Corporate Marketing in a Schulman Inc. 2013–2016, as well as Business Excellence Leader, Advanced Materials in Dow Europe GmbH 2010–2013.

Holdings in Neste Corporation on 31 Dec 2019:
No holdings.[1)]

Panu Kopra

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

Joined the company in 1996. Responsible for the Marketing & Services business unit. Previously served as Vice President in Oil Retail Sales in Finland and Baltic Rim 2014–2015, Vice President in Oil Retail Russia and Baltic Rim 2010–2014, General Manager in St. Petersburg Russia (2009), Business Development Manager in Renewable Products 2007–2008, Sales Director (2006), General Manager in Latvia 2003–2005 and in several other positions in the company. Board member of East Office as of 2016.

Holdings in Neste Corporation on 31 Dec 2019:
14,982 shares.[1)]

Matti Lehmus

(born 1974)
Executive Vice President, Renewables Platform
M.Sc. (Eng.), eMBA
Member of the Executive Committee since 2009.

Joined the company in 1997. Executive Vice President of Renewables Platform. Previously responsible for the Oil Products business area. Has also served as Executive Vice President of the Oil Products and Renewables business area 2011–2014, Executive Vice President of the Oil Products business area 2009–2010, Vice President of the Base Oils business in the Specialty Products Division 2007–2009, Vice President of Oil Refining Business Development (2007) and Gasoline Exports and Trading Manager 2004–2007 in the Oil Refining Division. Chairman of the Board of the Chemical Industry Federation of Finland. Member of the Board of the Confederation of Finnish Industries (EK).

Holdings in Neste Corporation on 31 Dec 2019:
33,963 shares.[1)]

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

Carl Nyberg

(born 1979)
Executive Vice President, Renewable Road Transportation
M.Sc. Economics and Business Administration
Member of the Executive Committee since 2019.

Joined the company in 2005. Responsible for the Renewable Road Transportation business unit. Responsible for the Renewable Products business area in 2019 from February to May (acting). Served in various positions at Neste, most recently as Vice President of Sales Scandinavia of the Renewable Products business area 2016–2019 and Vice President, Supply, Oil Products at Neste Geneva 2014–2016. Managing Director of Neste AB 2017–2019.

Holdings in Neste Corporation on 31 Dec 2019: 4,401 shares.[1]

Marko Pekkola

(born 1969)
Executive Vice President, Oil Products
MSc, Energy Technology
Member of the Executive Committee since 2019.

Joined the company in 2018. Responsible for the Oil Products business unit. Previously served as Vice President, Production 2018–2019. Before joining Neste, held many leading positions in Stora Enso Oyj and M-real Oyj.

Holdings in Neste Corporation on 31 Dec 2019: 1,707 shares.[1]

Simo Honkanen

(born 1958)
Senior Vice President, Sustainability, Public Affairs and Communications
M.Sc. (Econ.)
Member of the Executive Committee since 2009.

Joined the company in 2006. Senior Vice President of Sustainability, Public Affairs, Communications and Brand Marketing. Previously responsible for Sustainability and Public Affairs. Has also served as Vice President, Marketing, Stakeholder Relations and Raw Material Procurement in the Renewable Fuels division 2008–2009, Vice President, New Ventures in the Components Division 2006–2007. Prior to that various positions in Finland and abroad in Shell. Member of the Board of the Smart & Clean Foundation, and Maj and Tor Nessling Foundation.

Holdings in Neste Corporation on 31 Dec 2019: 21,513 shares.[1]

Hannele Jakosuo-Jansson

(born 1966)
Senior Vice President, Human Resources, HSSEQ and Procurement
M.Sc. (Eng.)
Member of the Executive Committee since 2006.

Joined the company in 1990. Senior Vice President of Human Resources, HSSEQ and Procurement. Previously responsible for the Group's Human Resources and Safety corporate functions. Served as Vice President, Human Resources at Oil Refining (2004–2005) and Laboratory and Research Manager at the Technology Center (1998–2004). Member of the Board of Directors of Ahlstrom-Munksjö, LUKE (Natural Resources Institute Finland) and Nynas AB.

Holdings in Neste Corporation on 31 Dec 2019: 33,651 shares.[1]

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

Lars Peter Lindfors

(born 1964)
Senior Vice President, Innovation
Ph.D. (Tech.), MBA.
Member of the Executive Committee since 2009.

Joined the company in 2007. Senior Vice President of Innovation. Previously responsible for Research & Development, Investment Management, Information Technology, Procurement, and Business Processes. Served previously as Senior Vice President, Technology and Strategy 2009–2012, Vice President for the company's Research and Technology unit 2007–2009, Member of the Executive Committee of the Perstorp Group 2001–2007 as Executive Vice President, Renewal and Development and prior to that at Neste as R&D Manager and various other positions 1989–2001. Member of the Board of the Fortum Foundation and Tikkurila Oyj.

Holdings in Neste Corporation on 31 Dec 2019: 26,823 shares. [1)]

Jyrki Mäki-Kala

(born 1961)
Chief Financial Officer, Strategy and IT
M.Sc. (Econ.)
Member of the Executive Committee since 2013.

Joined the company in 2013. Chief Financial Officer, Strategy and IT. Previously responsible for the Group's strategy, financial management, investor relations, and risk management. Served in various business and corporate financial positions at Kemira 2005–2013. Previously worked for Finnish Chemicals. Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company. Member of the Board of Directors and Audit Committee of Tesi (Finnish Industry Investment Ltd.). Member of the Board of Directors of Nynas AB.

Holdings in Neste Corporation on 31 Dec 2019: 34,128 shares. [1)]

Christian Ståhlberg

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

Joined the company in 2017. Responsible for the Group's legal affairs. Secretary to the Executive Committee, the Board of Directors, the Audit Committee, the Shareholders' Nomination Board and to the Stakeholder Advisory Panel. Served previously as General Counsel of Rettig Group Ltd 2015–2017, Director, Legal in Pohjola Bank plc 2011–2014, Senior Legal Counsel in Neste Oil Corporation 2007–2011 and Senior Associate in Roschier Attorneys Ltd 1998–2007. Member of the Board of Directors of Nynas AB (2018–).

Holdings in Neste Corporation on 31 Dec 2019: No holdings. [1)]

Kaisa Hietala

– left the company in February 2019.

(born 1971)
M.Sc. (Physics), Finland and M.Phil. (Env.Sc.), UK
Executive Vice President, Renewable Products until February 2019
Member of the Neste Executive Board 2014–2019.

Thorsten Lange

– joined the company in January 2020.

(born 1963)
M.Sc. Banking and Auditing
Executive Vice President, Renewable Aviation business unit
Member of the Executive Committee since January 2020.

Minna Aila

– appointed as a member of the Executive Committee, expected to join the company latest in April 2020.

(born 1966)
LL.M.
Senior Vice President, Sustainability, Public Affairs, Communications and Brand Marketing

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

Company Auditor

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

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

Fees charged by the statutory auditor

EUR 1,000	2019	2018
Audit fees	1,388	1,310
Other	298	594
Total	1,686	1,904

2019

Audit Firm PricewaterhouseCoopers Oy served as Neste's Auditor until 2 April 2019, with Authorized Public Accountant Mr. Markku Katajisto as the principally responsible auditor. The AGM re-elected PricewaterhouseCoopers Oy as the Audit Firm on 2 April 2019, with Authorized Public Accountant Mr. Markku Katajisto continuing to serve as the principally responsible auditor, until the end of the next AGM.

Internal Audit

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

Internal Audit's activities encompass objective examinations for the purpose of providing assessments to the Neste's Board Audit Committee and management on the adequacy and effectiveness of governance, risk management and control processes at Neste. The scope of Internal audit assessments include, among others, evaluating that risk management practices are in place, significant risks are appropriately identified and managed, key policies and guidelines exist and are documented and effectively implemented, organizational structures and governance models enable efficient decision-making and steering system, roles and responsibilities are clear, and results of operations and programs are consistent with established goals and objectives.

Internal Audit work is carried out based on an annual Internal Audit Plan. Neste's strategic objectives, key projects and identified risks are key elements in the audit planning process. Vice President of Internal Audit reports periodically to the senior management and the Board Audit Committee Internal Audit's activities relative to the annual plan, including audit recommendations and action plans established by organisations aiming to continuous improvement and mitigation of risks.

Internal Audit is also responsible for conducting special assignments on behalf of management or the Board Audit Committee. As a member of Neste's Investigation Group, Vice President of Internal Audit participates in the investigation of suspected misconduct and breaches of Neste's policies, principles and applicable laws and regulations. To assure effective, and efficient and value adding process, Internal Audit co-operates actively with other Neste's assurance service functions (Corporate Risk Management, Internal Controls and Compliance) and top management and shares best practices from a process and governance point of view.

Internal Audit follows the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Professional Practice of Internal Auditing. Internal Audit reports directly to Board of Directors' Audit Committee and administratively to the President and CEO. The Board of Directors is responsible for approving the Internal Audit Charter and the Annual Audit Plan. Internal Audit Charter includes the determination regarding Internal Audit position, operational model, process and reporting lines. Internal Audit has at least annually a non-executive meeting with the Audit Committee members and the Audit Committee Chairman. Vice President of Internal Audit is responsible for the internal audit activities specified in the Internal Audit Charter.

2019

Internal Audit performed internal audits set out in the Internal Audit Plan 2019 and special assignments assigned by the senior management and the Board Audit Committee. Internal Audit function continued to strengthen cooperation with other Neste assurance functions such as compliance, risk management and internal controls with an aim to integrate activities and reporting to the management.

Neste's key business processes, locations, projects and risk areas were in focus during the year 2019, including for example the supply process, major investments (e.g. the Singapore Expansion), IT projects (ongoing SAP project), robotic process automation and digitalization. An Internal Audit External Quality Assessment was also performed in 2019.

Compliance function

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

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

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

Neste has on its website a new whistle-blowing system to all Neste's internal and external stakeholders, including various actors in its supply chains. Ethics Online serves as a grievance mechanism and enables Neste's stakeholders to raise possible concerns on Neste's practices without fear of reprisals. Internal Audit and Compliance functions are responsible for evaluating and investigating cases. The possible irregularities or misconducts are investigated and reported regularly to the Board of Directors' Audit Committee.

Insider administration procedures

Neste complies with the EU Market Abuse Regulation (596/2014), including related regulation, as well as Nasdaq Helsinki Ltd's Insider Guideline as a minimum standard on insider matters. In addition, the Board of Directors has approved the Company's own Guidelines for Insiders on 9 June 2016.

The Company's General Counsel is responsible for the coordination and supervision of insider matters, along with the insider register manager, the insider communication manager and individuals responsible as heads of project-specific registers. All the above individuals have their own deputies. In addition, the head of each common function or business area is responsible for supervising insider matters within his or her organization. The Company arranges training related to the insider guidelines.

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

The Company has defined, as persons discharging managerial responsibilities, the members of the Board of Directors and its secretary, the President and CEO, as well as the members of the ExCo and its secretary. These managerial persons and their closely associated persons must report their own transactions conducted with the Company's financial instruments or financial derivatives to the Company and the Financial Supervisory Authority without delay, and no more than three business days of completing the business transaction. Reports to the Company and the Financial Supervisory Authority can be made by following the instructions on neste.com/trading.

The Company has also named certain other persons as core persons as they have better or more information about the Company than the market. These individuals are typically ones that prepare the company's Interim Reports and Financial Statements, persons responsible for the Company's finances, financial reporting or communication, or persons that have access to said information, as well as certain individuals in executive positions.

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

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

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

Objectives

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

The system of internal controls at Neste Corporation is based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management sets its level of risk appetite by defining the group level control objectives. Control Objectives set the Group's minimum control requirements for the control activities in financial and business processes in order to mitigate the underlying key risks and establish the desired level of assurance for correct financial reporting, adherence with the regulations and policies, and prevention of fraud. Group level control objectives are endorsed by the Executive Committee and Audit Committee and reflect the top management guidelines, auditor reports, policies and regulations Neste complies with, as well as Neste's Internal Control Principles and Control Requirements over Financial Reporting (COFR).

Control environment

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

The internal control at Neste is based on the corporate structure whereby the operations are organized into business units and common functions. The heads of business units and finance function are responsible for establishing and maintaining appropriate, up-to-date, effective and adequate controls over financial reporting. Operational management hence owns the risks and controls and is responsible that controls and deficiency related corrective actions are implemented.

In order to provide additional assurance, Neste has established an Internal Control function, that is responsible for leading the group-wide internal control development and monitoring the performance of internal controls in business operations. Internal Control team acts on the recommendations of the auditors for improving the quality of the controls and follows up and verifies that actions for remediation are taken by the respective operational management.

Neste has prepared and established its own Internal Control Principles in accordance with COSO framework. Internal Control Principles emphasize the importance of internal controls and clarify the responsibilities of the three lines of defense for establishing effective controls in business processes. Neste's values and management system containing formal Code of Conduct are the foundation of the control environment. President and CEO and corporate management are responsible for emphasizing the importance of ethical principles and correct financial reporting.

Risk assessment

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

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

Control activities

Neste's control activities include instructions, guidelines and procedures to ensure that the actions identified by management to address the relevant risks are carried out effectively. The most important guidelines related to financial reporting systems and practices are documented in Neste's Internal Control Principles, Access Risk Management Principles, Control Over Financial Reporting documentation (COFR), Process charts, month end workflows and detailed Finance Instructions.

Key control activities are documented in respective control catalogs for each business or financial process.

Other group level policies and guidelines are documented in Neste's management system.

Communications

Neste corporate level communication practices support completeness and correctness of financial reporting. Neste personnel have access to adequate information and communication regarding accounting and reporting principles and guidelines. The main means of communicating the relevant matters for appropriate financial reporting consist of internal control training, detailed Finance Instructions containing accounting principles and guidelines for forecasting and reporting, info sessions, on-job training, process walk-throughs, postings on internal channels and pages.

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

Monitoring

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

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

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

Internal Control function also conducts separate tests to assess the adequacy of internal controls in business processes, recommends corrections and reports the gaps to respective management teams.

2019

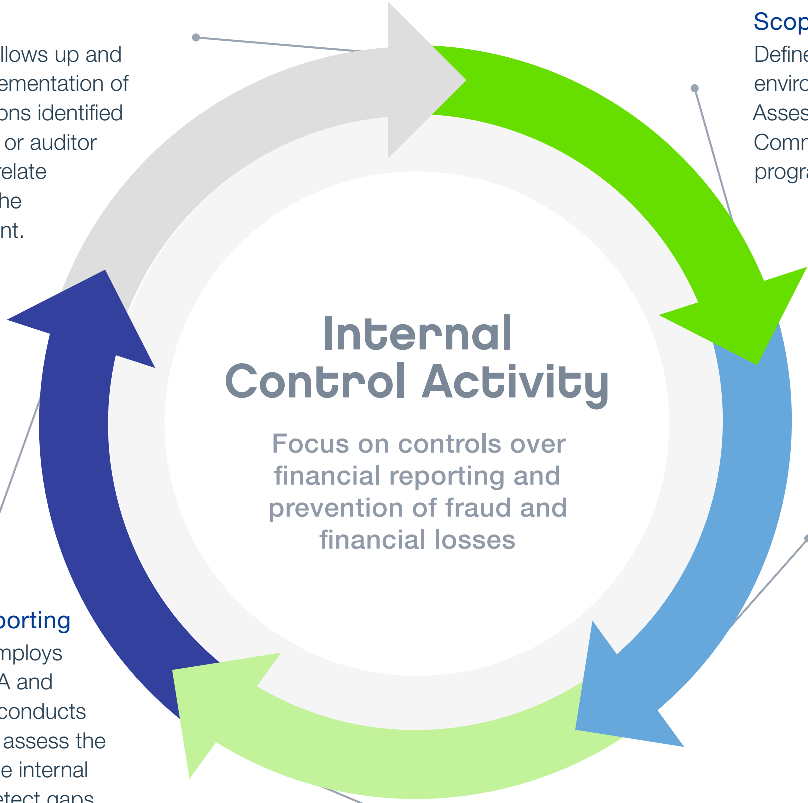
During the year, Neste has revisited the control requirements over its commercial operations, aiming at strengthening the effectiveness of key controls in customer and supplier facing operations; it has developed further automatic preventive and awareness functionalities in its SAP system and its key interfaces, as well as it has completed the review of the risks related to SAP Access and Segregation of Duties. Robotics solutions have been taken into use to check on deviations, such as Segregation of Duties violations, thus enabling continuous control monitoring in the area of access risks. CFO and Audit Committee receive regular reports on measures taken to mitigate the high risk Access and Segregation of Duties potential violations.

Neste has documented Minimum control requirements over access risk to business applications in its Access Risk Management Principle supported by SAP SOD Standard, establishing clarity on the governance over authorizations and access risk mitigation. The SAP Risk Library has been updated to reflect relevant risks for Neste's business. During the fourth quarter, SAP was implemented for the majority of renewable products sales and supply processes and application was at the same time rolled out to new countries.

Building Effective Internal Controls is an Ongoing Process driven by Strategy and Control Objectives

Remediation
Internal Control follows up and supports the implementation of management actions identified by its own testing or auditor findings and that relate to strengthening the control environment.

Scope
Defined based on Regulatory environment, Strategic Objectives, Assessment of Risks, Audit Committee priorities, change programs and Remediation actions.



Control Development
In partnership with business and process owners, define and enhance the controls. Increase control automation and monitoring capabilities. Keep up-to-date control catalogs. Create and update requirements and guidelines.

Monitoring, Testing and Reporting
Internal Control employs tools, such as RPA and SAP GRC, and it conducts separate tests, to assess the performance of the internal controls and to detect gaps and areas for improvement. Findings are reported to relevant stakeholders.

Training and Communication
Clarify Control Requirements and tools. Support operational management and process owners to deploy controls in the organization. Perform an active role in communication to both personnel and stakeholders on important updates.

Performance Management Process

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

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

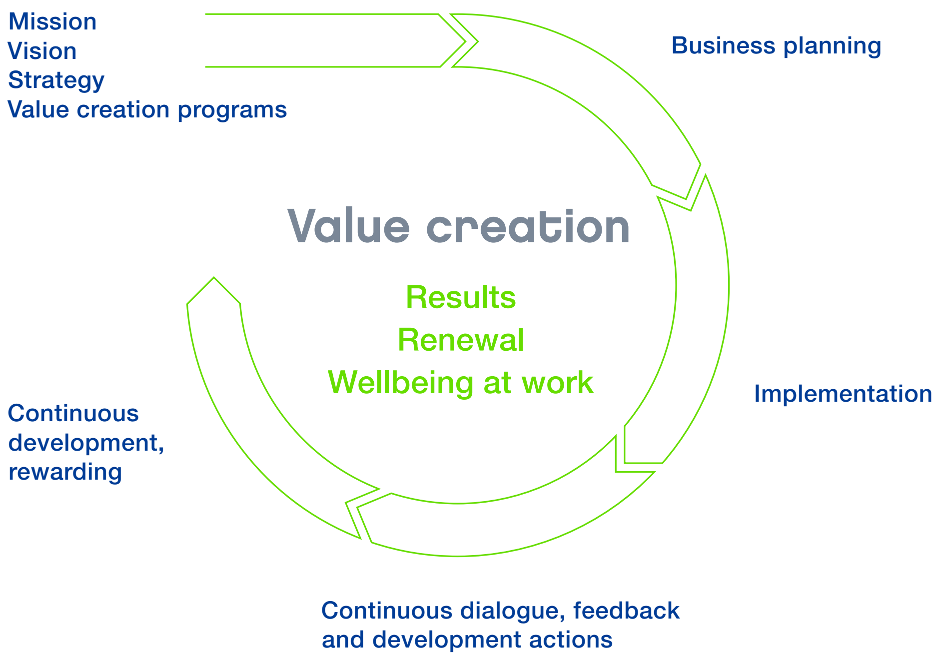
Individual and team objectives are based on Neste's strategy and way of working. There is a clear link between well-being at work and good leadership performance.

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

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

From a financial reporting point of view, Neste Performance Management Process consists of monthly Management Reporting, quarterly Business Review, and biannual Common Functions Review. Results, information in management reporting, and performance reviews are compared to strategic goals and business plans, and to analyses and planned corrective actions throughout the year. Business areas and common functions follow a similar approach, but emphasize a more detailed analysis and definition of corrective actions, as well as continuous improvement and prioritization of actions and development projects.

Performance Management Process



Leading performance in daily work

Risk management

Risk management objectives and scope

Neste recognizes risk management as an integral part of sound management practice and an essential element of good corporate governance. Risk as an element of uncertainty (opportunity or threat) is an inevitable component of running the business. Systematic risk management practices are the means to ensure that Neste is successful in reaching the set strategic goals and business objectives and is able to maintain continuous operations in a changing business environment.

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

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

Risk management framework and principles

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

Neste's risk management framework and processes are aligned with the internationally recognized best practices for risk management (COSO: Enterprise Risk Management – Integrating with Strategy and Performance; and ISO 31000:2009 standard).

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

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

Systematic risk management practices ensure that Neste is successful in reaching the set strategic goals and business objectives.

Risk governance

Neste Board of Directors has the ultimate accountability for risk oversight. Among other duties the Board is in this role responsible for setting the Group's risk appetite and for approving the Risk Management Policy.

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

1st Line of Defense

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

In practice, Business Areas and Common Functions are owning and managing risks with the help from a dedicated network of risk champions and coordinators. The role of the risk champions / coordinators is to represent different risk disciplines and to ensure that risk discussions are embedded into everyday management routines.

2nd Line of Defense

Role of the actors in the second line of defense is to provide guidance, support, facilitation, and consultation for risk management. Second line of defense needs to have some degree of independence from the first line of defense in order to be able to challenge the first line in managing performance and making risk informed decisions.

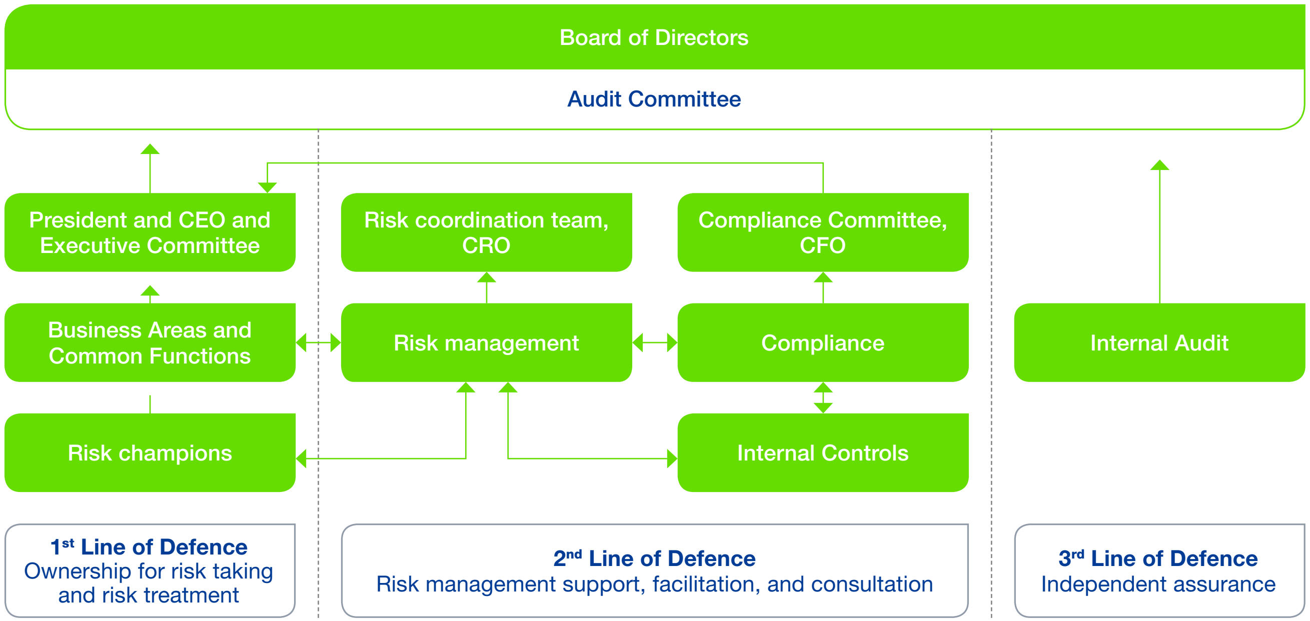
At Neste, second line of defense includes Common Functions in their second-line roles and specialist teams (corporate risk management, compliance and internal controls). In addition, Neste has established a separate Ethics and Compliance Committee that aims at increasing management oversight on compliance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

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

3rd Line of Defense

Internal Audit as an independent team evaluates the effectiveness and efficiency of the corporate level risk governance model and related risk management processes, including the effectiveness of internal controls and other risk treatment actions in the scope of each audit. Internal Audit also provides recommendations for improvement areas.

Risk governance



Risk reporting

Risk reporting aims at transparent, consistent, and comprehensive communication of risk status in different areas. As a result of risk reporting, company's risk profile can be compared with the defined risk appetite and it can be concluded, whether additional risk treatment actions are needed.

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

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

Risks relating to Neste's business

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

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

External risks – Economic conditions, Geopolitics

During the last few years, the uncertain global economic and financial market conditions have had an adverse effect on general business conditions. Despite the measures taken by various governmental and regulatory authorities as well as central banks around the world, due to the US-China trade policy tensions and various other factors, risks for a slowdown or even a recession must be taken into account, rendering a continuing unstable economic situation. Brexit and other economic and political developments in EU countries may impact the market conditions for the supply of feedstock and sales of refined products. In the United States, uncertainty around the continuation of biofuel programs and potential import tariffs create business uncertainty for Neste.

Market uncertainties and geopolitical tensions in oil-producing countries continued in 2019. The attack on some central production facilities in Saudi Arabia, tensions between Iran and other nations, restlessness in Iraq and military developments in Syria all are among factors creating turbulence and posing risks to world crude oil supplies.

Trade restrictions like international sanctions regimes may have an adverse impact on Neste's business e.g. by limiting access to Russian crude oil and other raw materials.

External risks – Environment

Neste's strategic ambition is to be the global leader in renewable and circular solutions. Growing pressure to combat climate change and reduce greenhouse gas emissions is therefore primarily a positive driver for Neste's business. However, political and societal focus on low carbon transition and energy sector's carbon footprint also create risks. Indirect economic and political consequences from climate change may contribute to the general uncertainty in the business environment and hence have an adverse effect on Neste's business. In addition, changes in carbon emission trading schemes or similar initiatives on EU, US or individual member state level may have a significant effect on Neste's business.

External risks – Laws and regulation

Changing regulation presents both an opportunity and threat to Neste's business. Neste's business Units are benefiting from increased support for biofuels and renewable fuels (for example requirements that relate to renewable content in diesel and gasoline). Changes in regulation especially in the European Union and the United States may influence the speed at which the demand for renewable products develops, and new raw materials sources are taken into use.

On the other hand, Neste's operations and products are subject to extensive regulation (for example environmental, health & safety, sustainability). Also general regulatory requirements in areas like commodity trading and data protection have created a need to review and update operating procedures. For the renewable products, a significant source of uncertainty is fragmented regulation around acceptability and use of waste & residue feedstock.

Risks relating to strategic choices and strategy implementation

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

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

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

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

As business complexity is increasing, strong governance practices and continued contributions of Neste's senior management, personnel and partners are vital for the company's success. Due to fierce competition for talent, there is a risk that Neste may not be able to recruit and retain highly skilled employees that are needed for strategy deployment and successful operations in the future. There is also a risk that Neste is not able to build and manage strategic partnerships that are contributing to future success.

Project risks

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

Business continuity risks

Neste's business is dependent to a significant extent on its wholly owned fossil fuel refineries in Finland (Porvoo and Naantali) and its renewable diesel refineries in Singapore and the Netherlands (Rotterdam). Neste's conventional oil refineries are scheduled to have a major maintenance turnaround every five years. In addition to these, for example disruptions in the supply of utilities or breakdown of critical machinery may cause unexpected shutdowns that affect Neste's ability to fulfil demand for end products.

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

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

Market risks

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

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

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

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

Neste is exposed to foreign exchange risks due to the fact that most of the sales are denominated in US dollars, whereas operating expenses (except purchase of raw materials) are recorded in euros. Neste limits the uncertainties relating to changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures.

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

Credit risk

Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. The risk is linked to the potential failure of a counterparty to meet its contractual payment obligations, and is therefore dependent on the creditworthiness of the counterparty and the size of the exposure concerned. In order to manage the risk, Neste has implemented systematic controls for counterparty screening and monitoring.

Sustainability risks

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

ICT and cyber risks

Digitalization and emerging technologies (for example use of artificial intelligence and robotics) offer chances to automate dangerous or error-prone tasks and increase efficiency of operations. At the same time, increasing sophistication of cyber threats and generally rising frequency of attacks targeted at oil & gas companies is a concern also for Neste. Cyber risks multiply the impact of other risks and could also like individual risks have a major negative impact on Neste's reputation or continuity of business operations.

Reliability of the key IT systems and partnerships is essential for continuous business operations. Prolonged disruption in the availability of the key systems, data or interfaces could limit Neste's ability to conduct its business operations in a profitable, efficient and controlled manner.

Risk management focus in 2019

In 2019, special risk management initiatives focused on the major investments, system transitions, business model changes and harmonization of counterparty risk management practices.

Neste Remuneration Statement 2019

Chair's annual statement

On behalf of the Neste's Personnel and Remuneration Committee (the 'Committee') I am pleased to present our 2019 Remuneration Statement.

In 2019 we renewed our strategy, with the aim to become a global leader in renewable and circular solutions. To reach our ambitions, we are scaling up our business faster and bolder and broadening our end-markets. To better support the new strategy, we restructured our organization and recruited new members to the Executive Committee.

How we structure remuneration at Neste

Our purpose as a Personnel and Remuneration Committee is to ensure that remuneration programs at Neste reflect our longstanding remuneration principles of supporting the business strategy, paying for performance, encouraging value-based behavior and individual accountability, and paying competitively and fairly.

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

For our President and CEO, Neste Executive Committee (ExCo) and key personnel, a significant proportion of remuneration is derived from variable pay to ensure that there is strong alignment between performance and reward. Furthermore, we also want to reward all our employees for good performance, believing that performance -based remuneration motivates our people to strive for excellence. All our employees are therefore able to participate in short-term incentive programs.

Remuneration paid for performance in 2018 and 2019

Our strategy renewal and implementation continued in 2019 building on the successful 2018. In 2019, we further strengthened our strategic capabilities in Renewable Products and ensured that our organizational engagement and change adaption stayed on track. This resulted in continuing excellent financial performance in 2019 with record-high comparable EBIT of EUR 1,962 million following comparable EBIT of EUR 1,422 million in 2018. This good financial performance is reflected in our short-term incentive (STI) plan pay-outs – on average the 2018 and 2019 STI program paid out between target and maximum level.

Our free cash flow was EUR 870 million in 2018 and EUR 1,154 million in 2019 – above our set maximum performance level. This resulted in high Total Shareholder Return (TSR), and we outperformed the Europe Stoxx 600 market index in the Performance Share Plan 2016–2018 and Performance Share Plan 2017–2019 program. Therefore, both LTI plans vested at maximum level.

Key highlights of 2019

- Neste's strong financial performance in 2019
- Renewed strategy and restructured organization
- Strategic capability development to support the growth strategy
- Recruitment of new Executive Committee members:
  - **Mercedes Alonso**, Executive Vice President, Renewable Polymers and Chemicals
  - **Thorsten Lange**, Executive Vice President, Renewable Aviation
  - **Minna Aila**, Senior Vice President, Sustainability, Public Affairs, Communications and Brand Marketing
- Preparation of the EU SRD compliant Remuneration Policy for the AGM 2020 shareholder vote

In this section

Neste Personnel and Remuneration Committee

Matti Kähkönen
Chair of the Personnel and Remuneration Committee

Committee members during 2019:

- Elizabeth (Elly) Burghout
- Laura Raitio until 2 April 2019
- Jean-Baptiste Renard
- Jari Rosendal from 2 April 2019

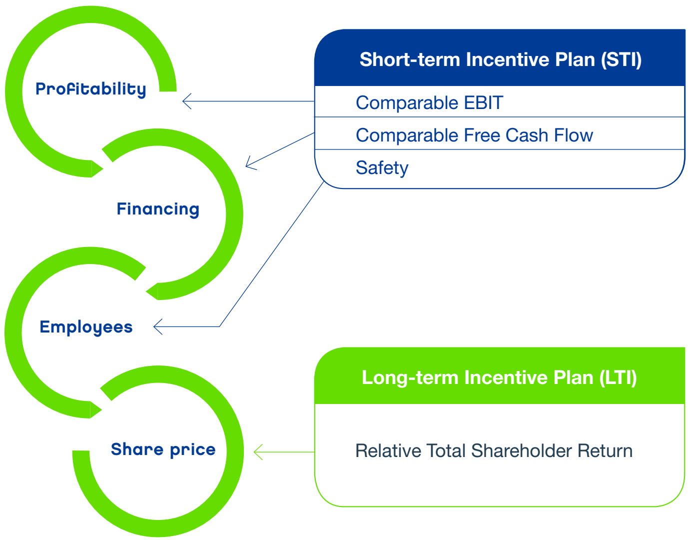
The Board of Directors of the Company evaluates how it, taking into account the best interest of the Company, observes the relevant shareholder views on remuneration applicable at any given time. In 2020, as well as in 2019, the long-term share incentive rewards paid out to the President and CEO and certain ExCo members were limited to ensure that the total value of incentives (short-term and long-term incentives combined) did not exceed 1.2 times fixed annual base salary.

Remuneration policy for 2020

As required under the regulations of the EU's Shareholder Rights Directive (SRD) adopted in Finland in 2019, we are submitting our 2020 Remuneration Policy to shareholder vote at our AGM on 7 April 2020. It is intended that the Policy will apply for the next four years. During 2019, the Committee has reviewed Neste's Remuneration Policy to ensure that the Policy continues to be aligned with evolving market and best practices, is compliant with the new regulations, and continues to drive Neste's business success and creation of long-term shareholder value.

Matti Kähkönen
Chair of the Personnel and Remuneration Committee

Measuring performance at Neste in 2019



Neste Executive Remuneration Policy Report

Our approach to remuneration

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

- **Ensure the execution of Neste's strategy:** Neste aims to chart a clear path forward by executing its strategy and sharing its business objectives.
- **Drive performance and value based behavior:** Neste aims to drive results by rewarding excellence, development and value based behavior.
- **Encourage individual and team accountability:** Neste promotes clear targets and a focus on continuous performance improvement. Neste enables this by maintaining an ongoing dialogue with employees and by encouraging employee feedback.
- **Be fair and transparent:** Neste runs performance and total rewards processes ethically and with integrity, and supports this with clear communication.

Remuneration principles for the Neste Executive Committee and senior management

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

- Rewards should be appropriate to attract and retain senior management with the requisite skills and experience to ensure that Neste meets its strategic goals, but remuneration also has to make financial sense from the company's point of view to maintain its competitive cost structure.
- To operate effectively in a global context, remuneration should be fair and competitive within the international markets Neste operates in. Salaries and other components of pay should be based on local market conditions and be sufficient to attract key management talent.
- Remuneration should maintain appropriate proportions of fixed and performance-related pay to help to drive performance and sustainable results over the short-and long-term, to maintain a flexible cost base, and to avoid creating incentives for excessive risk-taking.
- In support of Neste's pay for performance approach, senior managers should be rewarded for value-based behavior and achievement of challenging strategic, operational and financial targets.
- Senior management interests should align with those of Neste and its broad base of domestic and international shareholders/ stakeholders.
- The senior management remuneration policy should be consistent with the global pay principles applied to Neste employees worldwide.
- Neste will always endeavor to treat senior managers and key personnel equally and impartially, regardless of their gender, nationality, age, religious beliefs, political opinions, or other similar factors.
- Remuneration is set according to the "grandparent principle" whereby the pay of any individual is subject to the approval of a manager's manager. No individual may decide or participate in decision-making in matters relating to their own remuneration.

