Annual Report 2017

Leaving a healthier planet for our children by creating responsible choices every day

NESTE

Content

Year 2017 in brief

Neste creates sustainable choices for the needs of transport, companies, and consumers. We help our customers reduce their carbon footprint with our high-quality, low-emission renewable products, and high-grade oil products.

For us, 2017 was another year of exploring the renewable future. We are the world's largest producer of renewable diesel refined from waste and residues but we also see significant potential for renewable solutions in aviation and the plastics industries.

Revenue EUR **13,217** million

Comparable operating profit EUR **1,101** million

Our dividend proposal for 2017 **1.70€** per share

Return on average capital employed after tax **17.5%** (ROACE)

Leverage ratio **8.7%**

Investments EUR **536** million

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

Our renewable products reduced climate emissions by **8.3** million tons

The share of waste and residues in the renewable raw materials **76%**

298 safe days

What made our 2017 so inspiring? Watch the video to discover

CEO's review

Building the future – Passion for renewal

International and national discussions of the climate increased during 2017. According to studies, citizens are more and more concerned about climate change. Many are thinking about how they could contribute to the fight. We are also thinking about our role, as we work to leave a healthier planet for future generations. We fulfill our commitment by creating sustainable choices every day.

Strategy implementation according to plan

Neste has a clear strategy. We are working to grow in the global market for renewable products, in addition to being the leading provider of low carbon solutions in the Baltic Sea markets.

Our goal is to become the global leader in renewable products by 2030, offering solutions to reduce emissions and replace fossil fuels in road traffic, aviation, and the chemical industry. We are also seeking to renew our traditional business operations and become the industry leader in low-carbon production and services. In addition, we are investing in developing our corporate culture to deeply ingrain customer satisfaction, safety and operational efficiency in our day-to-day operations. We believe that by focusing on these goals, we can create significant value for our shareholders, the environment, and society.

We implemented our strategy successfully in 2017. Above all, this is reflected in our record-breaking financial performance, which indicates our strong will to move forward. It also reflects our employees' high level of motivation and professional skills. I would like to take this opportunity to extend my gratitude to each and every one of our employees.

Our refinery operations in Finland were integrated into one. The major turnaround and the related investments in the Naantali Production Line were implemented to further improve the competitiveness of our refinery operations. These investments enable us to increase the share of high-quality fractions in production.

> I am extremely happy how well our Neste MY Renewable Diesel has been received among private car owners as well as professional transportation companies and municipalities.

We also made progress in business operations related to renewable products. We decided that the best location to our additional production capacity for renewable diesel, renewable aviation fuel, and biochemicals would be in Singapore. The final investment decision will be made by the end of this year. If the project progresses as planned, production will begin by the end of 2022, and it will increase the current capacity for renewable products in the Singapore refinery by one million tons.

During 2017, we also invested strongly in research and development, which is a prerequisite for renewal and sustainable growth. We are constantly seeking new, sustainable raw material options to ensure growth, even into new business areas.

At the beginning of 2017, we launched Neste MY Renewable Diesel™, a renewable diesel made entirely from waste and residues, in our network of service stations in the Finnish market. I am extremely happy how well our Neste MY Renewable Diesel has been received among private car owners as well as professional transportation companies and municipalities. We also launched Neste Pro Diesel™ in our network of service stations in Estonia.

In addition, we reorganized our distribution of renewable diesel in California, our most important market area in the United States. We entered into partnerships with four fuel distributors. As a result, public and private fleets have access to a constant supply of Neste MY Renewable Diesel.

We work to ensure safety for our own employees and for our contractors and their employees. As part of that target, we updated our safety management principles and increased safety training. During 2017, we intensified our safety-related cooperation with our contractors and achieved our all-time best result in contractor safety.

We seek to develop a diverse range of services as part of our offering, and to be where the customers are; that is, in the mobile sphere. Last year, we introduced a mobile app for consumers, to enable mobile payments for fuel. In addition to the payment option, the app helps customers locate the nearest Neste stations and navigate to them.

New opportunities in the circular economy as well as in aviation and marine traffic

Regulation and increasingly efficient vehicles reduce the need and demand for fossil fuels. For this reason, we have been systematically developing solutions and services based on renewable raw materials over the long term, to gradually replace fossil fuels. We have also been studying how we can use renewable raw materials at fossil fuel production plants, as a mixture with fossil raw materials.

The circular economy is an increasingly topical theme. For example, we have interesting new opportunities in recycling fossil waste oil and plastic waste to be used as raw materials for new fuels and plastics.

The aviation industry is globally committed to carbon-neutral growth as of 2020, and regulations are being prepared to support this commitment. Renewable fuels are seen as a key means to reduce emissions in aviation. Neste MY Renewable Jet Fuel™ is one of the many ways in which we can help aviation operators reduce their greenhouse gas emissions.

In 2020, the International Maritime Organization (IMO) will implement a global sulfur cap of 0.5 percent for marine fuels. This means that ships will largely start using low-sulfur marine fuels instead of heavy fuel oil. We already offer low-sulfur marine fuels that meet the new requirements for shipping companies.

We are keeping up with the discussion concerning the mobility solutions of the future and their development, and we are also actively participating in this discussion. In addition to biofuels, we need engine technologies that consume less fuel, as well as electric traffic, to replace fossil fuels and reduce emissions. This is not only a question of whether consumers choose an electric car, a natural gas car vehicle or a hybrid version, but also a question of people's mobility habits and their development. The most significant driver of this development is urbanization, which has in many European and Asian countries and the United States progressed far. This requires us to find sustainable ways to organize mobility in densely populated cities and centers.

The transition does not concern only transport, but also major social and structural changes. Work and our ways of working are changing, which affects the number and location of jobs and urban infrastructure. This will become evident in the 2030s and 2040s, if not sooner. Multidisciplinary cooperation is required to ensure people's well-being under new circumstances and to overcome multiform, interconnected social challenges.

Our corporate culture encourages renewal

Neste has developed from an oil refiner into the world's largest company that produces renewable diesel from waste and residues. This change has taken place rapidly, particularly over the past ten years.

It has called for a strong vision and a belief in there being a need for our solutions. We have made bold decisions and have been able to reinvent ourselves constantly. Everything is based on our employees understanding and internalizing our strategy.

Our corporate culture is inspiring, encouraging people to create something new. We succeed by dividing our challenges into smaller parts and assigning people responsibility to complete their work. We set clear goals and schedules and reward people for achieving their goals. Such rewards are not always financial; they can also be acknowledgments of individuals or groups for putting our strategy and values into practice.

A sprightly, naturally curious 70-year-old

Our company will be celebrating its 70th anniversary in 2018. Instead of looking back on our achievements, we will celebrate by moving forward, implementing our vision and strategy one step at a time.

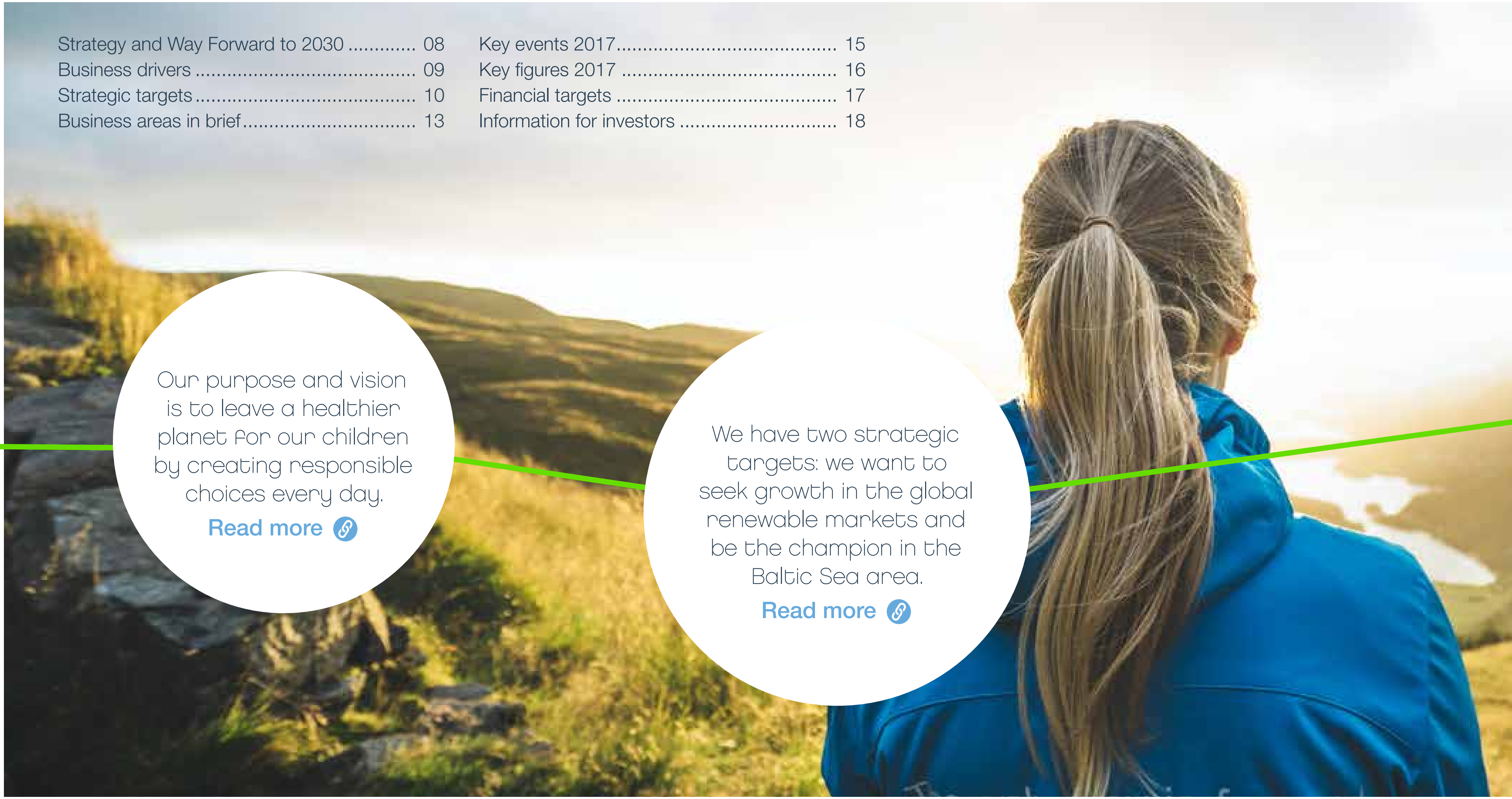
We have worked hard to ensure safety at work and will continue to establish good safety practices across the company. We will increase our customer focus, continue to digitize our services and develop new types of services in various business areas.

For us to move forward, our competence base needs to be sufficient, which is why we are investing in continuous personnel development. A key motivational factor is our company's vision: "We create responsible choices, every day." Our employees know that they are making a difference. They are contributing to resolving one of the most difficult global problems, so it is easy for them to find meaning in their work.

We are networking with other operators more actively than before, for agile cooperation is the only way to succeed in a world that is changing more and more rapidly. We are building sustainable growth by remaining open to change and not being afraid of change, and by systematically seeking solutions that are good for us, the environment and our stakeholders.

Matti Lievonen
President and CEO
@MattiLievonen

Strategy



Our purpose and vision is to leave a healthier planet for our children by creating responsible choices every day.

Read more

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

Read more

Strategy and Way Forward to 2030

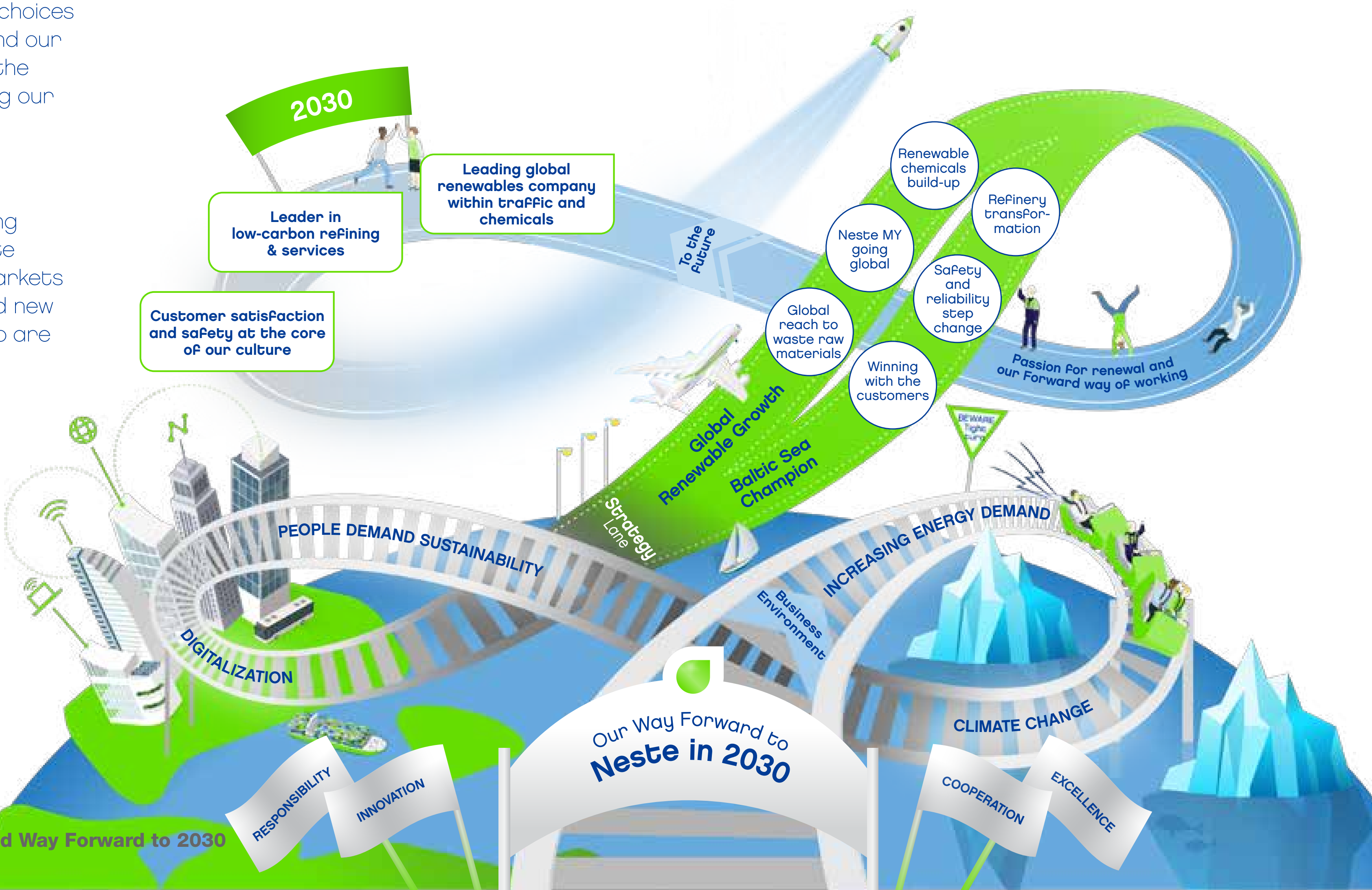
Our strategy and Way Forward to 2030 are guided by our purpose and vision: Leaving a healthier planet for our children by creating responsible choices every day. Passion for renewal and our Forward Way of Working are at the heart of everything we do, guiding our way to Neste in 2030.

We are heading towards a world that struggles in addressing rising global energy demand and climate change – all at the same time. Markets demand sustainable solutions and new opportunities open for those who are willing to embrace the change.

Read more

Our unique competitive advantages differentiate us from our competitors. Our two strategic targets are founded on these strengths.

Read more



We are in the business of fighting climate change

We are heading towards a period during which the energy sector will witness significant changes. Global commitment to tackle climate change requires major efforts to reduce emissions and the use of fossil raw materials will inevitably need to decline in different markets. Therefore there is significant potential for renewable solutions in the road transport sector as well as in aviation and the plastics industries.

We have identified a selection of drivers that are closely linked to Neste's strategic choices:

1. **Climate change** defines the future of the energy sector and drives demand for sustainable solutions

2. **Decarbonization of transport** is necessary and multiple solutions are required for it

3. The market is defined by tightening sustainability requirements and growing competition. **Renewable fuels** have a growing role

4. **Fossil fuels** will not disappear but transformation is inevitable in the industry

5. **Circular economy** is moving ahead in the chemical markets

6. New business models emerge from **digitalization**, **convenience,** and **services**

Strategic targets

Focus areas

- Global reach to waste raw materials
- Neste MY going global
- Renewable chemicals build-up
- Capacity increase program

Indicators

Global reach to waste raw materials

Aiming at a strong global waste and residue raw materials position

Target: to have access to up to 20% of the available waste and residue streams by 2021

Neste MY going global

Share of 100% Neste MY Renewable Diesel to grow from 25% in 2017 to 50% of total sales volume in 2020

The proportion of our sales outside of road traffic increases to 20% by 2020

Target: Neste Aviation Solution taking off with first delivery of renewable jet fuel

Renewable chemicals build-up

Towards commercial deliveries in bio-based plastics.

Target: first commercial delivery in 2018

Capacity increase program

Final investment decision to be done by the end of 2018

New production unit to be operational by 2022

Target: to add production capacity to 4 million tons by 2022

Focus areas

- Winning with the customers
- Operational performance step change
- Refinery transformation

Indicators

Winning with the customers

Measured by Net Promoter Score (NPS) Methodology and targeting 1st Quartile Performance, NPS over 50 in all B2B segments

Increased share of profits coming from services

Operational performance step change

Safety performance TRIF and PSER in 1st quartile compared to other European refineries by 2020

The utilization rate is 97.5% by 2020

Refinery transformation

Yearly additional margin above USD 5.5 per barrel on average

One million tons of low carbon refinery feedstocks annually by 2030

Global Renewable Growth

We have a strong, flexible business model to outdo competition and regulative turbulence.

Our focus areas	Achievements in 2017	Next steps
Global reach to waste raw materials	• We enhanced our global reach, introduced new pre-treatment solutions, and ensured continued acceptability in our key markets. • Waste and residues accounted for 76% of our renewable raw material usage. • The Sluiskil plant for pre-treatment and storage capacity for renewable raw materials was acquired in the Netherlands. Neste is now able to expand its raw material base even further. The site was in full operation at the end of 2017.	• Our target is to have access to up to 20% of the available waste and residue streams by 2021. For this we have a clear roadmap in place: developing traceability and certification for residues by 2020, opening up new feedstock markets in North America and South East Asia, developing platforms for feedstock trading operations, and investing in new pre-treatment technology. • We will also collaborate with new partners and continue to expand our renewable raw material base to lower-grade waste and residues as well as invest in our capability to process these.
Neste MY going global	• Neste's renewable diesel celebrated 10 years of reducing emissions. During those ten years, the innovation has made Neste the world's leading circular economy company in biofuels and reduced GHG emissions from traffic by more than 33 million tons. • We rebranded our 100% renewable diesel to Neste MY Renewable Diesel. The product is extensively used in California as well as in Finland where it is produced entirely from waste and residues. • We introduced Neste Green Hub, a new solution designed to decarbonize aviation. Genève Aéroport is the first mover with plans to introduce renewable jet fuel for aircraft operations starting late 2018. We also announced our collaboration with American Airlines to explore opportunities for renewable solutions.	• Our target is to grow the share of 100% Neste MY Renewable Diesel from 25% in 2017 to 50% of total sales volume in 2020. We will do this by creating loyalty with key customers and strengthening Neste brand in select key markets. We will also continue to develop our main market segments and expansion to new customer segments. • We will continue to develop new renewable solutions and services for the aviation industry together with our customers and partners.
Renewable chemicals build-up	• We have been working towards commercial deliveries in bio-based plastics and have put a large amount of resources into research on waste and residue raw materials that can be used in bio-plastics. We are also focusing our raw materials research on waste plastics as a substitute for crude oil. • We did the first major feasibility run for bio-plastics by the steam cracker route to produce for example partially bio-based poly-propylene. • The Swedish forestry company Sveaskog started testing a new coolant based on Neste MY Renewable Isoalkane™.	• We will continue to develop our business model for bio-based plastics and will extend our discussions with potential customers. Our target is to have our first commercial delivery in 2018. • We will also continue to develop our renewable solvents and bio-based chemicals businesses together with our customers and partners along different value chains. • We aim to increase the proportion of our renewable solutions outside of road traffic to 20% of the total sales volume by 2020. This will also include our solutions for the aviation industry.
Capacity increase program	• The annual production capacity of our renewable products was 2.6 million tons. • The utilization rate of our renewable product refineries was 98%. • It was decided that Neste's additional production capacity for renewable products will be located in Singapore and a feasibility study on the Singapore site expansion was started.	• We will continue the debottlenecking of existing units towards three million tons by 2020. • We will also finalize feasibility studies for the new Singapore capacity, aiming at a final investment decision by the end of 2018 and at four million tons capacity by 2022.

Baltic Sea Champion

When the world wavers, our strong home markets lead the way and support our growth.

Our focus areas

Our focus areas	Achievements in 2017	Next steps
Winning with the customers	• We offered a unique range of high-quality fuel solutions that combine both fossil and renewable fuels to our customers. • We launched our 100% Neste MY Renewable Diesel at selected stations in Finland. City of Porvoo, Helsinki Airport shuttle buses, DB Schenker, and Lassila & Tikanoja were among the B2B customers who started using it in Finland. • We expanded the distribution of Neste Pro Diesel to cover all the Baltic countries. • We also expanded the distrubution of low-sulphur bunkers to the East Coast of Sweden and started preparations to convert our fuel oil offering to be fully International Maritime Organization IMO 2020 compliant by 2020. • Active customer satisfaction management (NPS = Net Promoter Score) was implemented to all key customers in all businesses. On average, the NPS score was over 50 in B2B segments. • We improved our digital services by introducing payment-related services, for example mobile payment in Finland. In addition, we launched our Neste customer community platform to improve collaboration with our strategic wholesale customers.	• We are looking into expanding the availability of Neste MY Renewable Diesel to even more customers in the Baltic Sea area. • We are doing development work to convert fuel oil production to low-sulphur by 2020 and to offer our customers IMO 2020 compliant solutions. • We aim to be the industry leader in commercialization of services and will continue to develop our digital services to further improve our customer experience. • We will also continue our efforts to improve our supply capacity and minimize quality non-conformances.
Operational performance step change	• Our total recordable incident frequency (TRIF) was 2.1 compared to 2.8 in 2016. • We improved our Process Safety Event Rate (PSER) by 30% and it was 2.1 in 2017 compared to 3.1 in 2016. • Our operational performance improvement program continued to enhance safety, reliability, and cost competitiveness. Unplanned production losses were reduced by 60% compared to 2016.	• We will implement our Way Forward to Safety program with particular focus on contractor safety and process safety, targeting 1st quartile performance by 2020. • We will also complete the reliability program to cover all One Refinery production lines by mid-2018.
Refinery transformation	• Our strategic investment program as well as the merger of our Naantali and Porvoo refineries into a single refinery unit was completed. This improves the competitiveness of our refinery operations, product portfolio, and flexibility in raw materials. • We finalized the Solvent Deasphalting (SDA) unit and other strategic refinery investments as part of the strategic investment program. • Our additional margin was USD 5.4 per barrel.	• We will continue to improve our flexibility in raw materials. A door is opening for the co-processing of renewable and recycled feedstocks: we are targeting one million tons annually of low carbon refinery feedstocks by 2030. • We will continue to develop our energy efficiency and our commitment to the programs and its new agreement period 2017–2025, during which we aim at saving 500 GWh from the 2014 level. • Our target is to have a yearly additional margin above USD 5.5 per barrel on average.