Ensure the execution of our strategy

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

Drive performance and value-based behavior

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

Encourage individual and team accountability

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

Be fair and transparent

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

Summary of Remuneration Policy for the Neste Executive Committee

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

Remuneration element	Purpose and link to strategy and long-term financial success	Description and operation
Fixed salary (Base salary and fringe benefits in Finland)	The base salary should be sufficient to attract, retain and motivate high-calibre individuals.	Fixed salary which includes taxable fringe benefits (car and mobile phone) in Finland. The remuneration (including base salary) of the President and CEO and the members of the Executive Committee are reviewed annually by the People and Remuneration Committee and any changes are approved by the Board of Directors. Peter Vanacker's fixed salary is EUR 75,020 per month in 2019 and EUR 76,370 per month beginning from 1st of January 2020.
Pension	To provide a competitive retirement benefit in line with local market practices	Peter Vanacker: The retirement age according to the Finnish Employee's Pension Act (TyEL), no additional pension scheme. ExCo members: • For those who have started before 1 January 2009: a defined benefit (DB) plan based on a retirement age of 60 (up to 60% of retirement salary). Retirement salary for DB schemes is calculated based on the average monthly salary and related statutory pension insurance contributions over the ten years prior to retirement. • For those who have started after 1 January 2009 but before 31 August 2018, a defined contribution (DC) pension scheme (based on retirement age of 62, 63 or as prescribed under Finnish pension legislation). DC pension allocation is 16% of annual fixed base salary. • New additional pension schemes are no longer made for those who have started after 31 August 2018.
Short-term incentive (STI)	To reward and incentivize improvements in short-term financial and operational performance and support the delivery of the business strategy	Based on the attainment of annual financial and non-financial measures. Maximum award value is 40% of annual fixed base salary. President and CEO: KPIs are group financial targets (comparable Group EBIT, comparable Free Cash Flow and group safety targets [Total Recordable Injury Frequency per million hours worked, TRIF, including contractors] and Process Safety Event Rate per million hours worked [PSER]). For ExCo members with business area responsibility: a combination of group and business area specific financial and safety measures (for example comparable EBIT, comparable Free Cash Flow, TRIF and/or PSER). For ExCo members with common function responsibility based on Group comparable EBIT, comparable Free Cash Flow, TRIF, PSER and specific strategic measures of the function in question.
Long-term incentive (LTI)	To drive long-term sustainable growth and align the interests of executives with shareholders	LTI 2016: Based on the attainment of three-year financial and share price performance targets for Neste. For award cycles commencing in 2017 and 2018, 75% of the awards are based on cumulative comparable free cash flow and 25% are based on the total return of Neste shares relative to the STOXX Europe 600 Index. Awards vest in one tranche after three years, partly in shares and partly in cash. The cash element will cover taxes and other tax-like costs. The shares delivered based on the award cycle, which commenced in 2017, are subject to a one-year lock-up period. The shares potentially delivered based on the award cycle, which commenced in 2018, will similarly be subject to a one-year lock-up period. The award for President and CEO varies between 0–100% of annual fixed salary, based on performance and share price appreciation. Awards for ExCo members vary between 0–80% of annual fixed salary. Should the amount of total incentive awarded to executives (STI + LTI) exceed 120% of annual salary, the excess amount of LTI shares vesting in any one year will be cut to maintain this limit. LTI 2016 is targeted to selected key employees of Neste, including the CEO and the other ExCo members.

Remuneration element	Purpose and link to strategy and long-term financial success	Description and operation
		LTI 2019: Performance Share Plan (PSP) Based on the attainment of three-year share price performance targets for Neste. For award cycle commencing in 2019 (PSP 2019-2021), 100% of the awards are based on the total return of Neste shares compared to the STOXX Europe 600 Index. Awards vest in one tranche after three years, partly in shares and partly in cash. The cash element will cover taxes and other tax-like costs. The award for President and CEO and other ExCo members vary between 0–100% of annual fixed salary, based on performance and share price appreciation. Should the amount of total incentive awarded to executives (STI + LTI) exceed 120% of annual salary, the excess amount of LTI shares vesting in any one year will be cut to maintain this limit. LTI 2019 is targeted to selected key employees of Neste, including the CEO and the other ExCo members. LTI 2019: Restricted Share Plan (RSP) The Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year retention period after which the share rewards granted within the plan will be paid to the participants in shares of Neste. A precondition for the payment of the share reward based on the Restricted Share Plan is that the employment relationship of the individual participant with Neste continues until the payment date of the reward. RSP 2019–2021 within the Restricted Share Plan structure commences effective as of the beginning of 2019 and the potential share reward thereunder will be paid in the spring 2022. The Restricted Share Plan serves as a complementary long-term retention tool for individually selected key employees. Nominations for the Restricted Share Plan are approved by the Board of Directors on individual basis.
Other benefits and programs	Provides benefits and insurances in a cost-efficient way to attract and retain high-calibre individuals.	The ExCo members have company car benefit, mobile phone benefit, private accident-, life- and disability insurance, business travel, directors' and officers' liability insurances. The ExCo members may participate in the sickness fund (in Finland).
Claw back and malus provision	To ensure pay for performance	Variable pay awards (STI and LTI awards) are subject to malus (adjustment before pay-out) and clawback (reclaimed after pay-out) provisions, which can be applied in case of material misstatement, misconduct or a significant environmental or health and safety issue or any other circumstance as determined by the Board of Directors at its discretion.
Shareholding requirement	To encourage to build a meaningful shareholding in Neste	President and CEO and ExCo members must accumulate and maintain a shareholding which is equivalent to their annual fixed salary. Until this threshold is met, participants must retain 50% of vested incentive shares after tax.
Service contracts and loss of office payments	To ensure clear contractual terms are followed	Peter Vanacker: Both parties have a six-month period of notice. Should the Company terminate the President and CEO's agreement, the Company is required to pay six month's salary and a separate severance pay equivalent to six month's salary. ExCo members are entitled for 6 months' severance payments. Change of control terms are same as for termination.

Supplementary information

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

Shareholder alignment: Significant shareholders of the Company may release ownership policies or express their view on remuneration principles. The Board of Directors of the Company evaluates how it, taking into account the best interest of the Company, observes the relevant shareholder views on remuneration applicable at any given time.

Neste Executive Annual Remuneration Report

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

Short-term incentives (STI)

STI for 2018 (paid in 2019)

The STI performance measures for 2018 were based on:

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

Neste's good performance continued in 2018 comparable operating profit being EUR 1,422 million and ROACE being 21.1%. Neste's occupational safety performance, measured by the TRIF indicator, improved compared to 2017. The annual TRIF result 1.7 was the best ever at Neste, and the target for 2018 was reached. PSER, the main indicator for process safety, remained at the 2017 level. However, during the fourth quarter it was worse than in the comparable period of 2017, and we did not meet our PSER target for 2018.

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

Details of the short-term incentive plan award for the President and CEO for 2018

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

STI for 2019 (payable in 2020)

The STI performance measures for 2019 were based on:

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

Year 2019 was Neste's best ever having a record-high comparable operating profit of EUR 1,962 million and cash flow before financing activities of EUR 1,154 million. Neste's occupational safety incident frequency, measured by the key TRIF indicator, 1.7 equaled the best annual result recorded, but the target for 2019 was not reached due to a number of contractor incidents. The PSER result 1.4, the main indicator for process safety incidents, was the best ever at Neste, and a significant improvement from 2018 and the target for 2019 was reached.

Taking the business and unit-level performance and safety targets into account, the Board of Directors awarded the President and CEO and the ExCo rewards, on average, at above-target levels for performance year 2019 and remained within the maximum limits of the short-term incentives (40% of annual salary).

Details of the short-term incentive plan award for the President and CEO for 2019

President and CEO 2019 STI (payable in March 2020)		**2019 results**
Weighting	**Measures**	**Level of achievement**
60%	Group comparable EBIT	Between target and maximum
20%	Comparable Free Cash Flow	At maximum
10%	Group Safety (TRIF)	Between threshold and target
10%	Group Process Safety (PSER)	Between target and maximum
	Total	**Between target and maximum**

Long-term incentives (LTI)

Neste's 2013 long-term incentive program ran in three-year plan cycles from 2013–2015, 2014–2016 and 2015–2017. The 2016 long-term incentive program runs in three-year plan cycles from 2016–2018, 2017–2019 and 2018–2020. The 2019 long-term incentive program runs in three-year plan cycles from 2019–2021, 2020–2022 and 2021–2023.

LTI 2016: Performance Share Plan (PSP) 2016–2018 (paid in 2019)

For the Performance Share Plan (PSP) 2016–2018 the maximum targets set in December 2015 for group cumulative comparable free cash flow were exceeded and Neste generated a total shareholder return clearly outperforming the Europe Stoxx 600 Market Index. As a result, 49,030 shares after tax (after the share split) were awarded to the President and CEO Peter Vanacker and to the members of ExCo. The shares delivered are subject to a 3-year lock-up period.

Details of the awards under the long-term incentive programs

	LTI 2013		LTI 2016			LTI 2019		
Earnings period	**PSP 2014–2016**	**PSP 2015–2017**	**PSP 2016–2018**	**PSP 2017–2019**	**PSP 2018–2020**	**PSP 2019–2021**	**RSP 2019–2021**	**PSP 2020–2022**
Total number of participants at the delivery or grant	92	81	85	95	116	95	2	113
Earnings criteria	75% comparable cashflow and 25% relative TSR*)	75% comparable cashflow and 25% relative TSR*)	75% comparable cashflow and 25% relative TSR*)	75% comparable cashflow and 25% relative TSR*)	75% comparable cashflow and 25% relative TSR*)	100% relative TSR*)	vests based on time	100% relative TSR*)
Extent to which criteria achieved	100%	100%	100%	100%	-	-	-	-
Number of shares delivered after tax:								
– to President and CEO (Vanacker)			25,429 (after the share split)	-	-	-	-	-
– to other members of ExCo	18,241	10,271	23,601 (after the share split)	-	-	-	-	-
Year of payment	2017	2018	2019	2020	2021	2022	2022	2023
Lock-up period on vested shares	3 years for the President and CEO and the ExCo		3 years	1 year	1 year	No lock-up	No lock-up	No lock-up

*) Total Shareholder Return

Remuneration paid to the President and CEO and the ExCo members in 2019 and 2018

	President and CEO			ExCo members (in aggregate)	
EUR	2019 Peter Vanacker	2018 Peter Vanacker (1.11.2018–)	2018 Matti Lievonen (–31.10.2018)	2019	2018
Annual remuneration					
Base salary [1]	934,505	150,000	582,234	2,078,592	1,980,085
Taxable benefits [2]	32,941[3]	40	18,050	120,036	108,089
Annual incentive (STI plan) [4]	-	-	251,945	538,706	641,434
Total annual remuneration	967,447	150,040	852,229	2,737,333	2,729,607
Vested long-term remuneration [5]					
LTI 2016: 2016–2018 plan	1,164,536			1,555,896	
LTI 2016: 2015–2017 plan		-	553,504		1,245,352
Additional pension (see page 96)	-	-	1,092,041	401,195	443,582
Total remuneration	2,131,983	150,040	2,497,774	4,694,425	4,418,541

[1] Base salary amount includes vacation pay.

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

[3] Includes relocation cost to Finland.

[4] 2019 figures relate to performance in 2018. 2018 figures relate to performance in 2017.

[5] Total taxable value of LTI payments awarded.

Vested share incentive awards for the Neste Executive Committee

Name	Position	ExCo member since	PSP 2016–2018 (paid 2019) [1)]
Peter Vanacker	President and CEO	2018	25,429
Matti Lehmus	EVP, Renewables Platform	2009	4,197
Carl Nyberg	EVP, Renewable Road Transportation	2019	2,103
Marko Pekkola	EVP, Oil Products	2019	1,707
Mercedes Alonso	EVP, Renewable Polymers and Chemicals	2019	-
Panu Kopra	EVP, Marketing & Services	2016	3,015
Simo Honkanen	SVP, Sustainability, Public Affairs and Communications	2009	2,355
Hannele Jakosuo-Jansson	SVP, Human Resources, HSSEQ and Procurement	2006	3,072
Lars Peter Lindfors	SVP, Innovation	2009	3,024
Jyrki Mäki-Kala	CFO, Strategy and IT	2013	4,128
Christian Ståhlberg	General Counsel	2017	-

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

Executive share ownership

A major principle of our executive remuneration policy is to ensure that there is strong alignment between the interests of Neste executives and those of its shareholders. Our executive share ownership policy requires that the President and CEO and the members of the ExCo build up and maintain shareholdings which are equivalent to their annual fixed base salary.

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

Shareholdings[1] of the Neste Executive Committee 31 December 2019

Name	Position	ExCo member since	Number of shares[1]
Peter Vanacker	President and CEO	2018	30,429
Matti Lehmus	EVP, Renewables Platform	2009	33,963
Carl Nyberg	EVP, Renewable Road Transportation	2019	4,401
Marko Pekkola	EVP, Oil Products	2019	1,707
Mercedes Alonso	EVP, Renewable Polymers and Chemicals	2019	-
Panu Kopra	EVP, Marketing & Services	2016	14,982
Simo Honkanen	SVP, Sustainability, Public Affairs and Communications	2009	21,513
Hannele Jakosuo-Jansson	SVP, Human Resources, HSSEQ and Procurement	2006	33,651
Lars Peter Lindfors	SVP, Innovation	2009	26,823
Jyrki Mäki-Kala	CFO, Strategy and IT	2013	34,128
Christian Ståhlberg	General Counsel	2017	-

[1] The figure also includes the shares personally acquired by the executive (if any). In case of an executive leaving the Company during restriction period, the Board of Directors may, at its discretion, decide to recover the shares. On 31 December 2019 all ExCo members exceeded the ownership requirement except Christian Ståhlberg, (member of ExCo since 2017), Peter Vanacker (2018), Mercedes Alonso (2019), Carl Nyberg (2019) and Marko Pekkola (2019). The share value used as a basis in the monitoring is the volume weighted average price of Neste share 1st – 31st December 2019.

Remuneration of personnel

Short-term Incentives

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

For the 2018 performance year, Neste was able to fund a payout of EUR 37.4 million (EUR 27.8 million) in performance-based incentives for senior managers and employees in the spring of 2019 (including pension and social insurance contributions).

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

Personnel fund

Neste offers permanent and fixed-term employees based in Finland an entitlement to a profit share award through its personnel fund after six months of continuous service. The profit share earnings paid into the fund are distributed equally between members. The employees who participate in LTI plans are not entitled to profit share awards during the earning period of the plan.

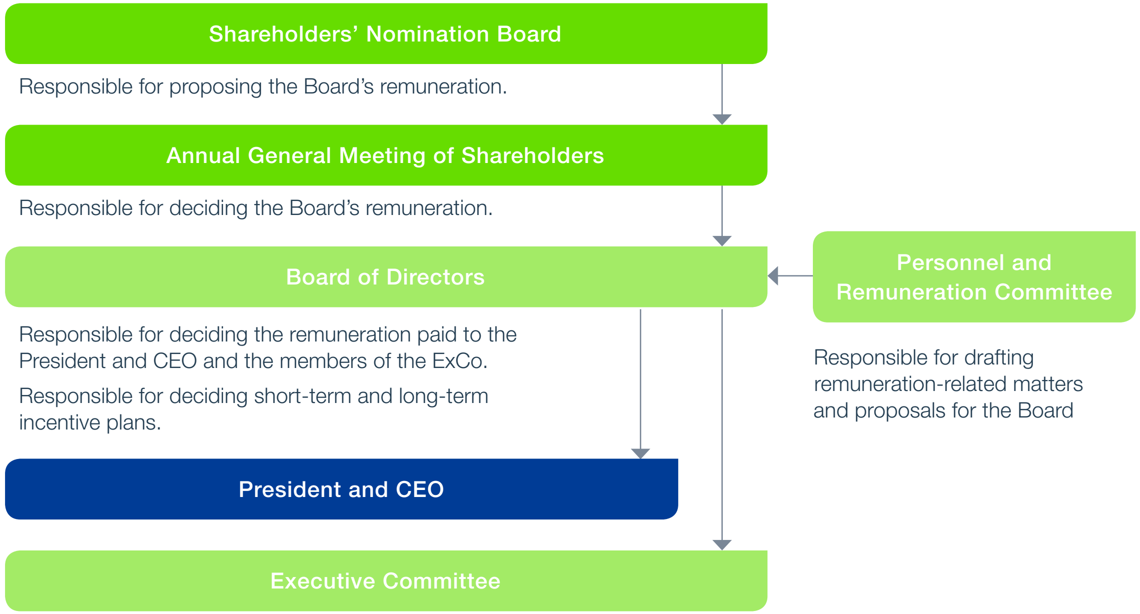
The Board of Directors sets the earning criteria for the profit share award annually and the award is tied to Neste's comparable operating profit. In 2019, the Company's personnel fund contribution was EUR 5.5 million (EUR 3.7 million) based on the comparable operating profit result achieved in 2018.

Neste's Board of Directors Remuneration Review

Remuneration governance

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

The decision-making process in remuneration-related matters



Remuneration of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors. In 2019, the AGM decided to keep the remuneration to the members of the Board of Directors unchanged as follows:

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

The amounts have remained unchanged since 2008.

In addition to the annual fee, members of the Board of Directors receive a meeting fee of EUR 600 for each Board and Committee meeting held in the member's home country and EUR 1,200 for each Board and Committee meeting held in another country, plus compensation for expenses pertaining to the company's travel guidelines. The meeting fee for telephone meetings is paid according to the fee payable for meetings held in each member's home country.

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

Remuneration paid to members of the Board

	Annual board fees (EUR)		Meeting attendance fees (EUR)	
	2019	**2018**	**2019**	**2018**
Matti Kähkönen	66,000	61,800	12,000	15,600
Sonat Burman-Olsson	36,900	-	11,400	-
Elizabeth (Elly) Burghout	35,400	26,550	17,400	18,600
Martina Flöel	35,400	35,400	19,200	25,800
Jari Rosendal	35,400	26,550	10,200	10,200
Laura Raitio	12,300	45,750	1,800	15,600
Jean-Baptiste Renard	35,400	35,400	17,400	25,200
Willem Schoeber	35,400	35,400	20,400	25,800
Marco Wirén	32,450	35,400	18,000	19,800

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

Details of the shareholdings of the Board of Directors are shown in the Annual Report on pages 77–78. These shares are personally acquired.

Review by the Board of Directors 04

Review by the Board of Directors 2019

Neste had an outstanding year in 2019. We posted a record-high comparable operating profit of EUR 1,962 million compared to EUR 1,422 million in the previous year. The Group's operating profit was EUR 2,229 million (1,022 million). Neste generated a high cash flow and its financial position was strong. The return on average capital employed reached 26.6%. Renewable Products exceeded the previous year's high performance by significantly higher production and sales volumes, further improved sales margin, and the retroactive US Blender's Tax Credit (BTC) decision for the years 2018 and 2019. Oil Products' financial performance was almost at the previous year's level in a less supportive margin environment. Marketing & Services segment was able to maintain its comparable operating profit and improve unit margins in a competitive market. Implementation of the renewables growth strategy continued successfully in 2019. In Singapore we started the construction of the large expansion project to increase our production of renewable jet fuel and other renewable products. We moved from feasibility study to execution in our Renewable Aviation and Renewable Polymers and Chemicals businesses by starting continuous deliveries. We also entered into new markets with our renewable and circular solutions. In order to be able to better focus on our growth strategy execution, the non-core parts of Neste Engineering Solutions and the Russian operations of Marketing & Services were divested in 2019. The Board of Directors will propose a dividend of EUR 0.92 per share (0.76) for 2019, totaling EUR 706 million (583 million), plus an extraordinary dividend of EUR 0.10 per share, totaling EUR 77 million.

Figures in parentheses refer to the financial statements for 2018, unless otherwise noted.

The Group's results for 2019

Neste's revenue in 2019 totaled EUR 15,840 million (14,918 million). The revenue increase mainly resulted from higher sales volumes and a stronger USD exchange rate, each of which had a positive impact of approx. EUR 500 million on the revenue year-on-year. The Group's comparable operating profit was EUR 1,962 million (1,422 million). Renewable Products' comparable operating profit increased to EUR 1,599 million (983 million) due to significantly higher sales volumes compared to 2018, and the EUR 372 million impact of the retroactive US BTC decision for 2018 and 2019. Oil Products' comparable operating profit of EUR 386 million (397 million) was slightly lower than in 2018, mainly due to a lower reference margin. Marketing & Services' comparable operating profit of EUR 77 million (77 million) was supported by higher unit margins, but the increase was offset by the impact of higher fixed costs. The Others segment's comparable operating profit of EUR –98 million (–36 million) was significantly lower than in the year 2018, mainly due to the poor performance of Nynas, which was caused by the impacts of the US sanctions.

The Group's operating profit was EUR 2,229 million (1,022 million), which was impacted by inventory valuation gains of EUR 180 million (losses of 273 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 69 million (117 million), mainly related to margin hedging. In addition there were capital gains of EUR 37 million (2 million), mainly related to the divestments of the Regional Business Unit of Neste Engineering Solutions and the Russian operations of Marketing & Services. As a result of normal impairment testing, we booked an asset write-off of EUR 34 million regarding our shareholding in Nynas in the third quarter. A revision of EUR 30 million was made to the asset writedown regarding Neste Oil Bahrain W.L.L. in the fourth quarter. Profit before income taxes was EUR 2,067 million (947 million), and net profit EUR 1,789 million (775 million). Comparable earnings per share were EUR 2.04 (1.50), and earnings per share EUR 2.33 (1.01).

Group key figures, MEUR

	2019	2018
Comparable operating profit	1,962	1,422
– inventory valuation gains/losses	180	–273
– changes in the fair value of open commodity and currency derivatives	69	117
– capital gains/losses	37	2
– impairments	–11	–198
– other adjustments	–7	–48
Operating profit	2,229	1,022

Revenue

	2019	2018
Renewable Products	4,033	3,241
Oil Products	10,416	10,105
Marketing & Services	4,193	4,315
Others	246	264
Eliminations	–3,049	–3,007
Total	15,840	14,918

Comparable operating profit

	2019	2018
Renewable Products	1,599	983
Oil Products	386	397
Marketing & Services	77	77
Others	–98	–36
Eliminations	–2	2
Total	1,962	1,422

Operating profit

	2019	2018
Renewable Products	1,847	895
Oil Products	406	170
Marketing & Services	102	77
Others	–123	–122
Eliminations	–2	2
Total	2,229	1,022

Financial targets

Return on average capital employed after tax (ROACE) and leverage ratio are Neste's key financial targets. ROACE figures are based on comparable results. The company's long-term ROACE target is 15%, and the leverage ratio target is below 40%. At the end of December 2019, ROACE calculated over the last 12 months was strong at 26.6%, and leverage ratio remained well below the 40% target.

	31 Dec 2019	31 Dec 2018
Return on average capital employed after tax (ROACE) [1], %	26.6	21.1
Leverage ratio (net debt to capital), %	–3.3	–1.5

[1] Last 12 months

Cash flow, investments, and financing

The Group's net cash generated from operating activities totaled EUR 1,456 million (1,452 million) in 2019. The cash flow was higher than in the previous year despite the significant increase in net working capital and higher income taxes paid. Cash flow before financing activities was EUR 1,154 million (870 million). The Group's net working capital in days outstanding was 36.7 days (21.0 days) on a rolling 12-month basis at the end of 2019. The increase in net working capital in days outstanding was mainly due to the US BTC receivables booked at the end of December 2019.

	2019	2018
EBITDA	2,731	1,636
Capital gains/losses	–37	–3
Other adjustments	–77	–96
Change in net working capital	–780	103
Finance cost, net	–48	–37
Income taxes paid	–333	–151
Net cash generated from operating activities	1,456	1,452
Capital expenditure	–568	–395
Other investing activities	265	–187
Free cash flow (Cash flow before financing activities)	1,154	870

Cash-out investments were EUR 568 million (395 million) in 2019. Maintenance investments accounted for EUR 260 million (253 million) and productivity and strategic investments for EUR 307 million (142 million). Renewable Products' investments were EUR 230 million (139 million), mainly related to the Singapore refinery capacity expansion project. Oil Products' investments amounted to EUR 264 million (178 million), with the largest projects being the Porvoo refinery turnaround 2020 related investments and revamp of the waste water treatment plant. Marketing & Services' investments totaled EUR 23 million (23 million) and were focused on the retail station network. Investments in the Others segment were EUR 50 million (55 million), concentrating on IT and business infrastructure upgrade.

Interest-bearing net debt was EUR –191 million at the end of December 2019, compared to EUR –70 million at the end of 2018. Net financial expenses for the year were EUR 163 million (75 million). The financial expenses for 2019 include a write-off of EUR 59 million related to a shareholder loan receivable from Nynas. Additionally, financial expenses of EUR 36 million resulted from changes in the fair value and currency exchange rates related to precious metals loans. The average interest rate of borrowing at the end of December was 1.9% (3.4%) and the average maturity 3.2 (3.7) years. At the end of the year the Net debt to EBITDA ratio was –0.1 (0.0) over the last 12 months.

The leverage ratio was –3.3% at the end of December 2019 (31 Dec 2018: –1.5%). The Group's strong financial position enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

The Group's liquid funds and committed, unutilized credit facilities amounted to EUR 2,863 million at the end of December 2019 (31 Dec 2018: 2,860 million). There are no financial covenants in the Group companies' current loan agreements.

In accordance with the hedging policy, Neste hedges a large part of its net foreign currency exposure for the next 12 months, mainly using forward contracts and currency options. The most important hedged currency is the US dollar. At the end of December 2019 the Group's foreign currency hedging ratio was approximately 50% of the sales margin for the next 12 months.

US dollar exchange rate

	2019	2018
EUR/USD, market rate	1.12	1.18
EUR/USD, effective rate [1]	1.15	1.19

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

Segment reviews

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

Renewable Products

Key financials

	2019	2018
Revenue, MEUR	4,033	3,241
EBITDA, MEUR	2,013	1,023
Comparable operating profit, MEUR	1,599	983
Operating profit, MEUR	1,847	895
Net assets, MEUR	3,137	2,002
Return on net assets [1], %	77.4	48.1
Comparable return on net assets [1], %	67.0	52.8

[1] Last 12 months

Key drivers

	2019	2018
Comparable sales margin, excluding BTC, USD/ton	644	600
Biomass-based diesel (D4) RIN, USD/gal	0.48	0.53
California LCFS Credit, USD/ton	197	168
Palm oil price [1], USD/ton	522	572
Waste and residues' share of total feedstock, %	80	83

[1] CPO BMD 3rd, Crude Palm Oil Bursa Malaysia Derivatives 3rd month futures price

In 2019, animal fat prices increased in Europe, Australia and New Zealand due to higher demand globally and particularly in China. European Used Cooking Oil (UCO) price increase was also supported by robust demand. Vegetable oil prices drifted downward during the first half of 2019 led by soybean oil (SBO). The vegetable oil price trend reversed during the second half of the year driven by a poor rape seed oil (RSO) crop, high demand, and a crude palm oil (CPO) price surge in the fourth quarter. The CPO price increase resulted from a combination of a slowdown in CPO production growth and strong demand.

The US Renewable Identification Number (RIN) D4 price was impacted by SBO price development, and the negative impact of the biofuel mandate waivers granted to small refineries. D4 RIN price started to recover during the second half of the year, but declined again as a result of the BTC decision in December. The California Low Carbon Fuel Standard (LCFS) credit price increased during the year and peaked at USD 208/ton reflecting the strong demand resulting from the increasingly stringent GHG reduction targets in the state.

Renewable Products' full-year comparable operating profit was EUR 1,599 million (983 million). Sales volumes were 2.85 million tons in 2019, more than 25% higher than in previous year, and enabled by a new annual production record. Higher sales volume had a positive impact of EUR 335 million on the comparable operating profit year-on-year. The comparable sales margin was also higher than in 2018, and had a positive impact of EUR 93 million on the comparable operating profit year-on-year. The retroactive US BTC decided for the years 2018 and 2019 had a positive impact of EUR 372 million on the comparable operating profit in the fourth quarter, compared to the EUR 140 million BTC impact for 2017 recorded in the first quarter of 2018 results. During 2019 approximately 67% (72%) of sales volume went to Europe and 33% (28%) to North America. The share of 100% renewable diesel delivered to end-users was 26% (30%) of total volumes in full-year 2019. Renewable diesel production had a high capacity utilization rate of 99% (84%) in 2019, and the capacity was successfully increased to 3 million ton/a during the year. Feedstock mix optimization continued, and the average proportion of waste and residue inputs was 80% (83%). A stronger USD had a positive impact of EUR 61 million on the segment's comparable operating profit compared to 2018. During 2019 the segment's fixed costs were EUR 63 million higher than in the previous year, mainly related to strategic growth projects and strengthening of resources.

Production

	2019	2018
Neste Renewable Diesel, 1,000 ton	2,872	2,368
Other products, 1,000 ton	219	214
Utilization rate, %	99	84

Sales

	2019	2018
Neste Renewable Diesel, 1,000 ton	2,846	2,261
Share of sales volumes to Europe, %	67	72
Share of sales volumes to North America, %	33	28

Oil Products

Key financials

	2019	2018
Revenue, MEUR	10,416	10,105
EBITDA, MEUR	637	515
Comparable operating profit, MEUR	386	397
Operating profit, MEUR	406	170
Net assets, MEUR	2,314	2,257
Return on net assets [1], %	16.2	6.7
Comparable return on net assets [1], %	15.4	15.7

[1] Last 12 months

Key drivers

	2019	2018
Reference refining margin, USD/bbl	5.82	6.19
Additional margin, USD/bbl	4.73	5.00
Total refining margin, USD/bbl	10.56	11.18
Urals-Brent price differential, USD/bbl	–0.85	–1.51
Urals' share of total refinery input, %	72	69

Crude oil prices were volatile during 2019, and Brent traded in a range between USD 55/bbl and USD 75/bbl. Crude price trended up from the first quarter until the early part of the second quarter to a level of USD 75/bbl. From the late second quarter until the end of the third quarter crude oil market was volatile, but mostly on a lowering trend. The impact of a weakening global economy outlook and lowering demand estimates overweighed the impact of rising geopolitical tensions between the US and Iran. During the fourth quarter crude oil market got support from positive expectations on a trade agreement between the US and China. Brent price was USD 66/bbl at the end of the year and averaged USD 64.2/bbl in 2019.

The Russian Export Blend (REB) crude averaged USD 0.8/bbl lower than Brent in 2019, and USD 1.5/bbl lower during the fourth quarter. During 2019 the global supply of medium heavy crude oil was generally tight due to OPEC's production cuts of heavier grades and lower export volumes from Iran and Venezuela. During early April and May, REB was trading at a premium over Brent due to organic chloride contamination in the Druzhba pipeline. Towards the year end very low high sulphur fuel oil margins started to widen the REB differential.

Reference margin trended upwards from the low levels in early 2019 until October, as refinery run cuts and later the spring refinery maintenance season, summer driving season and unexpected refinery outages gave support to the margin. Overall the refining margins were at fairly modest levels during the first half of 2019. In the second half of the year margins increased due to a refinery explosion in the US in late June, and the attack to Saudi Arabian oil facilities in September. The trend turned negative during the fourth quarter as expectations on marine gasoil demand increase due to the IMO2020 regulation became weaker, and investors were closing speculative positions in gasoil. Also the tight physical crude oil market and very low heavy sulphur fuel oil margins impacted refining margin negatively. In December refining margins started to recover driven by a widening REB-Brent differential and higher middle distillate margins. On average diesel was the strongest part of the barrel in 2019. Neste's reference margin averaged USD 5.8/bbl in 2019, and USD 5.5/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 386 million (397 million). During 2019 the reference margin was approx. USD 0.4/bbl lower than in 2018, which had a negative impact of EUR 34 million on the comparable operating profit. The additional margin averaged at USD 4.7/bbl, and had a negative impact of EUR 12 million compared to the previous year. A stronger USD exchange rate had a positive impact of EUR 53 million on the comparable operating profit compared to 2018. During the year 2019 the segment's fixed costs were EUR 23 million lower than in the previous year, mainly as a result of improved operational performance. Profitability of the base oils business was significantly lower than in 2018 due to a challenging base oils market.

Production

	2019	2018
Refinery		
– Production, 1,000 ton	13,888	13,959
– Utilization rate, %	93	89
Refinery production costs, USD/bbl	4.8	4.9
Bahrain base oil plant production (Neste's share), 1,000 ton	170	190

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

	2019	%	2018	%
Middle distillates [1]	6,985	48	7,119	49
Light distillates [2]	4,713	33	4,732	33
Heavy fuel oil	1,219	9	1,177	8
Base oils	436	3	483	3
Other products	1,066	7	922	6
Total	14,418	100	14,433	100

[1] Diesel, jet fuel, heating oil, low sulphur marine fuels

[2] Motor gasoline, gasoline components, LPG

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

	2019	%	2018	%
Baltic Sea area [1]	8,512	59	8,770	61
Other Europe	4,163	29	3,930	27
North America	1,169	8	1,016	7
Other areas	574	4	717	5

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

Marketing & Services

Key financials

	2019	2018
Revenue, MEUR	4,193	4,315
EBITDA, MEUR	134	101
Comparable operating profit, MEUR	77	77
Operating profit, MEUR	102	77
Net assets, MEUR	235	249
Return on net assets [1], %	35.3	29.1
Comparable return on net assets [1], %	26.7	29.1

[1] Last 12 months

Marketing & Services segment's full-year comparable operating profit was EUR 77 million (77 million). Average unit margins improved, which had a positive impact of EUR 16 million year-on-year. Our sales volumes were lower than in the year 2018, and it had a negative impact of EUR 5 million on the comparable operating profit. The segment's fixed costs were EUR 12 million higher compared to the full-year 2018, mainly due to changes in Group cost allocation, advertising costs and strategic project costs. The divestment of the Russian operations was completed in October.

Sales volumes by main product categories, million liters

	2019	2018
Gasoline, station sales	974	1,049
Diesel, station sales	1,738	1,764
Heating oil	665	669

Net sales by market area, MEUR

	2019	2018
Finland	3,064	3,149
Northwest Russia	245	299
Baltic countries	884	867

Others

	2019	2018
Comparable operating profit, MEUR	–98	–36
Operating profit, MEUR	–123	–122

The Others segment consists of Neste Engineering Solutions, Nynas, a joint venture owned by Neste (49.99% share) and Petróleos de Venezuela (PdVSA), and common corporate costs. The full-year comparable operating profit of the Others segment totaled EUR –98 million (–36 million); Nynas accounted for EUR –52 (–12 million) of this figure. Nynas' operations have been severely impacted by the sanctions imposed on the majority-owner, Venezuela's state-run PdVSA. As Neste's shareholding in Nynas and the shareholder loan receivable were fully written-off during the third quarter of 2019, Nynas' result did not have an impact on our Others segment's financials in the fourth quarter.

Shares, share trading, and ownership

Neste's shares are mainly traded on NASDAQ Helsinki Ltd. The share price closed the year at EUR 31.02, up by 38.2% compared to the end of 2018. The total shareholder return (TSR) was 41.5% (29.4%) in 2019. At its highest during 2019, the share price reached EUR 33.33, while the lowest price was EUR 22.19. Market capitalization was EUR 23.9 billion as of 31 December 2019. An average of 1.23 million shares were traded daily, representing 0.2% of the company's shares.

At the end of December 2019, Neste held 1,527,458 treasury shares. The number of shares was tripled by the share issue without payment decided upon in Neste's AGM on 2 April 2019.

At the end of December 2019, Neste's share capital registered with the Trade Register totaled EUR 40 million, and the total number of shares was 769,211,058. As resolved by the AGM held on 2 April 2019, the Board of Directors was authorized to take one or more decisions on the conveyance of treasury shares held by the company totaling a maximum of 3,000,000 shares.

The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

As of 31 December 2019, the State of Finland owned directly 36.0% (36.4% at the end of 2018) of outstanding shares, foreign institutions 38.1% (37.6%), Finnish institutions 18.2% (18.3%), and households 7.8% (7.7%).

Largest shareholders as of 31 December 2019

Shareholder	Shares	% of shares
State of Finland / Prime Minister's Office	276,603,132	35.96%
Valtion Kehitysyhtiö Vake Oy (State Business Development Company)	63,894,123	8.31%
Varma Mutual Pension Insurance Company	12,175,615	1.58%
Ilmarinen Mutual Pension Insurance Company	8,503,000	1.11%
The Finnish Social Insurance Institution	7,945,272	1.03%
The State Pension Fund	4,775,637	0.62%
City of Kurikka	4,652,625	0.60%
Elo Mutual Pension Insurance Company	3,560,000	0.46%
OP-Finland	3,102,295	0.40%
Schweizerische Nationalbank	2,295,950	0.30%
Danske Invest Finnish Equity Fund	1,585,000	0.21%
Neste Corporation	1,527,458	0.20%
Säästöpankki Kotimaa Mutual Fund	1,063,500	0.14%
ODIN Norden	984,557	0.13%
Sigrid Jusélius Foundation	915,600	0.12%
Seligson & Co OMX Helsinki 25 Exchange Traded Fund (ETF)	772,326	0.10%
Finnish Cultural Foundation	760,030	0.10%
Nordea Pro Finland Fund	720,756	0.09%
Nordea Nordic Fund	705,019	0.09%
Alhopuro Eero Sakari	648,135	0.08%
20 largest owners total	397,190,030	51.64%
Nominee registered	288,776,177	37.54%
Others	83,244,851	10.82%
Number of shares, total	769,211,058	100.00%

Breakdown of share ownership as of 31 December 2019

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1–100	23,964	30.8%	1,075,718	0.1%
101–500	28,777	36.9%	7,744,862	1.0%
501–1,000	10,772	13.8%	7,805,475	1.0%
1,001–5,000	12,091	15.5%	25,253,194	3.3%
5,001–10,000	1,399	1.8%	9,580,776	1.2%
10,001–50,000	743	1.0%	13,767,907	1.8%
50,001–100,000	62	0.1%	4,210,226	0.5%
100,001–500,000	49	0.1%	10,879,052	1.4%
500,001–	32	0.0%	688,893,848	89.6%
Total	77,889	100.0%	769,211,058	100.0%
of which nominee registrations	11		288,776,177	37.5%

By the owner sector

	% of shares
Central government [1)]	44.3%
Non-Finnish shareholders	38.1%
Households	7.8%
General government	5.6%
Financial and insurance companies	1.9%
Corporations	1.1%
Non-profit organizations	1.3%
Total	100.0%

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

Corporate governance

The control and management of Neste Corporation is divided between shareholders, the Board of Directors, and the President and Chief Executive Officer (CEO). The General Meeting of Shareholders appoints the Board of Directors based on a proposal made by the Shareholders' Nomination Board. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting of Shareholders (AGM) following its election. Neste's President and CEO is appointed and expelled by the Board of Directors.

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

Neste Corporation's Annual General Meeting (AGM) was held in Helsinki on 2 April 2019. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2018, and discharged the Board of Directors and the President and CEOs from liability for 2018. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2018, authorizing payment of a dividend of EUR 2.28 per share. The dividend shall be paid in two installments.

The first installment of dividend, EUR 1.14 per share, was paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for first dividend installment, which was Thursday, 4 April 2019. The first dividend installment was paid on Thursday, 11 April 2019.

The second installment of dividend was paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for second dividend installment, which was Friday, 4 October 2019. The second dividend installment was paid on Friday, 11 October 2019. As the AGM approved the Board's proposal concerning a share issue without payment, the second installment was divided between one old and two new shares so that EUR 0.38 dividend was paid on each share.

The AGM also approved the Board's proposal to the AGM to enhance the liquidity of the Company's shares. In the share issue without payment, new shares were issued to the shareholders in proportion to their holdings so that 2 new shares are issued for each share (split). In addition, in the share issue without payment, new shares were similarly be issued without payment to the Company on the basis of treasury shares held by the Company.

Based on the number of shares as at the date of the notice, a total of 512,807,372 new shares were issued. The shares were issued to the shareholders who were registered in the shareholders' register maintained by Euroclear Finland Ltd on the record day of the share issue of 4 April 2019. The share issue without payment was executed in the book-entry system and did not require any actions by the shareholders. The new shares generated shareholder rights as of 4 April 2019 when they were registered in the trade register. The registration of the new shares in the shareholders' book-entry accounts occurred on 5 April 2019. The new shares did not entitle their holders to the first installment of the dividend as defined above, but they entitled to the second installment of the dividend.

In accordance with the proposal made by the Shareholders' Nomination Board, the AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Mr. Matti Kähkönen, Ms. Elizabeth (Elly) Burghout, Ms. Martina Flöel, Mr. Jean-Baptiste Renard, Mr. Jari Rosendal, Mr. Willem Schoeber, and Mr. Marco Wirén. Ms. Sonat Burman-Olsson was elected as a new member. Mr. Matti Kähkönen was re-elected as Chair and Mr. Marco Wirén was elected as new Vice Chair. Board member introductions can be found at the company's web site. The AGM decided to keep the remuneration to the Board unchanged.

Convening right after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Matti Kähkönen was elected Chair and Elizabeth (Elly) Burghout, Jean-Baptiste Renard and Jari Rosendal as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Sonat Burman-Olsson, Martina Flöel and Willem Schoeber as members of the Audit Committee. In accordance with a proposal by the Board of Directors, PricewaterhouseCoopers Oy were appointed as the company's Auditor, with Authorized Public Accountant Mr. Markku Katajisto as the principally responsible auditor for Neste Corporation, until the end of the next AGM. Payment for their services shall be made in accordance with their invoice approved by the company.

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

Under the authorization, the Board shall be authorized to take one or more decisions on the conveyance of treasury shares held by the Company, provided that the number of shares thereby conveyed totals a maximum of 3,000,000 shares, equivalent to approximately 0.39% of all the Company's shares after the new shares to be issued in share issue without payment have been registered.

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

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

The Board shall decide on other terms and conditions of share issue. The authorization shall remain in force until 30 June 2022. The authorization shall revoke the authorization granted by the AGM on 5 April 2018 to the Board to decide on the conveyance of treasury shares.

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

Innovation

A new Innovation organization was established in the spring 2019 to enhance strategy implementation with material growth in overall resources. In addition to a strong core R&D, Neste Innovation now comprises three new business platforms and dedicated units to drive discovery and external collaboration. New business platforms focus on new fuels and chemicals solutions with lignocellulose, algae, municipal solid waste and with renewable electricity as the primary energy sources. This accelerates renewal and the development of new sustainable businesses for Neste, while maintaining the ability to drive the strong growth ambitions of the current renewable road transportation, aviation and polymers and chemicals businesses. In 2019, the commercialization of renewable jet fuel, low sulphur marine fuel and new bio-based plastics and chemicals was successfully supported.

Neste's innovation expenditure totaled EUR 54 million (48 million) in 2019. Key achievements were the continued expansion of the renewable feedstock portfolio towards lower quality waste and residues, and a successful capacity creep at the existing renewable production sites. In 2019, Neste used 2.8 million tons of waste and residue feedstock and, in particular, increased the use of used cooking oil. The capacity creep at the production sites increased the overall production capacity by over 200,000 ton/a.

Technology development for utilizing waste plastic as feedstock was progressed with external partners along the chemical recycling value circle, with the target to utilize more than 1 million tons of waste plastic feedstock in 2030. The work focused on establishing partnerships with waste management companies and validating waste plastic liquefaction technologies.

In 2019, Neste Innovation doubled its external research expenditure and pursued to establish more strategic co-operation with external partners, key universities and institutes. For example, strategic research co-operations were formed with Aalto University, Åbo Akademi and VTT – The Technical Research Centre of Finland, and several new and on-going international co-operations with academic and industrial partners were started or continued, respectively.

Main events published during 2019

On 22 January, Neste announced that it had been placed 3rd on the Corporate Knights 2019 Global 100 Most Sustainable Corporations list. This is Neste's second time in the top 3. It also marks the company's 13th consecutive inclusion on the Global 100 list. Neste has been included on the list continuously for longer than any other energy company in the world.

On 6 February, Neste announced that the Parliament of Finland had voted in favor of a law for gradually increasing the share of biofuels in road traffic to 30% by 2029. In addition, the Parliament had approved a law for the distribution obligation of bio-based light fuel oil. Neste shares the Finnish Government's view that we need a large amount of sustainably produced biofuels in order to reduce climate emissions fast and sufficiently enough in the next decade. We need multiple solutions for reducing emissions: energy efficiency, better traffic planning, more public transportation as well as new technologies such as electric and gas-powered vehicles.

On 19 February, Neste announced that it had decided to renew its organizational structure to drive the successful execution of its global growth strategy in renewable products. Neste's growing Renewable Products business area was divided into three business units and one operational platform: Renewable Road Transportation, Renewable Aviation, Renewable Polymers & Chemicals, and the Renewables Platform. Various changes were made to the responsibilities of the members of Neste's Executive Committee, and two new members were appointed. Carl Nyberg was appointed Executive Vice President, Renewable Road Transportation. Matti Lehmus was appointed Executive Vice President of the Renewables Platform, covering the management and development of the renewables' production and supply chain. He was Executive Vice President of Neste's Oil Products business area and a member of the Executive Committee. Marko Pekkola was appointed Executive Vice President, Oil Products business unit. All these changes came into effect as of 1 May, 2019.

On 27 February, Neste announced that it was holding a Capital Markets Day 2019 in London. The event was featuring presentations by President and CEO Peter Vanacker and CFO Jyrki Mäki-Kala on the company strategy, market outlook and the next steps for creating sustainable high-margin growth and cash generation. According to its renewed long-term strategy, Neste targets to become a global leader in renewable and circular solutions. The strategy is designed to move Neste faster and bolder to realize its sustainability aspirations while growing profitably. Among other things, Neste aims to reduce its customers' greenhouse gas emissions every year by at least 20 million tons CO_2 equivalent by 2030, lower its carbon footprint in production ahead of EU's climate and energy targets, broaden the company's end markets to aviation and polymers, become a solution provider for chemical recycling, expand the company's unique global waste and residue feedstock platform, continue leadership in renewable products production capacity with at least 40% market share, and outperform peers in value creation. The company's financial targets and dividend policy remained unchanged.

On 4 March, Neste announced that Sweden had announced a proposal for decarbonizing aviation as part of its ambitious target of being fossil-free by 2045. The proposal suggests that Sweden would introduce a greenhouse gas reduction mandate for aviation fuel sold in Sweden. The reduction level would be 0.8% in 2021, and gradually increase to 27% in 2030. This makes Sweden an undisputed leader in decarbonizing aviation. Norway has announced its 0.5% biofuel blending mandate starting from 2020. There will be enough capacity on the market to supply the anticipated volumes of renewable jet fuel to Sweden and Norway. Neste has produced first commercial scale volumes of Neste MY Renewable Jet Fuel made out of waste and residues, and there will be scaled-up volumes in the following years.

On 4 April, Neste announced that a total of 512,807,372 new shares issued in the share issue without payment (so called split) decided upon in Neste Corporation's Annual General Meeting on 2 April 2019 had been entered in the trade register. In the share issue without payment, new shares were issued to the shareholders without payment in proportion to their holdings so that 2 new shares were issued for each share. The total number of Neste Corporation's shares after the share issue without payment is 769,211,058 shares.

On 15 April, Neste announced that it had entered into an agreement with Air BP, the international aviation fuel products and services supplier, to deliver sustainable aviation fuel to airline and airport customers in Sweden in 2019.

On 23 May, Neste announced that it had agreed with VTT on strategic cooperation which fosters the joint use and development of research infrastructures in Finland. The cooperation aims at strengthening Finnish expertise in bio and circular economy as well as developing cleaner fuel solutions. The strategic cooperation of Neste and VTT is based on two separate investment decisions. Neste is currently building a vehicle testing facility in Porvoo, Finland and VTT has decided to invest in a research infrastructure for catalytic processes at its Bioruukki pilot center in Espoo, Finland. The agreements signed will allow Neste and VTT to use these research infrastructures in their future projects.

On 18 June, Neste announced jointly with LyondellBasell, the first parallel production of bio-based polypropylene and bio-based low-density polyethylene at a commercial scale. The joint project used Neste's renewable hydrocarbons derived from sustainable bio-based raw materials, such as waste and residue oils. The project successfully produced several thousand tons of bio-based plastics, which are approved for the production of food packaging and being marketed by LyondellBasell.

On 19 June, Neste announced that Neste Engineering Solutions has agreed to create a strategic partnership with engineering consultancy services company Rejlers. The partnership strengthens delivery capability and improves the focus of Neste Engineering Solutions. As part of the partnership agreement, Rejlers will acquire the Regional Business Unit of Neste Engineering Solutions and the parties will make a long-term cooperation agreement. The Regional Business Unit of Neste Engineering Solutions consists of personnel and operations in Turku, Kotka, Oulu, Sweden and the UAE, except for NAPCON Business Unit.

On 28 June, Neste announced that Mercedes Alonso, (M.Sc. Chem), has been appointed as Executive Vice President for Renewable Polymers and Chemicals of Neste Corporation and member of the Neste Executive Committee. She will join Neste in September 2019, at the latest, and will report to President and CEO Peter Vanacker. She will also be the Managing Director of Neste Germany GmbH. Mercedes Alonso will transfer to Neste from LyondellBasell.

On 5 July, Neste announced that it had signed an agreement to sell its fuel retail business consisting of 75 fuel stations and a terminal in St. Petersburg region to PJSC Tatneft, one of the leading integrated oil and gas companies in Russia. The divestment has no impact on Neste's Marketing & Services' operations in Finland and the Baltic countries. Neste targets to become a global leader in renewable and circular solutions. The divestment of Russian fuel retail business will enable us to focus on our strategic priorities. The completion of the divestment is subject to the approval of the Russian competition authorities and the transaction was estimated to be completed by the end of 2019.

On 31 July, Neste announced that following up from the EUR 1.4 billion investment to expand its renewable products production capacity in Singapore, the company held a foundation stone ceremony to officially mark the extension of the new production line. The construction started at the beginning of the year. The Singapore expansion marks an important step in the execution of our growth strategy for renewables globally and the beginning for the world's most unique and advanced refinery for renewables. The Singapore expansion will extend Neste's renewable product overall capacity in Singapore by up to 1.3 million tons per annum, bringing the total renewable product capacity close to 4.5 million tons annually in 2022. Neste's target is to start up the new production line in Singapore during the first half of 2022.

On 2 August, Neste announced that Thorsten Lange, (M.Sc. Banking and Auditing), has been appointed as Executive Vice President for Renewable Aviation of Neste Corporation and member of the Neste Executive Committee. He will join Neste on February 2020, at the latest, and will report to President and CEO Peter Vanacker. Thorsten Lange will transfer to Neste from Lufthansa Group.

On 15 August, Neste announced that it helps shipping companies to respond to the tightening regulation on sulphur dioxide emissions by offering them a new IMO2020-compliant marine fuel. The Neste Marine™ 0.5, containing maximum 0.5% sulphur, will be introduced to the market during the fourth quarter of 2019. By choosing Neste's low-sulphur fuel, shipping companies will have a solution, which is easy to switch to, and guarantees immediate compliance with the global sulphur cap.

On 18 September, Neste announced that the following members have been appointed to Neste's Shareholders' Nomination Board: The Chair, Director General Kimmo Viertola of the Ownership Steering Department in the Prime Minister's Office of Finland; Deputy CEO, Investments, Reima Rytsölä of Varma Mutual Pension Insurance Company; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors. In line with a decision taken by the Annual General Meeting held on 4 April 2013, the Shareholders' Nomination Board consists of four members, three of which shall be appointed by the company's three largest shareholders as of the first weekday in September, who shall appoint one member each, with the Chair of Neste's Board of Directors serving as the fourth member.

On 20 September, Neste announced that it opens an office in Shanghai and starts renewable raw material sourcing operations in China. Neste will purchase renewable waste and residue raw materials from local collectors in the East Coast of China, especially in the regions around Shanghai, but later on also in other big cities. Neste's Shanghai office is registered as a fully-owned subsidiary of Neste.

On 2 October, Neste announced that it, and Lufthansa, one of the leading airlines in Europe, strengthen their collaboration regarding the development of renewable solutions for aviation. As part of the collaboration, Lufthansa will use Neste's sustainable aviation fuel, blended with fossil jet fuel on flights departing from Frankfurt. The first batch of sustainable aviation fuel was delivered to Lufthansa earlier this year.

On 7 October, Neste announced that it opens a new office in Düsseldorf, Germany, to serve as the global hub for its Renewable Polymers and Chemicals business unit. The business unit will provide the plastics and chemicals industries globally with solutions derived from biomass and chemically recycled plastic waste, enabling sustainability-oriented companies to reduce their dependence on crude oil and reach their own sustainability targets.

On 8 October, Neste announced that it takes a stronger foothold in the Netherlands. The company had opened a new office in Hoofddorp, in greater Amsterdam which will serve as the global hub for the growing Renewable Aviation business. Neste was also launching Neste MY Renewable Diesel™ to climate-conscious fleet customers.

On 14 October, Neste announced that Minna Aila, (LL.M) has been appointed as Senior Vice President for Sustainability, Public Affairs, Communications and Brand Marketing and member of the Neste Executive Committee. She will join Neste on April 2020, at the latest, and will report to President and CEO Peter Vanacker. Simo Honkanen, Senior Vice President of Neste's Sustainability, Public Affairs, Communications and Brand Marketing, will retire in April 2020. He has worked in the company since 2006.

On 16 October, Neste announced that it was entering into strategic co-operation for the production of renewable polypropylene (PP) with Borealis, a leading provider of innovative polyolefin solutions. The co-operation will enable Borealis to start using Neste's 100% renewable propane produced with Neste's proprietary NEXBTL™ technology as renewable feedstock at its facilities in Belgium, starting end of 2019.

On 22 October, Neste announced that one concrete example of Neste's climate work is its new long-term agreement on wind power with a leading clean-energy company Fortum. The total capacity of the agreement is more than 60 MW, and the energy produced will correspond to around 20% of the electricity consumption at the Neste Porvoo and Naantali sites. The wind power deliveries are expected to begin in early 2021.

On 23 October, Neste announced that it had signed an agreement to collaborate in the development of chemical recycling of plastic waste with REMONDIS, one of the world's largest privately owned recycling, service and water companies. The companies will focus on developing and accelerating chemical recycling with a target to reach an annual capacity to process over 200,000 tons of waste plastic.

On 12 November, Neste announced that it was joining forces with Ravago, the world's leading distributor and recycler of polymers, to develop chemical recycling of plastic waste with the aim to reach significant industrial scale. Neste and Ravago have set a joint target to reach an annual capacity to process over 200,000 tons of waste plastic.

On 10 December, Neste announced that KLM had purchased sustainable aviation fuel (SAF) for flights out of Amsterdam Airport Schiphol. The sustainable aviation fuel is produced by Neste from used cooking oil and will reduce CO_2 emissions by up to 80% compared to fossil kerosene. This purchase is the next step in the use of sustainable fuel as it is the first time the fuel will be supplied using the existing infrastructure at Schiphol. Furthermore, Neste is joining KLM's Corporate BioFuel Programme. In doing so, Neste will reduce the CO_2 emissions of its own business travel on KLM flights by 100%.

On 19 December, Neste announced that it had signed a new EUR 1.2 billion multi-currency revolving credit facility (RCF) with a syndicate of 13 core relationship banks. The new facility refinances the Group's existing EUR 1.5 billion facility dated April 2014, and will be used for general corporate purposes. The facility has a tenor of 5 years with two 1-year extension options. The margin under the RCF will be adjusted based on Neste's progress to meet its greenhouse gas emission reduction target.

On 21 December, Neste announced that the US Blender's Tax Credit (BTC) had been approved retroactively for the years 2018 and 2019, as well as for the years 2020–2022. For said years, qualified biofuel blenders in the US are eligible for a Blender's Tax Credit of $1.00 per gallon of biodiesel or renewable diesel used in the blending process. The retroactive reinstatement of the BTC for 2018 and 2019 will have a positive impact on Neste's comparable operating profit in the last quarter of 2019. Cash flow relating to the BTC for 2018 and 2019 is expected to be mostly received during the first half of 2020.

Events after the reporting period

On 31 January, 2020, Neste announced that the Shareholders' Nomination Board proposes to the AGM to be held on 7 April 2020 that the company's Board of Directors shall comprise the following members: The Nomination Board proposes that Mr. Matti Kähkönen shall be re-elected as the Chair of the Board of Directors. In addition, the current members of the Board Ms. Sonat Burman-Olsson, Ms. Martina Flöel, Mr. Jean-Baptiste Renard, Mr. Jari Rosendal, and Mr. Marco Wirén are proposed to be re-elected for a further term of office. The Nomination Board proposes that Mr. Wirén shall be elected as the Vice Chair of the Board. The Nomination Board further proposes that the Board of Directors shall have eight members and that Mr. Nick Elmslie and Ms. Johanna Söderström shall be elected as new members.

Risk Management

Neste considers risk management as an integral part of daily management processes and good corporate governance. Systematic risk management practices are the means to ensure that Neste is successful in reaching the set strategic targets and business objectives and is able to maintain continuous operations in the changing business environment. Neste's risk management framework and processes are aligned with the internationally recognized best practices: COSO Enterprise Risk Management framework and the International Standard for risk management ISO 31000:2009. Framework and principles for risk management have been defined in Neste Corporate risk management policy that has been approved by the Board of Directors. Risk management policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines. Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle. Formal risk reporting is directed to business management and function management teams, Neste Executive Committee, Audit Committee, and the Board of Directors.

Risks relating to Neste's business

There have not been any significant changes in Neste's short-term risks or uncertainties since the end of 2018. Key market risks affecting Neste's financial results for the next 12 months include macroeconomical, political and geopolitical risks, such as impact of the US sanctions on Nynas' business, possible trade war, possible impacts of the coronavirus outbreak, changes in the biofuel regulation, market prices, and competitive situation, and any scheduled or unexpected shutdowns at Neste's refineries or potential strikes. Outcome of legal proceedings may have an impact on Neste's financial results.

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

For more information on Neste's sustainability related risks please see Sustainability risks under the Non-Financial Information reporting below.

Non-Financial Information Statement

Neste fulfills the requirements in the EU Directive on disclosure of non-financial and diversity information, and the changes made in the Finnish Accounting Act. In addition, Neste reports according to the GRI (Global Reporting Initiative) Standards where applicable. Neste is committed to apply the TCFD reporting principles in order to disclose climate-related financial risks and opportunities in the reporting. Hence, the first steps for reporting have been taken, with the intention to report more extensively within the recommended TCFD implementation time frame. Our initial TCFD reporting will take place within this Non-Financial Information (NFI) Statement. For more on Neste's sustainability, see **Neste's Annual Report** and **Neste's website**.

Business model

Neste employed an average of 5,474 (5,468) employees in 2019, of which 1,680 (1,787) were based outside Finland. At the end of December, the company had 4,413 (5,413) employees, of which 749 (1,820) were located outside Finland. Neste produces a wide variety of traditional oil products and is the world's largest producer of renewable diesel. Our target is to become the preferred partner as a provider of sustainable chemicals and plastics solutions for forerunner brands, and we are exploring ways to utilize liquefied plastic waste to replace crude oil in the production of fuels, chemicals, and new plastics.

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

Our sustainably-produced solutions are our most significant contribution to the implementation of the Paris Agreement, as well as, the United Nations' Sustainable Development Goals (SDG) on Climate Action (SDG 13) and Partnerships for the Goals (SDG 17) as well as Decent Work and Economic Growth (SDG 8), Industry Innovation and Infrastructure (SDG 9), Sustainable Cities and Communities (SDG 11), and Responsible Consumption and Production (SDG 12).

Neste creates value for society by helping its customers reduce climate emissions by developing cleaner solutions for transportation, aviation, and marine uses, as well as bio-based solutions from renewable raw materials for the chemical and plastics industries. Neste's NEXBTL refining technology enables flexible use of various renewable raw materials including low-quality waste and residue oils and fats. We believe that a strong focus on circular economy, particularly our smart utilization of waste and residue raw materials continue to provide us a steady basis for business growth also in the future. Securing the supply of renewable raw materials is considered essential for the success of Neste's growth strategy. Neste is also focused on providing excellent customer service, as well as flexible and reliable customer solutions.

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

See also: Outlook

Materiality

This NFI Statement focuses on the most material sustainability topics for Neste and its stakeholders in relation to value creation and risk management. Neste conducts a materiality assessment once every two years. The most recent assessment was conducted in spring 2018. The materiality assessment identifies nine material topics that provide the framework for Neste's sustainability agenda. The nine topics are: Low-carbon solutions, Sustainability of raw materials, Resource efficiency, Protecting biodiversity and preventing deforestation, Safety and incident-free operation, Human rights, Fair and equal employment, Economic responsibility, as well as Good corporate citizenship and ethics. The materiality matrix describes the significance of these key sustainability topics from the point of view of our business operations and stakeholders.

Neste's nine material topics relate to all four themes in non-financial reporting requirements: environmental matters social and employee matters, respect for human rights, and anti-corruption and anti-bribery.

Policies and principles

Climate matters

Climate related matters including Neste Climate Strategy will be dealt with twice a year at Neste Executive Committee and once a year at the Board of Directors.The decision to strengthen the governance with regular reviews was made by the Neste Executive Committee in November 2019, and the first actual Board reviews will occur in 2020. Key risks relating to climate change are presented to the Audit Committee in connection to the risk reviews. The responsibility for the climate matters' management belongs to SVP Sustainability, Public Affairs, Communications and Brand Marketing who is responsible for managing the climate related risks and opportunities, and presenting them to the Board meetings, together with the sustainability organization.

As part of Neste's renewed strategy, the company introduced two new climate targets: 1) To reduce customers' greenhouse gas emissions with its renewable and circular solutions by at least 20 million tons CO_2eq annually by 2030 and 2) To reduce the carbon footprint of Neste's production ahead of EU's climate and energy targets. Neste will follow an established climate roadmap to achieve these targets.

Climate related metrics for emissions including Scope 1 and 2, as well as Scope 3 emissions are reported in the 2019 Sustainability report.

Environmental matters

All of Neste's refineries and the company-managed security stockpiles have been certified in accordance with the requirements of the ISO 9001, ISO 14001 and OHSAS 18001 standards. All of Neste's renewable products refineries have EU compliant International Sustainability and Carbon Certification (ISCC), as well as Roundtable on Sustainable Palm Oil (RSPO) certificates. In the United States, the sustainability of Neste's renewable fuels is monitored based on the Environmental Protection Agency's (EPA) sustainability requirements. We procure renewable raw materials only from suppliers who meet our strict criteria and fully comply with the regulatory requirements for biofuels in our key markets. All suppliers of renewable raw materials must pass a due diligence process related to sustainability of the raw material production.

Potential crude oil suppliers undergo a two-phase assessment that includes a financial review and a compliance assessment. All our suppliers, of renewable raw materials or crude oil, are required to fulfill the requirements of our Supplier Code of Conduct. It was updated in 2019 to ensure its correspondence with existing norms and regulations as well as stakeholder expectations and needs. The Supplier Code of Conduct outlines requirements for Neste's suppliers to comply with in their business transactions with Neste and in business interactions with their own employees, suppliers and other stakeholders. Additionally, renewable raw materials supply contracts contain strict audit terms.

The Neste Supplier Sustainability Due Diligence Framework was developed in 2019 when a new Principle on Renewable Products (RP) Supplier Sustainability Approval was approved. This Principle applies to any Neste company world-wide which is establishing a business relationship to a supplier sourcing renewable raw material for renewable products manufactured by Neste. Supplier sustainability approval is part of Neste's framework for counterparty risk management that consists of credit control, compliance review and sustainability due diligence process. The Principle sets the minimum requirements for RP supplier sustainability approval through a six-steps sustainability due diligence process.

Neste's key policies and principles concerning environmental matters related to sourcing of renewable raw materials are No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock, as well as Sustainability Principles for Biofuels. In 2017, Neste started to renew its

No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock and renamed them as Neste Responsible Sourcing Principle (NRSP). Implementation of the guidelines started after socialisation of the NRSP during Neste's Sustainability Workshop in April 2019. It is applicable to all our renewable feedstocks sourcing.

All of Neste's palm oil suppliers are committed to no deforestation policies, and extended those to cover also their third party suppliers, since 2015. All the palm oil we have used has been fully traceable to the plantation level since 2007, and 100% certified since 2013.

Social and employee matters

Neste's key principles concerning social and employee matters are included in our Human Resources (HR) Policy. All the human resources related principles and standards were updated in 2019 to meet the Neste Management System (NMS) requirements as well as the needs of the changing business environment, international growth and employment compliance. NMS combines unified policies, principles, standards and work procedures into one transparent structure. Neste has now globally in use one HR policy, 11 HR principles and 15 HR standards.

The key principles included in the HR policy are: emphasizing the importance of continuous development of leadership and corporate culture; acting in line with the company's values and underlining everyone's responsibility for their professional development as a means to achieving excellent results; guaranteeing equal rights and opportunities regardless of gender, ethnic origin, age, religion, political convictions, and other similar issues; promoting a workplace where everyone understands the importance of their work in achieving common goals; as well as providing equal and fair compensation based on individual and team performance. One of Neste's central principles is to abide by all laws, statutes, and official regulations wherever the company operates and in all aspects of its operations and follow clear ethical standards and good practices. The roles and responsibilities of the various HR focus areas were clarified during 2019.

Neste aims at zero accidents and incidents. We believe that all accidents and incidents can be prevented. We continuously develop people safety and the safety of our assets through improving working practices and conditions and asset integrity, and by improving the knowledge and awareness of Neste's, its contractors', and other partners' personnel on aspects affecting safety. Full implementation and further development of our corporate-level Operations Excellence management system including Health, Safety and Environment (HSE) principles and standards continued including systematic auditing. A governance model with senior managers from Business Units was introduced during 2019.

See also: Diversity of the Board of Directors

Respect for Human Rights

Neste has made a commitment to respect human rights and requires the same from all of its business partners. In 2015, Neste adopted the United Nations Guiding Principles on Business and Human Rights (UNGP) and published the Neste Human Rights Commitment. In 2016, Neste initiated a corporate-wide human rights impact assessment which resulted in the 2017 publication of the Neste human rights principles which consist of fair employment, health and safety, equality, rights of children and young workers, forced and compulsory labor, fair treatment, as well as social and economic development. Together, these two documents encapsulate Neste's human rights obligations and commit us to respect internationally recognized human rights as set out in the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

Anti-corruption and bribery matters

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

Sustainability risks

Neste Corporate risk management policy, approved by the Board of Directors, defines the framework and principles for risk management. The policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines. The defined principles, requirements and processes apply also to sustainability risks which are managed as one risk category in the quarterly risks reviews. Assessment takes into account short, medium and long perspectives for climate risks.

Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle. Formal risk reporting is directed to business management and function management teams, Neste Executive Committee, Audit Committee, and the Board of Directors. Neste's sustainability risks can be categorized as follows:

Climate related risks and opportunities

Neste's strategy resilience has been assessed in the light of 1.5 celsius and 2 celcius scenarios through deep dives in specific areas of interest, like transition in the transportation sector or impact of accelerated deployment of low carbon vehicles. Both transition risks and physical risks have been assessed for the selected scenarios within the time horizon until 2030 and beyond 2030.

Separate scenario analysis has not been performed for the 4 celcius outcome. However, identification of physical risks, like extreme weather events, takes into account also this scenario. Climate scenario work will be developed further in the coming years.

Neste's strategic vision is to be a forerunner in combating climate change. Relatively modern production assets provide a good basis for emission control in Scope 1, 2 and 3 emissions. Neste also sees processing of recycled feeds as an opportunity. Disadvantageous changes might take place as a result of unexpected policy and legal changes, new requirements for lower emissions in production, stakeholder and customer attitudes moving to a less favorable direction, and increased cost of raw materials or utilities or scarcity of renewable raw materials. Also physical risks like increased severity of extreme weather events, changes in precipitation patterns and extreme variability in weather patterns might affect Neste's ability to use different feedstock sources.

Risk of adverse environmental impact from emissions to air and water

Neste is subject to a wide array of laws and regulations aiming at safe operations and reduced environmental footprint. In addition, transitioning to a lower-carbon economy entails additional requirements that affect Neste's way to manage refining assets and puts more emphasis on efficient use of different utilities, such as water and energy. In order to ensure continuous compliance with the applicable laws and regulations, Neste has implemented certified management systems that reflect the international standards issued by ISO and OHSAS. During 2019 a comprehensive set of leading environmental performance indicators was in use in all business units to reduce risk of environmental permit violations or emissions and incidents.

Risk of leaks, explosions and other chemical hazards

Due to their nature, Neste's operations carry an inherent risk of fires, explosions, leaks or other hazards that can result into soil, groundwater or seawater contamination.

Maritime accidents would at worst have a catastrophic impact on the surrounding environment. Neste has implemented systematic risk management actions to minimize the probability of chemical hazards. Actions taken include ship vetting, systematic safety procedures, partner selection and performance management, and training in own operations.

In process safety Neste has implemented and is continually developing comprehensive safety rules, procedures and practices covering leadership, competence development, performance management and learning from experience. Considerable investments are carried out annually to improve process safety of Nestes' assets.

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

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

Potential adverse human rights impacts

Neste has undertaken several initiatives to ensure the proper management of human rights related risks, both within its own operations and supply chain. Our human rights assessments have identified health and safety issues as a salient human rights risk in Neste's own operations. For Neste's supply chain, forced labor, child labor, discrimination, conditions of employment, and land and property issues were additionally identified as being high risk areas for adverse human rights impacts.

As part of our ongoing group-wide program to prevent adverse human rights impacts and implement the Neste Human Rights Commitment & Principles, a human rights due diligence gap assessment process was initiated in 2018 to evaluate the strength of internal policies, management processes and operating procedures in three selected internal units: human resources, indirect procurement, and marketing & services. The gap assessments for these units concluded in 2019 with action plans that contain focus areas for mitigation and improvement.

In our supply chain, raw material suppliers are subject to rigorous human rights due diligence procedures and are required to comply with the Neste Supplier Code of Conduct, and contains strong human rights criteria. The supplier due diligence criteria in the self assessment questionnaire for new raw material suppliers, as well as audit checklist for site visits to review supplier practices, has a strong human rights focus and covers topics such as fair wages and favorable work conditions, health & safety, freedom of association, diversity, labor standards, impacts on neighbouring communities, and rights of vulnerable groups such as children, migrant workers and women.

Risk of corruption and bribery

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

Outcomes and key performance indicators

Neste's sustainability policies, and principles apply to the company as a whole and guide all its operations. In addition, international conventions and commitments underlie Neste's work. In 2019, Neste was included in the Dow Jones Sustainability World Index for the 13th consecutive time. Neste was included both in the DJSI World and DJSI Europe. The industry's best scores in materiality, human capital development, and water-related risks contributed to the company's inclusion among the top performers. In January 2019, Neste was ranked the third most sustainable company in the world on the Global 100 list. In 2019, Neste also reached the leading performers' A List based on the CDP Climate Change assessment.

Climate Environmental matters

In 2019 Neste released two new strategic climate targets described above, and we are persistently working with them. From these targets, the first one's 2019 performance is reported in the table below as GHG emissions reduction achieved. Relating to these GHG emissions reductions, we have signed a new EUR 1.2 billion multi-currency revolving credit facility ("RCF") in 2019 with a syndicate of 13 core relationship banks. The margin under the RCF will be adjusted based on our progress to meet our GHG emission reduction target.

Our second climate target's KPI in relation to EU's climate and energy targets is currently being developed. However, actions are underway and for instance during the upcoming turnarounds, we will work on concrete enhancements that will have an impact on reducing our emissions and improving energy efficiency.

Other climate related metrics for GHG emissions (Scope 1 and 2, as well as Scope 3 emissions) are reported in the 2019 Sustainability report, and risks related to them are discussed in the climate related risks above.