Business areas in brief

Renewable Products

Offers renewable diesel, renewable jet fuels and solutions, renewable solvents as well as raw materials for bioplastics.

Capacity 2.6 million tons per year.

Renewable Products

MEUR	2017	2016	2015
Revenue	3,243	2,690	2,372
Comparable operating profit	561	469	402
Operating profit	476	518	233
Net assets	1,863	1,811	1,884
Comparable return on net assets (RONA)	30.2	25.9	21.8
Capital expenditure and investments in shares	122	104	28

Oil Products

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

Capacity 15 million tons per year.

Oil Products

MEUR	2017	2016	2015
Revenue	8,490	7,395	7,467
Comparable operating profit	495	453	439
Operating profit	650	563	389
Net assets	2,497	2,424	2,320
Comparable return on net assets (RONA)	19.5	18.7	18.2
Capital expenditure and investments in shares	307	249	453

Marketing & Services

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

In total 1,076 stations in five countries.

Marketing & Services

MEUR	2017	2016	2015
Revenue	3,912	3,552	3,748
Comparable operating profit	68	90	84
Operating profit	69	89	79
Net assets	280	196	184
Comparable return on net assets (RONA)	28.5	47.5	41.2
Capital expenditure and investments in shares	37	31	37

Renewable Products

Main market areas: Europe and North America.

Customers: Oil companies, retailers, wholesale customers such as professional transportation companies and municipalities, airlines and airports, chemical industry producers, Original Equipment Manufacturers (OEMs) as well as major brands.

Strengths:

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

Main demand factors:

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

Market position: Neste is the world's largest producer of renewable diesel. Its share of the world's total renewable diesel production capacity is approximately 60%.

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

Oil Products

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

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

Strengths:

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

Main demand factors:

- Economic growth is driving global demand growth for oil products, however in Europe demand is expected to start declining with increasing shift to low-carbon solutions
- Stricter oil product quality requirements
- Increasing demand for solutions containing both fossil and renewable fuels

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

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

Marketing & Services

Main market areas: 796 stations in Finland, 75 in the St. Petersburg region in Northwest Russia, and 205 stations in the Baltic countries (Estonia, Latvia and Lithuania).

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

Strengths:

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

Main demand factors:

- Developments in traffic and transport volumes
- Motorists' growing expectations for services
- Municipal and industry requirements for cleaner energy solutions

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

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

Key events 2017

Neste MY Renewable Diesel launched in Finland

Produced entirely from waste and residues, Neste MY Renewable Diesel was introduced for consumers and later for heavy vehicles in Finland.

Read more

Easier refuelling

The Neste mobile application enables mobile payment for fuel in Finland, making refuelling faster, safer, and easier for customers.

Read more

Solvent Deasphalting Unit

The new Solvent Deasphalting (SDA) Unit progressed at the Porvoo refinery during Q2 and reached full capacity utilization rate by year-end 2017.

Genève Aéroport

Neste and Genève Aéroport started a collaboration to offer sustainable and renewable solutions for aviation. Genève Aéroport is planning to introduce renewable jet fuel for aircraft operations starting late 2018.

Read more

A step forward for Renewable Products

Neste's additional production capacity for renewable products will be located in Singapore. Neste is aiming at a final investment decision by year-end 2018.

Read more

American Airlines

Neste and American Airlines started to explore opportunities for renewable fuel use.

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Neste Engineering Solutions

Neste acquired Neste Jacobs and now holds all of its shares. The new name Neste Engineering Solutions describes how the company operates as an engineering solutions provider for its customers.

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Deeper knowhow on the circular economy

Neste is putting a large amount of resources into research on waste and residue raw materials. Bioplastics and waste plastics are now in focus.

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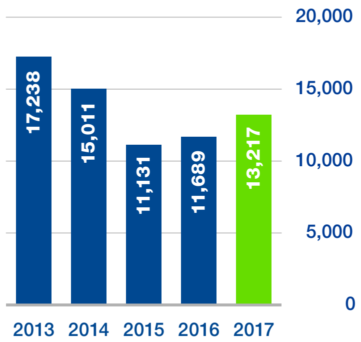
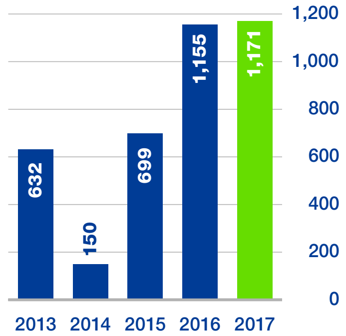
Key figures 2017

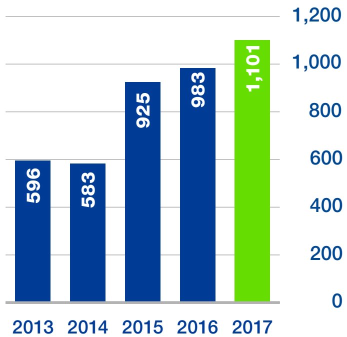
Revenue, EUR million



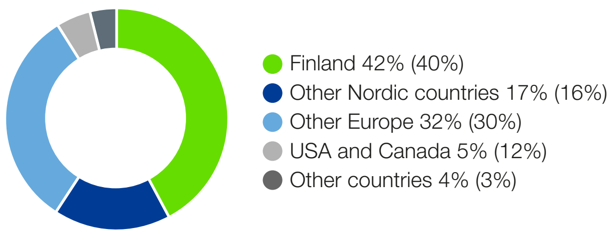
Operating profit, EUR million



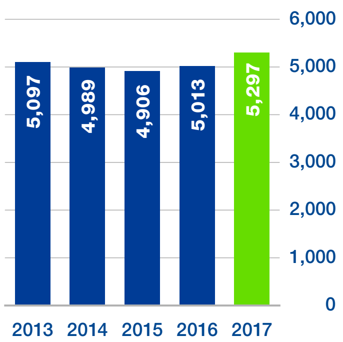
Comparable operating profit, EUR million



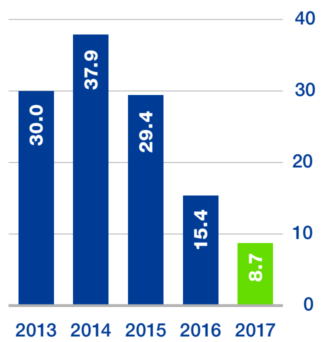
Sales by region from in-house production, %



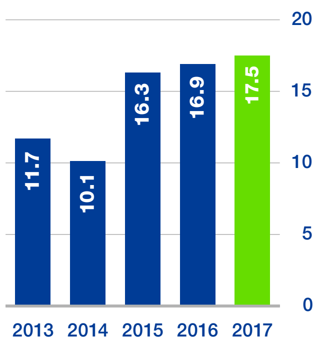
Personnel, on average



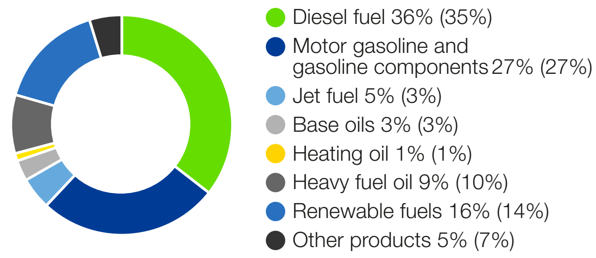
Leverage ratio, %



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

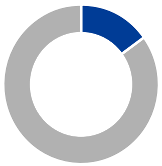


Sales by product from in-house production, %



Financial targets

A leverage ratio of below **40%**



ROACE of at least **15%** annually over the long term

Our dividend policy is to distribute at least **50%** of our comparable net profit as dividend

	2017	2016	Change, %
Income statement			
Revenue, MEUR	13,217	11,689	13%
Operating profit, MEUR	1,171	1,155	1%
Comparable operating profit, MEUR	1,101	983	12%
Profit before income taxes, MEUR	1,094	1,075	2%
EBITDA, MEUR	1,542	1,521	1%
Comparable EBITDA, MEUR	1,472	1,349	9%
Comparable net profit, MEUR	851	793	7%
Profitability, %			
Return on equity (ROE), %	22.7	28.1	–19%
Return on average capital employed, after tax (ROACE), %	17.5	16.9	4%
Financing and financial position			
Total equity, MEUR	4,338	3,755	16%
Interest-bearing net debt, MEUR	412	683	–40%
Leverage ratio, %	8.7	15.4	–44%
Gearing, %	9.5	18.2	–48%
Equity-to-assets ratio, %	55.8	50.6	10%
Net cash generated from operating activities, MEUR	1,094	1,193	–8%
Other indicators			
Capital employed, MEUR	5,533	5,226	6%
Capital expenditure and investment in shares, MEUR	536	422	27%
Research and development expenditure, MEUR	44	41	7%
Average number of personnel	5,297	5,013	6%
Total refining margin, USD/bbl	11.08	10.38	7%
Total Recordable Injury Frequency per million hours worked (TRIF)	2.1	2.8	–25%
Share-related indicators			
Earnings per share (EPS), EUR	3.56	3.67	–3%
Comparable earnings per share, EUR	3.33	3.10	7%
Equity per share, EUR	16.96	14.60	16%
Cash flow per share, EUR	4.28	4.67	–8%
Price/earnings ratio (P/E)	14.99	9.94	51%
Dividend per share, EUR	1.70 [1]	1.30	31%
Dividend payout ratio, %	47.8 [1]	35.4	35%
Dividend yield, %	3.2 [1]	3.6	–11%
Dividend per comparable earnings per share, %	51.1 [1]	41.9	22%
Share price at the end of the period, EUR	53.35	36.50	46%
Average share price, EUR	38.34	32.25	19%
Lowest share price, EUR	31.15	25.42	23%
Highest share price, EUR	54.05	40.78	33%
Market capitalization at the end of the period, MEUR	13,679	9,359	46%

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

Information for investors

Annual General Meeting

Neste Corporation's Annual General Meeting will be held on Thursday, 5 April 2018 at 1 pm EET at Messukeskus at Messuaukio 1, Helsinki. Registration and the distribution of voting papers will begin at 12 noon. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4 pm on 28 March 2018 at the latest by:

- visiting www.neste.com and following the instructions given there, or
- phoning +358 (0)20 770 6862 (Monday–Friday, 9 am–4 pm EET), or
- writing to Neste Corporation, Annual General Meeting, P.O. Box 95, FI-00095 Neste.

Originals of shareholders' letters of proxy should reach the Company before the last day for registration.

The Board of Directors will propose to the AGM that a dividend of EUR 1.70 per share shall be paid for the financial year ending on 31 December 2017. The company intends to distribute the annual dividend in two installments, and this has also been proposed to the Annual General Meeting 2018.

Dividend payment in 2018:

- 9 April 2018: Dividend payment record date for the first installment
- 16 April 2018: Dividend payable for the first installment (EUR 0.85 per share)
- 10 October 2018: Dividend payment record date for the second installment
- 17 October 2018: Dividend payable for the second installment (EUR 0.85 per share)

Neste shares are traded on Nasdaq Helsinki under the trading code NESTE. The company had 63,082 (64,794) shareholders at the end of 2017.

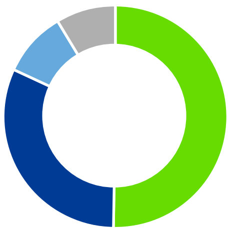
Interim reports in 2018

Neste Corporation will publish financial reports in 2018 as follows:

- Interim Report January–March 2018: 26 April 2018
- Half Year Financial Report January–June 2018: 3 August 2018
- Interim Report January–September 2018: 26 October 2018

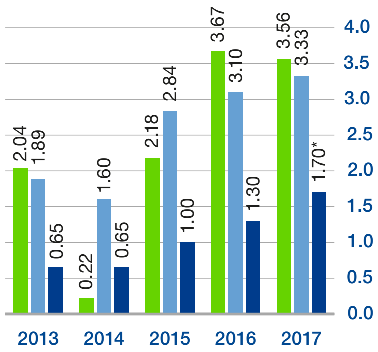
Interim Reports are published in Finnish and English and can be downloaded at www.neste.com/investors.

Shareholder structure on 31 December 2017, %



- The Finnish State 50.1% (50.1%)
- International institutions 31.5% (30.3%)
- Finnish institutions 9.6% (10.1%)
- Finnish households 8.7% (9.6%)

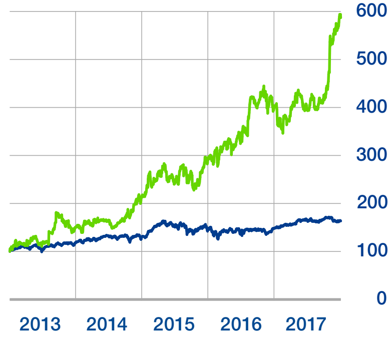
Earnings per share and dividend per share, EUR



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

*2017: 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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General e-mail address for investors:

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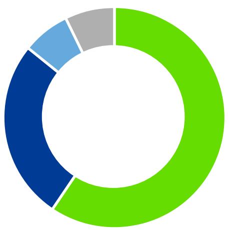
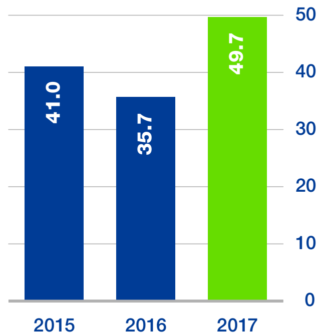
Neste share's trading volumes in 2017, %



- Nasdaq Helsinki 59.2% (61.2%)
- Chi-X Europe 26.5% (20.0%)
- BATS Europe 7.0% (12.2%)
- Turquoise 7.3% (6.6%)

Neste's share performance 2013–2017, EUR

Total shareholder return, %



Sustainability

In 2017, our renewable fuels, namely Neste MY Renewable Diesel, reduced climate emissions by 8.3 million tons. We aim even higher.

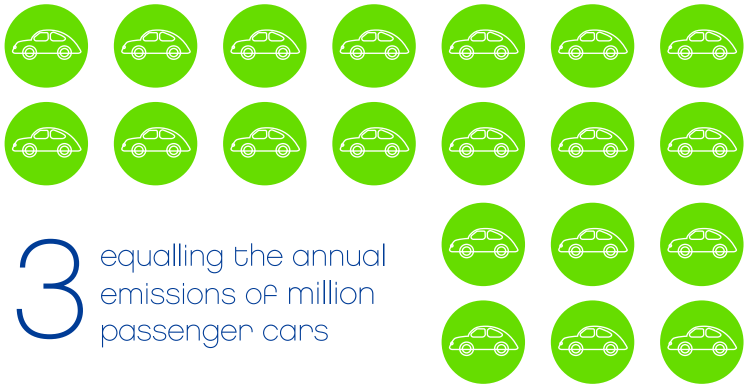
Read more

On the Global 100 list published in January 2018, our sustainability performance was ranked the 2nd best in the world.

Read more

Sustainability highlights

The renewable fuels we produced reduced global climate emissions by:



3 equalling the annual emissions of million passenger cars

2014 5.6 Mt

2015 6.4 Mt

2016 6.7 Mt

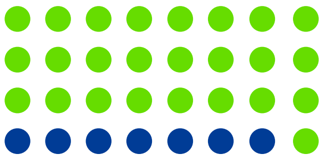
2017 8.3 Mt

Target 2022 9 Mt

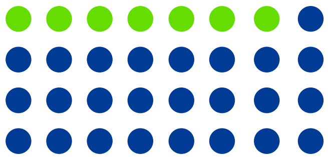
We were:

- included in the **Dow Jones** Sustainability Indices for the 11th consecutive year, a ranking of the sustainability performance of the largest 2,500 companies listed on the Dow Jones Global Total Stock Market Index;
- listed among the leading performers on the **CDP** Climate, Water, and Forests lists; and
- ranked the 2nd most sustainable company in the world on the **Global 100** list in January 2018.

We maintained a very high share of waste and residues:



76% waste and residues



24% various vegetable oils

Our refineries of renewable products are technically capable of running on 100% waste and residues to produce a broad range of premium-quality renewable products.

The crude palm oil we used was 100% certified & traceable

We mapped **96%** of our Palm Fatty Acid Distillate (PFAD) supply chain to the palm oil mills supplying the palm oil refineries where PFAD is extracted during vegetable oil refining.

298 safe days in 2017

11 safe days more than in 2016

Energy intensity in oil products production improved by 2% from 2016.

Managing sustainability

Healthier planet for our children

We firmly believe that we should all work our hardest towards leaving the planet in a better shape for future generations. The magnitude of the environmental and climate challenges we face at the moment – and which may get more severe over time – creates urgency that cannot be overlooked.

Our low-emission solutions for road transportation, aviation, and marine uses are our greatest contribution to the global efforts to combat these environmental and climate challenges. The positive global climate impact of our renewable solutions corresponds to removing three million vehicles from the roads for a full year. We aim even higher.

Sustainability is deeply embedded in Neste's everyday business. For us it means continuous improvements for people, environment, and climate over our entire supply chain.

We believe that circular economy and smart utilization of waste and residue raw materials play essential roles in the future. Collaboration, trust, and high level of transparency between us and our various stakeholders are key to building sustainable co-operation and business.

We thank our business partners and other stakeholders for a good collaboration in 2017, and look forward to continued work in 2018!

Simo Honkanen, SVP, Sustainability and Public Affairs

Giving back to society

"At the end of 2017, our management team got a chance to learn about the work at charity organizations. Our General Counsel Christian Ståhlberg and I helped assemble furniture at one of the SOS Children's Villages' houses. Our management team also donated their time to help Myllypuro food bank and Finnish Salvation Army.

In 2018, our employees will also be able to donate some of their working time to voluntary work. We should have many stories to share on this in our 2018 report."

@SimoHonkanen @NesteGlobal

Management system developments in 2017

Sustainability at Neste is managed in accordance with our sustainability principles and guidelines.

- Started redefining Neste's Management System to ensure it efficiently supports implementation of Neste's strategy. Defined structure and main elements of the new system, and analyzed details of the operations and business levels.
- Updated corporate level health, safety and environment (HSE) management system and its 15 HSE principles. Introduced a new Environmental Principle as one of the 15 HSE principles for all our business areas and logistics. Its requirements address environmental awareness and apply to all jurisdictions where Neste operates. Conducted gap analysis between corporate level principles and local management systems in all business areas. Developed an audit model; the process will be implemented in 2018.
- Updated Code of Conduct to include references to new Ethics Online whistleblower system and strengthened approach to human rights. Offered training targeting all Neste employees and Neste Board Members.
- Updated Anti-Corruption eLearning module for our employees.
- Published new Human Rights Principles and started internal and external implementation.
- Started updating our No Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock with Consortium of Resource Experts (CORE).

Managing sustainability

Neste's vision is to create responsible choices every day. Neste creates value for society by helping its customers reduce climate emissions through developing cleaner solutions for transportation, aviation, and marine uses, as well as renewable solutions for the chemical and plastics industries.

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

Read more about how sustainability is managed at Neste

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

As part of meeting the new requirements for **disclosure of non-financial and diversity information in 2017**, a separate risk assessment was conducted to ensure sufficient coverage of Neste's risk reporting. This work was supplemented with an Environmental, Social, and Governance (ESG) risk assessment, conducted by an external expert organization.

A new tool for all stakeholders to voice their concerns

In line with our human rights approach, we made our new whistleblower system, **Ethics Online**, available to all our stakeholders via our website. Ethics Online serves as a grievance mechanism and enables Neste's stakeholders, e.g. various actors in our supply chains, to raise possible concerns on Neste's practices without fear of reprisals. The possible irregularities or misconducts are evaluated and investigated by Neste's Internal Audit and Compliance Officer. The cases are reported regularly to the Board of Directors' Audit Committee.

Our new whistleblower system Ethics Online enables all Neste's stakeholders, e.g. various actors in our supply chains, to raise possible concerns on Neste's practices without fear of reprisals.

Materiality assessment

This Sustainability Report focuses on the most material topics for Neste and its stakeholders. Neste conducts a materiality assessment once every two years. The most recent one was conducted with almost 600 stakeholder representatives in fall 2016, and identified 24 material topics.

In 2017, we regrouped and combined the 24 material topics into nine to ensure a tighter focus on them in Neste's daily operations as well as in reporting.

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

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

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

See our updated materiality matrix on our website

Materiality, value creation, and impact measurement

The identification, measurement, and follow-up of the overall impact of our operations was a particular target for development of our sustainability approach in 2017.

In the very beginning of 2018, we started conducting a materiality assessment to update our materiality matrix. We modified our method to incorporate a value creation approach into the assessment. After identifying the most material topics and forming Neste's value creation framework, we will conduct a pilot study on impact valuation. The results will be finalized during the first half of 2018 and presented in more detail in the 2018 report.

Sustainability reporting 2017

- Materiality matrix
- Performance and reporting
- Sustainability KPIs: pp. 24, 35, 41, 44, 46, 48 and 51
- GRI Content Index
- Non-financial reporting in the Review by the Board of Directors and Corporate Governance Statement

Sustainability KPIs: Managing sustainability

Economic viability and financial responsibility to owners

Targets and achievements in 2017

- View how we create value for our stakeholders.
  GRI Standards: 201-1, 203-2

Next

- Continue creating large-scale social value.

Neste as part of society

Our vision is to create responsible choices every day. Our sustainably-produced solutions for decarbonizing road transport, aviation, and chemical sectors are our most significant contribution to the implementation of the Paris Agreement, as well as, the United Nations' Sustainable Development Goals (SDG) on "Climate Action" (SDG 13) and "Sustainable Cities and Communities" (SDG 11).

With these solutions, we create added value to the society while enabling our customers to minimize their environmental footprint, which ultimately benefits people, as well.

Cities, progressive companies, and public pressure accelerate the transformation towards low-carbon economies.

CLIMATE

Combating climate change by building sustainable solutions for the needs of transport, businesses, and consumers to enable decarbonization in various fields.

Low-carbon solutions: renewable fuels and renewable chemicals

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 the people, communities, and societies around our business.

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 organize events and meetings, take part in seminars and conferences, as well as hold memberships in organizations that have significance for our industry and offer value to our business operations.

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

Engagement in 2017

In 2017, our stakeholder dialogue continued to be focused particularly on the acceptance of renewable raw-materials and transparency of their supply chains. This discussion was accelerated particularly by the development of the European Union's Renewable Energy Directive for 2021–2030 ("EU RED II").

Neste's raw material development and visions for future raw materials remained an area of stakeholders' interest, as much as the availability of suitable waste and residue raw materials to meet the growing demand. Neste's role in circular economy related to its renewable solutions offering for the plastics industry has also been an area of interest, as well as the company's views on future of mobility, including topics such as the development of different vehicle powertrains.

Neste engages in continuous, active co-operation with vehicle companies. The co-operation covers development of fuels and lubricants, and aims at emissions reductions, for example.

Similarly to last year, Neste's means and solutions to support sustainable growth in aviation remained a common topic in stakeholder engagement. Neste's environment, social, and governance (ESG) performance has additionally been discussed in meetings with investors. Neste has attended several investor events with the focus on sustainability and ESG issues.