In 2019, we updated our Neste Traceability Dashboard to provide exact coordinates to the oil palm plantations in Neste's supply chain. We also introduced data on our palm fatty acid distillate (PFAD) supply chain. By the end of 2019, we had mapped 99% of our PFAD supply chain to the palm oil mills supplying the palm oil refineries where PFAD is extracted during vegetable oil refining. In 2019, we continued our PFAD supply chain mapping efforts in collaboration with palm oil suppliers and sustainability specialists from the Consortium of Resource Experts (CORE). With CORE, we continued conducting risk assessments of palm oil mills that supply palm oil to refineries where PFAD is extracted as a processing residue. We continued developing our Supplier Sustainability Portal to digitalize renewable raw material supplier evaluation, monitoring, and engagement.

Emissions from operations at Neste's refineries were in substantial compliance at all sites during 2019. A total of three minor non-compliance cases occurred in Neste's operations with very limited local environmental impact. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. Efforts to improve environmental management during 2019 contributed to the performance improvement.

Key figures	2019	2018
Emission limits and overruns: All deviations from environmental permits Target: Halve the number of incidents within Oil Products (OP) in 2019 compared to the average number of incidents in 2017–2018. Long-term target for OP and Renewable Products (RP): zero permit violations.	Permit violations: 3, of which in OP 2 and in RP 1	Permit violations: 2, of which 2 in OP
Energy efficiency, energy saving measures GWh Target: Reduce Neste's energy consumption by 500 GWh during 2017–2025	16	57
GHG emissions reduction achieved with Neste's renewable fuels compared to crude oil based diesel, million tons. [1] Target to reach 14 Mt GHG emissions reduction by 2023 and 20 Mt GHG emissions reduction by 2030.	9.6	7.9
The number of potential renewable raw material suppliers' Due Diligence (DD) and their outcome. [2]	Total: 91 New approved suppliers: 52 All approved: 55 Pending: 36 Failed: 0	Total: 87 New approved suppliers: 41 All approved: 52 Pending: 35 Failed: 0

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

[2] All figures except "New approved suppliers" include existing suppliers, which undergo a DD process every 3–5 years. 2019 Supplier data includes only main contractual parties, excluding sub-suppliers. The calculation process has changed from previous year, hence the numbers are not fully comparable.

Social and employee matters

Neste's pursuits to build inclusive culture and enhance diversity, the company went through all its Human Resources related Neste management System documentation in 2019. Some gaps were identified in the coverage of the HR instructions and there was room for improvement on clarifying the scopes between local and global instructions. After the renewal process most of the HR instructions are now globally applicable – local additions will be created as needed.

The equality and non-discrimination principle embraces all aspects of diversity alongside of gender equality. Diversity is one of the regularly followed key items on the Executive Committee monthly meetings. The Executive Committee's focus areas are diversity of the Neste teams as well as ratio of female leaders. During the major reorganization in 2019 the number of female line-managers was carefully measured and managed to ensure the continuation of a positive trend.

According to the engagement survey conducted early 2019 our personnel engagement score is 71, which is in line with global benchmark result. Majority of our employees think favorably of working at Neste and would recommend Neste as a workplace. Our special strengths are the meaningfulness of our own work and the responsible way of acting of both the company and our people. In addition to a broader employee engagement survey, we measure change through quicker pulse surveys and other surveys targeted at specific groups.

Neste's occupational safety performance (TRIF, or rate of accidents requiring medical treatment per million hours worked, including contractors) remained the same as in 2018. The annual TRIF result 1.7 (1.7 in 2018) did not meet the target for 2019 (1.5). Several actions were taken during the year to improve safety further. Process safety performance (PSER, or rate of process safety events per million hours worked) improved compared to 2018 level. The annual PSER result, 1.4 was best ever in Neste and 2019 target was reached. However, making substantial improvements in process safety remains a top priority for Neste.

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

Key figures	2019	2018
TRIF [1)] target: 2.0 for 2018 and 1.5 for 2019 Long-term target: Zero accidents	1.7	1.7
Process safety event rate PSER [2)] target: 1.7 for 2018 and 1.5 for 2019 Long-term target: Zero safety deviations	1.4	2.1
New employee hires and employee turnover [3)]	Leaving rate of permanent employees 7.4%. Hiring rate of permanent employees 14.0%.	Leaving rate of permanent employees 11.4%. Hiring rate of permanent employees 10.9%.
Employee engagement Target: Maintain a good level of employee engagement.	According to the engagement survey conducted early 2019 the employee engagement score was 71, which was in line with global benchmark result. Majority of employees thought favorably of working at Neste and said they would recommend Neste as a workplace. 72% felt happy working at Neste, 68% understood how Neste plans to achieve its strategic goals, 82% thought Neste acts in a responsible way, 85% saw safety as a priority for Neste.	No engagement surveys were conducted during 2018 due to diagnostic tool renewal.

[1)] Total Recordable Incident Frequency, number of cases per million hours worked. The figure includes both Neste's and contractors' personnel. Working hours for own personnel are estimated based on previous years. Estimation error is insignificant.

[2)] Process Safety Event Rate, number of cases per million hours worked. Working hours for own personnel are estimated based on previous years. Estimation error is insignificant.

[3)] Permanent employee turnover does not include employees in Russia and Neste Demeter. Leaving rate of employees does not include employees transferred in business divestments.

Mitigating potential adverse human rights impacts

In line with the target to improve Neste's internal capacity to manage human rights risks, a human rights due diligence process was initiated in 2018 to evaluate the strength of internal policies, management processes and operating procedures in three of Neste's internal units: human resources, indirect procurement, and marketing and services. In 2019, human rights gap assessments on these business units were concluded and an action plan for each unit containing focus areas for improvements was developed. Implementation of these action plans began in 2019.

Achieving increased visibility and developing a mitigation plan for areas considered high risk for adverse human rights impacts in Neste's renewable raw materials supply chain is a key target in Neste's human rights implementation program. In 2019, Neste improved and strengthened the human rights criteria used in the self-assessment questionnaire for onboarding new raw materials suppliers, and in the audit checklists for Neste-led site visits to review supplier sustainability practices. These criteria align with the Neste Supplier Code of Conduct updated in 2019, a key element in Neste's supplier sustainability management system.

In April 2019, Neste organized its fourth annual workshop with palm oil suppliers. These workshops enable Neste to better manage human rights risks in its palm supply chain through capacity building, engaging with suppliers and communicating Neste's sustainability expectations. In this year's workshop Neste brought all of its palm and PFAD suppliers together to discuss sustainability developments and key focus areas for the year. The Traceability to Plantation Risk-calibrated Approach, developed by Neste and CORE, remained a major driver and stepping stone towards sustainability in the sector. In addition, the Neste Responsible Sourcing Principle, supplier engagement, grievance management and human rights remain crucial topics for achieving transformation on the ground.

Key figures	2019	2018
Managing human rights risks in renewable raw material supply chain Target: To strengthen the human rights criteria in tracking and measuring suppliers' performance on social (and other sustainability) issues with the online supply chain management system, Supplier Sustainability Portal	A supplier sustainability management system and corresponding criteria to measure performance has been developed (referring to major musts for supplier onboarding and minimum requirements that are outlined in the new Supplier Code of Conduct).	Improved and strengthened criteria in self-assessment questionnaire and audit checklists for evaluating human rights risk in supply chain.
Internal capacity to manage human rights risks Target for 2019: Most critical functions have initiated human rights due diligence process to evaluate and strengthen internal capacity to mitigate potential human rights impacts.	The gap assessments which began in 2018 for three internal units (Human Resources, Marketing & Services and Indirect Procurement) were concluded in 2019. Based on the gap assessments and analyses, an action plan was created for each business unit with focus areas for improvements. Implementation of the action plans began in 2019.	Three internal groups attended human rights workshops and are in the process of conducting gap assessments.

Anti-corruption and bribery matters

During 2019 Neste's Anti-Corruption Principle was renewed, and total of 3,500 employees, completed Neste's Anti-Corruption e-learning, which summarizes requirements of the renewed Neste Anti-Corruption Principle. The e-learning also includes a requirement for employees to report observed or suspected violations of Neste's Anti-Corruption Principle to their own superior, Neste's HR, Compliance or Internal Audit functions. Employees may report their concerns also anonymously via Neste's whistleblowing channel, Ethics Online, which can be used via phone or website. Ethics Online is available both for employees' and external stakeholders. A total of 13 suspected misconducts were reported during 2019, and a majority of these reports came via the whistleblowing system. Proven misconduct leading to further actions and process improvements was identified in one of the completed investigations, while no misconduct was found in eleven completed investigations. One case is still under investigation. Neste's Investigations Group investigated the received reports and reported the number of cases per category to the Board of Directors' Audit Committee and to the Ethics and Compliance Committee consisting of Neste Executive Committee members, Chief Compliance Officer, and Head of Internal Audit. During 2019, all new employees were required to complete Code of Conduct online training. Trainings on anti-corruption, competition law compliance, and trade sanction compliance were conducted with defined target groups, such as sales and procurement teams.

Recognizing the need for sustainable feedstocks in the supply chain, Neste is further enhancing its Ethics Online to include grievances raised by stakeholders throughout the supply chain, to log and monitor cases relevant to deforestation, fire, human rights violations and so on, beyond Neste's operations. In Q1 2020, Neste will revamp the system to enable processing of external grievances collaborating across inter-departments related to supply chain for all its feedstocks, putting in place a transparent mechanism, process flow and proper channel to relevant key stakeholders. Sustainability is the utmost priority for Neste and the company intends to ensure continuous improvement and good practices with customers, suppliers and business partners alike.

Key figures	2019	2018
Number of suspected misconducts reported in person or via the whistleblowing system to the Investigations Group. Target: To further encourage employees and external stakeholders to report observed or suspected misconducts.	Number of suspected misconducts reported in person or via the whistleblowing system to the Investigations Group total was 13 from which HR 2 reports, conflict of Interests 1, bribery and corruption 1, fraud 2, discrimination and harassment 2, and 5 reports belong to category “other”. One misconduct led to further actions and process improvements and one case is still under investigation.	A total of 13 suspected misconducts were reported, in the following categories: Discrimination and harassment 2, asset misuse 1, tax misconduct 2, fraud 4, conflict of interest 1, human resources related 2, and 1 belongs to category “other”. Two misconducts lead to legal actions and process improvements and three cases were still under investigation.

Read more about the topics on Neste’s website.

Outlook

Developments in the global economy have been reflected in the renewable fuel, feedstock and oil markets; and volatility in these markets is anticipated to continue. Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Global oil product demand growth is expected to be lower than the refining capacity additions in 2020. Based on our current estimates and a hedging ratio of 80%, Neste’s effective EUR/US dollar rate is expected to be within a range 1.12–1.14 in the first quarter of 2020.

Demand for renewable diesel is expected to remain strong in the first quarter due to the continuously growing biofuel mandates in 2020. Waste and residue feedstock markets are expected to continue tight. Utilization rates of our renewables production facilities are expected to remain high. We have scheduled the next four-week catalyst change at the Singapore refinery in the second quarter of 2020 and at the Rotterdam refinery in the fourth quarter of 2020. A catalyst change maintenance is currently estimated to have a negative impact of approx. EUR 50 million on the segment’s comparable operating profit. Neste will implement a scheduled approx. eleven-week major turnaround at the Porvoo refinery in the second quarter of 2020. The Porvoo turnaround is currently estimated to have a negative impact of approx. EUR 40 million on the Renewable Products segment’s comparable operating profit, mainly in the second quarter. The US Blender’s Tax Credit approved in December 2019 is now in place for the year 2020. The expansion of the renewables businesses will increase the segment’s fixed costs.

Oil Products’ first-quarter reference margin is expected to be low due to the warm weather, coronavirus outbreak, and the IMO2020 bunker fuel regulation not yet supporting the middle distillates margin. Utilization rates of our production facilities are anticipated to remain high in the first quarter. We will implement a scheduled approx. eleven-week major turnaround at the Porvoo refinery in the second quarter of 2020. The Porvoo turnaround is currently estimated to have a negative impact of approx. EUR 180 million on the segment’s comparable operating profit, mainly in the second quarter.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years’ seasonality pattern in the first quarter. The divestment of the Russian operations completed in the fourth quarter of 2019 is estimated to reduce the segment’s full-year comparable operating profit by EUR 16 million compared to 2019.

As described above, the announced eleven-week turnaround at the Porvoo refinery is estimated to have a negative impact on comparable operating profit totaling EUR 220 million. We estimate the Group’s full-year 2020 capital expenditures to reach approx. EUR 1.2 billion, of which the Porvoo turnaround will be approx. EUR 450 million, Singapore capacity expansion approx. EUR 600 million, and the balance being normal strategic, productivity and maintenance investments.

Dividend distribution proposal

Neste’s dividend policy is to distribute at least 50% of its comparable net profit in the form of a dividend. The parent company’s distributable equity as of 31 December 2019 amounted to EUR 3,180 million, and there have been no material changes in the company’s financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Corporation pays a cash dividend of EUR 0.92 per share (0.76) for 2019, totaling EUR 706 million (583 million) based on the number of outstanding shares, plus an extraordinary dividend of EUR 0.10 per share, totaling EUR 77 million. The Board of Directors will also propose that the annual dividend shall be paid in two installments.

The first installment of dividend, EUR 0.46 per share, will be paid to shareholders registered in the shareholders’ register of the Company maintained by Euroclear Finland Ltd on the record date for the first dividend installment, which shall be Thursday, 9 April 2020. The Board proposes to the AGM that the first dividend installment would be paid on Monday, 20 April 2020. The second installment of dividend, EUR 0.46 per share, and the extraordinary dividend of EUR 0.10 per share, will be paid to shareholders registered in the shareholders’ register of the Company maintained by Euroclear Finland Ltd on the record date for the second dividend installment, and the extraordinary dividend, which shall be Tuesday, 13 October 2020. The Board proposes to the AGM that the second dividend installment, and the extraordinary dividend would be paid on Tuesday, 20 October 2020. The Board of Directors is authorized to set a new dividend record date and payment date for the second installment of the dividend, and the extraordinary dividend, in case the rules and regulations on the Finnish book-entry system would be changed, or otherwise so require.

The proposed annual dividend and the extraordinary dividend together represent a yield of 3.3% (at year-end 2019 share price of EUR 31.02) and 50% of the comparable net profit in 2019, and an increase of 34% compared to the total dividend distributed in the previous year.

Key figures

Income statement		2019	Restated 2018	Restated 2017
Revenue	EUR million	15,840	14,918	13,217
Operating profit	EUR million	2,229	1,022	1,159
– of revenue	%	14.1	6.8	8.8
Comparable operating profit	EUR million	1,962	1,422	1,101
Profit before income taxes	EUR million	2,067	947	1,082
– of revenue	%	13.0	6.3	8.2
EBITDA	EUR million	2,731	1,636	1,530
Comparable net profit	EUR million	1,564	1,150	850

Profitability				
Return on equity (ROE)	%	35.8	17.3	22.5
Return on average capital employed, after tax (ROACE)	%	26.6	21.1	17.5

Financing and financial position				
Interest-bearing net debt	EUR million	–191	–70	412
Leverage ratio	%	–3.3	–1.5	8.7
Equity-to-assets ratio	%	60.8	56.4	55.8

Other indicators				
Capital employed	EUR million	7,243	5,756	5,522
Capital expenditure and investments in shares	EUR million	890	438	536
– of revenue	%	5.6	2.9	4.1
Research and development expenditure	EUR million	54	48	44
– of revenue	%	0.3	0.3	0.3
Average number of personnel		5,474	5,468	5,297

Share-related indicators		2019	Restated 2018	Restated 2017
Earnings per share (EPS)	EUR	2.33	1.01	1.17
Comparable earnings per share	EUR	2.04	1.50	1.11
Equity per share	EUR	7.71	6.01	5.64
Cash flow per share	EUR	1.90	1.89	1.43
Price/earnings ratio (P/E)		13.32	22.24	15.16
Dividend per share	EUR	1.02 [1)]	0.76	0.57
Dividend payout ratio	%	43.8 [1)]	75.3	48.3
Dividend yield	%	3.3 [1)]	3.4	3.2
Share prices				
Closing share price	EUR	31.02	22.45	17.78
Average share price	EUR	29.85	21.72	12.78
Lowest share price	EUR	22.19	17.37	10.38
Highest share price	EUR	33.33	25.51	18.02
Market capitalization	EUR million	23,861	17,271	13,679
Trading volumes				
Number of shares traded	1,000	307,770	381,483	481,401
– of weighted average number of shares	%	40	50	63
Weighted average number of shares outstanding		767,631,518	767,466,142	767,326,606
Number of shares outstanding at the end of the period		767,683,600	767,490,072	767,370,423

[1)] Board of Directors' proposal to the Annual General Meeting. 2019 key figures include extraordinary dividend.

All share-related figures and comparison numbers have been calculated and restated based on the new total number of shares after the share issue without payment (share split) as resolved by Neste's Annual General Meeting on 2 April, 2019.

Reconciliation of key figures to IFRS Financial Statements

Reconciliation between comparable operating profit and operating profit is presented in Note 4, Segment information.

Reconciliation between comparable operating profit and comparable net profit

EUR million	2019	2018	2017
Comparable operating profit	1,962	1,422	1,101
IS Total financial income and expenses	–163	–75	–77
IS Income tax expense	–278	–172	–179
IS Non-controlling interests	–1	0	–3
Tax on items affecting comparability	43	–26	9
Comparable net profit	1,564	1,150	850

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

EUR million	2019	2018	2017
Comparable operating profit, last 12 months	1,962	1,422	1,101
IS Financial income	10	7	4
IS Exchange rate and fair value gains and losses	–64	–34	–2
IS Income tax expense	–278	–172	–179
Tax on other items affecting ROACE	35	–33	–3
Comparable net profit, net of tax	1,666	1,191	920
Capital employed average	6,275	5,646	5,264
Return on average capital employed, after tax (ROACE), %	26.6	21.1	17.5

Reconciliation of equity-to-assets ratio, %

EUR million	2019	2018	2017
BS Total equity	5,922	4,616	4,327
BS Total assets	9,793	8,210	7,782
Advances received	–46	–28	–21
Equity-to-assets ratio, %	60.8	56.4	55.8

Reconciliation of net working capital in days outstanding

EUR million	2019	2018	2017
Operative receivables	1,918	1,140	1,093
BS Inventories	1,678	1,467	1,551
Operative liabilities	–2,001	–1,750	–1,683
Net working capital	1,595	858	961
IS Revenue	15,840	14,918	13,217
Net working capital in days outstanding	36.7	21.0	26.5

Calculation of key figures

Neste presents Alternative Performance Measures to enhance comparability between financial periods as well as to reflect operational performance and financial risk level. These indicators should be examined together with the IFRS-compliant performance indicators.

Key figure		Calculation	Reason for use
EBITDA	=	Operating profit + depreciation, amortization and impairments	EBITDA is an indicator to measure the operational performance and cash flow generation of the Group and its businesses.
Comparable operating profit	=	Operating profit –/+ inventory valuation gains/losses –/+ changes in the fair value of open commodity and currency derivatives –/+ capital gains/losses – insurance and other compensations + impairments –/+ other adjustments	Comparable operating profit reflects Neste's underlying operational performance.[1]
Items affecting comparability	=	Inventory valuation gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations, impairments and other adjustments	Items affecting comparability are linked to unpredictability events of a significant nature that do not form part of normal day-to-day business.[1]
Comparable net profit	=	Comparable operating profit – total financial income and expense – income tax expense – non-controlling interests – tax on items affecting comparability	Comparable net profit is the basis for Neste's dividend policy. Dividend distribution is one element in the company's cash allocation.
Return on equity (ROE), %	= 100 ×	$\frac{\text{Profit before income taxes – income tax expense, last 12 months}}{\text{Total equity average, 5 quarters end values}}$	Return on equity provide additional information on the profitability of Neste's operations.
Return on average capital employed, after-tax (ROACE), %	= 100 ×	$\frac{\text{Comparable operating profit + financial income + exchange rate and fair value gains and losses – income tax expense – tax on other items affecting ROACE, last 12 months}}{\text{Capital employed average, 5 quarters end values}}$	Return on average capital employed after-tax (ROACE) is one of Neste's key financial targets. It is a long-term over the cycle indicator measuring the Group's profitability and efficiency of capital usage.
Capital employed	=	Total equity + interest bearing liabilities	Capital employed is primarily used to determine the return on average capital employed (ROACE) which is Neste's key financial target.
Interest-bearing net debt	=	Interest-bearing liabilities – cash and cash equivalents – current investments	Interest-bearing net debt is an indicator to measure the total external debt financing of the group.
Leverage ratio, %	= 100 ×	$\frac{\text{Interest-bearing net debt}}{\text{Interest-bearing net debt + total equity}}$	Leverage ratio is one of Neste's key financial targets. It provides useful information regarding the Group's capital structure and financial risk level.
Equity-to-assets ratio, %	= 100 ×	$\frac{\text{Total equity}}{\text{Total assets – advances received}}$	Equity-to-assets ratio provides useful information regarding Neste's financial risk level.
Net working capital in days outstanding	= 365 ×	$\frac{\text{Net working capital}}{\text{Revenue, last 12 months}}$	Net working capital in days outstanding measures Neste's efficiency in turning its net working capital into revenue.

Key figure		Calculation	Reason for use
Net Debt to EBITDA	=	$\frac{\text{Interest-bearing net debt}}{\text{EBITDA, last 12 months}}$	Net debt to EBITDA measures Neste's capital structure and ability to cover its debt.
Return on net assets, %	= 100 ×	$\frac{\text{Segment operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$	Neste uses Return on net assets to follow the operational performance of its operating segments.
Comparable return on net assets, %	= 100 ×	$\frac{\text{Segment comparable operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$	Neste uses Comparable return on net assets to follow the underlying operational performance of its operating segments.
Segment net assets	=	Property, plant and equipment + intangible assets + investments in joint ventures + inventories + interest-free receivables and liabilities – provisions – pension liabilities allocated to the business segment	Segment net assets are primarily used to determine the return on net assets and comparable return on net assets.

Calculation of share-related indicators

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the owners of the parent}}{\text{Adjusted weighted average number of shares outstanding during the period}}$
Comparable earnings per share	=	$\frac{\text{Comparable net profit}}{\text{Adjusted weighted average number of shares outstanding during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the owners of the parent}}{\text{Adjusted number of shares outstanding at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted weighted average number of shares outstanding during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Adjusted share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	= 100 ×	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	= 100 ×	$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization	=	Number of shares at the end of the period × share price at the end of the period

Key figure		Calculation	Reason for use
Calculation of key drivers			
Oil Products reference margin (USD/bbl)	=	Product value – feed cost – standard refining variable cost – sales freights	Oil Products reference margin measures the segment's unit sales margin driven by general market elements.USD/bbl is a standard unit used in the oil industry.
Oil Products total refining margin (USD/bbl)	=	$\frac{\text{Comparable sales margin} \times \text{average EUR/USD exchange rate for the period} \times \text{standard refinery yield}}{\text{Refined sales volume} \times \text{standard barrels per ton}}$	Oil Products total refining margin measures the segment's comparable sales margin per refined unit sold. USD/bbl is a standard unit used in the oil industry.
Oil Products additional margin (USD/bbl)	=	Oil Products total refining margin – Oil Products reference margin	Oil Products additional margin measures the segment's unit sales margin generation capability above the general market elements. USD/bbl is a standard unit used in the oil industry.
Renewable Products comparable sales margin (USD/ton)	=	$\frac{\text{Comparable sales margin}}{\text{Total sales volume}}$	Renewable Products comparable sales margin measures the segment's sales margin per unit sold.

[1] In the business environment where Neste operates, commodity prices and foreign exchange rates are volatile and can cause significant fluctuations in inventory values and operating profit. Comparable operating profit eliminates both the inventory valuation gains/losses generated by the volatility in raw material prices and changes in open derivatives, and better reflects the company's underlying operational performance. Also, it reflects Neste's operational cash flow, where the change in operating profit caused by inventory valuation is mostly compensated by changing net working capital. Items affecting comparability are linked to unpredictability events of a significant nature that do not form part of normal day-to-day business. They include among others impairment losses and reversals, gains and losses associated with the combination or termination of businesses, restructuring costs, and gains and losses on the sales of assets. Only items having an impact of more than EUR 1 million on Neste's result will be classified as items affecting comparability.

Financial Statements 05

Consolidated Statement of Income

EUR million	Note	1 Jan–31 Dec 2019	Restated [1] 1 Jan–31 Dec 2018
Revenue	4, 5	15,840	14,918
Other income	6	50	17
Share of profit (loss) of joint ventures	15	–52	–9
Materials and services	7	–12,238	–12,462
Employee benefit costs	8	–395	–400
Depreciation, amortization and impairments	4	–502	–614
Other expenses	9	–474	–429
Operating profit		2,229	1,022
Financial income and expenses	10		
Financial income		10	7
Financial expenses		–109	–48
Exchange rate and fair value gains and losses		–64	–34
Total financial income and expenses		–163	–75
Profit before income taxes		2,067	947
Income tax expense	11	–278	–172
Profit for the period		1,789	775
Profit attributable to:			
Owners of the parent		1,788	775
Non-controlling interests		1	0
		1,789	775
Earnings per share from profit attributable to owners of the parent (in euro per share)	12		
Basic earnings per share		2.33	1.01
Diluted earnings per share		2.32	1.01

[1] The Group has amended the inventory valuation policy in Renewable Products segment during the last quarter in 2019 and the comparatives for 2018 have been restated. See Note 18 for further information.

Consolidated Statement of Comprehensive Income

EUR million	1 Jan–31 Dec 2019	Restated 1 Jan–31 Dec 2018
Profit for the period	1,789	775
Other comprehensive income net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements on defined benefit plans	8	4
Items that may be reclassified subsequently to profit or loss		
Translation differences	45	–16
Cash flow hedges		
recorded in equity	–26	–53
transferred to income statement	66	7
Share of other comprehensive income of investments accounted for using the equity method	8	–4
Total	93	–65
Other comprehensive income for the period, net of tax	101	–61
Total comprehensive income for the period	1,890	715
Total comprehensive income attributable to:		
Owners of the parent	1,890	714
Non-controlling interests	1	0
	1,890	715

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

Consolidated Statement of Financial Position

EUR million	Note	31 Dec 2019	Restated 31 Dec 2018	Restated 1 Jan 2018
ASSETS				
Non-current assets				
Intangible assets	13	135	124	100
Property, plant and equipment	14	4,187	3,737	3,856
Investments in joint ventures	15	22	106	213
Non-current receivables	17	56	87	51
Deferred tax assets	11	40	35	36
Derivative financial instruments	16, 19	7	3	4
Other financial assets	17	5	5	5
Total non-current assets		4,452	4,096	4,264
Current assets				
Inventories	18	1,678	1,467	1,551
Trade and other receivables	17	1,915	1,231	1,096
Derivative financial instruments	16, 19	236	206	86
Current investments	17	19	74	0
Cash and cash equivalents	17	1,493	1,136	783
Total current assets		5,341	4,113	3,517
Total assets		9,793	8,210	7,781

EUR million	Note	31 Dec 2019	Restated 31 Dec 2018	Restated 1 Jan 2018
EQUITY				
Capital and reserves attributable to the owners of the parent	20			
Share capital		40	40	40
Other equity		5,879	4,574	4,292
Total		5,919	4,614	4,332
Non-controlling interests		2	2	0
Total equity		5,922	4,616	4,332
LIABILITIES				
Non-current liabilities				
Interest-bearing liabilities	21	1,080	849	1,032
Deferred tax liabilities	11	255	260	269
Provisions	22	93	100	55
Pension liabilities	23	111	124	131
Derivative financial instruments	16, 19	1	0	0
Other non-current liabilities	21	21	14	14
Total non-current liabilities		1,561	1,347	1,500
Current liabilities				
Interest-bearing liabilities	21	242	291	163
Current tax liabilities		16	59	36
Derivative financial instruments	16, 19	63	149	72
Trade and other payables	21	1,990	1,749	1,677
Total current liabilities		2,311	2,247	1,948
Total liabilities		3,872	3,594	3,448
Total equity and liabilities		9,793	8,210	7,781

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

Consolidated Cash Flow Statement

EUR million	Note	1 Jan–31 Dec 2019	Restated 1 Jan–31 Dec 2018
Cash flows from operating activities			
Profit before income taxes		2,067	947
Adjustments for			
Share of profit (loss) of joint ventures	4, 15	52	9
Depreciation, amortization and impairments	4	502	614
Other non-cash income and expenses		–129	–105
Financial expenses – net	10	163	75
Profit / loss from disposal of fixed assets and shares	6	–37	–3
Cash flow before change in net working capital		2,617	1,537
Change in net working capital			
Decrease (+) / increase (–) in trade and other receivables		–787	–44
Decrease (+) / increase (–) in inventories		–197	87
Decrease (–) / increase (+) in trade and other payables		204	60
Change in net working capital		–780	103
Cash generated from operations		1,837	1,640
Interest and other finance cost paid		–55	–47
Interest income received		8	5
Realized foreign exchange gains and losses		–1	6
Income taxes paid		–333	–151
Finance cost and income taxes paid		–381	–188
Net cash generated from operating activities		1,456	1,452

EUR million	Note	1 Jan–31 Dec 2019	Restated 1 Jan–31 Dec 2018
Cash flows from investing activities			
Purchases of property, plant and equipment		–522	–347
Purchases of intangible assets	13	–45	–34
Acquisitions of subsidiaries, net of cash acquired		–1	–15
Proceeds from sales of subsidiaries and business operations, net of cash disposed	27	145	0
Proceeds from sales of property, plant and equipment		0	2
Proceeds from sales of shares in joint arrangements		0	2
Changes in long-term receivables and other investments		120	–191
Cash flows from investing activities		–302	–583
Cash flow before financing activities		1,154	870
Cash flows from financing activities			
Payment of (–) / proceeds from (+) current interest-bearing liabilities		9	–18
Proceeds from non-current interest-bearing liabilities		12	0
Repayments of non-current interest-bearing liabilities		–234	–64
Dividends paid to the owners of the parent		–583	–435
Dividends paid to non-controlling interests		–1	0
Cash flows from financing activities		–797	–517
Net decrease (–) / increase (+) in cash and cash equivalents		357	353
Cash and cash equivalents at beginning of the period		1,136	783
Exchange gains (+) / losses (–) on cash and cash equivalents		0	0
Cash and cash equivalents at end of the period	17	1,493	1,136

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

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Consolidated Statement of Changes in Equity

EUR million	Note	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2018		40	20	7	–9	–6	–73	–68	4,428	**4,338**	0	**4,338**
Change in accounting policy, IFRS 2									6	**6**		**6**
Change in accounting policy, IFRS 9						1			–2	**–1**		**–1**
Change in accounting policy, IFRS 15									0	**0**		**0**
Change in accounting policy, inventories									–11	**–11**		**–11**
Restated total equity at 1 January 2018		40	20	7	–9	–5	–73	–68	4,421	**4,332**	0	**4,332**
Profit for the period									775	**775**	0	**775**
Other comprehensive income for the period, net of tax						–49	4	–16		**–61**		**–61**
Total comprehensive income for the period		0	0	0	0	–49	4	–16	775	**714**	0	**715**
Transactions with the owners in their capacity as owners												
Dividend decision									–435	**–435**		**–435**
Transactions with non-controlling interests										**0**	2	**2**
Share-based compensation				3	1				–1	**2**		**2**
Transfer from retained earnings			0					0		**0**		**0**
Total equity at 31 December 2018	20	40	19	10	–9	–55	–69	–84	4,760	**4,614**	2	**4,616**

EUR million	Note	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2019		40	19	10	–9	–55	–69	–84	4,760	**4,614**	2	**4,616**
Profit for the period									1,788	**1,788**	1	**1,789**
Other comprehensive income for the period, net of tax						48	9	45		**101**	0	**101**
Total comprehensive income for the period		0	0	0	0	48	9	45	1,788	**1,890**	1	**1,890**
Transactions with the owners in their capacity as owners												
Dividend decision									–583	**–583**	–1	**–584**
Share-based compensation				6	1				–8	**–1**		**–1**
Transfer from retained earnings			0					0		**0**		**0**
Total equity at 31 December 2019	20	40	19	16	–7	–6	–60	–39	5,957	**5,919**	2	**5,922**

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

Notes to the Consolidated Financial Statements

1 General information

Neste Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The company is listed on the NASDAQ Helsinki Oy. The address of its registered office is Keilaranta 21, P.O. Box 95, 00095 Neste, Finland.

Neste Corporation and its subsidiaries (together referred to as the Group) create sustainable solutions for transport, business, and consumer needs. Neste's wide range of renewable and circular solutions enable its customers to reduce climate emissions and tackle the global plastics waste challenge. Neste is the world's largest producer of renewable diesel and renewable jet fuel refined from waste and residues, introducing renewable and circular solutions also to the plastics industry. The company is also a technologically advanced refiner of high-quality oil products. Neste wants to be a reliable partner with widely valued expertise, research, and sustainable operations.

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

The Board of Directors has approved these consolidated financial statements for issue on 25 February 2020.

2 Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS as adopted by the European Union. The consolidated financial statements also include compliance with Finnish accounting and corporate legislation. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through the comprehensive income statement.

The consolidated financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

Neste discloses the accounting policies in conjunction with each note to provide enhanced understanding of each accounting area. The following symbols **IS**, **OCI**, **BS**, and **CF** are used to show which amounts in the notes can be reconciled to consolidated statement of income (IS), consolidated statement of comprehensive income (**OCI**), consolidated statement of financial position (**BS**) or consolidated cash flow statement (**CF**).

New standards, significant amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the financial year beginning on 1 January 2019:

IFRS 16 Leases

The Group started to apply IFRS 16 from 1 January 2019 with the modified retrospective approach and does not restate previous periods.

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 has been endorsed by EU in November 2017 and is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases. The group has decided to use the exemption not to apply the new guidance to leases with a term less than twelve months or to leases for which the underlying asset value is of low value. Payments related to these lease agreements remain as costs in income statement. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group reviewed its leasing, service and utility purchase contracts to calculate the effects of IFRS 16. Its balance sheet impact is considered insignificant proportional to the Group's total assets. Contracts consist mainly of leases related to land areas, vessels, tanks, containers and facilities. Singapore expansion project increased the amount in 2019 and the coming years.

The effect of application of IFRS 16 for more detailed explanation is presented in Note 14 Property, plant and equipment.

Interpretation IFRIC 23 Uncertainty over income tax treatments

The Group started to apply IFRIC 23 from 1 January 2019. The interpretation clarifies how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, including:

- that each uncertain tax treatment should be considered separately or together, depending on which approach better predicts the resolution of the uncertainty,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment, and
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty.

The interpretation did not have an impact on the Consolidated Statement of Income or Statement of Financial Position. Further information of application of IFRIC 23 is presented in Note 11 Income taxes.

New standards, amendments and interpretations not yet adopted

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards when they become effective.

There are no IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Estimates and judgements requiring management estimation

The preparation of Consolidated Financial Statements in conformity with the International Accounting Standard requires the Group's management to make estimates and assumptions which have an impact on reported assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. In addition, management judgement may be required in applying the accounting principles, for example, classifying assets as held for sale.

These estimates, assumptions and judgements are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual amounts may differ significantly from the estimates used in the financial statements.

The Group follows the changes in estimates, assumptions and the factors affecting them by using multiple internal and external sources of information. Possible changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed.

The sources of uncertainty which have been identified as most significant estimates by Group are presented in connection to the items considered to be affected.

Change in accounting policy

The Group has amended the inventory valuation policy in Renewable Products segment from FIFO (first-in, first-out) to weighted average during the last quarter in 2019 and the comparatives for 2018 have been restated. The change had EUR 15 million impact on Neste's inventory value at 31.12.2018. Applying the new accounting policy provides more reliable and relevant information by improving and standardizing the calculation process and enabling more detailed analyzes. The effect of application of the amended policy is presented more detailed in Note 18 Inventories.

Consolidation

Subsidiaries

The consolidated financial statements cover the parent company, Neste Corporation, and all those companies in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when this control ceases.

Acquired or established subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable asset acquired and liabilities assumed in the acquired company are measured at the fair value at acquisition date. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Any contingent consideration related to the business combination is measured at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as liability is re-measured at its fair value at the end of each reporting period and the subsequent changes to fair value are recognized in profit or loss. Contingent consideration classified as equity is not subsequently re-measured. The consideration transferred does not include any transactions accounted for separately from the acquisition. Acquisition-related costs are expensed as incurred.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements.

The result for the period and items recognized in other comprehensive income are allocated to the equity holders of the company and non-controlling interests and presented in the statement of income and statement of other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the equity holders of the company. Other comprehensive income is allocated to the equity holders of the company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed the non-controlling interests' investment in the company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control, and in which the sharing of control has been contractually agreed between the parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be either joint ventures or joint operations.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method. Joint operations are consolidated for its share of the assets, liabilities, revenues, expenses and cash flow on a line-by-line basis. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint arrangements are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Structured entities

The Group engages in business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group. The extent of the Group's interests to unconsolidated structured entities will vary depending on the type of structured entities. Entities are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

Management uses judgement when determining the accounting treatment of the structured entities. In addition to the voting rights or similar rights the management considers other factors such as the nature of the arrangement, contractual arrangements and level of influence with the structured entities.

Foreign currency translation

(a) Presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is the company's presentation currency.

(b) Transactions in foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all the Group entities (none of which uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are recognized to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

3 Financial risk management

Financial risk management principles

Neste Board of Directors has approved the Corporate risk management policy. This policy together with the related principles and instructions defines the framework for financial risk management within Neste. Mandates and limits that are applicable to financial risks have been defined in the risk management policy.

For more information regarding Neste's risk management principles and key risk areas, please refer to the risk management section in the annual report.

Market risks

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. For Neste, the main types of market risk are commodity price risk, foreign exchange risk and interest rate risk. These are specified in more detail in the following sections. In accordance with the Corporate risk management policy, various derivatives transactions are executed to manage the risk exposure. The positions are monitored and managed on a daily basis.

1. Commodity price risks

The main commodity price risks Neste faces in its businesses are related to market prices for crude oil, renewable feedstocks, and other feedstocks, as well as refined petroleum and renewable products. These prices are subject to significant fluctuations resulting from a periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand.

Neste's results of operations in any given period are principally driven by the demand for and prices of oil and renewable products relative to the supply and cost of raw materials. These factors, combined with Neste's own consumption of raw materials and output of refined products, drive operational performance and cash flows in Renewable Products and Oil Products, which are Neste's largest segments in terms of revenue, profits and net assets.

Neste divides the commodity price risks affecting Neste's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

Inventory price risk

From a price risk management perspective, Neste's refinery inventory consists of two components. The first and largest component remains relatively constant over time and is referred to as the 'base inventory'. The second and daily fluctuating component is the amount of inventories differing from the base inventory level and at Neste it is called 'transaction position'.

The base inventory is the minimum level that can reasonably assure the continuous operation of the refineries and preventing deliveries from being compromised. It comprises inventories at the refineries and within the supply chain. The base inventory includes the minimum level of stocks that Neste is required to maintain under Finnish laws and regulations.

In Renewable Products base inventory level is approximately half of the annual renewables refining capacity used. In Oil Products the base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

The base inventory creates a risk in Neste's income statement and balance sheet since Neste applies weighted average method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste's inventory risk management policies target the 'transaction position' in as much as these stocks create cash flow risks depending on the relationships between feedstock purchases, refinery production and refined petroleum product sales over any given period. According to the Neste risk management policy, any open exposures of the transaction position are hedged without delay.

In hedging the transaction position, derivative financial instruments are used. Because of the differences between the quality of the underlying feedstocks or end products for which derivative financial instruments can be sold and purchased and the actual quality of Neste's feedstocks and end products, the business will remain exposed to some degree of basis risk. Basis risk is typically higher in the Renewables business due to the nature of the feedstock pool and limited availability of hedging instruments.

If crude or oil product markets are in contango where current forward prices are higher than current spot prices Neste has the capability to build physical contango storages from time to time. These storages are excluded from the transaction position and are hedged separately.

Refining margin risk

Neste is exposed to a greater margin volatility in the Renewable Products segment compared to that in fossil fuel refining. In the Renewables business, the refining margin is mainly an outcome of the renewable product sale price received and the cost of feedstocks used. The underlying indices used in renewable diesel pricing are primarily related to oil products or conventional biodiesel. Product prices fluctuate regionally depending on the nature of bio mandates and incentives, local supply and demand, and fossil fuel prices. Typical biodiesel qualities are Fatty Acid Methyl Ester (FAME) or Rapeseed-Oil Methyl Ester (RME). In North America, the local biodiesel reference and typical renewable fuel pricing driver is Soy Methyl Ester (SME). The cost of feedstocks depends on feedstock selection and is typically derived from different vegetable oils and fats. Feedstock prices are mainly driven by supply and demand balances, crop forecasts and regional weather. In Renewable Products segment, operational activities and margin hedges are the primary means of mitigating margin volatility.

Refining margin is an important determinant of Oil Products segment's earnings. Its fluctuations constitute a significant risk. The refining margin risk is a result of the revenue from sold petroleum products and the cost of raw materials together with other costs. Neste's exposure to low refining margins in traditional oil refining is partly offset by its high-conversion refineries.

With the aim of securing its margin and cash flow, Neste has defined margin hedging principles for its main refining businesses. The hedge ratio for Renewable Products is measured and monitored as a percentage of the quarterly sales volumes and for Oil products as a percentage of annual production volume. In Renewable Products segment the targeted hedge ratios are typically higher and can be expected to fluctuate over time. In fossil fuel business the hedge ratios are typically moderate.

In hedging the refining margin, commodity derivatives are used. Hedging transactions are targeted at the components of Neste's refining margin, based on its forecast or committed sales and refinery production, which are exposed to international market price fluctuations.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

As in transaction hedging, also when hedging the refining margin, the business will remain exposed to certain degree of basis risk that comes from the differences between actual qualities of feedstocks and products and qualities of available hedging arrangements.

The exposure to open positions of commodity derivative contracts is summarized in Note 19.

2. Foreign exchange risk

As the underlying currency of Neste's main markets is the U.S. Dollar, and Neste operates and reports in Euro, this factor is one that exposes Neste's business to currency risk. The objective of foreign exchange risk management in Neste is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings, and in the Group's balance sheet. Generally, this is done by hedging currency risks in contracted and forecast cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-euro-based subsidiaries (referred to as translation exposure).

Transaction exposure

In general, all reporting segments hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecast over a 12-month period on a rolling basis and hedged on average 70% for the first six months and 30% of the next six months for the Renewable business and on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses. Deviations from the risk-neutral benchmark position are allowed in line with the limits set by treasury principles. The most important hedged currency is the U.S. dollar. Other currencies to which the Group is exposed to are the Swedish Crown (SEK), Norwegian Crown (NOK), Singapore Dollar (SGD) and Malaysian Ringgit (MYR). 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. Segments are responsible for forecasting net foreign currency cash flows, while Group Treasury & Risk Management is responsible for implementing hedging transactions. In addition to the above mentioned foreign currency hedging programs the Group has continued to hedge the Singapore expansion project related currency exposures until the end of the investment. Both currency forwards and currency options can be used in order to manage this position.

Neste has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than home currency. The principle is to hedge this balance sheet exposure fully using forward contracts. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess of the base inventory. Open exposures are allowed based on risk limits set by treasury principles. The largest and most volatile item in terms of balance sheet exposure is net working capital. Since many of the Group's business transactions, sales of products and services and purchases of crude oil and other feedstock are linked to the U.S. dollar, the daily exposure of net working capital is hedged as part of the balance sheet hedge in order to neutralize the effect of volatility in EUR/USD exchange rate. During 2019, the daily balance sheet exposure fluctuated between approximately EUR 453 million and 1,184 million (2018: EUR 942 million and 1,711 million).

Group Treasury & Risk Management is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

The exposure to open positions of foreign exchange derivative contracts is summarized in Note 19.

Translation exposure

Group Treasury & Risk Management is responsible for managing Neste's translation exposure. This consists of net investments in foreign subsidiaries and joint ventures. Although the main principle is to leave translation exposure unhedged, Neste may seek to reduce the volatility in equity in the consolidated balance sheet through hedging transactions. Any hedging decisions are made by Group Treasury & Risk Management. In the end of 2019 the most important translation exposures were Swedish Crown EUR 157 million and U.S. dollar EUR 33 million (2018: Swedish Crown EUR 182 million, Russian Rouble EUR 52 million, U.S dollar EUR 28 million). The Group has not hedged the exposures.

3. Interest rate risk

Neste is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the interest rate risk management is to limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the debt portfolio is 12 months, and duration can vary between six and 96 months. As of 31 December 2019, the duration was 35 months (2018: 41 months). In addition to duration, Neste has defined a flow risk limitation.

Interest rate derivatives have been used to adjust the duration of the debt portfolio. The Group's interest rate risk management is handled by Group Treasury & Risk Management. The exposure to open positions of interest rate derivative contracts is summarized in Note 19.

The re-pricing period of interest-bearing debt occurs	**Within 1 year**	**1 year – 5 years**	**> 5 years**	**Total**
Financial instruments with floating interest rate				
Loans from financial institutions	110	0	0	110
Other loans	44	0	0	44
Financial instruments with fixed interest rate				
Bonds	0	719	0	719
Lease liabilities	102	125	192	419
Other loans	0	30	0	30
	256	874	192	1,322

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 2020 (2019), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

Approximate impact on operating profit, excluding hedges		2020	2019
+/– 10% in the EUR/USD exchange rate	EUR million	–282/+344	–255/+311
+/– USD 1.00/barrel in total refining margin	USD million	+/–100	+/–110
+/– USD 10/barrel in crude oil price [1]	USD million	+/–100	+/–115
+/– USD 100/t in Renewable Products raw material price [1]	USD million	+/–140	+/–130
+/– USD 50/t in Renewable Products refining margin [2]	USD million	+/–145	+/–135

[1] Inventory gains/losses excluded from comparable operating profit
[2] Based on name-plate capacity

Sensitivity to market risks arising from financial instruments as required by IFRS 7

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the period and equity to changes in oil prices, the EUR/USD exchange rate, 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 2019 (2018). Financial instruments affected by the above market risks include net working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, liquid funds, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- The flat price variation for oil derivative contracts of crude oil, refined oil products and vegetable oil is assumed to be +/–20%
- The sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- The sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation
- The sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- The sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- The variation in EUR/USD-rate is assumed to be +/–10%
- The position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, trade and other payables, and liquid funds, as well as derivative financial instruments
- The position excludes USD-denominated future cash flows

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

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 (excluding leases), interest-bearing receivables, and interest rate swaps, however cash in bank accounts is excluded
- The income statement is affected by changes in the interest rates of floating-rate financial instruments except derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from balance sheet items other than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items which are recorded directly in equity. Items affecting the income statement are not included in equity.

		2019		2018	
Sensitivity to market risk arising from financial instruments as required by IFRS 7		**Income Statement**	**Equity**	**Income Statement**	**Equity**
+/– 20% change in oil price [1]	EUR million	+/–27	+/–0	–/+ 6	+/–0
+/– 10% change in EUR/USD exchange rate	EUR million	+45/–55	+98/–116	+84/–103	+94/–104
+/– 1% parallel shift in interest rates	EUR million	–/+1	+/–0	–/+2	+/–0

[1] Includes crude oil, refined oil products and vegetable oil derivatives

Liquidity and refinancing risks

Liquidity risk is defined as financial distress or extraordinarily high financing costs arising due to a shortage of liquid funds in a situation where business conditions unexpectedly deteriorate and require financing. The objective of liquidity risk management is to maintain sufficient liquidity and to ensure that it is available fast enough to avoid uncertainty related to financial distress at all times.

Neste's principal source of liquidity is expected to be cash generated from operations. In addition, the Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. Amount of short-term financing is limited to the greater of the following: EUR 500 million or 30% of total interest-bearing liabilities. Unused committed credit facilities together with excess cash must always be in minimum EUR 500 million and sufficient to cover all forecasted negative free cash flows and interest bearing liabilities maturing within the next 12 month period.

The average loan maturity as of 31 December 2019 was 3.2 years (2018: 3.7 years). The most important financing programs in place are committed revolving multicurrency credit facility of EUR 1,200 million, committed overdraft facilities of EUR 150 million and uncommitted domestic commercial paper program of EUR 400 million.

Liquid funds and committed unutilized credit facilities	31 Dec 2019	31 Dec 2018
Liquid funds	1,513	1,210
Overdraft facilities, expiring within one year	150	150
Revolving credit facility, expiring beyond one year [1]	1,200	1,500
Total	2,863	2,860
In addition: unused commercial paper program (uncommitted)	400	400

[1] EUR 1,200 million revolving credit facility dated 18 December, 2019 for general corporate purposes. The facility has a tenor of 5 years with two 1-year extension options. The margin under the facility will be adjusted based on Neste's progress to meet its greenhouse gas emission reduction target.

Maturity profile of financial liabilities based on contractual payments 31 Dec 2019

	2020	2021	2022	2023	2024	2025–	Total
Trade payables	1,403	0	0	0	0	0	1,403
Interest-bearing liabilities							
Bonds	0	0	321	0	400	0	721
Loans from financial institutions	110	0	0	0	0	0	110
Lease liabilities	102	54	30	21	20	192	419
Other loans	30	2	12	0	30	0	74
Interest	39	36	34	26	25	234	394
Total	1,684	92	397	47	475	426	3,121
Commodities	45	1	0	0	0	0	46
Interest rate swaps: inflow (–)	0	0	0	0	0	0	0
Gross settled forward foreign exchange contracts							
– inflow (–)	–3,313	–200	–7	0	0	0	–3,520
– outflow	3,293	193	7	0	0	0	3,493
Derivatives total	25	–6	0	0	0	0	19

Maturity profile of financial liabilities based on contractual payments 31 Dec 2018

	2019	2020	2021	2022	2023	2024–	Total
Trade payables	1,033	0	0	0	0	0	1,033
Interest-bearing liabilities							
Bonds	147	0	0	321	0	400	868
Loans from financial institutions	119	0	0	0	0	0	119
Lease liabilities	3	6	6	6	7	73	101
Other loans	21	1	1	0	0	30	53
Interest	35	31	30	30	21	93	240
Total	1,358	38	37	357	28	596	2,414
Commodities	114	0	0	0	0	0	114
Interest rate swaps: inflow (–)	–2	0	0	0	0	0	–2
Gross settled forward foreign exchange contracts							
– inflow (–)	–2,541	–202	–139	0	0	0	–2,882
– outflow	2,564	202	138	0	0	0	2,904
Derivatives total	135	0	–1	0	0	0	134

Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of the counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size of the exposure. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. Limits, mandates and management principles for credit and counterparty risk are covered in the Corporate risk management policy and separate principle and instruction level documents.

The amount of risk is quantified as the expected loss to Neste in the event of a default by the counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste's reporting segments, which are responsible for counterparty risk management within these limits.

When determining the credit lines for sales contracts, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral, for example, a letter of credit, bank guarantee or parent company guarantee has to be posted. In the event that collateral is required credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services. In addition, Neste may reduce its counterparty risks by selling trade receivables to a third party e.g. the bank. The sale of the receivables essentially transfers the title, benefits and interest in the trade receivables to the bank, indicating the bank to obtain all of the rights associated with the receivables. The sale and transfer shall be without guarantee from the seller in respect of the buyer's creditworthiness and with limited recourse to the seller. The seller receives the purchase price from the bank at the time of sale. Fees and other expenses are deducted from the payment or invoiced separately.

The credit lines for counterparties are divided into three categories according to contract type: physical sales contracts, derivative contracts and investments. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to rated counterparties by general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste has negotiated framework agreements in the form of ISDA (International Swaps and Derivatives Association) master agreement with the main counterparties concerning commodity, emission allowance, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults and termination events. Some of these agreements include Credit Support Annexes (CSA) with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit. At the end of December 2019 Neste had received EUR 27 million (2018: EUR 0 million) due to CSA agreements and paid EUR 0 million (2018: EUR 31 million) due to CSA agreements.

Financial impact of netting for instruments subject to an enforceable master netting agreement (or similar)

31 Dec 2019	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	243	54	189
Trade receivables	14	1	13
Financial liabilities			
Derivatives	64	54	10
Trade payables	2	1	1

31 Dec 2018	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	209	62	147
Trade receivables	2	1	1
Financial liabilities			
Derivatives	149	62	87
Trade payables	19	1	18

Neste reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties have a minimum credit rating that is defined in Corporate risk management policy. Neste subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis in order to provide sufficient visibility and management of Group's cash balance and risks associated with it.

As to counterparty risk management, minimum credit rating requirement for companies providing insurance for Neste Group is defined in treasury principles.

The Group has a large number of different counterparties on the international markets. As to the range of counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

Counterparties to contracts comprising derivative financial instruments exposure on 31 December 2019, over 80% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from an established international credit rating agency. Respectively, Group Treasury & Risk Management had an exposure for currency and interest rate derivative contracts as at 31 December 2019 with banks, of which all have investment grade rating at a minimum. Commodity derivative transactions are also done through exchange, which reduces credit risk.

The group assesses expected credit losses and calculates impairment loss from trade receivables based on historical credit loss experience combined with current conditions and forward looking macroeconomic analysis. The receivables have been divided in aging buckets and segments depending on business area and geographic region. Impairment loss from trade receivables for the period is EUR 12 million (2018: EUR 8 million). Recognized credit loss of trade receivables amounts to EUR 1 million (2018: EUR 1 million).

Analysis of trade receivables by age	31 Dec 2019	Probability of Credit Loss, %	31 Dec 2018	Probability of Credit Loss, %
Undue	1,507	0–0,04%	890	0–0,04%
1–30 days overdue	134	0,01–4%	63	0,01–4%
31–60 days overdue	29	5–43%	8	5–43%
61–90 days overdue	10	10–55%	10	10–55%
91–180 days overdue	1	25–100%	1	25–100%
more than 180 days overdue	21	100%	7	100%
Trade receivables total	1,702		979	
Impairment loss	–12		–8	
Trade receivables – Net	1,690		972	

Of the trade receivables portfolio exposure, 60% (2018: 43%) is from counterparties or their parent companies having an investment grade credit rating; 40% (2018: 57%) consists of trade receivables from counterparties not having an investment grade credit rating, most of it comprising from a large number of corporate and private customers.

Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures access to capital markets at all times despite the business cycle of the industry in which Neste operates. Despite the fact that the Group does not have a public credit rating, the Group's target is to have a capital structure equivalent to investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less liquid funds. Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio below 40%.

The leverage ratio	31 Dec 2019	31 Dec 2018
Total interest-bearing liabilities	1,322	1,140
Liquid funds	1,513	1,210
Interest-bearing net debt	–191	–70
Total equity	5,922	4,616
Interest-bearing net debt and total equity	5,731	4,546
Leverage ratio	–3.3%	–1.5%

Reconciliation of net debt 31 Dec 2019	Cash and cash equivalents	Liquid investments	Lease liabilities	Borrowings	Total
Net debt as at 1 January 2019	–1,136	–74	101	1,039	–70
Cash flows	–358	54	–69	–141	–513
New lease liabilities [1)]	0	0	399	0	399
Foreign exchange differences and other valuations	1	0	6	36	43
Other non-cash movements	0	0	–19	–31	–50
Net debt as at 31 December 2019	–1,493	–19	419	903	–191

[1)] Including IFRS 16 opening balances 215 MEUR

Reconciliation of net debt 31 Dec 2018	Cash and cash equivalents	Liquid investments	Lease liabilities	Borrowings	Total
Net debt as at 1 January 2018	–783	0	101	1,095	412
Cash flows	–346	–74	–3	–68	–491
New lease liabilities	0	0	0	0	0
Foreign exchange differences and other valuations	–7	0	3	–8	–11
Other non-cash movements	0	0	0	20	20
Net debt as at 31 December 2018	–1,136	–74	101	1,039	–70

4 Segment information

Accounting policy

The Group's operations are divided into four operating segments: Renewable Products, Oil Products, Marketing & Services and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision-maker, Neste President & CEO, to assess performance and to decide on allocation of resources. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and commodity derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the consolidated statement of income.

Segment operating assets and liabilities consists of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investments in joint ventures, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities consists of operating liabilities, pension liabilities, short-term and long-term lease liabilities and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Neste's business structure

The Group's operations are built around three business areas and five common functions. The business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Renewable Products, Oil Products, and Marketing & Services. The common functions are: Finance and Strategy, IT and Business Processes, HR, HSSEQ and Procurement, Sustainability, Public Affairs, Communications and Brand Marketing, Innovation and Legal. The common functions are responsible for supporting business areas and other organizations, and ensure their cost efficiency, transparency, and harmonization of procedures across the company, and for overseeing the use and sufficiency of Neste's resources.

Operating segments

Operating segments are engaged in the following key business activities:

Renewable Products segment produces, markets and sells renewable diesel, renewable jet fuels and solutions, renewable solvents as well as raw material for bioplastics based on Neste's proprietary technology to domestic and international wholesale markets. Renewable diesel is produced at the Porvoo, Singapore, and Rotterdam refineries with total capacity of 3.0 million tons per year.

Oil Products segment produces, markets and sells an extensive range of low carbon solutions that are based on high-quality oil products and related services to a global customer base. The product range includes diesel fuel, gasoline, aviation and marine fuels, light and heavy fuel oils, base oils, gasoline components, special fuels, such as small engine gasoline, solvents, liquid gases and bitumens. Oil products are refined in Neste Finland Refineries in Porvoo and Naantali. Base oils are also produced by joint arrangement production plant in Bahrain. Crude oil refining capacity is 14 million tons per year. Neste Shipping's chartering operations are included in the Oil Products segment.

Marketing & Services segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Group's own service station network and direct sales.

Others segment consists of the engineering and technology solutions company Neste Engineering Solutions; Nynas, a joint-venture owned by Neste (49.99% share) and Petróleos de Venezuela, and common corporate costs.

The operating segments presented above do not include any segments which are formed by aggregating two or more smaller segments.

The 'other expenses' included in the consolidated statement of income for each business segment includes the following major items:

Renewable Products: repairs and maintenance, planning and consulting services, rents, other property costs, travel-, HSE- and marketing costs and insurance premiums
Oil Products: repairs and maintenance, planning and consulting services, rents, other property costs, travel- and HSE costs and insurance premiums
Marketing & Services: repairs and maintenance, rents, other property costs and marketing costs

Group's customer structure in 2019 and 2018 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 2019 and 2018 is presented in the following tables:

2019	Renewable Products[1)]	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
IS External revenue	3,654	7,984	4,157	44	0	15,840	
Internal revenue	379	2,433	36	202	–3,049	0	
IS Total revenue	4,033	10,416	4,193	246	–3,049	15,840	5
IS Other income	–1	7	32	27	–15	50	6
IS, **CF** Share of profit (loss) of joint ventures	0	0	0	–52	0	–52	15
IS Materials and services	–1,773	–9,350	–3,966	–77	2,929	–12,238	7
IS Employee benefit costs	–63	–136	–37	–162	4	–395	8
IS, **CF** Depreciation, amortization and impairments	–166	–232	–33	–71	0	–502	
IS Other expenses	–182	–300	–88	–33	130	–474	9
IS Operating profit[1)]	1,847	406	102	–123	–2	2,229	
IS Financial income and expense						–163	10
IS Profit before income taxes						2,067	
IS Income tax expense						–278	11
IS Profit for the period						1,789	
Comparable operating profit	1,599	386	77	–98	–2	1,962	
inventory valuation gains/losses	137	43	0	0	0	180	
changes in the fair value of open commodity and currency derivatives	101	–32	0	0	0	69	
capital gains and losses	0	0	27	9	0	37	
impairments	0	23	0	–34	0	–11	
other adjustments	10	–15	–3	0	0	–7	
IS Operating profit	1,847	406	102	–123	–2	2,229	

[1)] The retroactive US Blender's Tax Credit (BTC) decision for 2018 and 2019 had a positive impact of EUR 372 million on the Renewable Products' operating profit in 2019.

IS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

2019	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
Capital expenditure and investments in shares	424	373	37	56	0	890	
Segment operating assets	3,606	3,906	577	352	–322	8,119	
BS Investments in joint ventures	0	22	0	0	0	22	15
BS Deferred tax assets						40	11
Unallocated assets						1,612	
BS Total assets	3,606	3,928	577	352	–322	9,793	
Segment operating liabilities	757	1,673	406	147	–313	2,670	
BS Deferred tax liabilities						255	11
Unallocated liabilities						947	
BS Total liabilities	757	1,673	406	147	–313	3,872	
Segment net assets	3,137	2,314	235	213	–9	5,890	
Return on net assets, %	77.4	16.2	35.3	–208.0			
Comparable return on net assets, %	67.0	15.4	26.7	–165.6			

2018	Renewable Products [1]	Oil Products [2]	Marketing & Services	Others [3]	Eliminations	Group	Note
IS External revenue	2,943	7,601	4,279	95	0	14,918	
Internal revenue	298	2,504	36	169	–3,007	0	
IS Total revenue	3,241	10,105	4,315	264	–3,007	14,918	5
IS Other income	1	7	6	18	–15	17	6
IS, CF Share of profit (loss) of joint ventures	0	3	0	–12	0	–9	15
IS Materials and services	–2,036	–9,140	–4,097	–78	2,890	–12,462	7
IS Employee benefit costs	–47	–147	–35	–174	3	–400	8
IS, CF Depreciation, amortization and impairments	–128	–345	–25	–116	0	–614	
IS Other expenses	–137	–312	–88	–24	131	–429	9
IS Operating profit [1]	895	170	77	–122	2	1,022	
IS Financial income and expense						–75	10
IS Profit before income taxes						947	
IS Income tax expense						–172	11
IS Profit for the period						775	
Comparable operating profit	983	397	77	–36	2	1 422	
inventory valuation gains/losses	–165	–108	0	0	0	–273	
changes in the fair value of open commodity and currency derivatives	82	35	0	0	0	117	
capital gains and losses	0	2	0	0	0	2	
impairments [2], [3]	0	–112	0	–86	0	–198	
other adjustments	–4	–44	0	0	0	–48	
IS Operating profit	895	170	77	–122	2	1,022	

[1] The retroactive US Blender's Tax Credit (BTC) decision for 2017 had a positive impact of EUR 140 million on the Renewable Products' operating profit in 2018.
[2] Neste Oil Bahrain W.L.L.'s assets EUR 112 million were written down due to a disadvantageous tax judgement in December 2018.
[3] An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018.

IS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

2018	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
Capital expenditure and investments in shares	159	196	28	55	0	438	
Segment operating assets	2,459	3,727	551	318	–384	6,672	
BS Investments in joint ventures	0	23	0	83	0	106	15
BS Deferred tax assets						35	11
Unallocated assets						1,397	
BS Total assets	2,459	3,750	551	401	–384	8,210	
Segment operating liabilities	457	1,492	302	215	–380	2,087	
BS Deferred tax liabilities						260	11
Unallocated liabilities						1,247	
BS Total liabilities	457	1,492	302	215	–380	3,594	
Segment net assets	2,002	2,257	249	186	–4	4,691	
Return on net assets, %	48.1	6.7	29.1	–73.7			
Comparable return on net assets, %	52.8	15.7	29.1	–21.7			

Geographical information

The Group operates production facilities in Finland, Singapore, the Netherlands and Bahrain and retail selling network in Finland, Estonia, Latvia and Lithuania. The following table provides information of the Group's revenue which is allocated based on the country in which the customer is located, irrespective of the origin of the goods or services, and non-current assets and capital expenditure which are allocated based on where the assets are located.

Non-current assets consists of intangible assets, property, plant and equipment and investments in joint ventures. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. 'Baltic rim' includes Estonia, Latvia, Lithuania, Russia and Poland. The Group's activities in this geographical area consists mainly of retail activities in the mentioned countries.

2019	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	5,058	2,602	1,210	4,965	1,729	275	15,840
Non-current assets	2,675	2	82	701	43	841	4,344
Capital expenditure	335	4	44	96	61	350	890

2018	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	5,130	2,682	1,268	3,723	1,611	504	14,918
Non-current assets	2,513	124	99	670	0	560	3,967
Capital expenditure	281	0	12	58	0	85	438

5 Revenue

Accounting policy

Revenue from the sale of goods is recorded in the consolidated statement of income when the control and significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licenses are recognized when the risks and rewards are transferred to the buyer. Revenue from services is recorded when services have been provided.

Revenue will be recognized as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission. Revenue includes sales from actual operations, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees.

Low Carbon Fuels Standard credits (LCFS) and Renewable Identification Numbers (RINs) are recognized in revenue. Blender's Tax Credit impacts revenue and materials and services and is recognized if the Government of the United States will make decision to grant it. The decision is made annually. Blender's Tax Credit is an incentive given to fuel blenders to use more renewable fuel by making the bio mandates less costly to achieve.

	2019	2018
Sale of goods	15,726	14,779
Revenue from services	101	132
Royalty income	4	6
Other	8	2
IS Revenue	15,840	14,918

Sale of goods includes product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,478 million (2018: EUR 1,452 million) are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and Services', in Note 7.

Oil trading included in Sale of goods comprise of revenue from physical trading activities conducted on international and regional markets by taking delivery of and selling petroleum products and raw materials within a short period of time for the purpose of generating a profit from short-term fluctuations in product and raw material prices and margins.

Net gains/losses on financial instruments related to sales designated as cash flow hedges are included in Sale of goods amounting to EUR –85 million (2018: EUR –9 million).

Revenue from services mainly comprises revenue from the chartering services and Neste Engineering Solutions, which is included in the Others segment.

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Revenue by category	2019					2018				
External revenue	Renewable Products	Oil Products	Marketing & Services	Others	Total	Renewable Products	Oil Products	Marketing & Services	Others	Total
Fuels [1]	3,648	7,138	4,028	0	14,814	2,942	6,699	4,147	0	13,788
Light distillates	92	3,231	1,012	0	4,336	130	2,971	1,110	0	4,211
Middle distillates	3,555	3,472	3,011	0	10,039	2,812	3,312	3,032	0	9,156
Heavy fuel oil	0	434	5	0	439	0	416	5	0	421
Other products	7	800	118	0	925	2	877	119	0	999
Other services	0	46	11	44	101	0	24	12	95	132
IS Total	3,654	7,984	4,157	44	15,840	2,943	7,601	4,279	95	14,918

[1] Light distillates comprise motor gasoline, gasoline components, LPG, renewable naphtha and biopropane. Middle distillates comprise diesel, jet fuels, low sulphur marine fuels, heating oil, renewable fuels and renewable jet fuels. RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) are included in the corresponding fuel categories in Renewable Products segment.

Timing of revenue recognition	2019					2018				
External revenue	Renewable Products	Oil Products	Marketing & Services	Others	Total	Renewable Products	Oil Products	Marketing & Services	Others	Total
Goods transferred at point in time	3,654	7,937	4,147	0	15,739	2,943	7,577	4,266	0	14,787
Services transferred at point in time	0	46	11	2	59	0	24	12	2	38
Services transferred over time	0	0	0	42	42	0	0	0	93	93
IS Total	3,654	7,984	4,157	44	15,840	2,943	7,601	4,279	95	14,918

Revenue by operating segment

2019	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	3,654	7,984	4,157	44	0	15,840
Internal revenue	379	2,433	36	202	–3,049	0
IS Total revenue	4,033	10,416	4,193	246	–3,049	15,840

2018	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	2,943	7,601	4,279	95	0	14,918
Internal revenue	298	2,504	36	169	–3,007	0
IS Total revenue	3,241	10,105	4,315	264	–3,007	14,918

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Revenue by operating destination	2019					2018				
External revenue	Renewable Products	Oil Products	Marketing & Services	Others	Total	Renewable Products	Oil Products	Marketing & Services	Others	Total
Finland	33	2,009	2,991	25	5,058	4	1,986	3,069	70	5,130
Other Nordic countries	1,386	1,188	27	2	2,602	1,640	998	34	10	2,682
Baltic Rim	6	67	1,137	0	1,210	0	95	1,173	0	1,268
Other European countries	1,000	3,952	2	12	4,965	363	3,349	2	9	3,723
North and South America	1,197	530	0	2	1,729	913	698	0	0	1,611
Other countries	32	239	0	4	275	23	475	0	6	504
IS Total	3,654	7,984	4,157	44	15,840	2,943	7,601	4,279	95	14,918

6 Other income

Accounting policy

Revenue from activities outside normal operations is reported in other income. This includes items such as capital gains on disposal of other non-current assets and rental income.

	2019	2018
Gain on sale of subsidiaries	37	0
Capital gains on disposal of other non-current assets	0	3
Rental income	3	3
Government grants	5	4
Insurance compensations	0	1
Other	5	6
IS Other income	50	17

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation. More information on sales of subsidiaries is presented in Note 27.

7 Materials and services

	2019	2018
Materials and supplies	12,359	12,279
Change in inventories	–204	94
External services	82	89
IS Materials and services	12,238	12,462

Materials and supplies include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,478 million (2018: EUR 1,452 million). The corresponding amount is included in 'Revenue' in Note 5. The effect of change in inventory valuation policy in Change in inventories amounted to EUR 4 million in 2018. More information about the change can be found from Note 18.

The net result of non-hedge accounted commodity and foreign exchange derivatives amounted to EUR 42 million (2018: EUR –69 million). Net gains/losses on derivative instruments related to purchases designated as cash flow hedges amounted to EUR 0 million (2018: EUR 0 million). Both above-mentioned items are included in Materials and supplies.

IS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

8 Employee benefit costs

	2019	2018
Wages and salaries	320	316
Social security costs	19	19
Pension costs – defined contribution plans	42	47
Pension costs – defined benefit plans	6	8
Other costs	8	10
IS Employee benefit costs	395	400

Number of personnel (average)	2019	2018
Renewable Products	539	372
Oil Products	1,676	1,709
Marketing & Services	1,338	1,482
Others	1,922	1,905
	5,474	5,468

9 Other expenses

	2019	2018
Repairs and maintenance	152	154
Services	171	118
Rents and other property costs	35	49
Insurances	20	18
Other	96	89
IS Other expenses	474	429

Services include planning and consulting services, IT services, research and lab services and other services. Other expenses include travel expenses, HSE and advertising costs.

Research expenditure is recognized as an expense as incurred and included in other expenses in the consolidated statement of income.

Fees charged by the statutory auditor, PricewaterhouseCoopers, EUR thousands	2019	2018
Audit fees	1,388	1,310
Tax advisory	23	5
Other advisory services	275	589
	1,686	1,904

PricewaterhouseCoopers Oy has provided non-audit services to entities of Neste Group in total 239 thousand euros (2018: 562 thousand euros) during the financial year 2019. These services included tax advisory 3 thousand euros (2018: 5 thousand euros) and other advisory services 236 thousand euros (2018: 557 thousand euros).

10 Financial income and expenses

	2019	2018
Financial income		
Interest income from financial assets at amortized cost	10	7
	10	7
Financial expenses		
Interest expenses for financial liabilities at amortized cost		
Lease liabilities	–23	–14
Other liabilities	–23	–29
Write-downs of loan receivables [1]	–59	0
Other financial expenses	–4	–5
	–109	–48
Exchange rate and fair value gains and losses		
Financial instruments at amortized cost	–44	11
Financial instruments at fair value through profit or loss	–20	–45
	–64	–34
IS Total financial income and expenses	–163	–75

[1] Write-down of loan receivable from Nynas in 2019

Net gains/losses on financial instruments included in operating profit and fixed assets	2019	2018
Foreign exchange derivatives, hedge accounted [1]		
Included in revenue	–85	–9
Included in materials and services	0	0
Included in fixed assets	3	0
Foreign exchange derivatives and commodity derivatives, non-hedge accounted		
Included in materials and services	42	–69
	–40	–78

[1] During the reporting period the recognized ineffectiveness was EUR 1.6 million (2018: EUR 0 million).

11 Income taxes

Accounting policy

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. In respect of the deferred tax liability on undistributed foreign earnings, the amount recorded is based on expected circumstances and management expectations regarding the profit distribution. For items recognized directly in equity or other comprehensive income, the income tax effect is similarly recognized.

The Group started to apply IFRIC 23 Uncertainty over Income Tax Treatments from 1 January 2019. Adjustments regarding uncertain tax positions, if any, are recorded based on estimates and assumptions of the most likely amount or the expected value, depending on which method the Group expects to better predict the resolution of the uncertainty when it is not likely that certain positions may be accepted upon review by local tax authorities and/or courts.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets are recognized for tax loss carryforwards and other unused tax credits to the extent that the utilization of the related tax benefit through future taxable profits is probable.