Examples of our sustainability in 2017

CASE

Neste's renewable fuels reduced global climate emissions by 8.3 million tons in 2017

Read more

CASE

EduCycle Exchange program brought together 20 schools around the world to learn about climate change

Read more

CASE

Neste employees encouraged to donate working time for a good cause in 2018

Read more

CASE

Neste develops a new Supplier Sustainability Portal together with its suppliers

Read more

CASE

Neste Green Hub solution supports multi-stakeholder efforts to decrease emissions across the aviation industry

Read more

CASE

Neste's human rights program making an impact in Malaysia and Indonesia

Read more

CASE

Neste-lead project verified 50% methane emission reduction at palm oil mills

Read more

CASE

The Ham Trick campaign exceeded expectations – over 145,000 households in Finland recycled ham fat as renewable fuel

Read more

Creating value for stakeholders

Employees

Direct impact (EUR million)	2017	2016	2015
Wages and salaries	290	266	271
Other personnel expenses*	82	83	80
Income tax paid by the personnel in Finland	68	68	73
Company's payments to pension funds	59	56	51
Company's payments to the personnel fund	4	4	6

* Includes training costs

Indirect impact

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

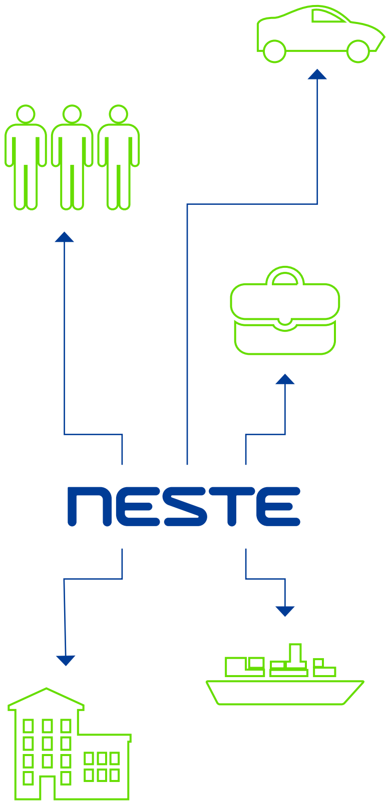
Society

Direct impact (EUR million)	2017	2016	2015
Corporate income tax	166	152	55
Excise taxes	2,360	2,281	2,061
Environmental tax	8	9	21
Charity work and sponsorship	1	1	1

Indirect impact

- The taxes we pay and the employment we provide either directly or indirectly through our suppliers, contractors, and other partners support social development and the services societies provide in all the countries within which we operate.

View Neste's tax footprint report on our website



Customers

Direct impact (EUR million)	2017	2016	2015
Net sales	13,217	11,689	11,131

Indirect impact

- Our low-carbon fuels enabled our customers to reduce greenhouse gas emissions altogether by 8.3 million tons, which helps combat climate change.
- The use of our renewable fuels also reduced particulate emissions affecting local air quality.
- Our renewable fuels helped our biofuels sector customers to meet their blending obligations.
- Replacing crude oil based products and raw materials with our renewables provided our customers with opportunities to increase their brand value.

Shareholders and financiers

Direct impact (EUR million)	2017	2016	2015
Dividends	435	332	256
Interest and financial expenses	79	67	84

Indirect impact

- Shareholders benefited through increases in the value of the shares they hold and the dividends they received.
- Dividends paid for the shares owned by the state of Finland (ownership 50.10% at the end of 2017) helped maintain society's services.

Suppliers

Direct impact (EUR million)	2017	2016	2015
Cash-out investments	502	407	505
Purchases of refinery feedstocks	10,736	8,921	9,016
Others (e.g. goods and services)	590	983	842

Indirect impact

- Joint sustainability programs to prevent deforestation and secure human and labor rights maintained and increased our suppliers' competitiveness and offered potential for new business opportunities. It also supported well-being of their employees and the surrounding communities.
- Suppliers of renewable raw materials benefited from our R&D expertise, e.g. in life cycle calculations of greenhouse gas emissions.
- Steady income from Neste offered our suppliers opportunities to offer continuous employment and procure products and services.

Climate and the environment

EduCycle for climate education

In 2017, we launched the EduCycle Exchange program to support global climate education. The program was based on our educational climate game EduCycle that we sent to 20 schools around the world. The augmented reality game enabled teachers and children to explore together how their decisions affected the imaginary EduVille and its inhabitants. We encouraged the schools to share their experiences and collaborate with schools from different parts of the world.

From 2018 on, development of EduCycle will be continued by SyraWise specialized in educational games.

Read more

We help our customers reduce climate emissions by developing cleaner solutions for transportation, aviation, and marine uses, as well as renewable solutions for the chemical and plastics industries. In 2017, our renewable fuels helped **reduce greenhouse gas emissions** (GHG) by 8.3 (6.7) million tons, which exceeds our target of 7 million tons. It is also our most significant contribution to the global efforts to combat climate change. We aim at reaching a greenhouse gas reduction of 9 million tons in 2022. Neste MY Renewable Diesel has enabled our customers to reduce GHG emissions by more than **33 million tons during the past 10 years**.

Regulation creates markets for low-carbon solutions in road transport. While our solutions are used to fulfill biofuel mandates around the world, they also help our customers contribute directly to implementation of the Paris Agreement on climate change. The latter applies also to our customers in the aviation and chemicals industries, and is the reason why growing demand is expected from these sectors even when regulation is currently not requiring these industries to do so. Public pressure as well as expectations from end-users and other customers are speeding up the transformation towards low-carbon economies.

Decarbonizing transport

Reducing transportation-related emissions has been one of the key focus areas in global climate discussions. This is an area within which we have established ourselves as the world's leading producer of renewable diesel.

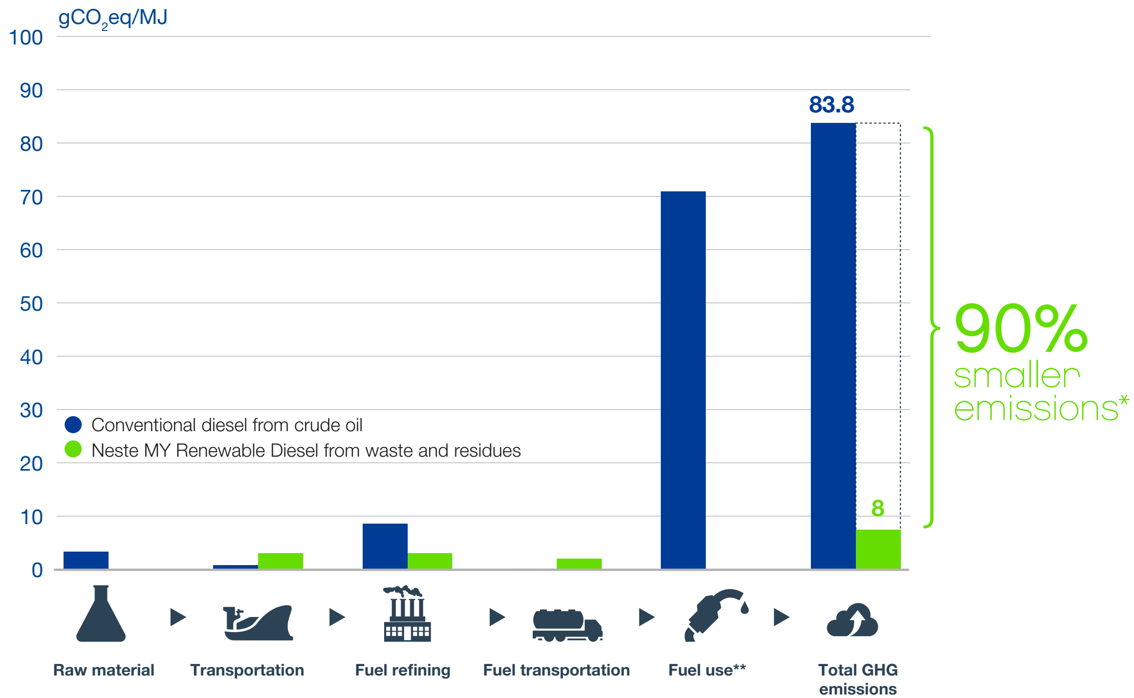
Our flagship product, **Neste MY Renewable Diesel** is a drop-in solution for all diesel-powered passenger cars and heavy transport, enabling up to 90% smaller greenhouse gas emissions over the fuel's life cycle compared to conventional diesel.

The use of Neste MY Renewable Diesel can also reduce local emissions, such as fine particulates and nitrogen oxides, which helps improve air quality in urban areas.

In the beginning of 2017, we made neat, i.e. **100% Neste MY Renewable Diesel available in the Helsinki metropolitan area**, and to heavy transport in the larger area of Southern Finland. The fuel sold in Finland is produced entirely from waste and residue raw materials. Although Neste MY Renewable Diesel has been available in various markets around the world for years, this was the first time at the European level that 100% renewable diesel was made available to all consumers in the area.

90% smaller life cycle emissions with Neste MY Renewable Diesel™

Comparison of greenhouse gas emissions (GHG, gCO_2eq/MJ) over the life cycle of Neste MY Renewable Diesel™ and conventional diesel



* Calculation method complies with the EU Renewable Energy Directive (2009/28/EC). Recent update to certification scheme emission factors improved Neste's GHG reduction figures in 2017 compared to previous year.

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

Neste MY Renewable Diesel offers its users the greatest climate benefits when the fuel is used neat, i.e. in 100% concentration, and when it is produced from waste and residue raw materials. Neste MY Renewable Diesel reduces greenhouse gas emissions even when used as a biocomponent in smaller percentages in fuel blends.

We expanded our distribution of Neste Pro Diesel, containing at least 15% of Neste MY Renewable Diesel to Estonia via our own station network. The product is also available in Latvia and Lithuania.

Finland is the leading country in Europe in terms of 95 E10 gasoline usage. The fuel was introduced in the Finnish market in 2011, and has been reducing transport-related emissions ever since. 95 E10 is available at fuel stations country-wide, also at all Neste stations, making Neste Finland's leading distributor of the fuel containing up to 10% of bio-based ethanol.

Cities and progressive companies remain at the forefront of lowering emissions

Cities, municipalities, and various progressive companies around the world continue taking the voluntary initiative to significantly reduce emissions from their fleet by replacing conventional diesel with renewable fuel. Several companies, for example in the transportation and logistics sector, are integrating our low-carbon solutions to their offering to create value-added services for their customers.

Here are examples of our customers who decarbonized their fleet with our Neste MY Renewable Diesel in Finland in 2017:

- DB Schenker's light distribution vehicles in Helsinki and Turku, Finland.
- Selected Lassila & Tikanoja's waste transportation vehicles in the Helsinki metropolitan area, Finland.
- City of Porvoo's entire diesel-fueled fleet, as the the first city in Finland.
- Helsinki City Construction Services Stara's trucks and construction machinery as part of Europe's largest coordinated advanced biofuels project BioSata.
- UFF logistics chain, transporting recycled clothing for non-profit purposes all over Finland.
- The Public Works Department at the City of Espoo made a switch to Neste MY Renewable Diesel in all of its diesel powered machines in January, 2018.

In Finland, Neste MY Renewable Diesel continued to move event organizer vehicles with reduced emissions, as well as to power the events themselves. For example, Tall Ships Races in Turku and Kotka, Neste Rally Finland, and Weekend Festival in Helsinki altogether reduced GHG emissions by the amount equaling 24 flights around the world.

Input in the public debate on future of mobility

In 2017, debates surrounding the future role of diesel in road transport, as well as ,the role of biofuels in combating climate change continued. The debate was accelerated by continued coverage on the "emission scandal" focusing on local exhaust emissions from diesel engines.

We took part in the discussion by expressing our views, for example, with the following:

- Our news article "Are local emissions of diesel cars as bad as claimed?" in January highlighted that the global emission debate concerns primarily diesel passenger cars, not all diesel-fueled vehicles. We noted that emissions measurement had already been strict for heavy-duty vehicles in Europe. A new stringent test method was introduced for passenger cars in 2017; the decision to do so had been made already prior to the debate. Now new diesel-powered passenger cars are as low-emitting as gasoline cars, some diesel models even lower-emitting.
- Our blog post "Let's not rush with diesel" in May which highlighted that advanced biofuels such as Neste MY Renewable Diesel remain the cleanest and the most economical energy carrier for heavy road transportation and heavy-duty machinery far into the future.
- A blog post "Two lanes make you go faster – the future of motoring is hybrid" by Neste's President & CEO Matti Lievonen in August pointed out that although all possible means are needed to reduce transportation-related emissions and to combat climate change, envisioning future as 100% electric is unrealistic.
- We revisited these points at our stakeholder seminar "Suunta eteenpäin 2017" in October, and issued a release "Neste's Taking Action on Climate Change examines changes in energy and transport markets" to introduce Neste's business environment outlook and to highlight that there is significant potential to tackle climate change not only in the road transportation but also by adopting renewable solutions in the aviation and plastics industries.

We announced new exclusive partnerships with four fuel distributors in California, and launched a marketing campaign "Clear the air with Neste MY Renewable Diesel".

In California, we continued offering our renewable diesel to cities, municipalities, and private fleet via four new distribution partners: IPC USA (Southern California), Ramos Oil Company (Northeast California), Van De Pol Petroleum (Central Valley California), and Western States Oil Co. (North Coast California).

In addition to the ones mentioned above, Neste has renewable fuels customers in multiple countries.

Decarbonizing aviation

We cooperated with airports and airlines to develop solutions that help aviation industry to achieve their emission reduction targets. These targets include reducing local emissions at the airports and surrounding areas, as well as targets towards an industry commitment to cap aviation's CO_2 emissions at 2020 levels globally.

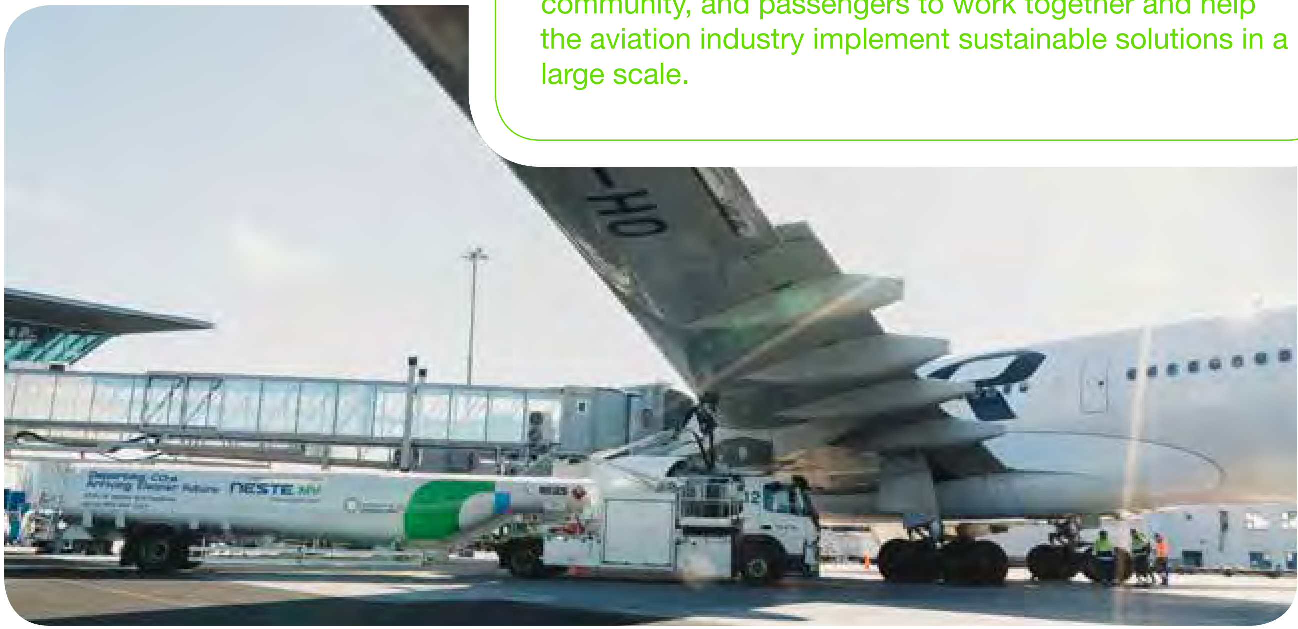
In 2017, we introduced a Green Hub concept to enable airports, solutions providers, airlines, authorities, local community, and passengers to work together and help the aviation industry implement sustainable solutions in a large scale.

In 2017, we helped reduce emissions at Stuttgart Airport as its ground fleet started utilizing renewable diesel produced by Neste as part of its "Fairport" program. Also twenty Helsinki Airport buses in Finland switched fossil diesel to Neste MY Renewable Diesel as part of Finavia's climate program.

Neste MY Renewable Jet Fuel was already in 2011 successfully used as a 50% blend with conventional jet fuel in over 1,000 commercial flights by Lufthansa. The fuel was also made available to all airlines fueling at Oslo Airport, Gardermoen in 2016. These are examples of the aviation sector's first steps towards decarbonization with renewables, a large-scale transformation process in which our low-carbon solutions can make a significant contribution.

In order to support the process, we introduced a Green Hub concept in 2017 to enable airports, solutions providers, airlines, authorities, local community, and passengers to work together, share best practices, and help the aviation industry implement sustainable solutions widely. Neste announced its first Green Hub partnership in September with Genève Aéroport in Switzerland.

Towards the end of the year, we entered into an agreement with American Airlines to explore opportunities to further reduce American's environmental footprint through the use of Neste's renewable fuels. One goal of this cooperation will be to



facilitate acceptance and commercialization of High Freeze Point HEFA (HFP-HEFA) renewable jet fuel which is currently under consideration for approval by ASTM International.

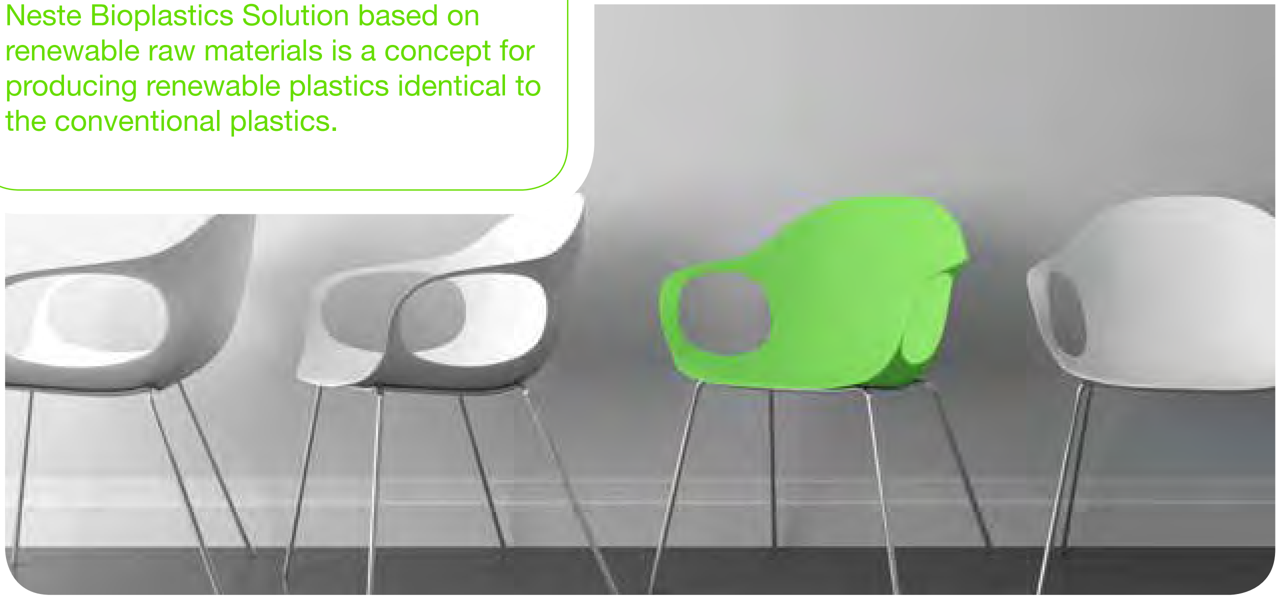
Proposed changes to the European Renewable Energy Directive (i.e. "EU RED II") could further support the accelerated adoption of renewable fuels in aviation by enabling to count such aviation biofuels towards European renewable fuels targets with a multiplier from 2021 onwards.

Solutions to reduce marine emissions

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

One way for the shipping industry to comply with the new 0.5% regulation will be to switch from high-sulfur heavy fuel oil to low-sulfur marine fuels.

Neste Bioplastics Solution based on renewable raw materials is a concept for producing renewable plastics identical to the conventional plastics.



Our new solvent de-asphalting (SDA) unit at the Porvoo refinery will enable us to produce heavier sulphur-compliant marine fuel products. We are currently looking into fuel solutions to serve the shipping industry in the future 0.5% global market.

Decarbonizing the chemical industry

Our renewable products can help reduce or even replace crude oil based raw materials in various applications in the chemical industry. This will help the chemical industry players reduce the carbon footprint of their products.

Neste MY Renewable Isoalkane can be used to produce renewable solvents with a reduced carbon footprint compared to fossil-based solvents. It is an alternative to traditional mineral oils, and ideal for a wide range of chemical applications from paints and coatings to lubricants.

In 2017, we announced that the Swedish forestry company Sveaskog tested a new coolant based on Neste Renewable Isoalkane in its forest machines in cooperation with Avantherm. Avantherm's fossil-free products such as their heat transfer fluids are based on Neste MY Renewable Isoalkane. These heat transfer fluids have been used in a heating trial by trams in Helsinki in 2016, for example.

Neste Bioplastics Solution based on renewable raw materials is a concept for producing bio-based plastics identical to conventional plastics. In its development, Neste focuses on durable, reusable, and recyclable renewable polymers. End-products produced from renewable polymers help combat climate change by having low CO_2 emissions over the entire life cycle compared to conventional plastics. Bioplastics produced from our renewable hydrocarbons can be used to make parts for cars, packaging, consumer goods and electronics, to name a few.

In 2017, we continued mutual knowledge sharing with various pioneering companies interested in our bioplastics solution. The greatest progress was made with IKEA with which we announced a partnership in 2016, aiming at production of renewable plastics. Following a successful production trial in spring 2017, we aim at first commercial delivery of bio-based plastics during 2018.

Climate efforts in other areas

- Neste-lead project verified a 50% methane emission reduction for introducing a belt filter press to effluent treatment at palm oil mills.
- We made preparations to start bio-LPG, i.e. renewable propane deliveries in the beginning of 2018 from our Rotterdam refinery where it is produced from renewable raw materials such as waste and residues. The production is the first of its kind anywhere in the world. Neste MY Renewable Propane is a cleaner alternative to conventional propane and can be used not only as an industrial gas, but also in many different applications such as cooking and heating. It can also be used as a low-carbon drop-in fuel in LPG cars, already common in some European countries.