Estimates and judgements requiring management estimation

Determination of income taxes, uncertain tax positions and deferred tax assets and liabilities and the amount of deferred tax asset to be recognized require management judgement.

The Group has deferred tax assets and liabilities which are expected to be realized through the income statement over extended periods of time in the future. In calculating the deferred tax items, the Group is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets, and liabilities as recorded in the consolidated statement of income and their tax basis.

The major components of income tax expense	2019	2018
Current tax	255	172
Adjustments recognized for current tax for prior periods	38	–2
Change in deferred taxes	–16	2
IS Income tax expense	278	172

The reconciliation of income taxes	2019	2018
IS Profit before income taxes	2,067	947
Hypothetical income tax calculated at Finnish tax rate 20%	–413	–189
Differences in tax rates in other countries	198	69
Non-deductible expenses	–2	–1
Impairment of assets of Neste Oil Bahrain W.L.L. [1]	–31	–22
Impairment of assets of Nynas AB	–19	–17
Tax exempt income	6	1
Tax on undistributed earnings	–1	0
Taxes for prior periods	–1	1
Net results of joint ventures	–10	–2
Realisability of deferred tax assets	–4	–9
Other	–1	–1
IS Income tax expense	–278	–172
Effective tax rate	13%	18%

[1] In 2019 includes impacts of settlements of an arbitration and tax dispute of the years 2012–2017 in Bahrain and partial reversal of write-off of Bahrain assets related thereto.

The Group's effective tax rate was lower than the Finnish statutory tax rate (20%) mainly due to lower taxation in Estonia, Lithuania, Singapore and Switzerland, where Neste has business operations. The most significant portion of the lower tax rate relates to Singapore and the Renewable Products' increased profitability. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010–2023 under the applicable Singapore legislation. The increase in the effective tax rate in 2019 was explained by the impairment bookings related to joint venture Nynas AB, by the effect of settlements of arbitration and tax litigation of years 2012–2017 in Bahrain and by the losses in Neste Oil Bahrain W.L.L. for which no deferred tax asset has been recognized.

The adoption of IFRIC 23 as of 1 January 2019 did not have an impact on the Consolidated Statement of Financial Position. The Group determined, based on its tax compliance and tax audits that it is probable that its tax treatments will be accepted by the taxation authorities. As of 31 December 2019, the Group has determined that no adjustment is required in respect of Neste Oil Bahrain W.L.L. in view of the basis for settlement in respect of a tax dispute in Bahrain for the years 2012–2017.

Changes in deferred tax assets and liabilities 2019	On 1 Jan 2019	Charged to Income Statement	Charged in Other comprehensive income	Acquisitions / Disposals	Exchange rate differences and other changes	On 31 Dec 2019
Tax loss carried forward	1	2	0	0	0	3
Provisions	4	7	0	0	0	11
Pensions	25	0	–2	0	0	22
Fixed assets	27	–21	0	0	0	6
Derivative financial instruments	5	0	–5	0	0	1
Other temporary differences	8	2	0	0	0	10
Total deferred tax assets	70	–9	–7	–1	0	53
Netting against liabilities	–35	22	0	0	0	–13
BS Deferred tax assets	35	12	–7	–1	0	40
Tax on undistributed earnings	11	0	0	0	0	11
Fixed assets	282	–26	0	–1	0	255
Derivative financial instruments	1	–1	0	0	0	0
Other temporary differences	1	0	0	0	0	1
Total deferred tax liabilities	295	–26	0	–1	0	267
Netting against assets	–35	22	0	0	0	–13
BS Deferred tax liabilities	260	–5	0	–1	0	255

Changes in deferred tax assets and liabilities 2018	On 1 Jan 2018	Charged to Income Statement	Charged in Other comprehensive income	Acquisitions / Disposals	Exchange rate differences and other changes	On 31 Dec 2018
Tax loss carried forward	2	–1	0	0	0	1
Provisions	4	0	0	0	0	4
Pensions	26	0	–1	0	0	25
Fixed assets	25	2	0	0	0	27
Derivative financial instruments	0	0	5	0	0	5
Other temporary differences	7	1	0	0	0	8
Total deferred tax assets	63	2	4	0	0	70
Netting against liabilities	–27	–8	0	0	0	–35
BS Deferred tax assets	36	–5	4	0	0	35
Tax on undistributed earnings	11	0	0	0	0	11
Fixed assets	278	4	0	0	0	282
Derivative financial instruments	5	0	–4	0	0	1
Other temporary differences	1	0	0	0	0	1
Total deferred tax liabilities	295	4	–4	0	0	295
Netting against assets	–27	–8	0	0	0	–35
BS Deferred tax liabilities	269	–4	–4	0	0	260

There are altogether EUR 89 million (2018: EUR 52 million) tax loss carry forwards and other unused tax credits for which no deferred tax asset is recognized, majority of them relating to Neste Oil Bahrain W.L.L.. Expiry dates are between 2020 and 2027 for EUR 4 million (2018: EUR 2 million) and no expiry for EUR 85 million (2018: EUR 50 million).

A deferred tax liability has been recognized for undistributed earnings of subsidiaries where income taxes would be payable upon distribution.

Deferred tax recognized relating to components of other comprehensive income:

	2019		
	Before tax	**Tax (charge) / credit**	**After tax**
OCI Remeasurements of defined benefit plans	11	–2	8
OCI Translation differences	45	0	45
Cash flow hedges			
OCI recorded in equity	–36	10	–26
OCI transferred to income statement	81	–15	66
OCI Share of other comprehensive income of investments accounted for using the equity method	8	0	8
OCI Other comprehensive income	108	–7	101

	2018		
	Before tax	**Tax (charge) / credit**	**After tax**
OCI Remeasurements of defined benefit plans	6	–1	4
OCI Translation differences	–16	0	–16
Cash flow hedges			
OCI recorded in equity	–64	11	–53
OCI transferred to income statement	9	–2	7
OCI Share of other comprehensive income of investments accounted for using the equity method	–4	0	–4
OCI Other comprehensive income	–70	9	–61

12 Earnings per share and dividend per share

All share-related figures and comparison numbers have been calculated and restated based on the new total number of shares after the share issue without payment (share split) as resolved by Neste's Annual General Meeting on 2 April 2019.

Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the parent by the adjusted weighted average number of shares outstanding during the year. Diluted earnings per share reflect the diluted impact of the share-based incentive plans, 1,579,540 shares (2018: 1,744,916). The company has not granted any share options.

	2019	**2018**
IS Profit for the period attributable to owners of the parent, EUR million	1,788	775
Adjusted weighted average number of shares outstanding during the year (thousands)	767,632	767,466
IS Basic earnings per share (euro per share)	2.33	1.01
Adjusted weighted average number of shares during the year, including treasury shares (thousands)	769,211	769,211
IS Diluted earnings per share (euro per share)	2.32	1.01

Dividend per share

The dividends paid in 2019 were EUR 0.76 per share, totalling EUR 583 million (2018: EUR 0.57 per share, totalling EUR 435 million). A dividend of EUR 0.92 per share, totalling EUR 706 million and extraordinary dividend of EUR 0.10 per share, totalling EUR 77 million will be proposed at the Annual General Meeting on 7 April 2020, corresponding to total dividends of EUR 783 million for 2019. This dividend is not reflected in the financial statements.

13 Intangible assets

Accounting policy

Intangible assets, except goodwill, are stated at historical cost and amortized in a straight-line method over expected useful lives. Intangible assets comprise the following:

Computer software

Computer software licenses are capitalized on the basis of the costs incurred to acquire and introduce the software in question. The costs include the software development employee costs and professional fees arising directly bringing the asset to its working condition. Capitalization depends also on the technology used e.g. cloud services are not capitalized. Costs are amortized over their estimated useful lives (three to five years). Costs associated with updates or maintaining computer software programs are recognized as an expense.

Trademarks and licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Separately recognized goodwill is tested for impairment and carried at cost, less accumulated impairment losses. The impairment testing is done annually and whenever there is an indication that the asset may be impaired. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The discount rates used in impairment testing of goodwill represent the WACC specified for the business area in question after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks. WACC rates are specified for each of the cash generating units separately in the table below. WACC% and growth rate are used purely for the impairment testing.

The key assumptions used for the plans in Renewable Products are margin level and sales volumes and in Oil Products the demand and the margin level for oil products. The key assumptions used for the plans in Neste Engineering Solutions were the demand and the price level for engineering and project management services, as well as the billability rate. The key assumptions used in the impairment test are the billability rate affecting the EBITDA.

Emission allowances

Emission allowances, which are purchased to cover future periods deficit are recorded in intangible assets and measured at cost, and emission allowances received free of charge are recorded in their nominal value, i.e. at zero.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and purchased emission allowances intended to cover the deficit do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as any change in the probable amount of the provision, are reflected in the operating profit.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the consolidated statement of income to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Estimates and judgements requiring management estimation

Intangible assets and property, plant and equipment are always tested for impairment, when there is any indication that an asset may be impaired. When the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognized as an expense immediately and the carrying amount is reduced to the asset's recoverable amount.

The amounts recoverable from cash generating units' operating activities are determined based on value in use calculations. These calculations are based on estimated future cash flows approved by the Group's management, covering a period of three years. Preparation of these estimates requires management to make assumptions relating to future expectations. The main assumptions used relate to the estimated future operating cash flows and discount rates.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

2019	Goodwill	Software and other intangible assets	Total
Gross carrying amount at 1 January 2019	24	264	289
Exchange rate differences	0	0	0
Acquisitions	0	0	0
CF Additions	0	45	45
Disposals	–9	–2	–11
Reclassifications	0	0	0
Gross carrying amount at 31 December 2019	16	308	323
Accumulated amortization and impairment losses at 1 January 2019	0	165	165
Exchange rate differences	0	0	0
Disposals	0	0	0
Reclassifications	0	–4	–4
Amortization for the period	0	27	27
Accumulated amortization and impairment losses at 31 December 2019	0	188	188
BS Carrying amount at 1 January 2019	24	99	124
BS Carrying amount at 31 December 2019	16	120	135

2018	Goodwill	Software and other intangible assets	Total
Gross carrying amount at 1 January 2018	11	228	240
Exchange rate differences	0	0	0
Acquisitions	13	2	15
CF Additions	0	34	34
Disposals	0	–1	–1
Reclassifications	0	1	1
Gross carrying amount at 31 December 2018	24	264	289
Accumulated amortization and impairment losses at 1 January 2018	0	140	140
Exchange rate differences	0	0	0
Disposals	0	–1	–1
Reclassifications	0	1	1
Amortization for the period	0	25	25
Accumulated amortization and impairment losses at 31 December 2018	0	165	165
BS Carrying amount at 1 January 2018	11	88	100
BS Carrying amount at 31 December 2018	24	99	124

Impairment test of goodwill

Goodwill is allocated to Group's cash-generating units (CGU's). From identified CGU's goodwill is allocated to the following: Renewable Products segment and Traffic Fuels within Oil Products segment. Neste Engineering Solutions sub-group was part of the Others segment.

A segment-level summary of the goodwill allocation is presented below:

	WACC%	2019	2018
Renewable Products	6.1	13	13
Oil Products	5.9	2	2
Other	5.3	0	9
		16	24

A decrease of 10% in cash flows or 2%-points increase in the discount rate would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts. Cash flows beyond the three-year period are extrapolated by using 1.0% nominal growth rate.

14 Property, plant and equipment

Accounting policy

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, marine fleet, and retail station network infrastructure and equipment. The Group owns station network infrastructure with the exception of dealer stations. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value on the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3–5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory and precious metals in catalysts used in production process are included in other tangible assets and are depreciated according to possible usage. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings and structures, including terminals	20–40 years
Production machinery and equipment	15–20 years
Marine fleet	15–20 years
Retail station network infrastructure and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

The residual values and useful lives of assets are reviewed and adjusted where appropriate at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated statement of income.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, a major initial investment, such as a new production facility, form part of the cost of that asset. Other borrowing costs are recognized as an expense.

Expenditure on development activities is capitalized only when it fulfills strict criteria e.g. development relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

IFRS 16

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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2019	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2019	75	2,442	4,787	286	154	7,745
Change in accounting policy, IFRS 16	153	7	6	49	0	215
Restated opening balance	228	2,450	4,793	335	154	7,960
Exchange rate differences	1	7	3	0	0	11
Additions	45	64	138	107	489	844
Acquisitions	1	0	0	0	0	1
Disposals	–31	–72	–83	–57	–2	–246
Reclassifications	1	19	20	3	–43	0
Gross carrying amount at 31 December 2019	245	2,467	4,871	388	599	8,570
Accumulated depreciation and impairment losses at 1 January 2019	0	1,069	2,858	78	1	4,007
Exchange rate differences	0	5	3	0	0	7
Disposals	0	–46	–56	–4	0	–105
Reclassifications	3	–1	–1	0	1	2
Depreciation for the period	12	81	334	46	1	473
Accumulated depreciation and impairment losses at 31 December 2019	14	1,108	3,138	121	3	4,384
BS Carrying amount at 1 January 2019	75	1,373	1,929	207	153	3,737
Restated carrying amount at 1 January 2019	228	1,380	1,935	257	153	3,953
BS Carrying amount at 31 December 2019 [1)]	231	1,359	1,733	268	597	4,187

[1)] The write-down concerning property plant & equipment in Neste Oil Bahrain W.L.L. in 2018 still exists. Settlement has been reached in the arbitration concerning a contractual dispute and also related to disadvantageous tax judgement so the additional EUR 30 million write-down to other assets has been reversed in the income statement in 2019.

Property, plant and equipment include right of use (ROU) assets where the Group is a lessee according to IFRS 16 standard as specified in the following table:

2019	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2019	153	7	6	49	0	215
Exchange rate differences	0	0	0	–1	0	–1
Additions	42	11	54	82	0	188
Disposals	–16	0	–1	–2	0	–19
Gross carrying amount at 31 December 2019	178	18	59	128	0	383
Depreciation for the period	12	4	12	39		68
Accumulated depreciation and impairment losses at 31 December 2019	12	4	12	39	0	68
Carrying amount at 1 January 2019	153	7	6	49	0	215
Carrying amount at 31 December 2019	166	14	47	89	0	316

2018	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2018	76	2,288	4,563	267	274	7,468
Exchange rate differences	–1	–8	–4	0	0	–13
Additions	1	56	184	49	98	388
Disposals	0	–3	–66	–26	–1	–97
Reclassifications	0	109	109	–4	–216	–2
Gross carrying amount at 31 December 2018	75	2,442	4,787	286	154	7,745
Accumulated depreciation and impairment losses at 1 January 2018	0	971	2,557	84	0	3,612
Exchange rate differences	0	–4	–2	0	0	–7
Disposals	0	8	–76	–1	0	–70
Reclassifications	0	0	7	–8	0	–1
Depreciation for the period [1)]	0	95	373	3	1	473
Accumulated depreciation and impairment losses at 31 December 2018	0	1,069	2,858	78	1	4,007
BS Carrying amount at 1 January 2018	76	1,317	2,006	182	274	3,856
BS Carrying amount at 31 December 2018	75	1,373	1,929	207	153	3,737

[1)] Property plant & equipment was written down by EUR 82 million in Neste Oil Bahrain W.L.L. in addition to other assets EUR 30 million, totalling an impairment of EUR 112 million in the income statement.

Finance leases 2018

Lease arrangements that transfer substantially all the risks and rewards related to a leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments, as determined at the inception of the lease. Lease payments are allocated between the reduction of the outstanding liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shortest.

Determining whether an arrangement is, or contains, a lease is based on IFRIC interpretation 4 in such cases where an arrangement does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset.

Operating leases 2018

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) relating to property, plant and equipment are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table:

	2018
Gross carrying amount	132
Accumulated depreciation	48
Carrying amount	84

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Capitalized borrowing costs

During 2019 borrowing costs amounting to EUR 3.0 million (2018: EUR 0.9 million) were capitalized related to Oil Products investments and Singapore expansion. 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 2.1% (2018: 3.2%).

15 Investments in joint ventures

Carrying amount	2019	2018
On 1 January	106	213
IS, **CF** Share of profit (loss) of joint ventures	–52	–9
Translation differences	–5	–8
OCI Share of other comprehensive income of investments accounted for using the equity method	8	–4
Impaiments [1)]	–36	–86
Other changes	1	0
BS On 31 December	22	106

1) Neste's share in Nynas AB was tested for impairment and as a result an impairment loss of EUR 86 million was recognized in 2018. Background for this impairment was the current US sanctions and unstable situation in Venezuela impacting Nynas' business. As a result of normal impairment testing, Neste booked as asset write-down of EUR 36 million regarding shareholding in Nynas AB in 2019. Neste's Nynas shareholding is now fully written off. Nynas AB has filed for company reorganisation on 13 December 2019. With this action Nynas´ Board of Directors is aiming to find a long-term solution to secure operations on Nynas. The company's operations have been severely impacted this year by the sanctions imposed on the majority-owner, Venezuela's state-run PdVSA.

The Group's interest in its principle joint ventures at 31 December, all of which are unlisted, are listed in the following table:

	Country of incorporation	Nature of the relationship	2019 % interest held	2018 % interest held
Glacia Limited	Bermuda	Note 1	50.00	50.00
Nynas AB (publ)	Sweden	Note 2	49.99	49.99
Kilpilahti Power Plant Ltd	Finland	Note 3	40.00	40.00

Note 1: Glacia Limited is a joint venture company owned on a 50/50 basis by Neste and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste fleet in January 2007.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which (limited liability company) separates the assets and liabilities of the arrangement from the assets and liabilities of its shareholders, and are directed so that the relevant activities of the company require unanimous consent from all shareholders.

Note 2: Nynas AB (publ) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. Neste owns 49.99% of the shares of the company. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petróleos de Venezuela S.A. Nynas AB (publ) is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle the legal form of which separates its assets and liabilities from the assets and liabilities of its shareholders, and that the terms and conditions of the shareholders' agreement or other facts and circumstances do not give Neste or Petróleos de Venezuela S.A. rights to the assets and obligations for the liabilities of Nynas AB (publ).

Note 3: Kilpilahti Power Plant Ltd is a joint venture company that produces and supplies steam and other utilities to Neste´s refinery and Borealis´ petrochemical plant in Porvoo, Finland. The joint venture is owned 40% each by Neste and Veolia and 20% by Borealis.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which separates its assets and liabilities of its shareholders and it is directed so that the relevant activities of the company require unanimous consent from all parties sharing control. The new power plant´s capacity is meant to serve also external customers in addition to Neste and Borealis and thus optimize the returns of all shareholders in form of net profit. Management has also taken into account that Kilpilahti Power Plant Ltd plans and executes the power plant operations as its own business decisions which are operated by Veolia.

Joint ventures have been consolidated using the equity method.

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Summarized financial information in respect of the Group's joint ventures is set out in the following table:

	Kilpilahti Power Plant Ltd		Glacia Limited		Nynas AB (publ)	
	2019	2018	2019	2018	2019	2018
Non-current assets	398	370	22	25	563	599
Current assets						
Cash and cash equivalents	15	56	25	20	244	96
Other current assets (excl. cash and cash equivalents)	78	56	0	0	719	745
Total current assets	93	112	25	21	963	840
Non-current liabilities						
Non-current financial liabilities (excl. trade payables and provisions)	380	384	0	0	672	683
Other non-current liabilities	0	0	0	0	127	119
Total non-current liabilities	380	384	0	0	799	802
Current liabilities						
Current financial liabilities (excl. trade payables and provisions)	21	0	0	0	29	28
Other current liabilities	66	82	2	0	501	271
Total current liabilities	87	82	2	0	530	299
Net assets	24	15	46	46	198	338
Revenue	173	146	6	8	1,629	1,589
Depreciation, amortization and impairments	4	5	4	3	65	61
Interest income	0	0	1	0	1	3
Interest expense	4	3	0	0	40	34
Income tax expense	0	0	0	0	29	–4
Profit/loss	0	1	–1	2	–131	–24

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Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture.

	Kilpilahti Power Plant Ltd		Glacia Limited		Nynas AB (publ)	
	2019	2018	2019	2018	2019	2018
Opening net assets 1 January	2	10	44	41	166	376
Investment in joint venture	5	3	0	0	0	0
Profit for the period	0	1	–1	2	–104	–24
Other comprehensive income	–6	–12	1	1	9	–14
Closing net assets 31 December	0	2	44	44	71	338
Impairments	0	0	0	0	–71	–173
Interest in joint venture	0	1	22	22	0	83
Carrying value	0	1	22	22	0	83

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2019 and 2018 financial information above is based on 30 September 2019 and 30 September 2018 published interim reports. The share of profits of Glacia Limited and Kilpilahti Power Plant Ltd for 2019 are consolidated based on the companys' preliminary results for the financial period.

Transactions carried out with joint arrangements are disclosed in Note 25.

Contingent liabilities relating to the Group's interest in the joint arrangements are disclosed in Note 28.

16 Financial assets and liabilities by measurement categories

The Group classifies financial assets and liabilities according to IFRS 9. Accounting policies, classification criterias and other information relating to financial assets and liabilities can be found in Notes 17 and 21.

31 Dec 2019 Balance sheet item	Derivatives, hedge accounting	Fair value through profit or loss	Amortized cost	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
BS Non-current receivables		4	52	56	56			
BS Derivative financial instruments	7	0		7	7		7	
BS Other financial assets		5		5	5			5
Current financial assets								
Trade and other receivables [1]			1,911	1,911	1,911			
BS Derivative financial instruments	21	214		236	236	0	236	
BS Current investments			19	19	19			
BS Cash and cash equivalents			1,493	1,493	1,493			
Financial assets	28	223	3,476	3,727	3,727			
Non-current financial liabilities								
BS Interest-bearing liabilities			1,080	1,080	1,110	749	361	
BS Derivative financial instruments	0	1		1	1		1	
BS Other non-current liabilities			21	21	21			
Current financial liabilities								
BS Interest-bearing liabilities			242	242	242		242	
BS Derivative financial instruments	14	49		63	63	6	57	
BS Trade and other payables			1,990	1,990	1,990			
Financial liabilities	14	50	3,333	3,397	3,427			

[1] excluding non-financial assets

Financial instruments that are measured at fair value in the balance sheet and the interest-bearing liabilities are presented according to fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the assets or liability that is not based on observable market data.

Interest-bearing liabilities at level 1 consist of listed bonds. Derivative financial instruments at level 1 consist of commodity derivatives which are directly valued based on exchange quatations. Other financial assets in fair value through profit and loss category include unlisted shares of EUR 5 million for which the fair value cannot be reliably determined. The fair value of other financial instruments are not materially different from their carrying amount. Non-current receivables in fair value through profit and loss category include convertible loan of EUR 4 million. Its fair value belongs to level 3.

During the year 2019 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. During the financial period there were not any other financial assets than hedge accounted derivatives measured at fair value through other comprehensive income.

31 Dec 2018 Balance sheet item	Derivatives, hedge accounting	Fair value through profit or loss	Amortized cost	Carrying amount	Fair value	Level 1	Level 2	Level 3
Non-current financial assets								
BS Non-current receivables			87	87	87			
BS Derivative financial instruments	1	2		3	3		3	
BS Other financial assets		5		5	5			5
Current financial assets								
Trade and other receivables [1)]			1,224	1,224	1,224			
BS Derivative financial instruments	3	203		206	206	11	194	
BS Current investments			74	74	74			
BS Cash and cash equivalents			1,136	1,136	1,136			
Financial assets	4	209	2,521	2,735	2,735			
Non-current financial liabilities								
BS Interest-bearing liabilities			849	849	870	740	130	
BS Derivative financial instruments	0	0		0	0		0	
BS Other non-current liabilities			14	14	14			
Current financial liabilities								
BS Interest-bearing liabilities			291	291	295	151	143	
BS Derivative financial instruments	33	116		149	149	1	147	
BS Trade and other payables			1,749	1,749	1,749			
Financial liabilities	33	116	2,902	3,052	3,076			

[1)] excluding non-financial assets

During the financial period 2018 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

17 Financial assets

Accounting policy

Financial assets are classified in the following measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on used business model for managing the financial assets and the contractual terms of the cash flows. Assets are classified as current assets, except for maturities over 12 months after balance sheet date, which are classified as non-current assets. Purchases and sales of financial assets are recognized on the settlement date (excluding derivatives, Note 19). Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Amortized cost category consists of liquid funds, trade receivables and loan receivables where the business model is to hold the asset to collect the contractual cash flows which represent only payments of principal and interest. Financial assets recognized at amortized cost are valued using the effective interest method.

Assets at fair value through profit or loss consists of equity investments (and derivatives which do not meet criteria for hedge accounting). The investments in unlisted companies can be measured at cost if their fair value cannot be reliably measured. Gains or losses of the equity investments are included in financial income and expenses.

Liquid funds

Liquid funds consists of cash and cash equivalents and current investments. Cash and cash equivalents includes cash in hand, deposits held at banks, and other highly liquid investments with original maturities of three months or less. Current investments includes deposits held at banks and other highly liquid investments with original maturities from 3 to 12 months.

Impairment

The general expected credit loss model is used for debt instruments carried at amortized cost and the impairment is recognized through profit or loss if there is evidence of deterioration in credit quality. The credit loss is recognized based on individual assessment of receivable. The simplified expected credit loss model is applied for trade receivables. Every business area uses a specific provision matrix for the trade receivables due to the different nature of the businesses. The business area impairment process is based on historical credit loss experience combined with current conditions and forward looking macroeconomic analysis. The impairment or credit loss is recognized in the consolidated statement of income within other expenses.

Liquid funds	2019	2018
BS Current investments	19	74
BS, CF Cash and cash equivalents	1,493	1,136
Liquid Funds	1,513	1,210

The maximum exposure to credit risk is the carrying amount of the liquid funds. Note 3 sets out more information about credit risk. The impairment of liquid funds has not been recognized because the amount is immaterial.

Trade and other receivables	2019	2018
Trade receivables	1,690	972
Other receivables	199	228
Advances paid	1	9
Accrued income and prepaid expenses	25	23
BS Trade and other receivables	1,915	1,231
Trade and other receivables excluding non-financial items	1,911	1,224

Due to the nature of short-term trade and other receivables their carrying amount is expected to be equal to their fair value. The maximum exposure to credit risk is the carrying amount of the trade and other receivables. Analysis of trade receivables by age, information about the impairment and credit losses are presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

Non-current financial assets	2019	2018
Non-current interest-bearing receivables	35	86
Other non-current receivables	21	1
BS Non-current receivables	56	87
BS Other financial assets	5	5

The fair value of non-current financial receivables is not materially different from the carrying amount which is also the maximum exposure to credit risk. The impairment has not been recognized because the amount is immaterial. Other financial assets consist of unlisted shares.

BS CF 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

18 Inventories

Accounting policy

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the weighted average method. Inventory valuation policy of Renewable Products segment has been amended during the fourth quarter in 2019 from FIFO (first-in, first-out) to weighted average and the comparatives for 2018 have been restated. The change had EUR 15 million impact on Neste's inventory value at 31.12.2018. Applying the new accounting policy provides more reliable and relevant information by improving and standardizing the calculation process and enabling more detailed analyzes. The effect of application of the amended policy is presented more detailed in the table below. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognized in profit or loss as consumed. RINs (Renewable Identification Number) and LCFS (Low Carbon Fuels Standard) credits are treated as inventory items in Renewable Products segment and are included in Finished products and goods -category.

Estimates and judgements requiring management estimation

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

	2019	2018
Materials and supplies	519	527
Finished products and goods	1,156	933
Other inventories	3	7
BS Inventories	1,678	1,467

Cumulative inventory gains due to oil price changes amounted EUR 180 million (2018: losses EUR 273 million) of which EUR 99 million (2018: EUR 191 million) consisted of inventory write-downs recorded at the end of the period.

The effect of change in inventory valuation policy to 1 Jan 2019 opening balances

	31 Dec 2018	Change in inventory valuation	1 Jan 2019
ASSETS			
Deferred tax assets	34	2	35
Inventories	1,482	–15	1,467
Total assets	8,224	–14	8,210
EQUITY			
Retained earnings	4,588	–14	4,574
Total equity	4,630	–14	4,616
Total equity and liabilities	8,224	–14	8,210

The effect of change in inventory valuation policy in consolidated statement of income

	1–12/2018
Materials and services	4
Operating profit	4
Income tax expense	0
Profit for the period	3

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

19 Derivative financial instruments

Accounting policy

Derivative financial instruments are initially recognized at fair value on the trade date and are subsequently re-measured at their fair value on the balance sheet date. The fair values of the foreign exchange forward and the interest rate swap contracts are calculated as the present values of the future cash flows and the fair values of foreign exchange options by using the Black and Scholes option pricing model. The fair value of the exchange traded commodity derivatives is based on exchange market quotations and the fair value of over-the-counter commodity derivative contracts is based on the net present value of cash flows. The fair value of all derivatives is calculated using the observable market inputs for currency and interest rates, volatilities and commodity price quotations on the closing date. Derivative contracts are included in current assets or liabilities, except derivatives maturities greater than 12 months after the balance sheet date, which are classified as non-current assets or liabilities.

Most of the derivatives do not qualify for hedge accounting, although these instruments are mainly held for economic hedging purposes. Changes in the fair value of derivatives, for which hedge accounting is not applied, are recognized in the income statement either in operating profit or financial income and expenses, depending on the underlying hedged item. Impact to the income statement from the derivatives is presented in Note 10.

When hedge accounting is applied to the derivative contracts, the method of recognizing any resulting gain or loss depends on the nature of the item being hedged. The Group designates certain derivative financial instruments as either hedges of highly probable forecast transactions (cash flow hedges); or hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or hedges of net investments in foreign operations.

The effective portion of the changes in the fair value of derivative financial instruments that are designated and qualified as cash flow hedges are recognized in equity. Amounts accumulated in equity hedging future sales are recorded within revenue when the hedged item affects the income statement or in case of capital expenditures as part of acquisition cost. Forward points in currency forwards and time value of options are transaction related and thus recognized in equity and reclassified either to the income statement or adjusting the hedged item according to hedging relationship. In cash flow hedges the critical terms in hedged item and hedging instruments are the same and hedge ratio is 1:1. Any potential gain or loss relating to the ineffective portion is recognized immediately in the income statement. Accured interest of interest rate swaps hedging floating rate interest-bearing liabilities is recognized in the income statement within financial expenses. If a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of interest rate swaps that are designated and qualified as fair value hedges are recorded in the income statement in financial income and expenses, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk compensating the effect. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement.

The Group documents at the inception of the transaction the relationship between hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Company also documents its assessment, both at hedge inception and on an ongoing basis quarterly, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

	31 Dec 2019					31 Dec 2018				
	Nominal value by maturity		Fair Value			Nominal value by maturity		Fair Value		
	< 1 year	> 1 year	Positive	Negative	Net	< 1 year	> 1 year	Positive	Negative	Net
Foreign exchange and interest rate derivatives										
Foreign exchange derivatives, forwards	1,691	200	27	13	14	1,297	340	3	27	–24
Foreign exchange options										
Purchased	259	0	1	0	1	320	0	0	3	–3
Written	259	0	0	1	–1	320	0	1	3	–2
Derivatives designated as cash flow hedges	2,209	200	28	14	14	1,936	340	3	33	–29
Interest rate swaps	0	0	0	0	0	74	0	1	0	1
Derivatives designated as fair value hedges	0	0	0	0	0	74	0	1	0	1
Interest rate swaps	0	0	0	0	0	26	0	0	0	0
Foreign exchange derivatives, forwards	1,602	0	18	4	14	1,269	0	4	2	2
Non-hedge accounting derivatives	1,602	0	18	4	14	1,295	0	5	2	2
Commodity derivatives										
Oil and vegetable oil derivatives										
Sold forwards, million bbl	18	0	15	34	–19	18	0	184	2	182
Purchased forwards, million bbl	18	0	181	3	179	18	0	1	112	–111
Electricity and gas derivatives										
Purchased forwards, GWh	2,122	898	0	9	–9	2,258	823	15	0	15
Non-hedge accounting derivatives			197	46	151			200	114	86
Derivatives Total			243	64	179			209	149	60
of which										
BS Non-current derivative financial instruments			7	1	6			3	0	3
BS Current derivative financial instruments			236	63	173			206	149	57

The Group uses foreign exchange, interest rate and commodity derivatives to manage market risks (Note 3). Hedge accounting is not applied to commodity derivatives, although these are mainly held for economic hedging purposes. Commodity derivatives include oil, vegetable oil, freight, electricity and gas contracts. Group uses forwards as hedging instruments for commodities.

The Group has designated certain foreign currency and interest rate derivatives as hedges of future transactions i.e. as cash flow hedges. Such contracts are, e.g. foreign exchange derivatives hedging USD- and SEK-sales for the next twelve months according to the Corporate risk management policy or hedging investment costs in Singapore refinery (Note 3). Group uses currency forwards and options as hedging instruments. Certain interest rate swaps were designated as fair value hedges in 2018. The result of these hedging instruments recognized in the income statement in 2018 was EUR –1 million and of hedged item EUR 1 million. On 31 December 2019 there were no interest rate swaps.

20 Equity

Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2019 totalled EUR 40,000,000, divided into 769,211,058 shares of equal value. The nominal value of one share is not determined. The share capital is fully paid. There have been no changes in share capital in 2019 or 2018.

	Number of shares, 1,000	Treasury shares, 1,000	Outstanding shares, 1,000
1 January 2019	256,404	–574	255,830
Share issue	512,807	–1,147	511,660
Transfer of treasury shares		194	194
31 December 2019	769,211	–1,527	767,684
1 January 2018	256,404	–614	255,790
Transfer of treasury shares		40	40
31 December 2018	256,404	–574	255,830

Share issue

A total of 512,807,372 new shares issued in the share issue without payment (so called split) decided upon in Neste Corporation's Annual General Meeting on 2 April 2019 have been entered in the trade register. The objective of the share issue without payment was to enhance the liquidity of the Company's share. In the share issue without payment, new shares were issued to the shareholders without payment in proportion to their holdings so that 2 new shares are issued for each share. In addition, in the share issue without payment, new shares were similarly issued without payment to the Company on the basis of treasury shares held by the Company. The total number of Neste Corporation's shares after the share issue without payment is 769,211,058 shares.

Treasury shares

On 23 September 2019 a total of 25,429 treasury shares of Neste Corporation has been conveyed as a share reward without consideration to the President and CEO, Peter Vanacker, based on the terms and conditions of the Share Ownership Plan 2016. The conveyance of own shares was based on a decision of the Board of Directors of Neste Corporation which was made based on an authorization for the conveyance of own shares granted by the Annual General Meeting of Shareholders on 5 April 2018. After the conveyance of own shares, the number of treasury shares held by the company is 1,527,458 shares.

On 15 March 2019 a total of 168,099 treasury shares of Neste Corporation has been conveyed without consideration to the key persons participating in the Share Ownership Plan 2016 according to the terms and conditions of the plan. The directed share issue is based on the authorization of the Annual General Meeting on 5 April 2018. The number of treasury shares after the directed share issue was 1,552,887 shares. Numbers have been presented based on the new total number of shares after the share issue without payment (share split) as resolved by Neste's Annual General Meeting on 2 April 2019.

On 15 March 2018 a total of 39,883 treasury shares of Neste Corporation has been conveyed without consideration to the key persons participating in the Long-term Incentive Plan 2013 according to the terms and conditions of the plan. The directed share issue is based on the authorization of the Annual General Meeting on 1 April 2015. The number of treasury shares after the directed share issue was 573,662 shares. The acquisition cost including transaction costs, has been deducted from equity.

Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning other financial assets, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the consolidated statement of income.

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates.

21 Financial liabilities

Accounting Policy

Financial liabilities are classified at amortized cost (except derivative financial liabilities whose accounting policy is presented at Note 19). Financial liabilities measured at amortized are recognized initially at fair value, net of transaction costs, on the settlement date and subsequently measured at amortized cost using the effective interest method. Any difference between net proceeds and nominal amount is recognized as interest cost over the period of the borrowing using the effective interest method. Financial liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date, which are included in current liabilities. A financial liability is derecognized when the related obligation is discharged, cancelled or expires.