Sustainability KPIs: Climate and the environment

Material topic	Targets and achievements in 2017	Next
Low-carbon solutions	• Greenhouse gas emission (GHG) reduction achieved with Neste's renewable fuels compared to crude oil based diesel: 8.3 Mt (target 2017: 7 Mt). GRI Standards: 305-5.	• Reduce GHG emissions by 9 Mt in 2022.
	• Clean Revenue (i.e. total revenue of Renewable Products segment divided by Group revenue): 24.5%	• To further develop our solutions portfolio for decarbonizing transport, aviation, and chemical sectors. • To grow the share of 100% Neste MY Renewable Diesel from 25% in 2017 to 50% of our total sales volume in 2020. • Our long-term target is to become a leading global renewables company within traffic and in chemicals.

Sustainable raw materials

Neste uses more than 10 different renewable raw materials to produce a range of renewable fuels and renewable chemicals. In 2017, waste and residues accounted for 76% of the renewable raw materials we used. Switching from conventional diesel to waste and residue based 100% Neste MY Renewable Diesel reduces greenhouse gas emissions by 90% on the average calculated over the product's entire life cycle.

We source only sustainably-produced renewable raw materials from suppliers who meet our strict criteria and fully comply with the regulatory requirements for biofuels in our key markets. Our extensive raw material base and global supply provide us flexibility, as they allow us to respond to the differing needs of various markets and customers.

Leader in transparency and pioneer in traceability

We continue being the only energy sector company to transparently disclose our forest footprint as part of the globally renowned CDP Forests program. Our efforts to manage deforestation risk were evaluated as belonging to the leading performers' Leadership-class in the CDP Forests program in 2017.

All our renewable raw materials are traceable to the place of their origin, complying fully with regulation in our key markets. The palm oil that we use has been fully traceable to the plantation level since 2007, and 100% certified since 2013. It fully complies with the sustainability regulation for biofuels and offers a 69% greenhouse gas (GHG) reduction when refined into Neste MY Renewable Diesel. This clearly exceeds the 50% GHG emission reduction requirement for all biofuels which is defined in the Renewable Energy Directive (EU RED). In 2017, already 36% of the palm oil we used came from mills where methane is captured or its formation reduced with other methods.

In addition to the high share of waste and residues, sustainably produced, 100% certified, and fully traceable palm oil has a place in our raw material portfolio, and accounted for 24% of our renewable raw material usage in 2017.

We also utilized palm effluent sludge (PES) as raw material, the recovery of which helps reduce methane emissions at the palm oil mill even further. PES is oily sludge that can be recovered for industrial uses from palm oil mill effluent (POME), i.e. wastewater released from palm oil mills.

Among the larger palm oil using companies, we were the first to make our palm oil supply chain fully transparent in 2016 by publishing a comprehensive list of our suppliers on our website. This was done to show our commitment to transparency but also to enable monitoring of our supply chain collaboratively with our stakeholders.

In April, we improved the transparency of our palm oil supply chain even further by launching the Crude Palm Oil Dashboard. The site introduces our entire palm oil supply chain, i.e. all companies, mills, and plantations that supplied Neste in 2016. The site provides also maps of mill locations and information on certifications.

Pioneering work with PFAD supply chain transparency

In April 2017, after listening to our stakeholders' wishes, we committed to become the first in the world to reach full traceability with our palm fatty acid distillate (PFAD) supply chain. These efforts significantly surpass the current regulatory requirements for residue raw materials, such as PFAD, which require traceability to to the point of origin, i.e the palm oil refinery.

PFAD is a processing residue that consists of degraded fats that are undesired for food production and removed during the palm oil refining process in order for the oil to meet food industry's quality standards. Palm oil refineries yield 3–5% of PFAD as a residue.

Our PFAD transparency targets are as follows:

- In 2017, our entire PFAD supply chain is mapped to palm oil mills.
- In 2020, our PFAD supply chain is mapped to oil palm plantations.

By the end of 2017, we had mapped the majority (96%) of our PFAD supply chain to the palm oil mills supplying oil to palm oil refineries in which PFAD is extracted from palm oil. In 2018, we plan to engage the refineries that supply to us to ensure their operations and their supplying mills are in compliance with our sustainability policies and principles, such as our No-Deforestation Guidelines and Supplier Code of Conduct or equivalent ones.

In spring 2018, we will publish our PFAD supply chain data from 2017 together with updated data on our CPO supply chain.

We will continue working towards our second target in collaboration with palm oil suppliers and the Consortium of Resource Experts (CORE) combining sustainability specialists from Daemeter and Proforest. We welcome other companies using palm oil and its derivatives to join our efforts.

What makes our second target particularly challenging is that it will require mapping large parts of currently mostly unmapped food industry supply chains. The food industry, representing nearly 70% of the palm oil usage globally, does not have any regulatory requirements to know the exact origins of their raw materials.

Despite the challenges involved, PFAD traceability efforts and the large-scale engagement that it requires, present opportunities for significant transformative impact within the entire palm oil industry.

We became the first company in the world to start mapping our entire palm fatty acid distillate (PFAD) supply chain to the palm oil mills, supplying oil to palm oil refineries in which PFAD is extracted from palm oil.

Combating deforestation to fight climate change

Linked to the work introduced above, we are committed to preventing deforestation in our own supply chains, and require the same from all our raw material suppliers.

Our deforestation risks are primarily related to our use of palm oil. This is the reason why our work in this area is focused on the palm oil industry, even though the role of palm oil as our raw material has significantly decreased in recent years.

We are increasingly contributing to circular economy in the production of our renewable products. By using waste and residues as raw materials, we extend the life cycle of these materials or give them new life cycles. When products based on renewable raw materials reach the end of their life cycle, the carbon they contain does not increase carbon dioxide concentration in the atmosphere, which is the case with products based on fossil materials.

Already in 2015, all our palm oil suppliers committed to no deforestation including their third party sourcing. Our aim is that even those producers that do not produce raw materials directly for us but are associated with our suppliers, would also commit to no deforestation practices. Our target is to have also all of our PFAD suppliers to commit to no deforestation practices and ensure that similar measures are implemented also in their supply chains.

In the beginning of 2017, we completed an environmental risk assessment of our palm oil suppliers. We have engaged in a dialogue with our suppliers regarding managing the risks at their plantations. We have also started offering training to our suppliers to ensure sufficient understanding of our No Deforestation guidelines and to ensure its efficient implementation.

We started updating our No Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock together with the Consortium of Resource Experts (CORE). The new guidelines are planned to be completed by the end of 2018, after which we aim to introduce a system to measure and monitor how our suppliers implement it throughout their entire supply chain including also third party suppliers.

We have continued to engage the Indonesian and Malaysian governments to assist them in strengthening the Indonesian Sustainable Palm Oil (ISPO) and Malaysian Sustainable Palm Oil (MSPO) systems.

Raw material sourcing from IOI resumed

In December 2017, we announced that we had resumed raw material sourcing from Malaysian palm oil company IOI. We had suspended all our raw material purchasing from IOI in April 2016 after the Roundtable on Sustainable Palm Oil (RSPO) suspended IOI Group's certification due to environmental issues. IOI's efforts to resolve these issues resulted in RSPO reinstating IOI's certification in August, 2016. IOI has since received positive feedback from Rainforest Action Network and Finnwatch, for example, based on its progress in social issues, such as developing foreign migrant worker conditions and their treatment in the workplace. We will continue close engagement with IOI to understand the company's plans and support the company in its continuous development.

Cooperation with smallholders to protect rainforests

Our cooperation with smallholders aims at developing their sustainability awareness and expertise. Adoption of sustainable practices enables smallholders to get certified, which Neste requires from all its palm oil suppliers. By sourcing raw material from the certified smallholders, Neste provides them a financial incentive to remain committed to sustainable practices and continuous improvement.

In 2017, our supply chain included nearly 36,000 Indonesian palm oil smallholders organized into cooperatives.

In 2017, we took part in two smallholder projects:

1. We co-funded and participated in a project coordinated by the Malaysian non-governmental organisation Wild Asia, involving smallholders producing palm oil in Malaysia. The goal of the project is to improve sustainability of the smallholders in Sabah region in the northern part of Borneo, Malaysia. In 2017, the project engaged 61 smallholders and over 100 farmers within the Sabah region. The project has provided training on sustainable practices for palm oil management and new planting techniques, as well as programs to monitor progress of environmental and social issues, particularly those related to health and safety. The smallholders participating in the project obtained Roundtable on Sustainable Palm Oil (RSPO) Group Certification in April 2017, which proves that their palm plantations are sustainably planted and managed. We are working with our project partners to help these smallholders to gain access to international market through obtaining international sustainability certification, namely International Sustainability and Carbon Certification (ISCC). We provided financial means to the project coordinator Wild Asia to get trained on the certification system ISCC requirements, in order to share their knowledge with the smallholders involved. We are hopeful that these smallholders will be able to obtain ISCC certification in the near future.
2. We launched similar cooperation with smallholders in Indonesia through a project coordinated by Golden Agri Resources (GAR), Indonesian Palm Smallholders Union (Serikat Petani Kelapa Sawit, SPKS), and World Resources Institute (WRI). As part of the project, SPKS has planned to identify, map, and profile altogether 3,000 smallholders located in 17 villages in Siak, Indonesia. By the end of 2017, we had already mapped 745 farmers, and completed the environmental and social assessments on all the 17 villages. Neste has involved Daemeter to conduct environmental and social assessments of the mapped area. Upon completion of the mapping exercises, Neste and GAR in collaboration hope to produce an action plan consisting of our recommendations on how the legal, social, environmental, and economic conditions of the smallholders could be improved.

Supplier Sustainability Portal to digitalize collaboration and engagement

In December 2016, we issued an open invitation to all our stakeholders to join our development project focusing on the digitalization of our supply chain management system. The aim of the project is to build a Supplier Sustainability Portal to facilitate supplier evaluation, performance monitoring, and active engagement with our suppliers via a new digital and visual platform.

In 2017, we participated in two projects supporting smallholder palm oil producers in Malaysia and Indonesia to adopt sustainable practices and prepare for sustainability certification. The project in Borneo, Malaysia engaged 61 smallholders and 100 farmers, and enabled them to obtain RSPO Group Certification in 2017.

Project verified significant reduction in methane emissions

In 2015, we initiated a co-operative project to explore new means to reduce methane emissions at palm oil mills. The project was conducted in collaboration with a palm oil company KLK, a Dutch sustainable trade organization IDH, and International Sustainability and Carbon Certification certification system (ISCC).

The project focused on applying an already familiar wastewater treatment method to palm oil mills. The method involves separation of solid organic matter from the palm oil mill's wastewater, i.e. palm oil mill effluent (POME), with a belt filter press.

Field measurements conducted in Indonesia and Malaysia showed that the method enabled palm oil mills to reduce greenhouse gas emissions at the POME pond by 50% compared to emissions from the conventional open pond.

View our article for more on the project

We invited ten development teams to our first ever Hackathon held simultaneously in Helsinki, Finland and in Singapore to work on Neste's supplier portal. Based on the work by the teams, we continued developing a demo of the portal with one of the participating teams and in close cooperation with our suppliers. We introduced the demo to interested participants during the Annual Conference of the Roundtable on Sustainable Palm Oil (RSPO) in November.

We have gathered comprehensive feedback from our suppliers and other stakeholders during late 2017 and early 2018 to support portal development. We aim at having the first release of the portal ready in the second half of 2018. Our renewable raw material suppliers will be the first ones invited to use the portal.

View article for more on our Supplier Sustainability Portal development

Sustainability in crude oil production

Although Neste is in the middle of a transformation from a traditional oil refiner into a renewables company, we continue producing also conventional high-quality oil products from crude oil and condensates that we procure mostly from Russia, but also from other Former Soviet Union countries, the North Sea, and Denmark.

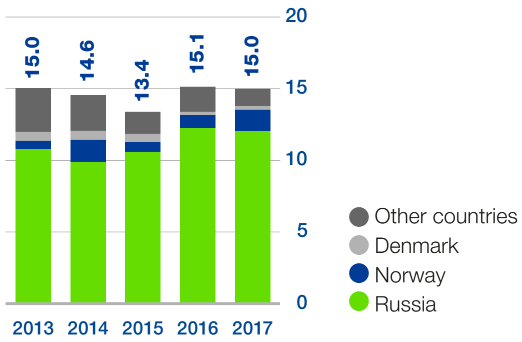
The majority of the crude oil that we use is delivered to the company's refineries from the Primorsk and Ust-Luga oil terminals, where the oil is delivered from oil fields across Russia via a pipeline network. Due to this, tracing back the exact origin of the Russian supply is challenging.

In addition to crude oil transported by ship from terminals in Russia, we also purchase smaller batches of crude oils and gas condensates delivered by rail, in which case the origin of the product is known in more detail, and the quality is not blended with others in the same way as in the pipeline.

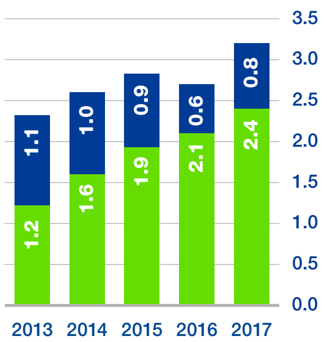
We monitor sustainability development closely in oil producing countries and collect data, for instance, on associated petroleum gas (APG) flaring and oil leakages. We promote, whenever possible, the adoption of improvement and investment plans in crude oil producing regions.

Neste 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.

Crude oil and fossil feedstock sources by region, million tons



Use of renewable raw materials, million tons



Sustainability KPIs: Sustainable raw materials

Material topic	Targets and achievements in 2017	Next
Protecting biodiversity and preventing deforestation	• We started updating our No Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock.	• The new guidelines are planned to be completed by the end of 2018, after which our aim is to introduce a system to measure and monitor how our suppliers implement them throughout their entire supply chain, including third party suppliers.
	• At the end of 2017, we had mapped the majority (96%) of our palm fatty acid distillate (PFAD) supply chain to the palm oil mills.	• In 2020, our PFAD supply chain is mapped to oil palm plantations.
Sustainability of raw materials	• The number of potential renewable raw material supplier's Due Diligence and their outcome: Total 91 (49), Passed 46 (34), Ongoing 44 (11), Failed 1 (4).	• Build a Supplier Sustainability Portal to facilitate evaluation of both potential and existing suppliers, to support performance monitoring, and active engagement with our suppliers via a new digital platform.
	• In 2016, we began to implement Neste Supplier Code of Conduct. Already 98% of the renewable raw material volume and 75% of the fossil raw material volume delivered to Neste in 2017 were covered by the Neste Supplier Code of Conduct or equivalent. We arranged Neste Supplier Code of Conduct (NSCoC) training at Neste's workshop for our Southeast Asian suppliers which touched upon topics in the NSCoC, including anti-corruption. GRI Standards 205-2.	• Everyone supplying raw materials or services to us will meet the Neste Supplier Code of Conduct or similar requirements. We will continue to push for wider adoption of the Supplier Code of Conduct in 2018.

Environmental management

Neste has a good reputation and long history in environmental management. In line with our Sustainability Policy, we aim to ensure that all our operations are safe for our employeers, partners, neighbors, customers, and the environment. During 2017, we made improvements in several areas, and put great effort into maintaining environmental quality at a good level in areas surrounding our production sites.

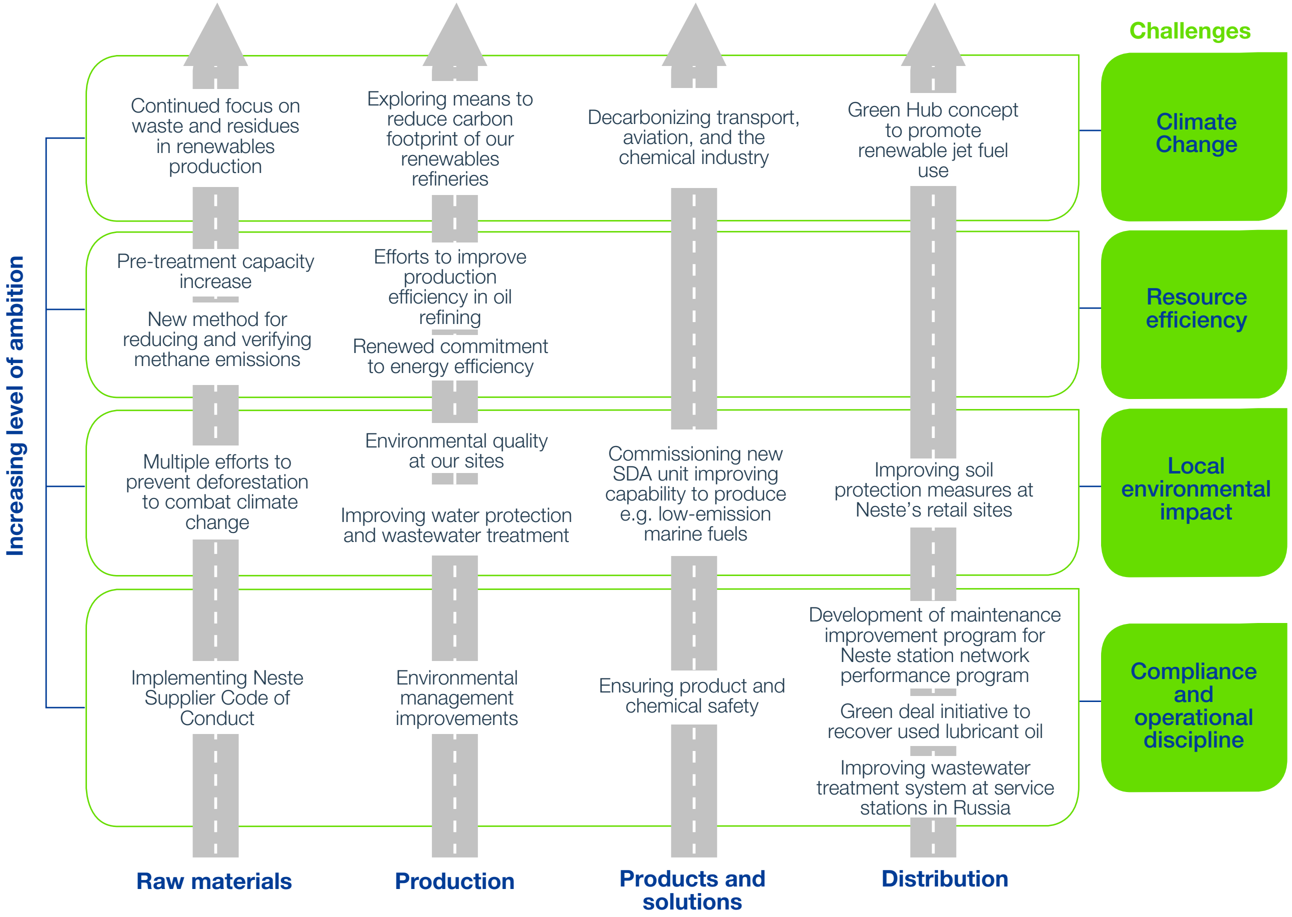
Environmental management improvements

Our refinery in Porvoo in Finland received a new environmental permit under the EU's Best Available Technology (BAT) requirement for mineral oil refineries. Respective permit for our refinery in Naantali in Finland was released in February 2018.

To ensure compliance with these stricter environmental requirements, we developed new indicators related to compliance and operational discipline, such as "Availability of environmental control systems" and "Compliance critical projects", for our Renewable Products and Oil Products business areas separately.

In 2017, we improved our environmental awareness by preparing specific material for environmental training which is mandatory for Neste employees working in production.

Neste's environmental roadmap – examples of progress areas



Commissioning the new solvent deasphalting unit (SDA) at the Porvoo refinery enables us to decrease production of heavy fuel oil and increase the production of diesel, which results in lower sulfur and particulate emissions during the end use of Neste's fuel products.

Carbon footprint reduction potential at our renewables refineries

According to a study by Delft University of Technology in the Netherlands, hydrogen consumption at the refineries offers the biggest carbon footprint reduction potential in Neste's production of renewable products. Carbon footprint could additionally be reduced by improving energy efficiency and reducing carbon intensity of the energy consumed at the refineries.

CO_2 re-use and wind electricity were identified as potential means to reduce carbon intensity of energy consumption particularly at the Rotterdam refinery. In Singapore, CO_2 produced in the process units is already captured and re-used commercially.

We are evaluating the feasibility of the suggested means to reduce carbon footprint.

Resource efficiency improvements in oil refining and production of renewables

In 2017, we managed several investment projects to improve safety and environmental performance in our own operations. These included a major turnaround and a production configuration change at our refinery in Naantali, completion of a new solvent deasphalting (SDA) unit at our refinery in Porvoo, and preparations for start-up of biopropane production at Rotterdam refinery.

Improvements completed at the refinery in Naantali and commissioning of the new SDA unit at our refinery in Porvoo will increase resource efficiency in the production of our traditional oil products. The new SDA unit enables us to decrease production of heavy fuel oil and increase the production of diesel, resulting in lower sulfur and particulate emissions during the end use of Neste's fuel products.

At the refinery in Naantali, resource efficiency related to crude oil use was improved by re-configuration of the refinery process in 2017. Decommissioning of a Thermofor Catalytic Cracking unit (TCC) and other production structure changes are estimated to decrease SO_2 and NO_x emissions altogether by 30 to 40%, and emission of particulate matter (PM) even up to 60%.

We also introduced a resource efficiency goal to monitor renewable oil loss in the pre-treatment of renewables refining.

Renewed commitment to energy efficiency

In 2016, we exceeded our energy savings target of 660 GWh for 2009–2016 by reaching the level of 855 GWh savings compared to 2008 energy usage level. The target was a part of an efficiency program for Finland's energy-intensive industries.

We continued our commitment to the programs, and during a new agreement period 2017–2025 we

Ambient air quality in the areas surrounding our refineries in Porvoo and in Naantali remained generally at a good level.

aim at saving 500 GWh from the 2014 level. The new energy efficiency savings target is an ambitious one, requiring new investments.

Environmental quality at our sites remained at a good level

Continuous air quality monitoring continued in the vicinity of the refinery sites. Ambient air quality in the areas surrounding our refineries in Porvoo and in Naantali remained generally at a good level during 2017; below all of the guideline and threshold values set by the Finnish and the EU regulation, and mostly compliant with stricter WHO recommendations.

The impact of Neste's operations to the local air quality in Rotterdam and Singapore, is very limited given the small amount of emissions.

We were able to continue maintaining sea water quality at a satisfactory level around our refineries in Porvoo and in Naantali where wastewater is discharged into the sea after purification. The level of oil discharge remained very low. Technical improvements are being made to the wastewater treatment facilities and the related procedures at Rotterdam and Singapore refineries.

We introduced advanced secondary containment as well as soil and groundwater protection solutions to some of our fuel station network sites located at groundwater catchment areas in Finland. With regards to pollutant control, we also offered our Porvoo site to be part of an ongoing assessment of perfluorooctanesulfonic acid (PFOS) and perfluorooctanoic acid (PFOA) compounds by the Finnish Environment Institute.

Sustainability KPIs: Environmental management

Material topic	Targets and achievements in 2017	Next
Resource efficiency	• Energy efficiency, energy saving measures: 4 GWh. GRI Standards: 302-4.	• Enhance Neste's energy consumption by 500 GWh during 2017–2025.
	• Emission limits and overruns: Ten permit violations.	• Halve the number of incidents within Oil Products in 2018 compared to the average number of incidents in 2016–2017.