Bank overdrafts are recorded in current liabilities on the balance sheet. Fees of revolving credit facility are capitalized and amortized over the period of the facility.

The fair values of the listed bonds are driven from market quatations. The fair values of other interest-bearing liabilities at amortized cost are determined by using the discounted cash flow method employing market interest rates at the balance sheet date.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Non-current financial liabilities	2019	2018
Bonds	719	719
Loans from financial institutions	0	0
Lease liabilities	317	98
Other loans	44	32
Other non-current liabilities	19	13
Accruals and deferred income	2	1
Total	1,101	863
BS of which interest-bearing	1,080	849

Current financial liabilities	2019	2018
Bonds	0	148
Loans from financial institutions	110	119
Lease liabilities	102	3
Other loans	30	21
Advances received	27	15
Trade payables	1,403	1,033
Other current liabilities	457	588
Accruals and deferred expenses	103	113
Total	2,232	2,040
BS of which interest-bearing	242	291

The fair values of financial liabilities can be found in Note 16. Re-pricing periods of interest-bearing liabilities are disclosed in Note 3, Financial risk management, section 'Market risk'.

Listed bond issues

Issued/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2015/2022	Fixed	2.1250	2.2080	EUR	321	320
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total					721	719

	2018		
The future minimum lease payments of finance lease liabilities and their present value in the balance sheet	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Within one year	17	13	3
Between one and five years	83	59	24
More than 5 years	158	85	73
Total amounts payable	258	157	101

2018 Finance lease liabilities were reported in accordance with previous Lease standard IAS 17. Liabilities arise from contracts related to Singapore refinery. The agreements are made with two local companies that provide utility and terminalling services. Major assets under these agreements are tanks and jetty used for storing, loading and discharging of products and feedstock and facilities used for recycling of refinery by-products. Lengths of the contracts are from 15 to 30 years.

22 Provisions

Accounting policy

The nature of certain Group's businesses exposes the Group to risks of environmental costs and potential contingent liabilities. The risks arise from the manufacture, use, storage, disposal and maritime and inland transport as well as sale of materials that may be considered to be contaminants when released into the environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

A provision is recognized in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met. The Group has asset retirement obligations recorded in the consolidated statement of financial position.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

Estimates and judgements requiring management estimation

The existence of criteria for recognizing provisions and the amounts of provisions are determined based on estimates. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date or transfer to a third party. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, the opinion of external experts. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation. In addition to the provisions recognized, there are some off-balance-sheet contingent liabilities for which the future potential outcome (timing, costs) cannot be estimated reliably.

The most significant provisions in the consolidated statement of financial position relate to environmental liabilities. Environmental provisions are based on management's best estimate of remediation costs. The restructuring provision is recognized when the Group has prepared a detailed restructuring plan and published it.

	Environ-mental provisions	Provision to return emission allowances	Other provisions	Total
BS On 1 January 2019	58	2	40	100
Additions	29	4	3	36
Amounts used during the period	0	–2	–40	–42
Reversed unused provisions	0	0	0	0
BS On 31 December 2019	86	4	3	93

	Environ-mental provisions	Provision to return emission allowances	Other provisions	Total
BS On 1 January 2018	54	0	1	55
Additions	8	2	40	49
Amounts used during the period	–2	0	–1	–3
Reversed unused provisions	–1	0	0	–1
BS On 31 December 2018	58	2	40	100

Environmental provisions consists mostly of the Group's asset retirement obligations (ARO) that are related to retail stations and refineries which are expected to be realised in 1–50 years. The Group recognizes a provision for the decommissioning costs of an oil installation to the extent that Group is obliged to rectify damage already caused. The provisions are to be discounted, where the effect of the time value of money is material.

The exchange rate difference relating to the Group's provisions is immaterial.

Emission allowances

Neste Finland Refineries in Porvoo and Naantali come under the European Union's greenhouse gas emission trading system, and were granted a total of 20.4 million tons emission allowances for the period 2013–2020. In addition to refinery operations Neste purchases allowances to cover certain emissions of the local partners who provide utility services to Neste. A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and purchased emission allowances intended to cover the deficit do not cover actual emissions. Emission allowances, which are purchased to cover future periods deficit are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero.

As at 31 December 2019 estimated obligation to purchase emission allowances were reflected in the balance sheet of Neste in provision amounting to EUR 4.3 million (31.12.2018 EUR 1.9 million). The actual amount of CO_2 emissions in 2019 were 3.5 million tons (2018: 3.2 million tons). The Group has traded emission allowances for net amount of 0.9 million tons during the financial period ended 31 December 2019 (2018: 0.4 million tons).

BS 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

23 Employee benefit obligations

Accounting policy

The Group has pension arrangements in different countries, which are generally funded through insurance companies. Pension cover is based on the legislation and agreement in force in each country. Pension schemes consist of both defined benefit and defined contribution plans. Finnish statutory pensions are accounted for as a defined contribution plan in the consolidated financial statements.

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits. All arrangements that do not fulfill these conditions are considered defined benefit plans.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The defined benefit obligation represents the present value of future cash flows from payable benefits, which are calculated for by using the projected unit credit method. The discount rate assumed in calculating the present value of the pension obligation is based on the market yield of high-quality corporate bonds (AA-rated) with appropriate maturities. Pension costs are recognized in the consolidated statement of income so as to spread the current service cost over the service lives of employees based on actuarial calculations. The net interest is included as part of the finance cost in the consolidated statement of income.

The liability (or asset) recognized in the consolidated statement of financial position is the pension obligation at the closing date less the fair value of plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Actuarial valuations for the Group's defined benefit pension plans are performed annually.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

Estimates and judgements requiring management estimation

Pension calculations under defined benefit plans in compliance with IAS 19 include the factors that rely on management estimates: the discount rate used in calculating pension expenses and obligations for the period, the rate of salary increase and the rate of future discretionary bonuses decided by the insurance company. Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses.

The Group has defined benefit pension plans in Finland, Belgium, Switzerland and the Netherlands. The largest plans are in Finland, which account for 97% (2018: 97%) of the Group's total defined benefit pension obligation and 97% of the Group's total plan assets. The voluntary pension plan in Finland accounting for most of this has been closed since 1 January 1994. The insured supplementary pension scheme consists of defined benefit group pension insurances, which are very similar in structure, with the exception of retirement age and pension accrual rules.

Other long-term employee benefits are long-service remunerations, which are accounted for as an unfunded defined benefit plan in accordance to IAS 19.

Characteristics of the post-employment defined benefit plans in Finland

In Finland the Group has a voluntary pension plan for a certain group of employees to fulfill an aggregated benefit after retirement. The voluntary pension plan is managed in an insurance company.

The voluntary plan's benefit is based on the aggregated benefits determined by the insurance contract. The voluntary benefit is the difference between aggregated benefits and compulsory benefits calculated at the age 63 in the old age plan. The aggregated benefits are at most 60% or 66% of the supplementary pension salary depending on the plan. The supplementary pension salary is calculated based on the last 10 years' salaries prior to the pension event adjusted by the index level. The benefits in the plans are old age and disability pensions, survivors' pensions for widows and children, and funeral grants. Old-age pension ages are 60, 62 and 65 years. In some pension schemes the pension cover also includes the right to early old-age pension retirement ages.

The insurance company collects premiums on yearly basis from the employer. The future premiums are adjusted so that the old-age pension will be fully funded until retirement. The disability and survivor's pension are also financed by risk premiums collected during the employment period. The premiums with fixed discount rate 1.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees the same interest yield to the assets in the plan, as the one they have used in calculating the premiums.

The employer finances the index-linkage by paying an additional premium covering the index increase during the year. Discretionary bonuses from the insurance company will lower the index premium. The insurance company decides the amount of the bonus annually.

The Group has insured the benefits index increases each year as the benefits have been increased. If the insurance company's granted bonus index does not cover the annual index increase, the insurance company collects a premium from the employer to cover the increase. The insurance company's bonus index varies on yearly basis.

Risks associated with defined benefit plans

Through its defined benefit pension plans the Group is exposed to a number of risks. The employer´s defined benefit obligations pension liability depends on the discount rate which is determined to a yield of corporate bonds as at the reporting date. A decrease in used discount rates increase the defined benefits obligations. However, a decrease in the used discount rate yield also increases the fair value of the assets partially offsetting the total impact of change in yield on the net defined benefit pension liability.

The benefit of the plans is tied to the future benefit increase, which depends on inflation and common salary index. Higher inflation increases the benefit increase, which leads to an increase in liabilities and annual payments to the insurance company.

If the active employee's salary increases more than the common salary index, the amount of promised benefit and the benefit obligation increases together with annual payments to life insurance company.

The longevity risk is borne by the insurance company in case the actual mortality differs from the assumed. Possible adjustments in mortality assumption have an effect on the employer's liability according to IFRS. The insurance company completely bears the mortality risk on accrued benefits. The employers have a mortality risk only if the insurance company will raise its future benefit accruals premiums because of mortality adjustment.

Defined benefit plans

Cost of defined benefit plans	2019	2018
Service cost	6	8
Net interest (+expense/–income)	2	2
Remeasurements related to other long-term remunerations	0	0
Defined benefit cost recognized in the consolidated statement of income	8	10

Remeasurements of defined benefit plans	2019	2018
Actuarial gains/losses:		
Changes in demographic assumptions	0	0
Changes in financial assumptions	–41	15
Return on plan assets, excluding amounts included in net interest expense	41	–13
Experience adjustments	10	4
Total remeasurements recognized in other comprehensive income	10	7

Amounts recognized in the consolidated statement of financial position	2019	2018
Present value of funded defined benefit obligations	487	464
Present value of unfunded defined benefit obligations	8	8
Fair value of plan assets	–385	–349
BS Net defined benefit liability	111	124

Changes in fair value of plan assets	2019	2018
January 1	349	370
Interest income	5	5
Return on plan assets (excluding amounts included in net interest expense)	41	–13
Employer contributions	11	11
Benefits paid	–21	–25
December 31	385	349

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution within categories is not possible to provide.

Changes in the present value of the defined benefit obligation	2019		2018	
	Funded	Unfunded	Funded	Unfunded
January 1	464	8	493	9
Current service cost	6	1	7	1
Interest cost	7	0	7	0
Actuarial gains (–)/ losses (+)	30	0	–19	0
Settlements	0	0	0	0
Benefits paid	–20	–1	–24	–1
December 31	487	8	464	8

The expected contributions to be paid to the defined benefit plans in 2020 are EUR 12 million.

Significant actuarial assumptions (presented as weighted average)	2019	2018
Discount rate, %		
Finland	0.55%	1.57%
Other countries	0.82%	1.19%
Future salary increase, %		
Finland	2.6%	3.0%
Other countries	2.0%	2.0%
Insurance company's bonus index, %		
Finland	0.0%	0.0%
Other countries	0.0%	0.0%
Future benefit increase, %		
Finland	1.4%	1.7%
Other countries	0.0%	0.0%

Sensitivity analysis of significant actuarial assumptions

Reasonably possible changes at the reporting date to one of the weighted principal assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation as shown below:

Assumptions	Change in assumption		Impact on the defined benefit pension obligation 2019	2018
Discount rate				
	0.50% increase	EUR million	–35	–31
	0.50% decrease	EUR million	35	34
Future salary increase				
	0.50% increase	EUR million	4	4
	0.50% decrease	EUR million	–3	–4
Future benefit increase				
	0.50% increase	EUR million	30	28
	0.50% decrease	EUR million	–27	–25

- 0.50% increase/decrease in the discount rate would lead to a decrease/increase of 7.0%/7.2% in the defined benefit obligation.
- 0.50% increase/decrease in the rate of salary increase would lead to a increase/decrease of 0.9%/0.5% in the defined benefit obligation.
- 0.50% increase/decrease in the rate of pension index would lead to a increase/decrease of 6.1%/5.5% in the defined benefit obligation.

The above sensitivity analysis may not be representative of the actual impact of change. If more than one assumption is changed simultaneously, the combined impact of changes would not necessarily be the same as the sum of the individual change. If the assumptions change to a different level compared to that presented above, the effect on the defined benefit obligation may not be linear.

Maturity profile of the undiscounted defined benefit obligation	2019
Within the next 12 months	20
Between 1 and 5 years	92
Between 5 and 10 years	104
Beyond 10 years	310
Total	526

The average duration of the defined benefit pension obligation at the end of the reporting period is 14 years.

24 Share-based payments

Accounting policy

The share-based incentive plans are accounted for as an equity-settled share-based payment transaction, both concerning the portion of the earned reward for which the participants will receive shares, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants. The earned reward and social costs is entered into the income statement spread over the earnings period and restriction period. The entire transaction is measured at fair value prevailing at grant date of share-based incentive plan and the amounts recognized in the consolidated statement of income are accumulated in equity. The difference realized upon the settlement date is also recognized in equity.

The aim of all of the Company's share-based long-term incentives plans is to align the objectives of the company's owners and key personnel to increase the company's value and to commit key personnel to the company through a competitive incentive system based on ownership of Group's shares. The Board annually selects the members of Group's senior management and other key personnel entitled to participate in the long-term incentive plans.

Share-based incentive plan as of 1 January 2019

The Board of Directors of Neste Corporation decided on 12 December 2018 to establish a new share-based long-term incentive scheme for selected members of the Company's management and key employees. The decision included a Performance Share Plan (also "PSP") as the main structure and a Restricted Share Plan (also "RSP") as a complementary structure for specific situations.

The Performance Share Plan consists of three annually commencing individual performance share plans, each with a three-year performance period, followed by the payment of the potential share reward. The three plans commence in the years 2019, 2020 and 2021. The commencement of each individual plan is, however, subject to a separate Board approval.

The first plan (PSP 2019–2021) started in the beginning of 2019 and the potential share reward thereunder will be paid in the spring 2022 provided that the performance target set by the Board of Directors is achieved. The potential reward will be paid in shares of Neste (deducted with the applicable payroll tax). The performance target based on which the potential share reward under PSP 2019–2021 is to be paid is the relative total shareholder return of the Company's share compared to STOXX Europe 600 index.

The combined amount of variable compensation paid to an individual participant any given year, including the long-term incentive scheme and the annual short-term incentive scheme, may not exceed 120% of the individual' annual gross base salary. If the individual's employment terminates before the payment date of the share reward, the individual is not, as a main rule, entitled to any reward based on the plan. The plan does not include a separate restriction period after the performance period of 2019–2021.

The Restricted Share Plan consists of annually commencing individual restricted share plans, each with a three-year retention period after which the share rewards granted within the plan will be paid to the participants in shares of Neste (deducted with the applicable payroll tax).

The commencement of each individual plan is subject to a separate Board approval. A precondition for the payment of the share reward based on the Restricted Share Plan is that the employment relationship of the individual participant with Neste continues until the payment date of the reward.

The first plan (RSP 2019–2021) within the Restricted Share Plan started in the beginning of 2019 and the potential share reward thereunder will be paid in the spring 2022.

Neste applies a share ownership policy to the members of the Neste Executive Committee. According to the policy each member of the Neste Executive Committee is expected to retain in his/her ownership at least half of the shares received under the share-based incentive programs of the company until the value of his/her share ownership in Neste corresponds to at least his/her annual gross base salary.

Share-based incentive plan as of 1 January 2016

The Board of Directors decided on 14 December 2015 to establish a new long-term share-based incentive plan for the Group's senior management and nominated key personnel. The plan includes three individual share plans, each with a three-year earning period. The plans have started in 2016, 2017 and 2018. Any possible payments will be made partly in Company shares and partly in cash in 2019, 2020, and 2021. The proportion to be paid in cash will cover taxes and other tax-related costs.

The earning criteria for the earning periods 2016–2018, 2017–2019 and 2018–2020 are the Group's cumulative comparable free cash flow (75%) and total return by the Group's share compared to STOXX Europe 600 index (25%). In plan 2016–2018 the target long-term incentive for the President & CEO and the other members of the Neste Executive Committee (ExCo) is around 40% of individuals' annual fixed salary. In plans 2017–2019 and 2018–2020 the target long-term incentive for the President & CEO and the other members of the ExCo is around 30% of individuals' annual fixed salary. The maximum long-term incentive for the President & CEO is 100% of his annual fixed salary and 80% for the other members of the ExCo. The combined amount of incentives paid based on earnings under the long-term incentive program together with the incentive paid on the annual short-term program, may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The lenght of this period is three years in the 2016–2018 plan. In 2017–2019 and 2018–2020 plan the restriction period is one year.

For the 2016–2018 LTI plan cycle, the maximum target set in December 2015 for group cumulative comparable free cash flow were exceeded and Neste generated a total shareholder return clearly out performing the Europe Stoxx 600 Market Index. A gross reward 412,472 shares (after the share split) equaling EUR 13.0 million were awarded to the participants of the plan. The net amount of shares delivered totalled 193,528 shares and the rest of the reward was paid in cash to cover taxes. The fair value of the share as at delivery date were 31.6 euros (15.3.2019) and 29.8 euros (23.9.2019). The members of company's Executive Board received a gross reward equaling to 49,030 shares.

Share-based incentive plan as of 1 January 2013

The 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 plan includes three individual share plans, each with a three-year earning period. The share plans have started in 2013, 2014, and 2015.

The earning criteria for the earning period 2013–2015 have been the Group's comparable free cashflow (75%) and the comparable operating profit of Renewable Products (25%). The earning criteria for the earning periods 2014–2016 and 2015–2017 have been the Group's cumulative comparable free cash flow (75%) and total return by the Group's share compared to a peer group of 10 oil industry peers (25%). The combined amount of incentives to be paid based on maximum-level earnings under the short-term program and this long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year. Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period is three years in respect of the President and CEO and the other members of the ExCo, and one year in respect of other participants.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

The following tables summarize the terms and the assumptions used in accounting for the performance share plan:

Plan	**Long-Term Incentive Plan 2018**	**Long-Term Incentive Plan 2016**			**Long-Term Incentive Plan 2013**		
Type	**Share allocation**	**Share allocation**			**Money Allocation**		
Instrument	**Plan 2019–2021**	**Plan 2018–2020**	**Plan 2017–2019**	**Plan 2016–2018**	**Plan 2015–2017**	**Plan 2014–2016**	**Plan 2013–2015**
Grant dates	6 May 2019	11 Jan 2018	19 Jan 2017	1 Feb 2016	11 Feb 2015	1 Feb 2014	10 Feb 2013
Grant prices, euros	26.70	16.87	10.06	8.70	-	-	-
Share price as at grant date, euros	28.94	18.82	11.41	9.58	-	-	-
Beginning of earnings period	1 Jan 2019	1 Jan 2018	1 Jan 2017	1 Jan 2016	1 Jan 2015	1 Jan 2014	1 Jan 2013
End of earnings period	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
End of restriction period	31 Mar 2022	31 Mar 2022	31 Mar 2021	30 Apr 2022	31 Mar 2019/ 31 Mar 2021	31 Mar 2018/ 31 Mar 2020	31 Mar 2019
Changes during the period, share allocation [1)]	**Shares**	**Shares**	**Shares**	**Shares**			
Outstanding at the beginning of the reporting period, pcs	0	500,868	477,156	733,356			
Granted during the period	353,150	0	25,296	0			
Forfeited during the period	2,600	22,443	3,225	324,109			
Excercised during the period	0	0	0	68,834			
Outstanding at the end of the period, pcs	350,550	478,425	499,227	340,413			
Number of persons at the end of the reporting year	93	107	79	82	7	6	0
Share price at the end of the reporting period, euros [2)]	31.02	31.02	31.02	31.61	17.78	11.32	8.84
Estimated rate of realization of the earnings criteria, %	57%	88%	100%	100%	100%	100%	100%
Estimated termination rate before the end of the restriction period, %	10%	10%	5%	0%	0%	0%	0%

[1)] Changes during the period, money allocation: 141,195 shares excercised from plan 2013–2015, 22,524 shares excercised from plan 2014–2016, 162,996 shares excercised from plan 2015–2017.

[2)] All share-related figures and comparison numbers have been calculated and restated based on the new total number of shares after the share issue without payment (share split) as resolved by Neste's Annual General Meeting on 2 April, 2019.

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earning period.

The expense included in the income statement is specified in the following table:

	2019	**2018**
Expense arising from equity-settled share-based payment transactions	1	2
Expense arising from cash-settled share-based payment transactions	3	2
Total expense arising from share-based payment transactions	4	5

The expense to be recognized during the financial periods 2020–2022 is estimated on 31 December 2019 to amount to EUR 9 million. The actual amount may differ from this estimate.

25 Related party transactions

The Group is controlled by the State of Finland, which owns 44.3% of the company's shares. The remaining 55.7% of shares are widely held.

The Group has a related party relationship with its subsidiaries, joint arrangements (Note 26) and the entities controlled by Neste's controlling shareholder the State of Finland. Related party also includes the members of the Board of Directors, the President and CEO and other members of the Neste Executive Committee (key management persons), close members of the families of the mentioned key management persons and entities controlled or jointly controlled by the mentioned key management persons or close members of those persons' families.

Parent company of the Group is Neste Corporation. The transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated during consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions between Neste and other companies controlled by the State of Finland are on an arm's length basis.

Transactions carried out with related parties

2019	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense [1]	Liabilities
Joint ventures	170	179	94	–54	13
Other related parties	46	79	9	0	7
	216	258	102	–54	19

[1] Including EUR 59 million write-down of loan receivable from Nynas

2018	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	224	165	156	3	5
Other related parties	39	118	11	0	2
	263	283	167	3	6

There were no material transactions with key management persons or entities controlled by them.

The major part of business between Neste and its joint ventures becomes from Nynas AB and Kilpilahti Power Plant Ltd. Transactions with Nynas AB comprises of sales of bitumen production from Neste Finland refinery in Naantali based on a long-term agreement and sales of process oils from Neste Finland refinery in Porvoo. Neste's transactions with Kilpilahti Power Plant Ltd consist mainly of steam purchases and sales of heavy fuel oil, water and asphaltene.

Board of Directors and key management compensation

EUR thousand	2019	2018
Salaries and other short-term employee benefits	4,157	4,211
Statutory pensions	660	676
Supplementary pensions	401	1,536
Share-based payments	2,720	1,799
Total (Including statutory pensions)	7,939	8,222

Key management consists of President and CEO and other members of the Neste Executive Committee. There were no outstanding loan receivables from key management on 31 December 2019 or 31 December 2018.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Committee based on Management Performance Share Arrangements have been disclosed in Note 24, Share based payments.

Compensation to President and CEO and members of the Neste Executive Committee

	President and CEO		Former President and CEO	Members of the Neste Executive Committee	
EUR thousand	2019	2018	2018	2019	2018
Annual remuneration					
Base salary	935	150	582	2,079	1,980
Taxable benefits	33	0	18	120	108
Annual incentive (STI plan)	0	0	252	539	641
Total annual remuneration	967	150	852	2,737	2,730
Vested long term remuneration					
Supplementary pension (insurance contributions)	0	0	1,092	401	444
Share-based incentive plan	1,165	0	554	1,556	1,245
Total remuneration	2,132	150	2,498	4,694	4,419

Compensation to the Board of Directors

EUR thousand	2019	2018
Board of Directors at 31 December 2019		
Matti Kähkönen	78	77
Elizabeth Burghout, as of 5 April 2018	53	45
Sonat Burman-Olsson, as of 2 April 2019	48	0
Martina Flöel	55	61
Jean-Baptiste Renard	53	61
Jari Rosendal, as of 5 April 2018	46	37
Willem Schoeber	56	61
Marco Wirén	50	55
Former Board members		
Jorma Eloranta, until 5 April 2018	0	21
Laura Raitio, until 2 April 2019	14	61
Board of Directors, all members total	452	480

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended. Board members are not covered by the company's remuneration systems and do not receive any performance or share related payments.

Should the company decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 6 months' salary. The retirement age of the President and CEO is according to the Finnish Employee's Pension Act (TyEL).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2019 were EUR 1,186 thousand (2018: EUR 1,376 thousand).

26 Group companies

Subsidiaries	Group holding %	Country of incorporation
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
Navidom Oy	50.00%	Finland
Neste (Shanghai) Trading Company Limited (new)	100.00%	China
Neste (Suisse) S.A.	100.00%	Switzerland
Neste AB	100.00%	Sweden
Neste Affiliate B.V.	100.00%	The Netherlands
Neste Australia Pty Ltd (new)	100.00%	Australia
Neste Canada Inc.	100.00%	Canada
Neste Components B.V.	100.00%	The Netherlands
Neste Demeter B.V.	51.00%	The Netherlands
Neste Eesti AS	100.00%	Estonia
Neste Engineering Solutions B.V.	100.00%	The Netherlands
Neste Engineering Solutions Oy	100.00%	Finland
Neste Engineering Solutions Pte. Ltd.	100.00%	Singapore
Neste Germany GmbH (new)	100.00%	Germany
Neste Insurance Limited	100.00%	Guernsey
Neste Italy S.R.L.	100.00%	Italy
Neste Markkinointi Oy	100.00%	Finland
Neste NV	100.00%	Belgium
Neste Netherlands B.V.	100.00%	The Netherlands
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Shipping Oy	100.00%	Finland
Neste Singapore Pte. Ltd.	100.00%	Singapore
Neste US, Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
NSE Biofuels Oy Ltd	100.00%	Finland
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

Associated companies	Group holding %	Country of incorporation
Neste Arabia Co. Ltd. (inactive)	48.00%	Saudi Arabia

Joint arrangements	Group holding %	Classification	Country of incorporation
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	40.00%	Joint Operation	Finland
Bahrain Lube Base Oil Company B.S.C. (Closed)	45.00%	Joint Operation	Bahrain
Glacia Limited	50.00%	Joint Venture	Bermuda
Kilpilahti Power Plant Ltd	40.00%	Joint Venture	Finland
Nynas AB (publ)	49.99%	Joint Venture	Sweden
Oy Innogas Ab	50.00%	Joint Operation	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Joint Operation	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Joint Operation	Finland

Specification of financial information on subsidiaries with material non-controlling interests

	Neste Demeter B.V.		Navidom Oy	
	2019	2018	2019	2018
Proportion of shares held by non-controlling interests	49.00%	49.00%	50.00%	50.00%
Current assets	76	34	0	0
Non-current assets	0	0	0	0
Current liabilities	51	31	0	0
Non-current liabilities	21	0	0	0
Revenue	382	109	1	1
Profit for the period	2	1	0	0
Dividends paid to non-controlling interests	–1	0	0	0
Cash flows from operating activities	–7	6	0	0
Cash flows from investing activities	–10	6	0	0
Cash flows from financing activities	20	–11	0	0

Unconsolidated structured entities

In 2015, Neste sold its shares of Aurora Kilpilahti Oy (former Kilpilahden Sähkönsiirto Oy) to InfraVia European Fund II, an infrastructure fund managed by InfraVia. After the sale Neste does not have direct or indirect investment in the company. Aurora Kilpilahti Oy is responsible for high- and medium-voltage electricity distribution in the Kilpilahti industrial area where Neste Finland Refinery in Porvoo is situated. In addition to Neste, Aurora Kilpilahti Oy's customers include other companies operating in the area.

As the Kilpilahti electricity distribution network requires significant investments, Neste selected InfraVia as its electricity distribution partner to contribute to the effective implementation of the investments and, therefore, secure reliable electricity distribution in Kilpilahti.

Under the contractual arrangements with Aurora Kilpilahti Oy Neste has been supplying small and decreasing part of the operating services needed in electricity distribution. It can be considered that Neste has the possibility to influence only limited development investments made by Aurora Kilpilahti Oy. Aurora Kilpilahti Oy distributes electricity to Neste and Neste remains to be the main user of the capacity of the electricity distribution network. Aurora Kilpilahti Oy operates on land leased from Neste for 30 years with an option to extend the lease. Neste has not provided any financial support or other significant support to Aurora Kilpilahti Oy without contractual obligation.

Based on the factors described above Neste has determined that it has limited influence though no control over Aurora Kilpilahti Oy and treats the company as unconsolidated structured entity in its consolidated financial statements. Management has assessed the company's exposure to losses by considering the nature of Neste's involvement in Aurora Kilpilahti Oy, and the company's significance to Neste from an operative perspective. Neste's exposure is mainly dependent upon the efficient operation of the distribution network.

Consolidated structured entities

Since 2014, Neste has treated the sold vessels' sale-and-leaseback agreements made with Ilmarinen Mutual Pension Insurance Company and Finland's National Emergency Supply Agency as structured entities. As a part of these arrangements, Neste guarantees the vessels' residual value and certain return on the investors' investments.

27 Acquisitions and disposals

Acquisitions

2019

No major acquisitions took place in financial period 2019.

2018

In May 2018 Neste and Demeter Holding B.V. agreed that Neste acquires sole control and 51% of the shares of the Dutch animal fats and proteins trader IH Demeter B.V. (Internationale Handelmaatschappij 'Demeter' B.V.), making Neste the controlling shareholder. The acquisition was closed on 31 August 2018 after regulatory approvals. The previous owners remained as co-owners with non-controlling interest, which have been measured at proportionate share of the net assets. The new company is called Neste Demeter B.V. and has been consolidated into Renewable Products segment.

The acquisition is an important step for Neste in its strategy of building a global waste and residue raw material platform to secure raw material availability and competitiveness. IH Demeter B.V. has a long history, and a solid track record of cooperating with Neste. With an efficient European-wide logistical setup, the company is well-positioned to serve Neste in delivering future raw material volumes to Neste's renewable product refineries.

The fair value of acquired net assets include supplier relations that have been recognized as intangible assets. The goodwill is non-deductible for income tax purposes. Transactions costs of the acquisition have been recognized as other expenses in the consolidated statement of income. The acquisition does not have material impact on Group´s net sales nor result. In Q4/2018 the pension liabilities have been recognized according to IAS 19 which slightly affected to the fair value of the net assets. The purchase price was also fully settled in Q4/2018.

Values of acquired assets and liabilities at time of acquisition	Recognized values
Intangible assets	2
Property, plant and equipment	0
Deferred tax assets	0
Inventories	28
Trade and other receivables	6
Cash and cash equivalents	0
Total assets	37
Interest bearing liabilities	12
Deferred tax liabilities	1
Pension liabilities	0
Current tax liabilities	2
Trade and other payables	19
Total liabilities	33
Fair value of net assets total	3
Consideration transferred	15
Proportionate share of net assets of non-controlling interests	2
Fair value of acquired net assets	–3
Goodwill	13

Cash flows of acquisition	2018
Consideration, paid in cash	–15
Cash and cash equivalents in acquired company	0
Transaction costs of the acquisition	–1
Net cash flow on acquisition	–16

Disposals

2019

Regional Business Unit of Neste Engineering Solutions

In June 2019 Neste Engineering Solutions agreed to create a strategic partnership with engineering consultancy services company Rejlers. The partnership strengthens delivery capability and improves the focus of Neste Engineering Solutions. As part of the partnership agreement, Rejlers acquired the Regional Business Unit of Neste Engineering Solutions and the parties made a long-term cooperation agreement. The Regional Business Unit of Neste Engineering Solutions consists of personnel and operations in Turku, Kotka, Oulu, Sweden and UAE, except for NAPCON Business Unit. The entire personnel of the Regional Business Unit transferred to Rejlers with current terms and conditions of employment valid at the time of the transfer. They continue to work with their current projects of Neste Engineering Solutions and other customers. The operations were part of the Others segment. The disposal was closed on 30 September 2019 after the approval of the competition authority.

Assets and liabilities of the Regional Business Unit of Neste Engineering Solutions	Recognized values
Intangible assets	9
Non-current receivables	1
Deferred tax assets	1
Trade and other receivables	3
Cash and cash equivalents	2
Total assets	15
Trade and other payables	6
Total liabilities	6
Sold net assets	9
Total consideration [1)]	19
Sold net assets	–9
Translation differences related to disposal (reclassified from equity)	–1
Gain on sale	9
Cash consideration received during 2019	22
Cash and cash equivalents disposed of	–2
Net cash flow 1–12/2019	20
Cash consideration to be returned during the first quarter 2020	–2
Total net cash flow	18

[1)] Total consideration includes transaction costs and adjustments

LLC Neste Saint-Petersburg

In July 2019 Neste Corporation announced that it had signed an agreement to sell its fuel retail business consisting of 75 fuel stations and a terminal in North-Western Russia to PJSC Tatneft, one of the leading integrated oil and gas companies in Russia. The divestment of Russian fuel retail business enables to focus on the strategic priorities. The divestment had no impact on Neste's Marketing & Services' operations in Finland and the Baltic countries. The operations were part of the Marketing & Services segment. The transaction received the approval of the Russian competition authorities on 4 October and was closed on 31 October.

Assets and liabilities of LLC Neste Saint-Petersburg	Recognized values
Property, plant and equipment	55
Inventories	13
Trade and other receivables	9
Cash and cash equivalents	24
Total assets	100
Interest-bearing liabilities	6
Deferred tax liabilities	1
Trade and other payables	13
Total liabilities	21
Sold net assets	79
Total consideration [1)]	149
Sold net assets	–79
Translation differences related to disposal (reclassified from equity)	–42
Gain on sale	27
Cash consideration received	149
Cash and cash equivalents disposed of	–24
Net cash flow	125

[1)] Total consideration includes transaction costs

2018

During the financial period 2018, the Group sold its 33.33% interest in joint arrangement Porvoon Alueverkko Oy. The transaction was completed on 1 February 2018 and no material capital gains was recognized in the consolidated financial statements.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

28 Contingencies and commitments

Contingent liabilities	Value of collateral 2019	Value of collateral 2018
On own behalf for commitments		
Real estate mortgages	26	26
Pledged assets	0	116
Other contingent liabilities	29	34
Total	55	177
On behalf of joint arrangements		
Pledged assets	31	45
Guarantees	0	0
Total	31	45
On behalf of others		
Guarantees	1	1
Total	1	1
	87	223

The pledged assets on behalf of joint arrangements are granted to the secured creditors as continuing security for due and punctual payment, discharge and performance of all or any part of the secured obligations of Kilpilahti Power Plant Ltd. The pledged assets mean all shareholder loan receivables, all contribution loan receivables and the shares of Kilpilahti Power Plant Ltd. The security period ends on the date on which all the secured obligations have been unconditionally and irrevocably paid and discharged in full.

Operating leases

Total future minimum lease payments.

Operating lease commitments	2019	2018
Due within one year	24	81
Due between one and five years	3	86
Due later than five years	0	68
Total	27	235

2018 lease commitments included operating leases and 2019 commitments of short-term and low value assets and variable payment lease of contracts.

Capital commitments

Commitments	2019	2018
Commitments for purchase of property, plant and equipment	754	138
	754	138

Take-or-pay contracts

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligations. The total fixed fees payable under the agreements during 2011–2026 as of 31 December 2019 are presented in the table below.

Fixed fees payable under take-or-pay contracts	2019	2018
Payable	24	17
Payable after the financial period	141	114
Total payable	164	131

29 Disputes and potential litigations

Neste had a dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). Neste has received in January 2019 a decision by the Finnish Tax Authority in favor of Neste concerning a pending excise tax dispute of EUR 13 million, which affects year 2019 results positively. Regardless of the given decision in the main issue, the Tax Authority did not decide the relating interest and additional tax of EUR 3 million in favor of Neste. Neste has appealed in this respect to the Administrative Court of Helsinki. The payment was charged to the income statement in 2016.

Neste has settled the dispute in respect of which Neste Oil Bahrain W.L.L. obtained a disadvantageous tax judgement in December 2018. Settlement has also been reached in the arbitration with Neste Oil Bahrain W.L.L's base oil joint operation partners concerning a contractual dispute.

In addition, some Group companies are involved in legal proceedings or disputes incidental to their business. In management's opinion, the outcome of these cases is difficult to predict but not likely to have material effect on the Group's financial position.

30 Leases

Accounting policy

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

The group leases various land areas, vessels, tanks, containers and facilities. Rental contracts are made for fixed periods of 1 to 60 years.

The Group also has certain short-term leases with lease terms of 12 months or less, and leases of assets with low value. Payments associated with short-term leases and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group started to apply IFRS 16 from 1 January 2019 with the modified retrospective approach and does not restate previous periods.