People

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

Human Rights

Developing Neste's human rights approach has been one of the key development areas of our sustainability in recent years. Through our strengthened approach to human rights, we aim at making a positive impact on how people are treated and their rights respected in all value chains linked to us.

In 2017, we continued building a solid framework for full-scale implementation of our human rights approach. Simultaneously, we continued implementing our key human rights activities according to a program which we first introduced in 2016. We see a strong link between our human rights activities and our role as a developer and producer of renewable solutions to mitigate climate change. Building sustainable solutions to actively contribute towards mitigating climate change can have far reaching impacts on reducing inequalities and poverty in societies.

Supporting transformation

There are several simultaneously ongoing transformation processes at Neste requiring our employees to adopt new skills, atttudes, approaches, and ways to work.

To support our transition into a more digitally-oriented, transparent, and globally engaged company, we launched a concept #SocialNeste to empower our employees to get active in the global digital networks. We provided hands-on training and support for the most enthusiastic ones, and are hoping to see colleagues to follow in their foot steps. Check out #SocialNeste and #NesteLife on Twitter or Instagram to get a view of Neste from the perspective of our people.

#SocialNeste #NesteLife @NesteGlobal

Human rights framework completed with three key elements

The three elements of our human rights framework define how we uphold our responsibility to respect human rights:

1. Neste Human Rights Principles were published in full in fall 2017. They set the standard on how we uphold best practices and ethical business conduct on crucial human rights issues.
2. Updated our Human Rights Commitment that was first published in 2015, which is in line with the UN Guiding Principles for Business and Human Rights (UNGP).
3. Key measures to ensure compliance with the principles, center on carrying out due diligence to assess, identify and mitigate impacts on human rights, as well as on a remediation process for any adverse human rights impacts arising from our business activities. Our approach includes focusing on responsible sourcing practices, training and capacity building, as well as stake-holder engagement.

The implementation program of our Human Rights Principles for the next year includes various activities to assess and strengthen our internal management systems. We plan to carry out training programs to build awareness and human rights capacity in the company and among our stakeholders.

We require the same commitment to respect and remediate from all our business partners. We continue to engage our business partners and encourage them to set their own development programs.

View our article on Neste's Human Rights Principles

Group-wide program on human and labor rights continued

The main human rights activities we have undertaken in 2017 are presented in the timeline of Neste Human Rights Activities (see next page).

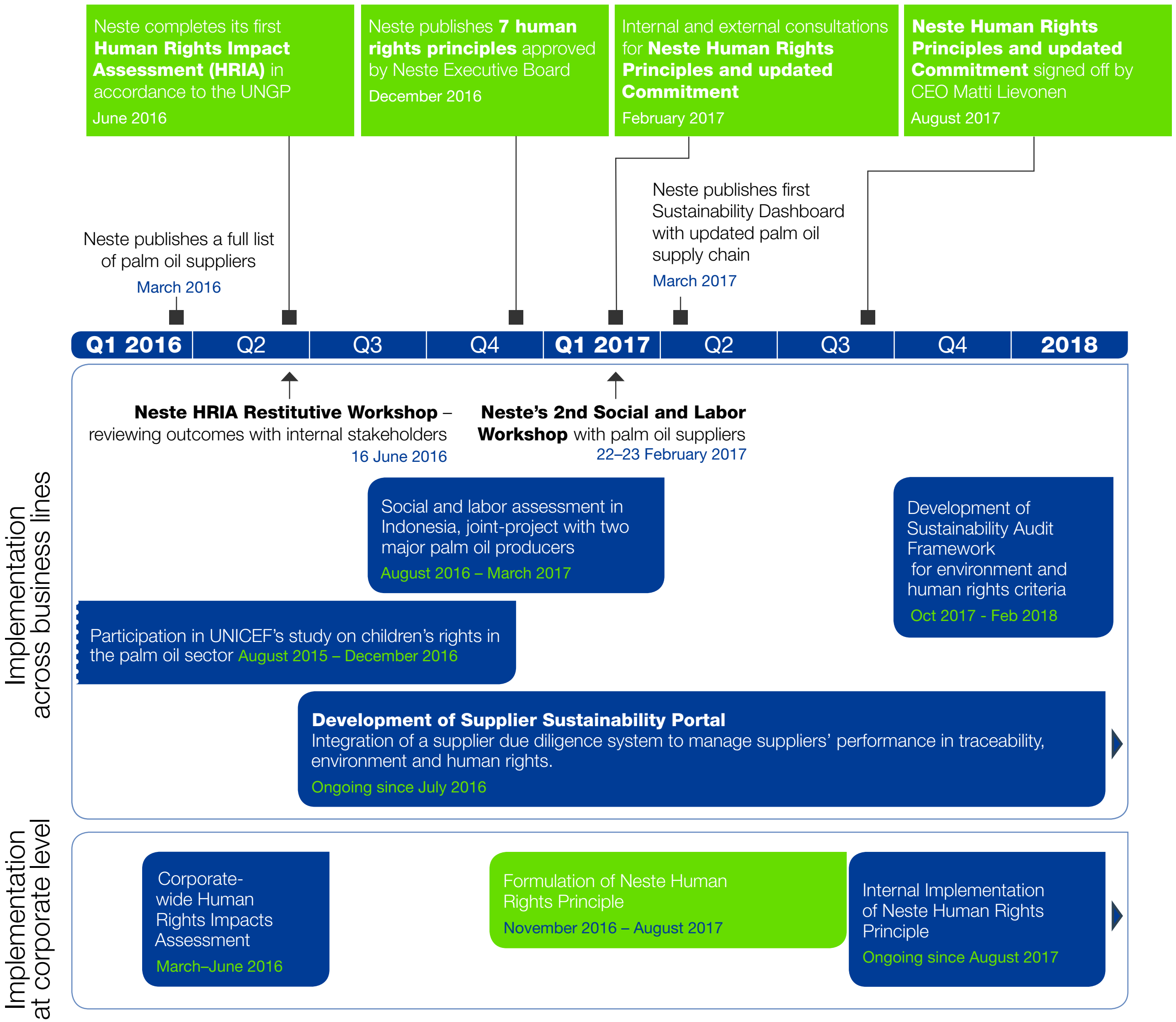
One of the key activities in 2017 was a workshop we organized for our palm oil suppliers and other key stakeholders in Indonesia in February. This workshop has evolved into an annual event from the first supplier workshop held in Malaysia in 2015. In the February workshop, we shared key observations from the social and labor assessments in Indonesia, conducted between November 2016 and January 2017, on working conditions at oil palm plantations and mills. Key observations included, for example, that low wages and workers' representation (i.e. insufficient grievance mechanisms) are key issues in the palm oil industry in Indonesia.

View our article on the workshops and the impacts of our human rights work

Sustainability KPIs: Human rights

Material topic	Targets and achievements in 2017	Next
Human rights	• Completed human rights framework (updated Human Rights Commitment and new Human Rights Principles) and finalized its implementation program.	• Internal implementation to ensure systems that are compliant to the human rights framework are put in place. Activities to build human rights capacity internally as well as in the supply chain.
	• Corporate-wide human rights impact assessment (HRIA) conducted in 2016 is still valid. GRI Standards: 412-1.	• Reassessment of human rights impacts according to changes in operations of the company.
	• New suppliers screened using social criteria: All approved renewable raw material suppliers. GRI Standards: 414-1.	• An integrated due diligence system to monitor and measure suppliers' performance on social (and other sustainability) criteria that is incorporated with the new Supplier Sustainability Portal.
Good corporate citizenship and ethics	• 13 misconduct cases were reported via Neste's whistleblower system or to Internal Audit or security. GRI Standards: 205-3 • Code of Conduct training targeting all employees at Neste Group (including Board Members) was conducted. • Updated Anti-Corruption eLearning module for our employees. GRI Standards: 205-2.	• To further develop the protocol and practices in handling potential misconduct cases.

Neste's Human Rights Activities 2016–2018



We became a member of the Nordic Business Network on Human Rights, an international network for global companies that work strategically and/or operationally with human rights issues in their organizations' and supply chains.

Diversity and equal opportunity

Neste's Gender Equality and Non-Discrimination Principles were updated at the end of 2016 in line with changes in the Finnish legislation. We promote equality by, e.g. ensuring that we follow non-discriminatory procedures in recruitment, task distribution, access to training, and remuneration.

We select a specific focus area each year for our annual Equality Plan implementation. In 2017, we focused on equality in the recruitment process. In practice this means that from the two equally skilled candidates, the one representing minority in that profession should be selected. The implementation of the Equality Plan is monitored by Neste's Equality and Non-Discrimination Working Group.

An analysis of the employee figures in 2009–2016 by an external consultant showed gender does not impact career development at Neste, and gender pay gap is modest. Women have been hired at a slightly higher rate than men, but at the highest levels of the hierarchy, female representation still remains lower than the average female representation in the company. Following Neste's global business approach, mixed-gender and multi-country teams are more numerous than before. Neste is expanding the monitoring of equality-related issues also at the sites outside of Finland.

We joined the FIBS' (Finnish business society) Diversity Charter Finland in November to strengthen our commitment to diversity management.

Supporting our employees in business transformations

HR management is strategy and business needs driven work at Neste, emphasizing continuous development of corporate culture and leadership. In the middle of several transformation processes, such as in our transformation from a traditional oil refiner to a world's leading renewables company, we support our people to seek alignment with the company's values, and emphasize everyone's own responsibility for development as a means to achieve excellent results both from the individual's as well as from the company's perspective. We promote a workplace where everyone understands the importance of their work in the context of our common goals.

Neste's strategy implementation is supported by developing our organizational capabilities consisting of organization structure, leadership behavior, ways of working, tools, as well as competencies of our personnel. As our businesses are at different stages of transformation, we build capabilities to respond to the challenges and needs of each business area and function, aiming at continuous renewal and operational excellence.

In employee development, we focus on
- developing strategic capabilities,
- leading people and safety according to Neste way of working, and
- ensuring efficient global services and delivery.

We drive operational efficiency through renewing our management system, digitalization, and making sure our processes are efficient.

Leadership and way of working

In order to get a clear picture of our leadership status, we implemented data-based analyses of employee surveys and training programs, and supplemented them with line-manager interviews. According to the preliminary results, Neste's vision and strategy are understood well by our employees, and leadership is considered to be at a good level. There is room for improvement in our feedback culture and outside-in thinking. After a more thorough analysis, we will define corporate-wide spearheads for leadership development during the first quarter in 2018, and take the results into account in internal development programs, talent processes, and recruitment.

A total of 140 key persons from all the company's business areas and common functions started a strategic capabilities development program "The Future Is Now". The program focuses on change management, and aims at generating new ideas and approaches to supporting Neste in strategy execution and implementation of new ways of working.

View an article about our agile approach to work and how we measure employee well-being

Developing competences

We renewed our internal training portfolio, and developed learning paths for line managers, experts, as well as project management and sales personnel.

Giving and receiving feedback is an interactive, on-time, and continuous process in our new operating culture. We emphasize daily discussions and supporting of employees in work-related questions. We introduced a "Skills to care and intervene" training to all line-managers in order to help managers identify needs for early interventions, and to implement necessary development actions. The importance of self-leadership and well-being at work are also highlighted in our development programs.

Internal job rotation continues to be one of the most efficient ways to develop our employees. In addition to job rotation, on-the-job learning through project and development work, as well as collaboration with external stakeholders are important means to develop our personnel.

Sustainability KPIs: Supporting our employees in business transformations

Material topic

Fair and equal employment

Targets and achievements in 2017

- Employee engagement: Survey is conducted every two years. 2016: 78% of respondents were satisfied, committed, and proud of Neste and willing to advocate Neste as an employer. The figure is in the highest quartile in a global benchmark.
- New employee hires and employee turnover: leaving rate of permanent employees 9.8% and hiring rate of permanent employees 13.8% . GRI Standards: 401-1.

Next

- Maintain the position in the highest quartile in a global benchmark.

Safety

Enhancing safety and operational excellence are at the core of our strategy and the cornerstones of our daily work. We continue aiming at zero injuries and incidents, and want to be among the best European oil companies in terms of safety. Our safety vision is crystallized as follows:

- We work safely and professionally always and everywhere.
- The only way is towards zero injuries.
- We want everyone to go home safely after a working day.

Neste's Human Resources Policy, Sustainability Policy, Life-saving rules, as well as, 15 health, safety, and environment (HSE) principles (see next page) and detailed instructions contribute to our approach to safety.

See our video about safety at Neste

Key development areas in 2017

As part of a strategic program to develop safety company-wide, we renewed our corporate-level HSE management system and developed 15 renewed HSE principles forming the common requirements for our operations.

We conducted a gap analysis comparing the corporate level principles with the local management systems in all of our business areas. We aim at completing necessary measures to close the gaps at business level and corporate functions by the end of 2018.

We additionally developed an audit model of the HSE principles and instructions, and will implement the audit process in 2018.

In our strategic program to develop safety, the following topics had high priority in 2017:

Developed safety culture and increased safety awareness

Target: Everyone takes responsibility for safety, and has the courage and skills to care and intervene.

- All teams made a public commitment to safety (approx. 470 teams altogether) by the end of first quarter in 2017. By the end of the year, 90% of the teams had revisited their commitment and completed the promised actions. The process will continue in 2018.
- Implemented our renewed global induction process including safety aspects.
- Introduced a “Safety starts here” eLearning program with seven modules in seven languages. By the end of third quarter in 2017, nearly all our employees (99.87%; altogether 22,832 completed trainings) had completed the compulsory program.
- Piloted a safety leadership and awareness training concept “I act safe”. Started its roll-out, and will completed it in 2018.
- Completed an external assessment of our HSE management, leadership, and culture. All of the involved units produced an action plan.

Implemented contractor management process

Target: All our contractors are committed to high safety and quality performance.

- Started implementing common contractor management process in all our business areas. Focused on contractor selection and on improving performance evaluation and feedback. Partly as a result of the implementation, the best ever contractor total recordable injury frequency (TRIF contractors, see graph on the next page) was reached.

Improved process risk management

Target: We manage our process safety and reliability risks systematically with common tools and practices.

- Completed more than 500 risk management actions based on process hazard assessments. Produced and implemented a plan for long-term regular process hazard assessment.
- Improved common process safety guidelines. The improved pre-startup safety review practices were followed during the turnaround at Naantali refinery in Finland and at the newly-acquired plant in Sluiskil for pretreating renewable raw materials, for example.
- Implemented Neste-wide process safety network and local process safety governance boards for more systematic management process of safety risks.

Product and chemical safety

- Published a chemical and product safety principle describing our key responsibilities. Implemented seven main rules on chemical safety for all sites and workplaces to follow.
- Developed a new mechanism for sharing Neste's EU REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) registrations data with co-registrants.

Neste's health, safety and environment (HSE) management system and 15 HSE principles

1. Commitment to safety	2. Understand hazards & risks	3. Manage risks	4. Learn from experience
1. Safety Leadership	2. Hazard Identification and Risk Analysis	3. Asset Integrity 4. Contractor Management 5. Emergency Management 6. Environmental Management 7. Incident Management 8. Management Of Change 9. Occupational Health (drafting ongoing) 10. Operational Safety 11. Product and Chemical Safety 12. Safe Transportation (drafting ongoing) 13. Marine Risk Management 14. Security	15. Continuous Improvement

- Started preparations for complying with new EU regulation concerning harmonizing poison center notification, entering into force in 2020.
- Participated actively in the Finnish KemiDigi project, aiming to create a portal for chemical information required to be submitted to the authorities. The portal should be ready for use in 2020.
- Occupational hygiene practices were improved significantly during Naantali refinery turnaround. The improvement from the previous turnaround was accomplished by predicting the working tasks where exposure arises, educating the personnel on personal protective equipment, and measuring the working conditions.
- Conducted safety assessments of several new renewable raw materials.
- Participated actively in standardization efforts related to bio-based products. Work aims to ensure sustainable operation and safe use of the products in various industries and by consumers.

Driving continuous improvement in safety performance

- Redesigned and updated our HSE reporting system, and developed HSE key performance indicators further both at corporate and business area level.

View an article about our cooperation to ensure safety of transportation

- Implemented a new incident management process. Introduced an incident review board practice in all of the business areas with senior management participation. Incident review board evaluates selected incidents and identifies root causes and suitable actions. It aims at action verification and learning from the incidents.

Safety performance in 2017

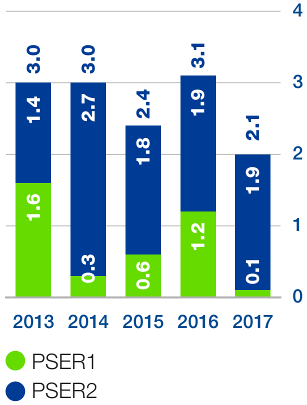
Neste's occupational safety performance (TRIF, or rate of accidents requiring medical treatment per million hours worked, including contractors) improved, and the target for 2017 was reached. The target set for 2017 in process safety (PSER, or rate of process safety events per million hours worked) was also reached. We did not reach our target set for 2017 in Safe Days.

There were no severe process or occupational safety deviations during Naantali refinery turnaround or the SDA project at Porvoo refinery, both among Neste's most significant projects in 2017. Naantali refinery investment project reached a very good safety level, as altogether 800 days – the entire duration of the investment project – were operated without recordable accidents. Only one minor deviation occurred during the SDA project at Porvoo refinery.

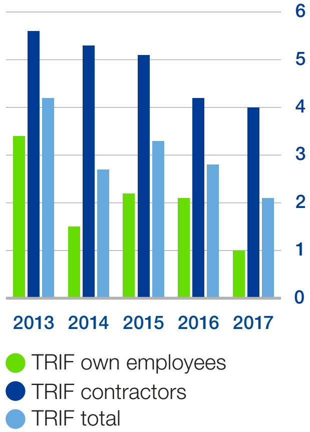
Focus areas in 2018

Both contractor and process safety continue to be our focus areas in 2018. We will emphasize full implementation of the recently developed safety practices both locally and corporate-wide.

Process safety event rate (PSER)



Total recordable injury frequency (TRIF)



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

Sustainability KPIs: Safety

Material topic

Incident-free operation and safety of our people and society

Targets and achievements in 2017

- TRIF 2.1 (target 2017: 2.1)
- PSER 2.1 (target 2017: 2.4)
- 298 Safe Days in 2017 (target 2017: 306 Safe Days
- Preventive safety measures 31,816

GRI Standards: 403-2.

Next

- Target 2018: TRIF 2.0. Long-term target: Zero accidents. Our safety performance is in the highest quartile compared to other European refineries.
- Target 2018: PSER 1.7. Long-term target: Zero safety deviations. Our safety performance is in the highest quartile compared to other European refineries.
- Target: 315 Safe Days in 2018. Long-term target: Continuously increasing the number of Safe Days.
- Long-term target: Zero incidents. Continuously increasing activity and awareness by focusing on preventive measures such as safety observation tours, safety discussions, and reporting.

Performance and reporting

Neste's sustainability reporting in 2017

Our 2017 Sustainability Report was prepared in accordance with the GRI (Global Reporting Initiative) Sustainability Standards where applicable. The economic, social, and environmental indicators of the report in English have been verified by an independent third party PricewaterhouseCoopers Oy. A congruence check has been conducted for the Finnish version's numerical sustainability information.

In our report, we have aimed to focus on the subjects that are the most essential based on our materiality assessment conducted in fall 2016.

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

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

This year's reporting meets the requirements of the EU Directive on disclosure of non-financial and diversity information, and the changes made in the Finnish Accounting Act, both affecting the organizations'

The only way is forward

"On the Global 100 list published in January 2018, our sustainability performance was ranked as the 2nd best in the world. We are humbled and take it as the highest compliment for the work our people have done.

Neste has not reached this ranking alone, however. Our performance is based on continuous collaboration and engagement within and outside Neste. It is guided by feedback and even constructive criticism we receive that pushed us forward towards continuous improvements. Instead of stopping here, we will challenge ourselves by setting even bolder targets. Stay tuned!

Johan Lunabba, Sustainability Director
@NesteGlobal @jlunabba

reporting for the first time in 2017. The required non-financial information is disclosed in the Corporate Governance Statement and the Review by the Board of Directors whereas with our Sustainability Report, we respond to broader stakeholder expectations and the requirements of several international indices.

To complement our safety indicators Total Recordable Injury Frequency (TRIF) and Process Safety Event Rate (PSER), we introduced a new sustainability indicator, greenhouse gas (GHG) reduction, in our quarterly report this fall. This figure refers to the amount of prevented emissions resulting from the use of our renewable fuels, e.g. replacing conventional diesel usage with Neste MY Renewable Diesel. We have disclosed the amount of GHG emissions we have helped prevent in each quarter based on the amount of renewable products we have produced for the global markets. We have also followed the cumulative GHG emissions prevented by comparing this to our target of aiming to reduce altogether 7 million tons of GHG in 2017.

We published our 2016 Annual Report and the Sustainability Report it includes on 8 March 2017 in PDF format on our website.

Reporting principles and guidelines

Our financial reporting complies with the international IFRS accounting standards, and governance-related reporting complies with the legislation on listed companies and the Finnish Corporate Governance Code. The disclosure of environmental costs and liabilities is based on the Finnish Accounting Act. The reported financial indicators are based on audited information.

The general guideline issued by the Accounting Board on the preparation of review by the Board of Directors is followed in calculating the personnel-related figures. Calculations related to safety-related accident frequency rates comply with the calculation principles of Concawe (The oil companies' European association for environment, health and safety in refining and distribution).

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

Scope of the report

Similarly to the Annual Report, the reporting period of the Sustainability Report is the financial year, January 1–December 31, 2017. The safety and environmental reporting for 2017 covers the refineries in Finland and abroad in which the company has a holding of over 50%. In addition to them, safety and environmental reporting covers the company's terminals, offices, and country-specific retail companies.

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

Reporting systems

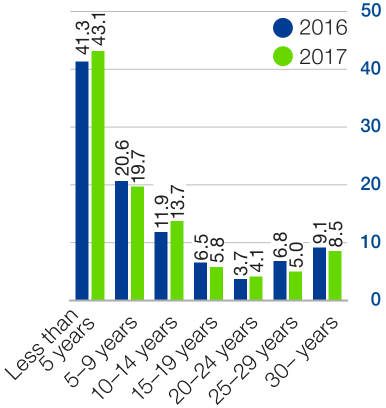
Neste collects environmental and safety information with the HSEQ reporting tool that supports Neste's monthly and annual reporting. Personnel-related indicators are derived from the HR systems. The company also has other reporting tools for collecting information required for sustainability reporting.

Our reporting meets the new requirements of the EU Directive on disclosure of non-financial and diversity information. The information is disclosed in the **Corporate Governance Statement** and the **Review by the Board of Directors**.

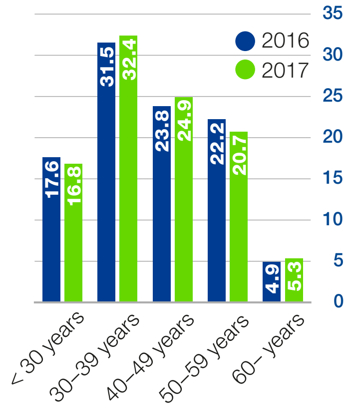
Performance in figures

People

Length of employment of employees as of 31 December 2017, %



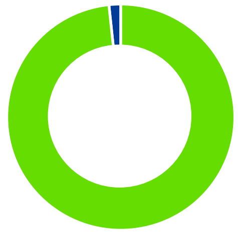
Breakdown by age as of 31 December 2017, %



Gender ratio as of 31 December 2017, %

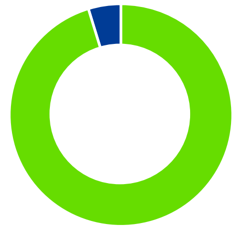
- Men 63.8% (63.8%)
- Women 36.2% (36.2%)

Type of employment according to working hours as of 31 December 2017, %



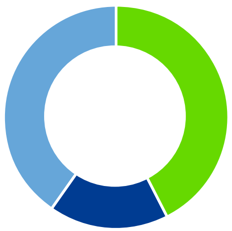
- Full-time 98.2% (98.2%)
- Part-time 1.8% (1.8%)

Type of employment contract as of 31 December 2017, %



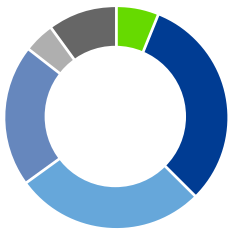
- Permanent 95.2% (94.8%)
- Temporary 4.8% (5.2%)

Personnel by personnel group as of 31 December 2017, %



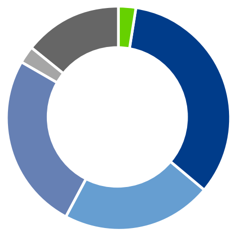
- Management and upper white-collar 42.5% (41.2%)
- White-collar 17.1% (17.8%)
- Blue-collar 40.4% (41.0%)

Personnel by segment as of 31 December 2017, %



- Renewable Products 6.1% (5.4%)
- Oil Products 31.3% (33.1%)
- Marketing & Services 27.6% (27.2%)
- Neste Engineering Solutions 20.4% (19.5%)
- Research and Technology 4.6% (4.6%)
- Other common functions 10.1% (10.1%)

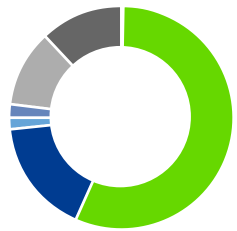
Educational level of employees as of 31 December 2017, %



- Compulsory education 2.3% (3.1%)
- Vocational degree or high school 33.6% (34.8%)
- Bachelor's degree or equivalent 21.8% (19.3%)
- Master's degree or equivalent 25.4% (21.9%)
- Doctorate/licenciate 2.6% (2.0%)
- Other or information not available 14.3% (19.0%)

Information covers 79.3% of the employees, not employees in Russia.

Educational backround of employees as of 31 December 2017, %



- Technical or natural sciences 56.7% (50.8%)
- Commercial and law 16.6% (14.2%)
- Social sciences and humanities 1.5% (1.3%)
- Logistics or transport 2.2% (2.0%)
- General education and others 11.0% (14.6%)
- Information not available 12.1% (17.1%)

Information covers 79.3% of the employees, not employees in Russia.

Performance in figures

Climate and the environment

	2017	2016	2015	2014
Emission limits and overruns: Deviations from environmental permits	10	8	6	8
Emissions into the air, tons				
Direct CO_2 emissions (Scope 1)	2,359,000	2,601,000	2,933,000	3,167,000
Indirect CO_2 emissions (Scope 2, location-based)	634,000	747,000	452,000	419,000
Indirect CO_2 emissions (Scope 2, market-based)	880,000	832,000		
Other indirect GHG emissions (Scope 3)[1]	48,000,000			
purchased goods and services	3,900,000			
fuel and energy-related activities[2]	< 50,000			
upstream transportation and distribution[3]	300,000			
waste generated in operations	100,000			
downstream transportation and distribution	400,000			
Processing and use of sold products	42,000,000			
end-of-life treatment of sold products	1,700,000			
VOC	3,860	4,120	3,760	3,700
NO_x	1,530	1,900	2,300	3,000
SO_2	4,760	5,900	7,800	6,800
Particulate matter	220	170	180	220
Energy use				
Total energy consumption, TWh	12.7	12.9	10.2	12.7
Fuels and natural gas, %	74.3	77.6	86.5	91.5
Purchased electricity, %	11.2	10.1	7.9	6.1
Purchased heat, %	14.5	12.3	5.6	2.4
Energy efficiency, energy saving measures, GWh	4	134		
Water, m^3/a				
Water intake	9,110,000	9,142,000	8,378,000	8,626,000
Total water withdrawal by source				
surface water	7,905,000	8,002,000		
ground water	6,000	6,000		
municipal water supplies	1,199,000	1,134,000		
other	N/A	N/A		
Wastewater	9,931,000	9,433,000	9,068,000	8,396,000
Effluents to water, tons				
Effluents of oil to water	1.8	1.4	1.6	1.4
Chemical oxygen demand	399	410	398	392
Effluents of nitrogen to water	104	73	62	52
Effluents of phosphorus to water	2.7	3	2.4	1.9

	2017	2016	2015	2014
Waste, tons				
Ordinary waste for disposal	7,800	5,800	3,600	12,100
Waste for reuse	58,800	49,800	56,000	33,800
Hazardous waste for disposal	55,100	49,500	20,800	24,200
Number and magnitude of significant releases	0	0	1 pc/1m^3	0
CO_2 recovered, tons	147,800	134,500	115,000	131,000
Washing lye sold, tons	10,970	9,130	7,380	8,600
Supply chain and raw materials				
Use of renewable raw materials, million tons	3.2	2.7	2.8	2.6
Share and use of waste and residue raw materials in refining renewables	76% 2.4 Mt	78% 2.1 Mt	68% 1.9 Mt	62% 1.6 Mt
GHG reduction achieved with the use of Neste's renewable fuels, million tons[4]	8.3	6.7	6.4	5.6
GHG emission reduction with Neste's renewable diesel with all renewable raw materials in Neste's portfolio[4]	50–90%	40–90%	40–90%	40–90%
Number of all renewable raw material suppliers	53	48	43	38
Share and use of certified palm oil from all palm oil use[5]	100% 663 kt	100% 516 kt	100%	100%
Number of palm oil smallholders	35,984	33,122[6]	53,249	40,000
Number of palm oil suppliers	7	5	7	6
Number of palm oil estates	143	156	165	212
Number of palm oil mills	55	50	51	57
Share of palm oil from sources with methane capture or measures to prevent methane formation[5]	36%	35%[6]	28%	
Number of potential renewable raw material suppliers' Due Diligence and their outcome	Total: 91 Passed: 46 Ongoing: 44 Failed: 1	Total: 49 Passed: 34 Ongoing: 11 Failed: 4	Total: 35 Passed: 30 Ongoing: 5 Failed: 0	
Crude oil and fossil feedstock sources by region, million tons	15.0	15.1	13.4	14.6
Russia	12.0	12.3	10.6	9.9
Norway	1.5	0.9	0.6	1.6
Denmark	0.2	0.3	0.6	0.6
Other countries	1.2	1.7[6]	1.6[6]	2.5[6]

[1] Scope 3 categories were aligned with GHG protocol in 2017.

[2] Only natural gas related emissions included

[3] Part of upstream transportation emissions are accounted in other categories.

[4] Compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (2009/28/EC). Recent update to certification scheme emission factors improved Neste's GHG reduction figures in 2017 compared to previous year.

[5] 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 2017.

[6] Revised.

GRI Content Index and UN Global Compact

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. 13–14 Business areas in brief	
102-3	Location of headquarters	Espoo, Finland	
102-4	Location of operations	Finland, Belgium, Canada, Estonia, Latvia, Lithuania, the Netherlands, Russia, Singapore, Sweden, Switzerland, the United States	
102-5	Ownership and legal form	pp. 18–19 Information for investors	
102-6	Markets served	pp. 13–14 Business areas in brief	
102-7	Scale of the organization	p. 16 Key figures 2017	
102-8	Information on employees and other workers	p. 54 Performance in figures p. 60 Principles for calculating the key indicators	6
102-9	Supply chain	p. 36 Sustainable raw materials p. 28 Creating value for stakeholders p. 45 Human rights	
102-10	Significant changes to the organization and its supply chain	Neste acquired Neste Jacobs	
102-11	Precautionary Principle or approach	pp. 22–24 Managing sustainability Materiality assessment pp. 81–85 Risk management Risk Management	
102-12	External initiatives	Sustainability policies and principles Certificates Involvement in organizations and joint projects	7
102-13	Membership of associations	Involvement in organizations and joint projects	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
2. Strategy			
102-14	Statement from senior decision maker	pp. 4–6 CEO's review	
3. Ethics and integrity			
102-16	Values, principles, standards, and norms of behavior	Our values Way Forward	10
4. Governance			
102-18	Governance structure	pp. 64–66 Corporate Governance Statement 2017 pp. 71–72 Board Committees pp. 76–77 Neste Executive Management Board	
5. Stakeholder engagement			
102-40	List of stakeholder groups	Stakeholder collaboration	
102-41	Collective bargaining agreements	3,648 persons, 68.3%	3
102-42	Identifying and selecting stakeholders	Stakeholder collaboration	
102-43	Approach to stakeholder engagement	p. 24 Materiality assessment pp. 26–27 Stakeholder engagement	
102-44	Key topics and concerns raised	p. 24 Materiality assessment pp. 26–27 Stakeholder engagement	
6. Reporting practice			
102-45	Entities included in the consolidated financial statements	p. 52 Neste's sustainability reporting 2017 p. 60 Principles for calculating the key indicators Financial Statements 2017	
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	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
102-48	Restatements of information	No major changes during the reporting period. Possible changes in the previously disclosed key figures are disclosed in connection with the figure in question. p. 52 Neste's sustainability reporting 2017 p. 60 Principles for calculating the key indicators	
102-49	Changes in reporting	No major changes during the reporting period. p. 52 Neste's sustainability reporting 2017 p. 60 Principles for calculating the key indicators Materiality assessment	
102-50	Reporting period	p. 52 Neste's sustainability reporting 2017	
102-51	Date of most recent report	p. 52 Neste's sustainability reporting 2017	
102-52	Reporting cycle	p. 52 Neste's sustainability reporting 2017	
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	p. 52 Neste's sustainability reporting 2017	
102-55	GRI content index	pp. 56–59 GRI Content Index and UN Global Compact	
102-56	External assurance	pp. 61–62 Independent Practitioner's Assurance Report	
GRI 103: Management Approach 2016			
103-1	Explanation of the material topic and its Boundary	p. 24 Materiality assessment Managing sustainability Linking Neste's sustainability topics and GRI Standards	
103-2	The management approach and its components	p. 24 Materiality assessment Managing sustainability Linking Neste's sustainability topics and GRI Standards	
103-3	Evaluation of the management approach	p. 24 Materiality assessment Managing sustainability Linking Neste's sustainability topics and GRI Standards	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 200: Economic topics			
GRI 201: Economic Performance 2016			
201-1	Direct economic value generated and distributed	p. 28 Creating value to stakeholders	
201-4	Financial assistance received from government	p. 139 Financial Statements 2017, Other income	
GRI 203: Indirect Economic Impacts 2016			
203-2	Significant indirect economic impacts	p. 28 Creating value to stakeholders	
GRI 205: Anti-corruption 2016			
205-2	Communication and training about anti-corruption policies and procedures	pp. 22–24 Managing sustainability p. 111 Anti-corruption and bribery matters	
205-3	Confirmed incidents of corruption and actions taken	13 misconduct cases. pp. 22–24 Managing sustainability p. 111 Anti-corruption and bribery matters	
GRI 206: Anti-competitive Behaviour 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	One pending legal action.	
GRI 300: Environmental topics			
GRI 302: Energy 2016			
302-1	Energy consumption within the organization	p. 42 Environmental management p. 55 Performance in figures p. 60 Principles for calculating the key indicators	7, 8, 9
302-4	Reduction of energy consumption	p. 42 Environmental management p. 55 Performance in figures p. 60 Principles for calculating the key indicators	8, 9
GRI 303: Water 2016			
303-1	Water withdrawal by source	p. 55 Performance in figures	7, 8

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	p. 55 Performance in figures p. 60 Principles for calculating the key indicators	7, 8
305-2	Energy indirect (Scope 2) GHG emissions	p. 55 Performance in figures p. 60 Principles for calculating the key indicators	7, 8
305-3	Other indirect (Scope 3) GHG emissions	p. 55 Performance in figures p. 60 Principles for calculating the key indicators	7, 8
305-5	Reduction of GHG emissions	pp. 29-35 Climate and the environment p. 42 Environmental management p. 55 Performance in figures	8, 9
305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	p. 44 Environmental quality at our sites remained at a good level p. 55 Performance in figures	7, 8
GRI 306: Effluents and Waste 2016			
306-1	Water discharge by quality and destination	p. 55 Performance in figures p. 60 Principles for calculating the key indicators	8
306-2	Waste by type and disposal method	p. 55 Performance in figures	8
306-3	Significant spills	p. 55 Performance in figures	8
GRI 307: Environmental Compliance 2016			
307-1	Non-compliance with environmental laws and regulations	a. No significant fines or non-monetary sanctions. b. 9 environmental permit violations and one other environmental regulation violation.	8
GRI 308: Supplier Environmental Assessment 2016			
308-1	New suppliers that were screened using environmental criteria	All approved renewable raw material suppliers. pp. 36–41 Sustainable raw materials Sustainability policies and principles Supplier requirements	8

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 400: Social topics			
GRI 401: Employment			
401-1	New employee hires and employee turnover	Leaving rate of permanent employees 9.8%. Hiring rate of permanent employees 13.8%. The total turnover rate is increased by the personnel of the service stations in Russia covering most of the company personnel in Russia. Personnel figure in Finland does not cover the personnel in service stations.	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 2.5%. p. 49 Safety	
GRI 404: Training and Education 2016			
404-2	Programs for upgrading employee skills and transition assistance programs	Total number of participants in Neste's strategy-related learning and development programs 460. Training costs 4.4 MEUR (including also mandatory trainings). p. 28 Creating value to stakeholders p. 48 Developing competences	
GRI 405: Diversity and Equal Opportunity			
405-1	Diversity of governance bodies and employees	p. 47 Diversity and equal opportunity pp. 67, 69–70, 73–75 Corporate Governance Statement 2016 p. 54 Performance in figures p. 60 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 90–130%. p. 47 Diversity and equal opportunity	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	Potential impact on freedom of association was identified in our supply chain. In 2017 Neste put in place firm policy to mitigate this impact. Neste Human Rights Principles	

Disclosure Number	Disclosure Title	Reporting	Global Compact Principles
GRI 408: Child Labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	Potential impact on child labor was identified in our supply chain. In 2017 Neste put in place firm policy to mitigate this impact. Neste Human Rights Principles	5
GRI 409: Forced or Compulsory Labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Potential impact on forced labor was identified in our supply chain. In 2017 Neste put in place firm policy to mitigate this impact. Neste Human Rights Principles	4
GRI 412: Human Rights Assessment 2016			
412-1	Operations that have been subject to human rights reviews or impact assessments	The corporate-wide human rights impact assessment conducted in 2016 is still valid. pp. 45–47 Human Rights	1
GRI 414: Supplier Social Assessment 2016			
414-1	New suppliers that were screened using social criteria	All approved renewable raw material suppliers. pp. 41–43 Human Rights	2
GRI 415: Public Policy 2016			
415-1	Political contributions	Neste does not make political contributions.	10
GRI 416: Customer Health and Safety 2016			
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No cases.	
GRI 417: Marketing and Labeling 2016			
417-3	Incidents of non-compliance concerning marketing communications	No cases.	

Principles for calculating the key indicators

Environment

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

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

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

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

Safety

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

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

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

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

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

PSE1 (Process Safety Event): An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE1 classification.

Possible consequences:

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

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

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

Possible consequences:

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

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

Personnel

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

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

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

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

Independent Practitioner's Assurance Report

To the Management of Neste Corporation

We have been engaged by the Management of Neste Corporation (hereinafter also "the Company") to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period 1 January 2017 to 31 December 2017, disclosed in the "Sustainability" section of Neste Corporation's Annual Report 2017 (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 (inclusivity, materiality and responsiveness) as set out in the AccountAbility's AA1000 AccountAbility Principles Standard 2008.

Practitioner's independence and quality control

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

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

Practitioner's responsibility

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

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

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

In a limited assurance engagement the evidence-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 reporting based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as one site in Singapore and conducting a web conference with one site in the Netherlands.
- Interviewing employees responsible for collecting and reporting the information presented in the Sustainability information at the Group level and at the site.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Neste Corporation's Sustainability information for the reporting period ended 31 December 2017 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

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

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

Observations and recommendations

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

- **Regarding Inclusivity:** Neste Corporation has processes in place for continuous stakeholder inclusivity and engagement. The Company has also engaged stakeholders to receive feedback on its materiality assessment and reporting. We recommend that the Company further develops stakeholder dialogue with all stakeholders including non-state actors.
- **Regarding Materiality**: Neste Corporation has a systematic process in place to assess and define the materiality of sustainability topics. The Company has updated its materiality assessment during the reporting year 2016 and has indicated that the assessment will be updated in 2018. We recommend that the Company when updating its materiality assessment focuses on the most material topics from the viewpoint of business continuity and business development.
- **Regarding Responsiveness:** Neste Corporation has processes in place for identifying and communicating stakeholder needs to the decision making process of the Company. We recommend that the Company continues focusing on the material sustainability topics including investors' expectations for ESG reporting.

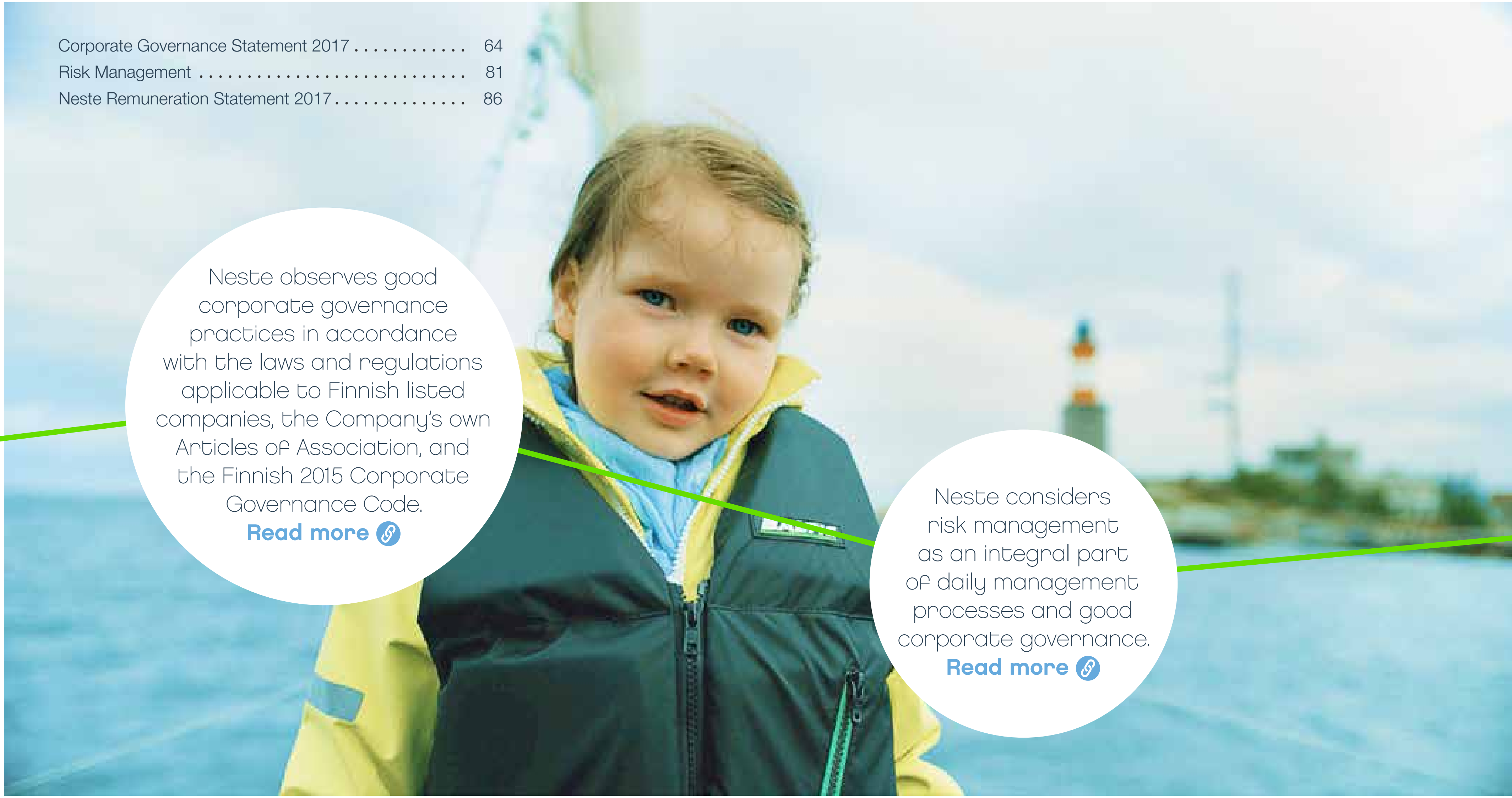
Helsinki, 6 March 2018

PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

AA1000 Licensed Assurance Provider

Governance



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

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

Corporate Governance Statement 2017

Corporate Governance Statement 2017

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

Regulatory framework

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

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

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

Governance Bodies

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

Neste's headquarters are located in Espoo, Finland.

Neste's Governance Bodies

Annual General Meeting

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

Shareholders at the AGM make decisions on matters including:

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

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

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

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

2017

The 2017 AGM was held in Helsinki on Wednesday, 5 April 2017 and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2016, and discharged the Board of Directors, and the President and CEO from liability for 2016. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2016, sanctioning payment of a dividend of EUR 1.30 per share. This was paid to all shareholders included in the register of shareholders maintained by Euroclear Finland on the record date set for payment of the dividend, which was 7 April 2017. The payment was made on 18 April 2017. The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Auditor.

Shareholders' Nomination Board

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

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

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

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

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

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

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

On 6 September 2017, the following members were appointed to Neste's Shareholders' Nomination Board: The Chair Pekka Timonen, Director General of the Ministry of Economic Affairs and Employment; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Elli Aaltonen, Director General of Kela and Jorma Eloranta, the Chair of Neste's Board of Directors.

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

Activities

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

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

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

Shareholders' Nomination Board members

Pekka Timonen

Doctor of Law, Chair of the Shareholders' Nomination Board since 6 September 2017.
Born in 1960.
Director General of the Labour and Trade Department in Ministry of Employment and the Economy. Chair of the Shareholders' Nomination Board of Neste. Member and Vice Chair of the Board of Directors of Finnvera Plc, Member of Board of Directors of Finrail, and Member of Board of the Finnish Literature Society.