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 has been endorsed by EU in November 2017 and is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases. The group has decided to use the exemption not to apply the new guidance to leases with a term less than twelve months or to leases for which the underlying asset value is of low value. Payments related to these lease agreements remain as costs in income statement. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group reviewed its leasing, service and utility purchase contracts to calculate the effects of IFRS 16. Its balance sheet impact is considered insignificant proportional to the Group's total assets. Contracts consist mainly of leases related to land areas, vessels, machinery and equipment, tanks, containers and facilities.

The effect of application of IFRS 16 is presented in the tables below. The effect of finance leases recognized in 31 December 2018 balance sheet are excluded from IFRS 16 effects, to illustrate the effect of application of the standard.

The effect of application of IFRS 16 to 1 Jan 2019 opening balances	31 Dec 2018	IFRS 16 adj.	1 Jan 2019
ASSETS			
Property, plant and equipment	3,737	215	3,952
Total assets	**8,210**	**215**	**8,425**
LIABILITIES			
Non-current interest-bearing liabilities	849	175	1,024
Current interest-bearing liabilities	291	41	332
Total liabilities	**3,594**	**215**	**3,809**
Total equity and liabilities	**8,210**	**215**	**8,425**

The effect of application of IFRS 16 in consolidated statement of income	2019
Materials and services	45
Other expenses	34
Depreciation, amortization and impairments	–68
Operating profit	**11**
Financial expenses	–13
Profit for the period	**–2**

The effect of application of IFRS 16 in consolidated statement of financial position	2019
ASSETS	
Gross carrying amount at 1 January 2019	215
Additions	188
Disposals	–19
Depreciations	–68
Gross carrying amount at 31 December 2019	**316**
	2019
LIABILITIES	
Non-current interest-bearing liabilities	220
Current interest-bearing liabilities	99
Total liabilities	**319**

The effect of application of IFRS 16 in consolidated cash flow statement	2019
Net cash generated from operating activities	69
Cash flows from financing activities	–69
Net increase (+) / decrease (–) in cash and cash equivalents	**0**

Lease payments which are not included in the measurement of lease liabilities	2019
Short-term lease payments	55
Low value lease payments	0
Variable lease payments	10

Difference between operating lease commitments and lease liabilities at the date of initial application	2019
Operating lease commitments as at 31 December 2018	235
Less:	
Commitments relating to short-term leases	55
Commitments relating to leases of low-value assets	0
Commitments relating to leases of variable lease payments	0
Weighted average incremental borrowing rate as at 1 January 2019	4%
Discounted operating lease commitments at 1 January 2019	173
Add:	
Commitments relating to leases previously classified as finance leases	101
Payments in optional extension periods not recognised as at 31 December 2018	42
Non-current lease liabilities as at 1 January 2019	272
Current lease liabilities as at 1 January 2019	44
Total liabilities	**316**

31 Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Parent company Income Statement

EUR million	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Revenue	2	9,893	9,100
Change in product inventories		126	–8
Other operating income	3	101	12
Materials and services	4	–8,731	–8,136
Personnel expenses	5	–219	–221
Depreciation, amortization and write-downs	6	–221	–205
Other operating expenses	7	–332	–374
Operating profit/loss		617	168
Financial income and expenses		–18	87
Gain on merger		1,006	0
Total financial income and expenses	8	987	87
Profit/loss before appropriations and taxes		1,604	255
Appropriations	9	61	564
Income tax expense	10	–104	–141
Profit for the year		1,561	678

Parent company Balance Sheet

EUR million	Note	31 Dec 2019	Restated [1)] 31 Dec 2018
ASSETS			
Fixed assets and other long-term investments	11, 12		
Intangible assets		112	91
Tangible assets		2,116	1,904
Other long-term investments		1,548	2,092
		3,777	4,088
Current assets			
Inventories	13	918	703
Long-term receivables	14	31	9
Short-term receivables	15	1,893	2,172
Cash and cash equivalents		1,410	1,039
		4,253	3,924
Total assets		8,030	8,012
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Share capital		40	40
Other reverses		16	–1
Retained earnings		1,607	1,512
Profit for the year		1,561	678
		3,224	2,229
Accumulated appropriations	17	1,109	1,003
Provisions for liabilities and charges	18	5	38
Liabilities	19		
Long-term liabilities		754	1,090
Short-term liabilities		2,937	3,651
		3,691	4,741
Total equity and liabilities		8,030	8,012

1) Time deposits are presented in current investments differing from 2018 financial statement where these were presented in cash and cash equivalents.

Parent company Cash Flow Statement

EUR million	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Cash flows from operating activities		
Profit/loss before approriations and taxes	1,604	255
Depreciation, amortization and write-downs	221	205
Other non-cash income and expenses	–162	–105
Financial income and expenses	18	–87
Divesting activities, mergers	–1,006	0
Divesting activities, net	–90	–2
Operating cash flow before change in working capital	585	266
Change in working capital		
Decrease (+)/increase (–) in interest-free receivables	–207	–137
Decrease (+)/increase (–) in inventories	–5	84
Decrease (–)/increase (+) in interest-free liabilities	–949	401
Change in working capital	–1,161	348
Cash generated from operations	–576	613
Interest and other financial expenses paid, net	–15	–19
Dividends received	102	242
Income taxes paid	–248	–121
Realized foreign exchange gains and losses	–2	–6
Net cash from operating activities	–739	709
Cash flows from investing activities		
Capital expenditure	–276	–216
Proceeds from sale of fixed assets	0	2
Investments in shares in subsidiaries	–50	0
Proceeds from shares in subsidiaries	219	0
Change in other investments, increase (–)/decrease (+)	86	–120
Net cash used in investing activities	–21	–334
Cash flow before financing activities	–760	375

EUR million	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Cash flows from financing activities		
Proceeds from long-term liabilities	0	450
Payments of long-term liabilities	–498	–301
Change in short-term liabilities	383	–60
Dividends paid	–583	–435
Group contributions, net	589	305
Cash flow from financing activities	–109	–41
Net increase (+)/decrease (–) in cash and cash equivalents	–869	335
Cash and cash equivalents at the beginning of the period	1,039	705
Cash and cash equivalents increases from merger	1,240	0
Cash and cash equivalents at the end of the period	1,410	1,039
Net increase (+)/decrease (–) in cash and cash equivalents	–869	335

Parent company Notes to the Financial Statements

1 Accounting Policies

The financial statements of Neste Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

Subsidiary Neste Renewable Fuels Oy has been merged to Neste Oyj since 1st of October 2019 which increases the balance sheet items significantly. The board executed the final decision of the merger on the 10th of September 2019 according to the 23rd of May 2019 registrated merger plan. Merger was executed according to OYL 16 2 § as a subsidiary merger. Merger was executed in order to clarify corporate structure and policies.

The gain on merger is presented in the financial items when the gain can be compared to financial income (KILA 1984/2018). The gain on merger equals to Neste Renewable Fuels Oy retained earnings (profit and loss from previous periods and profit/loss of the period) which states that the corresponding dividend distribution would have been treated as financial income in parent company Neste Oyj under Finnish Accounting Standards. The treatment of gain on merger as financial income is also aligned with interpretation of excise duty legislation.

Revenue

Revenue include sales revenues from actual operations less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Revenue is recorded on accounting basis.

Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

Financial assets and liabilities

Financial instruments are valued at fair value according alternative method of the Finnish Accounting act article 5.2a §. Loans and receivables and other financial liabilities are recognized at amortized cost. Available for sale financial assets include non-listed shares, which are at amortized cost.

Loans and receivables consist of cash and cash equivalents, loans granted together with trade and other receivables. Other financial liabilities include interest bearing liabilities together with trade and other payables.

Derivatives without hedge accounting status are recognized to profit and loss. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity. Derivatives are recognized on the trade date at fair value and other financial assets on the settlement date. Later derivatives are re-measureded at their fair value each reporting date and any subsequent change is recognized at profit and loss if hedge accounting is not used.

Derivative financial instruments

The company uses derivative financial instruments mainly to hedge commodity price, foreign exchange and interest rate exposures, but all derivatives do not qualify for hedge accounting. Derivatives without hedge accounting are recognized in the income statement in operating profit material and services or alternatively in financial income and expenses if they are relate to financial activities.

Current investments

Current investments includes deposits held at banks and other highly liquid investments with original maturities from three months to 12 months.

Hedge accounting

The company applies hedge accounting on certain forward foreign exchange contracts, options and interest rate derivatives.

Cash flow hedges

The company applies cash flow hedge accounting to reduce exposure of currency and interest rates. Currency derivative contracts hedging future currency cash flows and qualifying for hedge accounting are booked once matured and the underlying exposure occurs. Gains or losses for interest rate swaps derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

Fair value hedges

The company applies fair value hedge accounting to reduce exposure to fair value fluctuations of interest-bearing liabilities due to changes in interest rates. Changes in fair value of derivatives designated and qualifying as fair value hedges, together with any changes in the fair value of hedged liabilities attiributable to the hedged risk, are recognized in financial income and expenses.

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Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated.

The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 years

Inventories

Inventories are stated at either cost or net realizable value, whichever is the lowest. The merged company's inventory valuation method has been changed during the fourth quarter in 2019. The method has been changed from determining costs using the first-in, first-out (FIFO) to weighted average method which is applied in the receiving company Neste Oyj. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

Research and development

Research expenditure is recognized as an expense as incurred and included in other operating expences in the income statement. Expenditure on development activities is capitalized only when it fulfills tight criteria e.g. development relates to new products that are techincally and commercially feasible. The majority of the company's development expenditure does not meet the criteria for capitalization and are recognized as expences as incurred.

Cash pool receivables/liabilities

Cash pool items are presented as short-term receivables or liabilities.

Pension expenses

An external pension insurance company manages the pension plan.The pension expenses are booked to income statement during the year they occur.

Appropriations

Appropriations consist of received or given group contributions from or to Neste Group companies and depreciation above the plan.

Deferred taxes

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply.

Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, restructuring provisions, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.

2 Revenue

Revenue by segment	2019	2018
Oil Products	8,913	8,986
Renewable Products	896	38
Marketing & Services	–6	0
Other	89	76
	9,893	9,100

Revenue by market area	2019	2018
Finland	3,742	3,797
Other Nordic countries	1,579	997
Baltic countries, Russia and Poland	575	555
Other European countries	3,390	3,571
North and South America	462	2
Other countries	145	178
	9,893	9,100

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

3 Other operating income

	2019	2018
Rental income	7	6
Gain on sale of intangible and tangible assets	0	0
Gain on sale of shares	90	2
Insurance compensations	1	0
Government grants	1	1
Other	2	3
	101	12

4 Materials and services

	2019	2018
Materials and supplies		
Purchases during the period	8,533	8,052
Change in inventories	128	76
	8,661	8,128
External services	70	9
	8,731	8,136

5 Personnel expenses

	2019	2018
Wages, salaries and remunerations	179	176
Indirect employee costs		
Pension costs	35	38
Other indirect employee costs	7	8
Wages and salaries capitalized in fixed assets	–1	–2
	219	221

Salaries and remuneration

Key management compensations are presented in Note 25 in the Neste Group consolidated financial statements.

Average number of employees	2019	2018
White-collar	1,667	1,387
Blue-collar	982	968
	2,649	2,355

6 Depreciation, amortization and write-downs

	2019	2018
Depreciation according to plan	218	204
Write-offs	2	0
	221	205

7 Other operating expenses

	2019	2018
Operating leases and other property costs	21	22
Repairs and maintenance	112	141
Other	198	210
	332	374

Fees charged by the statutory auditor, PwC

EUR thousands	2019	2018
Audit fees	742	615
Tax advisory	3	5
Other advisory services	214	297
	959	917

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

8 Financial income and expenses

	2019	2018
Dividend income		
From Group companies	102	242
Dividend income total	102	242
Interest income from long-term loans and receivables		
From Group companies	3	3
From others	2	1
Interest income from long-term loans and receivables total	5	4
Other interest and financial income		
Other	5	4
Gain on merger	1,006	0
Other interest and financial income total	1,011	4
Write-downs on long-term investments	–85	–100
Interest expenses and other financial expenses		
To Group companies	–2	–2
Other	–22	–25
Interest expenses and other financial expenses total	–23	–27
Exchange rate differences	–22	–36
Financial income and expenses total	987	87

Total interest income and expenses	2019	2018
Interest income	10	8
Interest expenses	–19	–22
Net interest expenses	–9	–14

9 Appropriations

	2019	2018
Change in depreciation difference		
Difference between depreciation according to plan and depreciation in taxation	–8	–25
Group contributions		
Group contributions received	79	589
Group contributions given	–10	0
Appropriations total	61	564

10 Income tax expense

	2019	2018
Income taxes on regular business operations	104	143
Taxes for prior periods	0	–2
	104	141

11 Fixed assets and long-term investments

Change in acquisition cost 2019

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2019	1	210	211
Increases	0	43	43
Decreases	0	–1	–1
Increases from merger	0	3	3
Acquisition cost as of 31 December 2019	1	255	256
Accumulated amortization and write-downs as of 1 January 2019	1	119	119
Amortization for the period	0	22	22
Amortization for the period from merger	0	2	2
Accumulated amortization and write-downs as of 31 December 2019	1	142	143
Balance sheet value as of 31 December 2019	0	112	112

Change in acquisition cost 2018

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2018	1	178	178
Increases	0	32	32
Acquisition cost as of 31 December 2018	1	210	211
Accumulated amortization and write-downs as of 1 January 2018	1	100	101
Amortization for the period	0	19	19
Accumulated amortization and write-downs as of 31 December 2018	1	119	119
Balance sheet value as of 31 December 2018	0	91	91

Change in acquisition cost 2019

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 2019	26	1,271	2,920	96	109	4,421
Increases	0	22	45	1	212	280
Decreases	0	0	–7	0	0	–7
Transfers between items	0	16	15	2	–34	0
Increases from merger	0	100	202	2	4	309
Acquisition cost as of 31 December 2019	26	1,409	3,176	101	292	5,003
Accumulated depreciation and write-downs as of 1 January 2019	0	660	1,842	41	0	2,544
Accumulated depreciation and write-downs of decreases and transfers	0	0	–7	0	0	–7
Depreciation and write downs for the period	0	35	161	2	0	198
Depreciation and write downs for the period from merger	0	41	138	1	0	180
Accumulated depreciation and write-downs as of 31 December 2019	0	736	2,134	44	0	2,915
Revaluations	6	21	0	0	0	27
Balance sheet value as of 31 December 2019	31	694	1,042	58	292	2,116
Balance sheet value of machinery and equipments used in production						1,042

Change in acquisition cost 2018

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2018	26	1,206	2,809	90	129	4,260
Increases	0	15	76	4	82	177
Decreases	0	0	–15	0	0	–15
Transfers between items	0	49	50	2	–101	0
Acquisition cost as of 31 December 2018	26	1,271	2,920	96	109	4,421
Accumulated depreciation and write-downs as of 1 January 2018	0	626	1,708	39	0	2,374
Accumulated depreciation and write-downs of decreases and transfers	0	0	–15	0	0	–15
Depreciation and write downs for the period	0	34	149	2	0	186
Accumulated depreciation and write-downs as of 31 December 2018	0	660	1,842	41	0	2,544
Revaluations	6	21	0	0	0	27
Balance sheet value as of 31 December 2018	31	631	1,078	55	109	1,904
Balance sheet value of machinery and equipments used in production						1,078

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 2019	2,000	54	5	30	3	0	2,092
Increases	34	35	2	2	0	4	76
Decreases	–1,735	–56	0	0	0	0	–1,791
Increases from merger	1,170	0	0	0	0	0	1,170
Acquisition cost as of 31 December 2019	1,470	33	7	31	3	4	1,548
Accumulated depreciation and write-downs as of 1 January 2019	0	0	0	0	0	0	0
Accumulated depreciation and write-downs as of 31 December 2019	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2019	1,470	33	7	31	3	4	1,548

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2018	2,000	72	3	43	3	0	2,122
Increases	0	154	1	7	0	0	162
Decreases	0	–171	0	–20	0	0	–191
Acquisition cost as of 31 December 2018	2,000	54	5	30	3	0	2,092
Accumulated depreciation, amortization and write-downs as of 1 January 2018	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2018	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2018	2,000	54	5	30	3	0	2,092

Interest-bearing and interest-free receivables	2019	2018
Interest-bearing receivables	68	84
Interest-free receivables	0	0
	69	84

12 Revaluations

	Revaluations as of Jan 1 2019	Increases	Decreases	Revaluations as of Dec 31 2019
Land areas	6	0	0	6
Buildings	21	0	0	21
Total	27	0	0	27

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation.
Deferred taxes have not been booked on revaluations.

13 Inventories

	2019	2018
Raw materials and supplies	402	319
Products/finished goods	513	378
Advance payments on inventories	2	7
	918	703
Replacement value of inventories	1 026	719
Book value of inventories	918	703
Difference	108	16

14 Long-term receivables

	2019	2018
Long-term advance payments	20	0
Receivables from Group companies		
Other long-term receivables	9	3
Deferred tax assets	3	5
	31	8

15 Short-term receivables

	2019	Restated [1)] 2018
Trade receivables	572	377
Receivables from Group companies		
Trade receivables	680	480
Other receivables	181	725
Accrued income and prepaid expenses	30	118
Total	891	1,324
Receivables from associated companies		
Trade receivables	32	42
Other receivables	0	14
Total	32	56
Other receivables	114	144
Accrued income and prepaid expenses	284	271
	1,893	2,172

Short-term accrued income and prepaid expenses	2019	2018
Accrued interest	2	1
Derivative financial instruments	277	305
Current investments	19	74
Other	15	10
	314	389

[1)] Time deposits are presented in current investments differing from 2018 financial statement where these were presented in cash and cash equivalents.

16 Changes in shareholders' equity

	2019	Restated [1] 2018
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Fair value reserve at 1 January	–14	15
Increases	759	800
Decreases	–748	–830
Fair value reserve at 31 December	–3	–14

Items in fair value reserve related to hedge accounting are transferred from Neste Renewable Fuels Oy to Neste Corporation (Parent company) within the merger.

	2019	Restated [1] 2018
Invested non-restricted equity fund at 1 January	13	10
Transfer of treasury shares	6	3
Invested non-restricted equity fund at 31 December	19	13
Retained earnings at 1 January	2,191	1,947
Dividends paid	–583	–435
Profit for the year	1,561	678
Retained earnings at 31 December	3,168	2,191
Capitalized development expenditure	4	9
Distributable equity	3,180	2,181

[1] The amount of distributable equity presented in 2018 financial statement note has been amended due to the discrepancy found in presented note. In addition the 2018 retained earnings has been amended by the options time value.

17 Accumulated appropriations

	2019	2018
Depreciation difference	1 109	1 003

18 Provisions for liabilities and charges

	2019				2018			
	1.1.2019	Increase	Decrease	31.12.2019	1.1.2018	Increase	Decrease	31.12.2018
Restructuring provisions	0	0	0	0	0	0	0	0
Provision for environment	1	0	0	1	2	0	1	1
Liability to return emission rights	2	4	2	4	0	2	0	2
Other provisions	35	0	35	0	0	35	0	35
Total	38	4	37	5	2	37	1	38

19 Liabilities

Long-term liabilities	2019	2018
Bonds	719	719
Advanced payments	19	13
Liabilities to Group companies		
Other long-term liabilities	7	351
Other long-term liabilities	1	2
Accruals and deferred income	7	5
	754	1,090

Interest-bearing liabilities due after five years	2019	2018
Bonds	0	399

The fair values of non-current liabilities are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 749 million (2018: EUR 740 million) of which EUR 749 million belong to level 1. The fair values of other non-current liabilities are not materially different from their carrying amounts.

Short-term liabilities	2019	2018
Bonds	0	148
Advances received	3	0
Trade payables	990	711
Liabilities to Group companies		
Advances received	0	0
Trade payables	295	197
Other short-term liabilities	914	1,614
Accruals and deferred income	142	153
Total	1,351	1,964
Liabilities to associated companies		
Other short-term liabilities		
Trade payables	12	4
Total	12	4
Other short-term liabilities	404	514
Accruals and deferred income	176	310
	2,937	3,651

The fair values of current interest-free liabilities are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date.

Short-term accruals and deferred income	2019	2018
Salaries and indirect employee costs	56	63
Accrued interests	9	11
Accrued taxes	0	51
Derivative financial instruments	250	339
Other short-term accruals and deferred income	3	0
	318	463

Interest-bearing and interest-free liabilities	2019	2018
Long-term liabilities		
Interest-bearing liabilities	721	1,071
Interest-free liabilities	34	19
	754	1,090
Short-term liabilities		
Interest-bearing liabilities	902	1,756
Interest-free liabilities	2,035	1,895
	2,937	3,651

Listed bond issues

Issue/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2015/2022	Fixed	2.1250	2.2080	EUR	321	320
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total outstanding carrying amount 31 December 2019						719

20 Contingent liabilities

Contingent liabilities	2019	2018
Operating lease liabilities		
Due within a year	2	2
Due after a year	5	3
	6	5
Contingent liabilities given on own behalf		
Real estate mortgages	26	26
Pledged assets	0	0
Other contingent liabilities	25	21
	50	47
Contingent liabilities given on behalf of Group companies		
Guarantees	58	53
	58	53
Contingent liabilities given on behalf of Associated companies		
Pledged assets	31	45
	31	45
Contingent liabilities given on behalf of others		
Guarantees	1	1
	1	1
Contingent liabilities total	146	151

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

21 Derivative financial instruments

	On 31 Dec 2019					On 31 Dec 2018				
	Nominal value by maturity		Fair value			Nominal value by maturity		Fair value		
	< 1 year	> 1 year	Positive	Negative	Net	< 1 year	> 1 year	Positive	Negative	Net
Foreign exchange and interest rate derivatives										
Foreign exchange derivatives, forwards	1,094	0	6	10	–4	592	0	1	15	–14
Foreign exchange options										
Purchased	215	0	1	0	1	126	0	0	1	–1
Written	215	0	0	1	0	126		0	2	–2
Derivatives designated as cash flow hedges	1,523	0	8	12	–4	844	0	1	18	–17
Interest rate swaps	0	0	0	0	0	74	0	1	0	1
Derivatives designated as fair value hedges	0	0	0	0	0	74	0	1	0	1
Interest rate swaps	0	0	0	0	0	26	0	0	0	0
Foreign exchange derivatives, forwards	2,199	200	38	6	31	1,971	340	6	14	–8
Intra-group forward foreign exchange contracts	752	200	4	21	–17	753	340	11	1	10
Currency options										
Purchased	45	0	0	0	0	194	0	0	1	–1
Written	45	0	0	0	0	194	0	1	1	0
Intra-group currency options										
Purchased	45	0	0	0	0	194	0	1	0	1
Written	45	0	0	0	0	194	0	1	1	0
Non-hedge accounting	3,130	400	42	27	14	3,526	681	20	18	2

	On 31 Dec 2019					On 31 Dec 2018				
	Nominal value by maturity		Fair value			Nominal value by maturity		Fair value		
	< 1 year	> 1 year	Positive	Negative	Net	< 1 year	> 1 year	Positive	Negative	Net
Commodity derivatives [1]										
Oil and vegetable oil derivatives										
Sold forwards, million bbl	18	0	15	34	–19	19	0	194	2	192
Purchased forwards, million bbl	18	0	181	3	178	19	0	1	123	–122
Intra-group oil and vegetable oil derivatives										
Sold forwards, million bbl	13	0	2	138	–136	18	0	121	1	120
Purchased forwards, million bbl	9	0	27	7	20	17	0	2	175	–173
Electricity and gas derivatives										
Sold forwards, GWh	0	0	0	0	0	0	0	0	0	0
Purchased forwards, GWh	2,121	898	0	9	–9	2,258	823	15	0	15
Intra-group electricity and gas derivatives										
Sold forwards, GWh	1,213	569	9	0	9	1,018	439	0	2	–2
Non-hedge accounting	3,392	1,467	235	191	44	3,349	1,262	333	303	30
Derivatives Total			285	230	55			355	339	16
of which										
BS Current derivative financial instruments			277	222	55			352	338	14
BS Non-current derivative financial instruments			8	8	0			3	1	2

[1] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

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

Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e.the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant and the measurement date.

The fair values of the interest rate swaps are the present values of the estimated future cash flows. Foreign exchange forward contracts are calculated using the valuation model and the market rates as per last business day of financial year. The fair value of currency options are calculated using market rates as per last business day of financial year and by using the Black and Scholes option valuation model.

The fair value of exchange traded commodity futures and option contracts is determined using the forward exchange market quotations as per last business day of financial year. The fair value of over-the-counter derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per last business day of financial year.

Fair value hierarchy of derivatives, MEUR	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Non-current derivative financial instruments								
Currency derivatives	0	7	0	7	0	1	0	1
Commodity derivatives	0	1	0	1	0	2	0	2
Other financial assets	0	0	3	3	0	0	3	3
Current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	1	0	1
Currency derivatives	0	43	0	43	0	20	0	20
Commodity derivatives	6	228	0	234	34	297	0	331
Financial liabilities								
Non-current derivative financial instruments								
Currency derivatives	0	7	0	7	0	1	0	1
Commodity derivatives	0	1	0	1	0	0	0	0
Current derivative financial instruments								
Currency derivatives	0	32	0	32	0	36	0	36
Commodity derivatives	48	142	0	190	24	278	0	302

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierachy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assests or liability, either directly (i.e. as prices) or indirectly (i.e derived from prices)

Level 3: inputs for the assets or liablity that is not based on obervable market data (unobservable inputs).

22 Other contingent liabilities

Real estate investments

The Company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10 years control period.

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

23 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2019 EUR thousands
Subsidiary shares				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	36 725
Navidom Oy	Finland	50	50.00	1
Neste (Suisse) S.A.	Switzerland	200	100.00	62
Neste AB	Sweden	2,000,000	100.00	77 653
Neste Affiliate B.V.	Netherlands	26,090	100.00	14 577
Neste Components B.V.	Netherlands	40	100.00	58 022
Neste Eesti AS	Estonia	10,000	100.00	5 927
Neste Engineering Solutions Oy	Finland	2,100	100.00	27 780
Neste Germany GmbH	Germany	25,000	100.00	25
Neste Insurance Limited	Guernsey	7,000,000	100.00	3 000
Neste Italy S.R.L.	Italy	1	100.00	10
Neste Markkinointi Oy	Finland	210,560	100.00	51 467
Neste NV	Belgium	4,405,414	99.99	3 128
Neste Netherlands B.V.	Netherlands	18,000	100.00	590 018
Neste Shipping Oy	Finland	101	100.00	55 452
Neste Singapore Pte. Ltd.	Singapore	1,727,535,875	100.00	525 230
Neste US, Inc.	USA	1,000	100.00	19 528
NSE Biofuels Oy	Finland	100	100.00	1 215
				1 469 821
Associated companies				
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	Finland	14	40.00	125
Kilpilahti Powerplant Ltd.	Finland	20,000	40.00	6 408
Neste Arabia Co. Ltd.	Saudi Arabia	480	48.00	0
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	5
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	0
				6 537

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2019 EUR thousands
Other shares and holdings				
CLEEN Oy	Finland	100		100
East Office of Finnish Industries Oy	Finland	1		10
Kiinteistö Oy Anttilankaari 8	Finland	51		545
Kiinteistö Oy Himoksen Aurinkopaikka	Finland	51		457
Kiinteistö Oy Katinkullan Hiekkaniemi	Finland	102		903
Kiinteistö Oy Katinkultaniemi	Finland	51		398
Kiinteistö Oy Kuusamon Tähti 1	Finland	51		457
Kiinteistö Oy Laavutieva	Finland	51		311
Kiinteistö Oy Lapinniemi & Osakeyhtiö Lapinniemi	Finland	24		125
Posintra Oy	Finland	190		34
				3,340
Telephone shares				
Elisa Oyj	Finland	1		0
Osuuskunta PPO	Finland	1		0
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
Connection fees				63
Total				1,479,763

24 Disputes and potential litigations

Neste had a dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). Neste has received in January 2019 a decision by the Finnish Tax Authority in favor of Neste concerning a pending excise tax dispute of EUR 13 million, which affects year 2019 results positively. Regardless of the given decision in the main issue, the Tax Authority did not decide the relating interest and additional tax of EUR 3 million in favor of Neste. Neste has appealed in this respect to the Administrative Court of Helsinki. The payment was charged to the income statement in 2016.

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 2019 stood at EUR 3,180 million. The Board of Directors will propose to the Annual General Meeting that Neste Corporation pays a cash dividend of EUR 0.92 per share for 2019, totaling EUR 706 million, and an extraordinary dividend of EUR 0.10 per share, totaling EUR 77 million. Any remaining distributable funds will be allocated to retained earnings. The Board of Directors will also propose that the annual dividend shall be paid in two installments, and the extraordinary dividend as a separate installment.

Espoo, 25 February 2020

Matti Kähkönen	Sonat Burman-Olsson
Martina Flöel	Jari Rosendal
Marco Wirén	Willem Schoeber
Elizabeth Burghout	Jean-Baptiste Renard

Peter Vanacker
President and CEO

Helsinki, 26 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorized Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Neste Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Neste Oyj (business identity code 1852302-9) for the year ended 31 December 2019. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

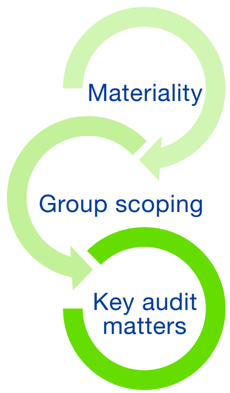
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 9 to the Financial Statements.

Our Audit Approach

Overview



Materiality

- Overall group materiality: € 80 million (previous year € 50 million)

Audit scope

- The scope of our group audit has encompassed all significant refineries, as well as selected sales companies.

Key audit matters

- Timing of revenue recognition
- The valuation of inventories
- System environment and internal controls
- Disputes and potential litigations
- Biofuel credits in the USA

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 80 million (previous year € 50 million)
How we determined it	Approximately 4% of profit before tax (previous year approximately 5% of profit before tax)
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by the users and is a generally accepted benchmark. We chose 4% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The scope included the refineries and operations in Finland, Singapore, the Netherlands, Sweden, Switzerland, and the USA, covering the most significant companies in the Renewable products, Oil products and Marketing & Services segments. We obtained, through our audit procedures at the aforementioned reporting units, combined with additional procedures at the Group level, sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Timing of revenue recognition *Refer to note 5 in the financial statements* The group has several different revenue streams, under the Renewable Products, Oil Products, and Marketing & Services segments. In both the Renewable Products and Oil Products segments, the company has deliveries, which can be considered individually significant. We consider there to be a risk of misstatement of the financial statements related to transactions occurring close to the year-end, as transactions could be recorded in the wrong financial period (cut-off). The Marketing & Services segment's revenues consist of several small transactions, with short payment terms, low complexity and significant automation, therefore resulting in a lower risk related to cut-off. Accordingly, we focused our work on cut-off in the Renewable Products and Oil Products segments.	In order to address the risk of misstatement related to cut-off in revenue recognition, we tested balances recognized in the company's balance sheet and, tested individual transactions occurring either immediately before or after the year end. We performed tests of details on the accrued revenue and accounts receivable balances recognized in the balance sheet at the year end. Our tests of detail focused on transactions occurring within proximity of the year end in the Renewable Products and Oil Products segments, obtaining evidence to support the appropriate timing of revenue recognition, based on terms and conditions set out in sales contracts and delivery documents or system generated reports.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
The valuation of inventories Refer to note 18 in the financial statements The company has significant inventory balances in both the Renewable Products and Oil Products segments. The inventory is valued at the lower of cost or net realizable value. While the Renewable Products' main finished product, Neste Renewable Diesel, is produced using a wide range of different feedstocks, the finished products in the Oil Products segment are refined from one type of input, being crude oil. We focused on the valuation of Renewable Products given the higher degree of complexity involved in the underlying inventory valuation calculations, as this introduces a higher risk of error. The cost of inventory in the Renewable Products segment reflects purchase prices, which are impacted by the market prices of different feedstocks, such as waste and residues and vegetable oils, as well as the mix of feedstocks purchased. The net realizable value of the inventory reflects management's best estimate of the likely sales prices, which depend on a number of different factors, and expected sales mix by feedstock.	We focused our procedures around the Renewable Products inventories. The valuation of Renewable Products inventory at cost is determined by applying the weighted average cost method. We compared the cost of raw materials and pre-treated products to purchase invoices, verifying the application of the weighted average cost method and application of the appropriate purchase prices. We tested the cost of the finished products by tracing the purchase cost of the used raw materials to purchase invoices. We also verified that the capitalised production costs were based on actual refining costs and thereby appropriate. Our testing of the net realizable value covered raw materials, pre-treated products and finished products. We compared raw materials and pre-treated products to relevant market prices where these were available. Where no readily available market price could be found, we performed a compound level comparison to the respective compound's repurchase price or the average purchase price based on the latest purchases. We compared finished products to a weighted average of sales made or agreed during the last month of the year. We verified that the principle of valuing inventory at the lower of cost or net realizable value was appropriately applied.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
System environment and internal controls The group has a complex system environment, reflecting the different nature of the different operating segments. The group is in the process of renewing its system landscape, with system rollouts occurring during 2019 and forward. The implementation of new systems, together with the complex system environment introduce risks related to system access, change management and data transfer between the different systems, and we have accordingly designated this as a focus area in the audit. Management has mitigated this risk by means of manual controls.	Our response to testing the system implementations included both the testing of the controls surrounding implementation as well as testing the migration of income statement and balance sheet balances between legacy systems and the new system. Our response to the risks related to the complex system environment includes both the test of IT and business process controls. We also performed sufficient tests of details as part of our audit. We tested the company's controls around access and change management related to key systems. We also tested the company's controls around system interfaces, and the transfer of data from one system to another. We noted certain weaknesses related to access controls to certain key systems. We have reported these control weaknesses to management and included sufficient tests of detail in our audit response in order to sufficiently mitigate the related risks in our audit.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Disputes and potential litigations Refer to notes 29 in the financial statements As reported in note 29, the group is involved in a few legal proceedings. The accounting treatment of and amounts to be recorded for claims depend on the merits of the claim as well as if a court judgement exists. In the case or arbitrations, management assesses whether the group will be liable to compensate the opponent. Management judgement is involved in assessing the accounting for claims, and in particular in considering the probability of a claim being successful and we have accordingly designated this as a focus area of the audit. The risk related to the claims is mainly associated with the completeness of the disclosure, and the completeness of the provisions in the financial statements.	We obtained external confirmations directly from Neste's legal advisors in order to evaluate the disclosures and provisions recorded. We discussed the cases with management. We read the minutes of the board meetings, and inspected the company's legal expenses, in order to ensure that all cases have been identified. We reviewed the disclosures for completeness based on our procedures detailed above.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Biofuel credits in the USA *Refer to notes 5 and 18 in the financial statements* Neste has sales operations in the USA, which are mainly focused in California. Neste earns biofuel credits related to the import and sale of renewable fuels in the US and California in the form of RINs (Renewable Identification Number), OCFPs (Oregon Clean Fuel Program) and LCFSs (California Low Carbon Credit). RINs, OCFPs and LCFSs are accounted for as government grants upon receipt of the product inventory in the USA and are accounted for as inventory to the extent they have been separated from the physical goods, which happens when renewable fuel is blended with fossil fuel. Risk arises from the level of judgment included in the valuation of biofuel credits related to the renewable fuels business in the USA.	Our testing of the biofuel credits included verification of the balances against the systems administered by the EPA (Environmental Protection Agency) and verification of balances against purchase and sales contracts. Our testing of the valuation of these included: • Comparing the valuation of RINs, OCFPs and LCFSs accounted for as inventory to quoted market prices, assessing the reasonability of the difference taking into account the liquidity of the market • Comparing the value of RINs, OCFPs and LCFSs against historical sales prices obtained by Neste. In addition, we agreed the calculated balances to the accounting records, verifying that these had been accounted for in line with Neste's accounting policy.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 3 April 2014. Our appointment represents a total period of uninterrupted engagement of 6 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 26 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)

NESTE

The only way is forward