Holdings in Neste Corporation on 31 December 2017:
0 shares. [1]
State of Finland: 128,458,247 shares. [2]

Elli Aaltonen

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

Holdings in Neste Corporation on 31 December 2017:
0 shares. [1]
The Social Insurance Institution of Finland, Kela:
2,648,424 shares. [2]

Jorma Eloranta

M.Sc. (Tech.), D.Sc. (Tech.) h.c., Member of the Shareholders' Nomination Board.
Born in 1951.
Non-executive Director. Chair of the Boards of Neste, Stora Enso and Uponor Corporation. Chair of the Board and President of Pienelo Ltd. Vice Chair of the Board of the Finnish Fair Foundation. Member of the Board of Cargotec. Chair of the Personnel and Remuneration Committee's of Neste and Uponor. Chair of the Remuneration Committee of Stora Enso. Member of the Nomination and Compensation Committee of Cargotec. Member of the Financial and Audit Committee of Stora Enso. Member of the Shareholders' Nomination Board of Neste and Stora Enso. Expert member of the Shareholders' Nomination Board of Uponor. Vice Chairman of the Supervisory Board in Finnish Naval Foundation.

Holdings in Neste Corporation on 31 December 2017:
13,985 shares. [1]

Timo Ritakallio

Ph.D. (Tech)., M.Sc. (Laws), MBA. Member of the Shareholders' Nomination Board.
Born in 1962.
President and CEO of Ilmarinen Mutual Pension Insurance Company. From March 2018 onwards President and Group Executive Chairman of OP Financial Group, Member of the Nomination Boards of Elisa, Fortum, Neste, Orion, Outokumpu, Technopolis, Tieto and Valmet.

Holdings in Neste Corporation on 31 December 2017:
0 shares. [1]
Ilmarinen Mutual Pension Insurance Company:
4,700,000 shares. [2]

Holdings in Neste Corporation on 31 December 2017:
[1] Own holdings and controlled entities.
[2] Shareholder's holdings represented by the member of the Shareholders' Nomination Board.

The members of the Shareholders' Nomination Board appointed on 6 September 2017 attended meetings in 2017–2018 as follows:

	Attendance
Pekka Timonen	4/4
Elli Aaltonen	3/4
Jorma Eloranta	4/4
Timo Ritakallio	4/4

The meeting on 30 January 2018 which accepted the proposals for the 2018 AGM was attended by all members of the Shareholders' Nomination Board.

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

The Shareholders' Nomination Board responsible for preparing the 2017 AGM comprised Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department (Chair); Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Elli Aaltonen, Director General of Kela; and Jorma Eloranta, the Chair of Neste's Board of Directors.

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

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 2017[1)] Board of Directors was composed of eight 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. Two members have worked in managerial positions at major international oil companies. The Board of Directors is also diverse in terms of cultural backgrounds: its members come from 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 51 and 69 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.

[1)] *Reflects the situation until 30 November when Heike van de Kerkhof resigned from the Board of Directors.*

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.

2017

The 2017 AGM confirmed the membership of the Board of Directors as being comprised of eight members. Mr. Jorma Eloranta, Ms. Martina Flöel, Ms. Heike van de Kerkhof, Mr. Matti Kähkönen, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. Mr. Jorma Eloranta was re-elected as Chair and Mr. Matti Kähkönen was elected as Vice Chair.

The Board convened 13 times in 2017. The attendance rate at the meetings was 97%.

The successor planning concerning the President and CEO was during 2017 a focus area of the Board and the Personnel and Remuneration Committee, and such successor planning resulted in the appointment of a new President and CEO of the Company on 8 February 2018. Other focus areas for the Board work in 2017 included pursuant to an agenda approved by the Board, implementation of the approved growth strategy, speeding up R&D activities, operational excellence as well as talent management and senior management successor planning. Various matters has, based on such agenda, been discussed, reviewed and decided, as the case has been, by the Board. In addition to such agenda and matters set out in the Board Charter, the Board has monitored the company's financial performance and status, engaged in discussions with management on developing the business strategy and approved their base strategic approach, overseen strategy execution and evaluated the changes in the long-term operational environment and their impact on the company's business operations. The Board paid attention to the development of safety whilst monitoring the measures taken to improve production unit availability and to develop operating methods. The Board also monitored the company's growth program for renewable fuels, including plans for additional production capacity, flexibility of the renewable product material base and development of the business in various renewable product solutions, such as renewable aviation fuels and bio-based chemicals. In addition, the Board paid attention to improving risk control.

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 2017

	Position	Born	Education	Main Occupation	Independent of the company	Independent of major shareholders	Personnel and Remuneration Committee	Audit Committee	Attendance at meetings: Board	Attendance at meetings: Committees
Jorma Eloranta	Chair	1951	M.Sc. (Tech.) D.Sc. (Tech.) h.c	Non-Executive Director	•	•	•		13/13	7/7
Martina Flöel	Member	1960	PhD (Chem.)	Non-Executive Director	•	•		•	12/12	5/5
Maija-Liisa Friman [3]	Vice Chair	1952	M.Sc. (Chem. Eng.)	Non-Executive Director	•	•	•		1/1	1/1
Heike van de Kerkhof [1]	Member	1962	B.Sc. (Mech.Eng.), MBA	Managing Director, Chemours Titanium Technologies	•	•	•		10/10	4/5
Matti Kähkönen	Vice Chair	1956	M.Sc. (Eng.)	Non-Executive Director	•	•	•		12/12	6/6
Laura Raitio [2]	Member	1962	Lic.Tech.	Non-Executive Director	•	•	•	•	13/13	1/1 + 6/6
Jean-Baptiste Renard	Member	1961	M.Sc. (Eng.)	Non-Executive Director	•	•	•		13/13	7/7
Willem Schoeber	Member	1948	Dr. (Tech.)	Non-Executive Director	•	•		•	12/13	6/6
Kirsi Sormunen [3]	Member	1957	M.Sc. (Econ.)	Non-Executive Director	•	•		•	1/1	1/1
Marco Wirén	Member	1966	M.Sc. (Econ.)	Executive Vice President and CFO of Wärtsilä	•	•		•	11/13	6/6

[1] resigned from the Board of Directors on 30 November 2017

[2] replaces van de Kerkhof as a member of the Personnel and Remuneration Committee as of 30 November 2017

[3] member of the Board of Directors until the AGM, 5 April 2017

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

Members of the Board of Directors

Jorma Eloranta

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

President and CEO of Metso Corporation 2004–2011. President and CEO of Kvaerner Masa-Yards Inc. 2001–2003. President and CEO of Patria Industries Group 1997–2000. Deputy Chief Executive of Finvest Group and Jaakko Pöyry Group 1996. President of Finvest Ltd 1985–1995. Chair of the Board of Suominen Corporation 2011–2017. Chair of the Boards of Stora Enso and Uponor Corporation. Chair of the Board and President of Pienelo Ltd. Vice Chair of the Board of the Finnish Fair Foundation. Member of the Board of Cargotec. Chair of the Personnel and Remuneration Committees of Neste and Uponor. Chair of the Remuneration Committee of Stora Enso. Member of the Nomination and Compensation Committee of Cargotec. Member of the Financial and Audit Committee of Stora Enso. Member of the Shareholders' Nomination Board of Neste and Stora Enso. Expert member of the Shareholders' Nomination Board of Uponor. Vice Chair of the Supervisory Board in Finnish Naval Foundation.

Holdings in Neste Corporation on 31 Dec 2017: 13,985 shares [1]

Matti Kähkönen

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

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

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

Holdings in Neste Corporation on 31 Dec 2017: 2,270 shares [1]

Martina Flöel

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

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

Holdings in Neste Corporation on 31 Dec 2017: 0 shares [1]

Laura Raitio

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

CEO of Diacor Medical Services 2014–2017. Executive Vice President, Building and Energy 2009–2014 and Member of the Executive Management Team 2006–2014, Ahlstrom. Ahlstrom's Senior Vice President, Marketing (sales network, human resources, communications and marketing) 2006–2008. Ahlstrom's Vice President and General Manager for Wallpaper & Poster, Pre-impregnated Decor, Abrasive Base in Osnabrück, Germany 2002–2005. Managing Director of Ahlstrom Kauttua 2001–2002. Several managerial positions within Ahlstrom's specialty paper business since 1990. Member of the Board of Boardman, Suominen and Raute. Member of Neste's Audit as well as Personnel and Remuneration Committee.

Holdings in Neste Corporation on 31 Dec 2017: 1,500 shares [1]

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

Jean-Baptiste Renard

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

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

Holdings in Neste Corporation on 31 Dec 2017: 7,650 shares [1)]

Willem Schoeber

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

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

Holdings in Neste Corporation on 31 Dec 2017: 2,000 shares [1)]

Marco Wirén

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

Executive Vice President and Chief Financial Officer Wärtsilä since 2013. 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. Chair of Neste's Audit Committee.

Holdings in Neste Corporation on 31 Dec 2017: 1,000 shares [1)]

Heike van de Kerkhof

Member of the Board of Directors until 30 November 2017

(born in 1962)
B.Sc. (Mechanical Engineering), MBA
Independent member

Managing Director, Chemours Titanium Technologies, 2015–. Business Director, EI DuPont Titanium Technologies 2013–2015. Chairperson of the Supervisory Board, DuPont Deutschland 2013–2015. European Growth Director, DuPont Food Industry Solutions 2009–2013. Business Director, Packaging and Industrial Polymers, DuPont De Nemours & Company 2008–2012. Global Venture Leader, DuPont Packaging Solutions 2006–2008.

Holdings in Neste Corporation on 30 Nov 2017: 0 shares [1)]

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

Board Committees

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

In addition, the Board of Directors can appoint committees as needed, for instance, for significant investment projects or other special tasks. In 2017, a committee of two people was appointed to investigate an important investment plan.

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.

2017

Starting from 5 April 2017, the Audit Committee comprised Marco Wirén (Chair), Laura Raitio, Martina Flöel, and Willem Schoeber. Until 5 April 2017, the Audit Committee comprised Marco Wirén (Chair), Laura Raitio, Willem Schoeber, and Kirsi Sormunen.

The Audit Committee convened 6 times, and the attendance rate was 100%. In addition to the tasks specified in its Charter, the Audit Committee focused on financial reporting and risk management, including, in particular, in relation to market risks. In such context, the Audit Committee monitored e.g. the development of ICT systems, including the project for reforming the ERP system, as well as IT and cyber security. Moreover, the Audit Committee also monitored the preparations for introduction of non-financial reporting and for the EU General Data Protection Regulation (GDPR).

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.

2017

Starting from 5 April 2017, the Personnel and Remuneration Committee comprised Jorma Eloranta as Chair and Heike van de Kerkhof (until 30 November), Laura Raitio (from 30 November) Matti Kähkönen and Jean-Baptiste Renard as members. Until 5 April 2017, the Personnel and Remuneration Committee comprised Jorma Eloranta (Chair), Maija-Liisa Friman, and Jean-Baptiste Renard.

The Personnel and Remuneration Committee convened 7 times in 2017, and the attendance rate was 96%. The Personnel and Remuneration Committee focused during 2017 on the successor planning concerning the President and CEO which successor planning resulted in the appointment by the Board of a new President and CEO of the Company on 8 February 2018. 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 2016 results were in the scope. The Committee also reviewed the Neste's Senior Management Remuneration Principles. In addition, the Committee focused on development of the key personnel and strategic capabilities required for the new growth strategy and enhancement of the productivity, and the management review, as well as monitoring the developmental progress of the organizational culture.

President and CEO

Neste's President and CEO, Matti Lievonen (b.1958, B.Sc. (Eng.), eMBA), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President 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 2017 Remuneration Statement.

Neste Executive Board

The Neste Executive Board (NEB) assists the President and CEO in managing the Company and in the deployment of the Company's strategic and operational goals. Members are appointed by the Board of Directors. The NEB meets regularly, on average once a month. Information on the remuneration of the members of the NEB can be found in the 2017 Remuneration Statement.

2017

The Neste Executive Board comprised eleven members and met 12 times in 2017. In addition to supporting the President and CEO in the fulfillment of his general duties, the NEB boosted the implementation of the strategy by advancing the company's growth program for renewable fuels, including plans for additional production capacity and flexibility of the renewable product material base. In line with a wider focus on customer orientation, special attention was given to renewable product solutions, such as renewable aviation fuels and bio-based chemicals, and development of business models for renewable products in various countries. The NEB also continued its work to improve the company's financial and safety performance which was closely monitored by the NEB on a regular basis. Improvement of availability of production units, guidance relating to the company's investments, development of service concepts and the project for reforming the company's ERP system were also special focus areas of the NEB during 2017.

Members of the Neste Executive Board

Matti Lievonen

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

Joined the company in 2008. Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM-Kymmene 1986–2008, and prior to that at ABB. Member of UPM-Kymmene's Executive Board 2002–2008. Vice Chair of the Board of Directors of Fortum and Nynas AB. Member of the Board of the Chemical Industry Federation of Finland, SSAB AB and the European Business Leaders' Convention. Member of the Advisory Board of National Emergency Supply Agency and East Office of Finnish Industries Oy. Member of the Finnish Business and Policy Forum EVA and the Supervisory Board of The Finnish Fair Corporation.

Holdings in Neste Corporation on 31 Dec 2017: 45,548 shares. [1]

Kaisa Hietala

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

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

Holdings in Neste Corporation on 31 Dec 2017: 10,000 shares. [1]

Matti Lehmus

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

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

Holdings in Neste Corporation on 31 Dec 2017: 16,810 shares. [1]

Panu Kopra

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

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

Holdings in Neste Corporation on 31 Dec 2017: 5,849 shares. [1]

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

Tuomas Hyyryläinen

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

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

Holdings in Neste Corporation on 31 Dec 2017: 8,709 shares. [1]

Simo Honkanen

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

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

Holdings in Neste Corporation on 31 Dec 2017: 19,519 shares. [1]

Hannele Jakosuo-Jansson

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

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

Holdings in Neste Corporation on 31 Dec 2017: 17,072 shares. [1]

Osmo Kammonen

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

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

Holdings in Neste Corporation on 31 Dec 2017: 14,043 shares. [1]

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

Lars Peter Lindfors

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

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

Holdings in Neste Corporation on 31 Dec 2017: 14,063 shares. [1)]

Jyrki Mäki-Kala

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

Joined the company in 2013. Responsible for the Group's strategy, financial management, investor relations, and risk management. Served in various business and corporate financial positions at Kemira 2005–2013. Previously worked for Finnish Chemicals 1988–2005. Member of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company.

Holdings in Neste Corporation on 31 Dec 2017: 14,013 shares. [1)]

Christian Ståhlberg

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

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

Holdings in Neste Corporation on 31 Dec 2017: 0 shares. [1)]

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

Neste Executive Management Board

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

2017

The Neste Executive Management Board comprised the President & CEO, business area Executive Vice Presidents, the CFO and the Senior Vice President, Emerging Businesses business unit. The NEMB met 12 times in 2017.

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	2017	2016
Audit fees	1,326	936
Other	419	288
Total	1,745	1,224

2017

Audit Firm PricewaterhouseCoopers Oy served as Neste's Auditor until 5 April 2017, with Authorized Public Accountant Mr. Markku Katajisto as the principally responsible auditor. The AGM re-elected PricewaterhouseCoopers Oy as the Audit Firm on 5 April 2017, with Authorized Public Accountant Mr. Markku Katajisto continuing to serve as the principally responsible auditor, until the end of the next AGM.

Internal Audit

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

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

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

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

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

2017

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

Internal Audit continued operating with co-sourcing model using audit resources and experts effectively in order to achieve audit related objectives. Neste's key business processes, locations, projects and risk areas were focus areas during the year 2017, including for example Turnarounds, ICT projects and safety & environmental practices.

Compliance function

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

The purpose of Neste's Compliance function is to strengthen the effectiveness of compliance within the Company. It supports Neste's management in maintaining and developing the company's compliance practices. Compliance function works in close collaboration with Neste's business areas, common functions and other internal assurance organizations, in particular the Risk Management and the Internal Audit functions. Compliance function is headed by the Chief Compliance Officer (CCO), who reported in 2017 to Neste's Chief Financial Officer. The CCO is supported by the Company's Compliance Committee the purpose of which is to increase management oversight on compliance related issues and to ascertain the adequacy of mitigation actions in higher risk compliance areas.The Company's Ethics Committee steers and supports ethics, fraud and other misconduct related whistle-blowing process.

Insider administration procedures

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

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

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

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

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

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

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

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

Objectives

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

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

Control environment

Under the Finnish Companies Act, the Board of Directors is responsible for ensuring that there is adequate control over the Company's accounts and finances.

Responsibility for arranging this control is delegated to the President and CEO, who is required to ensure that the Company's accounts are in compliance with the law and that its financial management have been arranged in a reliable manner.

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

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

Risk assessment

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

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

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

Control activities

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

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

Communications

The Neste corporate level communication practices support completeness and correctness of financial reporting. Neste personnel has access to adequate information and communication regarding accounting and reporting principles and guidelines. The main means of communicating the relevant matters for appropriate financial reporting is the Finance Instructions containing accounting principles and guidelines for forecasting and reporting. To increase a transparency of the processes, both business and finance processes are described by using a tool where Neste personnel has access. Both Finance Instructions and process documentation work will continue in 2018. Neste Controllers' network has regular meetings and trainings to ensure up-to-date knowledge.

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

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

Monitoring

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

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

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

2017

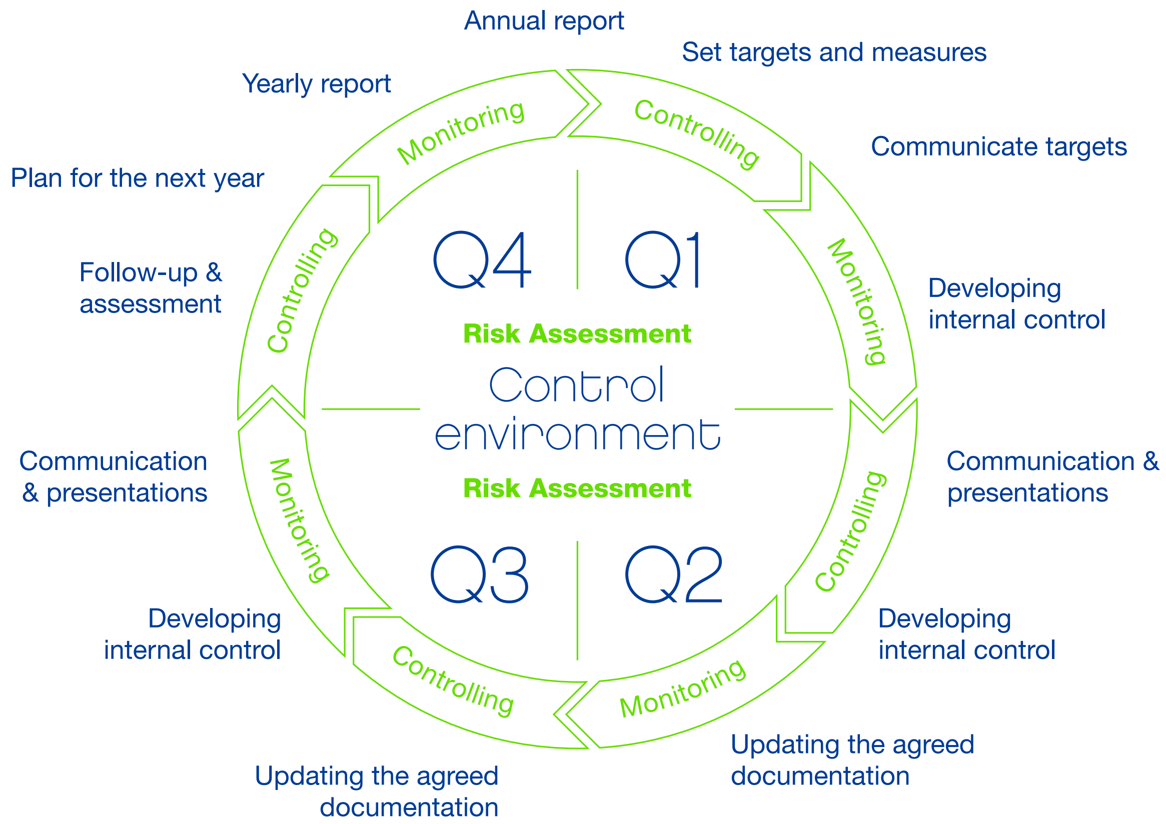
The focus areas of internal controls development were the deployment of supply and enabling processes in the parent company of Neste Group wide ERP system (SAP), design and planning of sales process implementation (SAP) and design of indicators to support monitoring.

From internal control over financial reporting point of view the deployment of supply and enabling processes meant also deployment of process controls and access management for these processes in the new information system landscape.

Design and planning of sales process implementation including first testings took place in the fall. As for process controls and access management design for sales process, they were part of the total design.

To support monitoring of processes, the design of process and control indicators was also started in the fall. The objective is to increase automated indicators and also develop coverage and reporting format of indicators.

Internal control over financial reporting



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

Performance Management Process

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

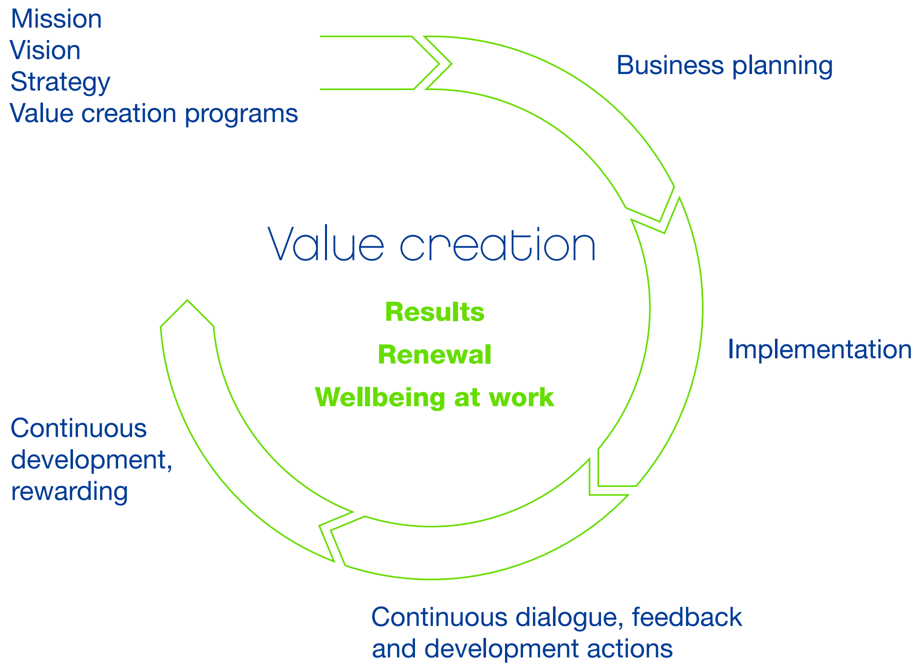
Performance management comprises daily leadership, through which individuals, teams, units and the Company can reach selected strategic priorities and develop organizational capability. Performance leadership is used to ensure that everyone knows the values and objectives of the Company, and their short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

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

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

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

Performance Management Process



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

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

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

Leading performance in daily work

Risk management

Risk management objectives and scope

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

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

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

Risk management framework and principles

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

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

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

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

Risk governance

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

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

1st Line of Defense

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

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

2nd Line of Defense

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

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

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

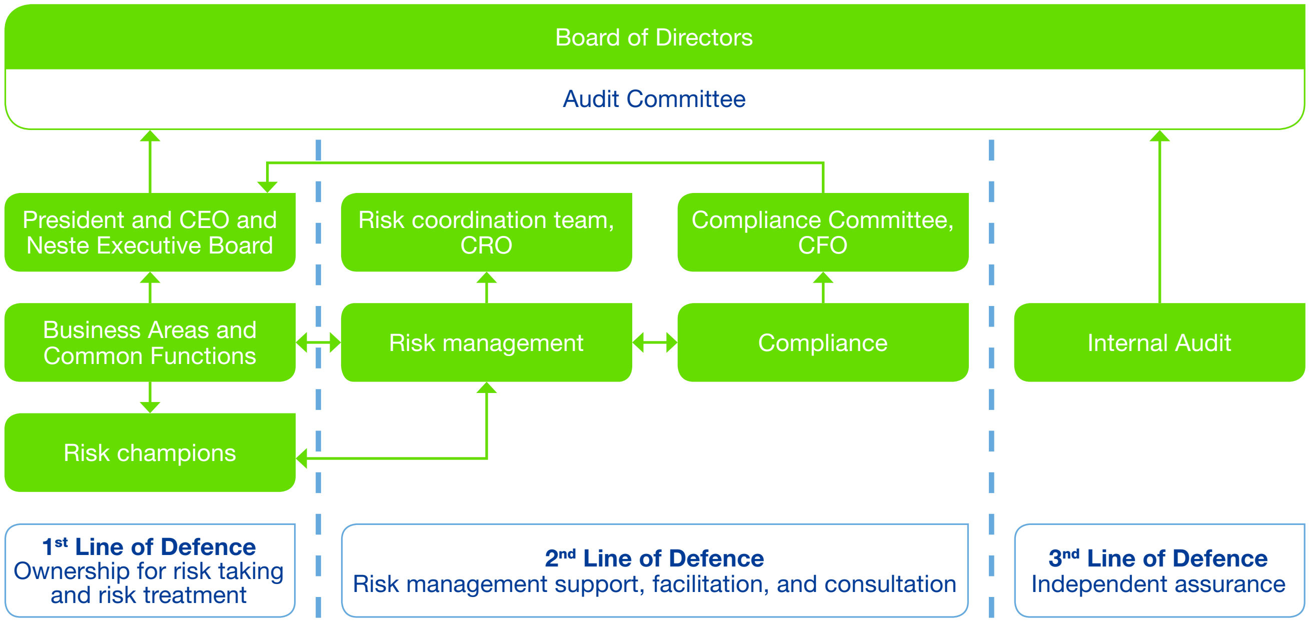
The corporate risk management team is responsible for confirming that risk management activities are carried out consistently. Corporate risk management also drives overall development of risk management practices and tools.

3rd Line of Defense

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

Internal Audit also provides recommendations for improvement areas.

Risk governance



Risk reporting

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

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

Formal risk reporting is directed to business management and function management teams, Neste Executive Board, Audit Committee, and 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.

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

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

External risks – Geopolitical

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

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

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

External risk – Natural catastrophes

Natural catastrophes create an inherent risk factor for the oil & energy industry. For Neste, the direct exposure to natural catastrophes is relatively small. As hurricanes Harvey, Maria, and Irma forced US refineries to shut down operations during the second half of 2017, Neste benefited from decreased production capacity and rising prices for refined products.

External risks – Laws and regulation

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

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

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

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.

Staying ahead of competition requires ability to challenge current business models, strong focus on new innovations and willingness to develop operations further. Continued contributions of Neste's senior management, personnel and partners are vital for the company's success.

Due to fierce competition for talent, there is a risk that Neste may not be able to recruit and retain highly skilled employees that are needed for strategy deployment and successful operations in the future. 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.

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

Market risks

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

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

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

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

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

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

Credit risk

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

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

Cyber risk

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

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

Risk management focus in 2017

During 2017, special risk management initiatives focused on system transitions, business model changes and structure around market risk management as well as data protection.

Sustainability risks that relate to Neste's own operations or to the extended enterprise have so far been assessed as part of the annual risk management cycle that has been facilitated by the group risk management team. In 2017, a separate deepdive focusing on selected sustainability themes was conducted in order to ensure that Neste's communication is in line with the requirements of the Non-Financial Reporting Directive. Internal review was complemented by an external assessment. The most significant sustainability risks have been detailed in **the review by the Board of Directors**.

During 2017, special risk management initiatives focused on system transitions, business model changes and structure around market risk management as well as data protection.

Neste Remuneration Statement 2017

Dear shareholder,

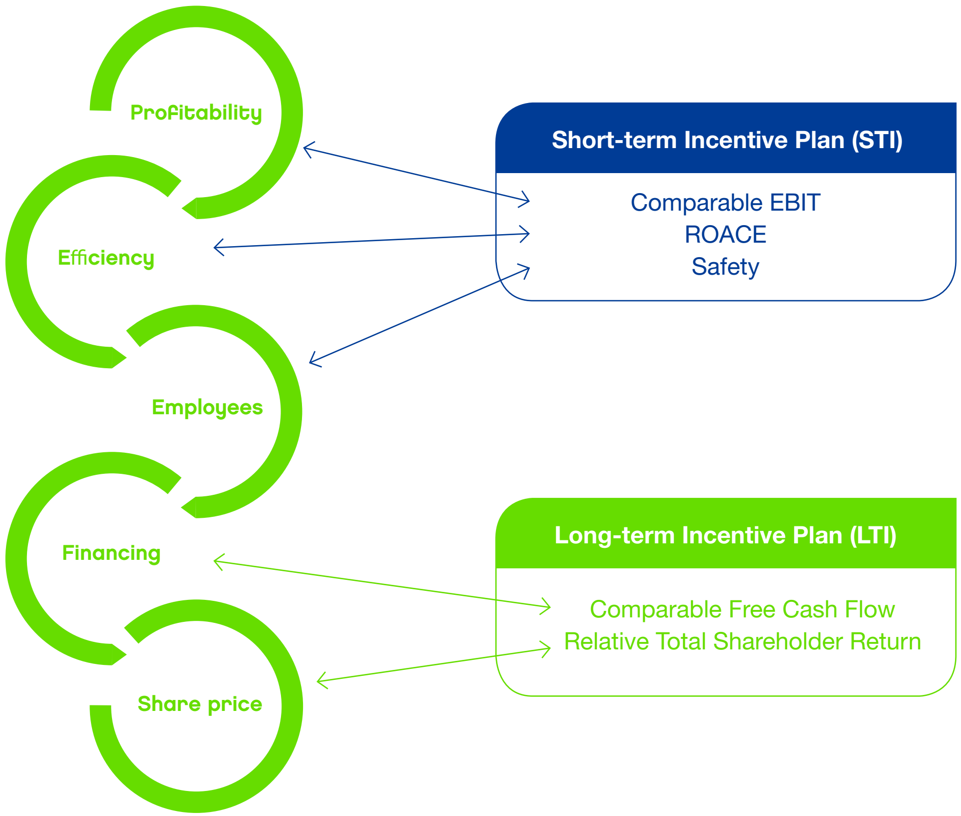
In 2016 we renewed our Remuneration Statement by, among other things, explaining the indicators related to the performance pay of the CEO and Chair of the Management Board, their weights and, on the other hand, the achieved results. This year, the structure and content of the statement correspond with last year's statement, but we are nevertheless aware that the content needs to be specified further over the next two years, once it becomes clear how the EU directive concerning shareholder rights, which was amended in the spring of 2017, will be implemented in Finland.

Our approach

Our remuneration policy is designed to:

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

Measuring performance at Neste



How we structure remuneration

It is not the Company's objective to be the market leader in pay, but we want be able to compete for the best workforce and senior management. Salaries and incentive plans form one part of the whole that is used to achieve this. Selecting the right individuals for key positions, the use of performance reviews and performance-based incentives as well as job rotation, proactive succession planning and the competence and appropriate rewarding of the entire personnel are key to our success – now and in the future. We feel that the policy definitions and decisions we have made in the field of remuneration have contributed to the company's continuing success.

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

The performance criteria used for the incentive schemes are linked to the execution of our business strategy. Further, through the delivery of rewards under the long-term incentive scheme in shares and the requirement for the President and CEO and Neste Executive Board (NEB) members to build and maintain a minimum shareholding in Neste, the policy supports alignment of interest between management and our shareholders. At the end of 2017, all members of NEB, with the exception of the most recent member, the company's General Counsel, who started working in May, held a number of company shares that exceeded their fixed annual earnings.

We also want to reward all our employees for good performance, believing that fair remuneration motivates our people to strive for excellence. All our employees are therefore able to participate in short-term incentive programs. In 2017 we paid out EUR 35 million through short-term incentive programs and profit sharing fund. This sum represents approximately 4% of comparable EBIT for 2017.

Remuneration for 2017

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

- Neste's Board of Directors has deemed it correct to take into consideration the Government Resolution on State-ownership Policy, issued in 2016, regarding executive remuneration in state-owned companies in Finland. In 2017 as well as in 2016, the long-term share incentive rewards to the President and CEO and certain NEB members were limited to ensure that the total value of incentives (short-term and long-term incentives combined) did not exceed 1.2 times fixed annual base salary. No salary increase was allocated for the President and CEO. Increases for other NEB members were modest and based on new broader roles and responsibilities.
- An additional safety measure was introduced to the short-term incentive program. As well as measuring the rate of accidents requiring medical treatment per million hours worked including contractors (Total Recordable Injury Frequency, TRIF), at a Group level and for Oil Products and Renewable Products we also looked at the rate of process safety events per million hours worked (PSER). Safety is imperative to the delivery of our strategy and we wanted to ensure that we continue to drive performance improvements in this area.
- On the long-term incentive plan for the 2017–2019 LTIP cycle, the target incentive opportunity for CEO and Neste Executive Board was reduced from 40% to 30% of salary and the lock-up period for shares vesting under the plan was reduced from three years to one year.
- At the Annual General Meeting of 2017, we presented the main structure of the company's remuneration policy more extensively than before and the grounds for the realized performance pay of the CEO and Chairman of the Management Board as well as Neste Executive Board, as a whole.

Remuneration policy for 2018

During the course of the year, the Committee reviewed the remuneration principles to ensure that it continued to meet its objectives and supports the business strategy. No essential changes were made.

In 2018 the remuneration practices are continued based on the decision made in 2017.

- At Group level, the indicators of the short-term incentive scheme will remain the same as in 2017: Comparable EBIT, Return on Average Capital Employed (ROACE), Total Recordable Incident Frequency (TRIF, including contractors) and Process Safety Event Rate (PSER).
- On the long-term incentive program, the performance measures were also kept the same as earlier: Comparable Free Cash Flow and Relative Total Shareholder Value. The number of participants in the latest 2018–2020 plan was decided to be increased from approximately 100 to 130 persons to support the implementation of the growth strategy.

- As a part of normal annual clock the base salaries and total rewarding of the Neste Executive Board were reviewed. The base salary of the CEO was increased by 1.6% and moderate increases were allocated for some of the other members of the NEB as of 1.1.2018.

Remuneration reporting

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

1. **Letter from the Chair of the Personnel and Remuneration Committee.** This section highlights the key activities and decisions undertaken by the Personnel and Remuneration Committee during the year. The Personnel and Remuneration Committee reports to the Board of Directors, which makes the final decisions concerning the proposals made by the Committee.
2. **Neste Executive Remuneration Policy Report.** This section explains how the executive remuneration policy and performance criteria are used to determine the remuneration of the President and CEO and members of the Neste Executive Board over future financial years. It also describes the remuneration principles that apply to our senior managers.
3. **Neste Executive Annual Remuneration Report.** This section presents a full report on the remuneration of Neste's President and CEO and the members of the Neste Executive Board in light of the Company's financial and operational performance over the latest reporting year.
4. **Neste's Board of Directors Remuneration Review.** This section describes the remuneration paid to Neste's Board of Directors during the latest financial period and how remuneration levels have developed over the recent years. The Shareholders' Nomination Board submits proposals on the remuneration of Neste's Board of Directors to the Annual General Meeting for approval.

Jorma Eloranta
Chair of the Personnel and Remuneration Committee

Neste Executive Remuneration Policy Report

Principles guide our performance

We regularly review the Company's guiding remuneration principles. The performance and reward main principles introduced in the beginning of 2014 continue to apply as no changes were found necessary in 2017. The four principles underpin the remuneration programs across the Company and are founded on the platforms of "fairness" and "pay for performance."

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

Remuneration principles for the Neste Executive Board and senior management

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

- Remuneration should be sufficient to attract and retain senior management with the requisite skills and experience to ensure that we meet our strategic goals, yet at the same time make financial sense from the Company's point of view so as not to jeopardize its competitive cost structure.
- For the Company to operate effectively in a global context, remuneration should be fair and competitive within the international markets where the Company operates. Salaries and other pay components should be based on local market conditions and be sufficient to attract key management talent.
- To help drive performance in the short and the long-term, to maintain a flexible cost base, and to avoid creating incentives for excessive risk-taking, an appropriate proportion between fixed and performance-based pay should be maintained in incentive plans.
- Remuneration should also guide and encourage the achievement of challenging strategic, operational and financial targets.
- Senior management interests should align with those of the Company and its broad base of domestic and international stakeholders.
- The senior management remuneration policy should be consistent with the global remuneration applied to Neste employees worldwide.
- Neste will always endeavor to treat senior managers and personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, and other comparable factors.
- Remuneration is defined according to the "grandfather principle" whereby the pay of any individual is subject to the approval of a manager's manager. No individual may decide matters relating to their own remuneration.

Ensure the execution of our strategy

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 Board

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

Remuneration element	Purpose and link to strategy	Description and operation
Base salary	To provide a core level of reward for the role.	Fixed salary which includes taxable fringe benefits (car and telephone). CEO's salary was EUR 55,039 per month (1.1.2012–31.12.2017). It increased to EUR 55,920 per month as of 1.1.2018.
Insurances	To protect NEB members in the performance of their duties.	The NEB members have private accident, life and disability insurance, business travel, directors' and officers' liability insurance. The NEB members may participate in the sickness fund (in Finland).
Additional pension	To provide a competitive retirement benefit in line with local market practices.	President and CEO: defined benefit (DB) plan approved in 2008, based on a retirement age of 60 years and 60% of retirement salary. NEB members: DB plan based on a retirement age of 60 (up to 60% of retirement salary) or, for those who have started after 1 January 2009, a defined contribution (DC) pension scheme (based on retirement age of 62, 63 or as prescribed under Finnish pension legislation). Retirement salary for DB schemes is calculated based on the average monthly salary and related statutory pension insurance contributions over the ten years prior to retirement. DC pension allocation is 16% of annual fixed base salary. New DB plans are no longer made.
Short-term incentives	To reward and incentivize improvements in short-term financial and operational performance and support the delivery of the business strategy.	Based on the attainment of annual financial and non-financial measures. Maximum award value is 40% of annual fixed base salary. President and CEO: based on group financial targets (comparable EBIT, Return on Average Capital Employed [ROACE%] and group safety targets [Total Recordable Injury Frequency per million hours worked, TRIF, including contractors] and, new for 2017, Process Safety Event Rate per million hours worked [PSER]). NEB members with business area responsibility based on comparable Group EBIT and ROACE, business area specific comparable EBIT, business area specific TRIF and, for Oil Products and Renewable Products, PSER (new for 2017). For NEB members with common function responsibility based on Group comparable EBIT, ROACE, TRIF, PSER and specific strategic measures of the function in question.
Long-term share-based incentives	To drive long-term sustainable growth and align the interests of executives with shareholders.	Based on the attainment of three-year financial and share price performance targets for Neste. For award cycles commencing in 2017 and 2018, 75% of the awards are based on cumulative comparable free cash flow and 25% are based on the total return of Neste shares relative to the STOXX Europe 600 Index. Awards vest in one tranche after three years, partly in shares and partly in cash. The cash element will cover taxes and other tax-like costs. The award for President and CEO varies between 0–100% of annual salary, based on performance and share price appreciation. Awards for NEB members vary between 0–80% of annual salary. Target award levels for both the President and CEO and NEB members are 30% of salary. Should the amount of total incentive awarded to executives (STI + LTI) exceed 120% of annual salary, the excess amount of LTI shares vesting in any one year will be cut to maintain this limit.
Shareholding restriction	To promote a longer term outlook and align the interests of members with those of shareholders.	For LTI award cycles commencing in 2017 onwards, the President and CEO and NEB members are not permitted to sell or transfer shares awarded under the LTI plan for one year after vesting (previously three years). During this 'lock-up' period shares may be subject to forfeiture on termination, at the discretion of the Board of Directors.
Claw back	To ensure pay for performance.	Claw back provisions apply to LTI and STI plan awards in exceptional circumstances such as misconduct or misstatement of financial results.
Share ownership guidelines	To encourage executives to build a meaningful shareholding in Neste.	President and CEO and NEB members must accumulate and maintain a shareholding which is equivalent to their annual fixed salary. Until this threshold is met, participants must retain 100% of vested incentive shares after tax.
Service contracts and loss of office payments	To ensure clear contractual terms are followed.	Notice period for both the Company and the President and CEO and NEB members is 6 months. In the event of termination by the Company, the President and CEO is entitled to severance payment equivalent to 18 months' salary. NEB members are entitled for 6 months' severance payments. Change of control terms are same as for termination.

Neste Executive Annual Remuneration Report

Supplementary information

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

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

The year in review

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

Year 2017 was very successful for Neste, as we posted a record-high comparable operating profit of EUR 1,101 million.

Short-term incentives (STI)

STI for 2016 (paid in 2017)

The STI program for 2016 was based on:

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

In 2016, Neste's financial result was at a record high (EUR 983 million) and the company achieved an excellent return on average capital employed (16.9%). Neste utilized all of its business areas better than before with Oil Products delivering comparable EBIT of EUR 453 million. The company set a new record both in the sales of Renewable Products delivering comparable EBIT of EUR 469 million and in the sales of Marketing & Services (former Oil Retail) delivering comparable EBIT of EUR 90 million in 2016. Renewable Products had the largest full-year profit contribution for the first time.

Safety management is an integral part of our daily work. In 2016, we continued to focus on safety management, working with unit management teams and the entire personnel to deliver the Way Forward to Safety program. Notwithstanding these efforts, the rate of accidents requiring medical treatment per million hours worked including contractors (Total Recordable Injury Frequency, TRIF) rate in 2016 was 2.8 and our target for 2016 was not reached although it was clearly better than in 2015 (3.3). In PSER (process safety event rate) the development was for the worse, and the figure was 3.1. To encourage greater focus on this area, targets linked to PSER was incorporated into the STI program for 2017.

Overall, Neste exceeded the financial goals of the 2016 short-term incentive plan. Taking the business and function level performance and safety targets into account, the Board of Directors awarded the President and CEO and the NEB rewards at above-target levels for performance year 2016. On average, the rewards were slightly lower than in previous year 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 2016 are set out below:

President and CEO 2016 STI (paid in March 2017) — 2016 results

Weighting	Measures	Level of achievement
60%	Group comparable EBIT	At maximum
30%	Group ROACE	At maximum
10%	Group Safety (TRIF)	Between threshold and target
	Total	**Between target and maximum**

STI for 2017 (payable in 2018)

The STI performance measures for 2017 were based on:

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

Neste's high performance continued in 2017, with the Group delivering comparable EBIT of EUR 1,101 million. Similarly the Group's free cash flow was strong at EUR 628 million. Solid profits and a well-managed balance sheet lead to a healthy ROACE for Neste's business, 17.5%.

In 2017 we reached the set two targets for safety: TRIF, including contractors (Total Recordable Incident Frequency per million hours worked) with result of 2.1 and for PSER (Process Safety Event Rate per million hours worked) with result of 2.1. We continued to implement the development actions of our strategic program Way Forward to Safety program involving all personnel. Also several local improvement activities were carried out. Both TRIF and PSER continue to be included into the STI program with even more challenging targets.

Overall, Neste exceeded the financial goals of the 2017 short-term incentive plan. Taking the business and unit-level performance and safety targets into account, the Board of Directors awarded the President and CEO and the NEB rewards, on average, at above-target levels for performance year 2017. The rewards 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 2017:

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

Long-term incentives (LTI)

Neste's 2010 long-term incentive program ran in three year plan cycles from 2010 to 2012, 2011 to 2013 and 2012 to 2014. The 2013 long-term incentive program runs in three-year plan cycles from 2013–2015, 2014–2016 and 2015–2017. The 2016 long-term incentive program started with 2016–2018 and 2017–2019 plans and continues with 2018–2020 plan.

Details of the awards under the long-term incentive programs:

	LTI 2010			LTI 2013			LTI 2016		
Earnings period	2010–2012	2011–2013	2012–2014	2013–2015	2014–2016	2015–2017	2016–2018	2017–2019	2018–2020
Total number of participants at the delivery or grant	34	50	66	86	92	81	94	95	130
Earnings criteria	50% Renewables Product sales volume & 50% relative TSR*	50% Renewables Product sales volume & 50% relative TSR	50% Renewables Product sales volume & 50% relative TSR	75% comparable cashflow & 25% comparable operating profit of the Renewable Products business	75% comparable cashflow & 25% relative TSR	75% comparable cashflow & 25% relative TSR	75% comparable cashflow & 25% relative TSR	75% comparable cashflow & 25% relative TSR	75% comparable cashflow & 25% relative TSR
Extent to which criteria achieved	19.6%	64.6%	100%	100%	100%	100%	–	–	–
Number of shares delivered after tax:									
– to President and CEO	10,912	25,064	14,823	10,458	7,791	4,068	–	–	–
– to other members of NEB	21,214	48,993	39,124	25,856	18,241	10,271	–	–	–
Year of vesting	2013	2014	2015	2016	2017	2018	2019	2020	2021
Lock-up period on vested shares			3 years	3 years for the President and CEO & NEB (1 year for others)			3 years	1 year	1 year

* Total Shareholder Return

LTI plan cycle 2014–2016 (paid in 2017)

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

LTI plan cycle 2015–2017 (payable in 2018)

For the 2015–2017 LTI plan cycle, the targets set for group cumulative comparable free cash flow in December 2014 were exceeded and Neste generated a total shareholder return clearly out-performing the peer group of ten oil industry peers. As a result, the total reward in 2018 corresponds to 95,779 company shares, of which 33,515 shares will be awarded to President and CEO and NEB members. The number of shares to be paid to President and CEO and NEB members after tax will be 10,271 (further details of the shares awarded are shown on page 95). The shares are subject to a 3-year lock-up period for the President and CEO and NEB members.

The performance targets for the cycles that started in 2016, 2017 and 2018 are shown in the previous table above. For the 2016–2018, 2017–2019 and 2018–2020 cycles, the awards correspond to the value of an approximate maximum total of 272,000, 191,000 and 176,000 Neste Corporation shares, respectively.

Remuneration paid to the President and CEO and NEB members

	President and CEO		NEB members (in aggregate)	
EUR	2017	2016	2017	2016
Annual remuneration				
Base salary [1]	667,328	685,702	1,973,276	1,845,731
Taxable benefits [2]	21,660	7,034	106,501	101,675
Annual incentive (STI plan) [3]	237,521	260,337	593,753	683,492
Total annual remuneration	**926,509**	**953,072**	**2,673,530**	**2,630,898**
Vested long-term remuneration [4]				
LTI 2013: 2014–2016 plan	597,228	–	1,398,859	–
LTI 2013: 2013–2015 plan	–	630,226	–	1,538,602
Additional pension (see page 90)	**1,191,415**	**957,062**	**490,707**	**487,153**
Total remuneration	**2,715,152**	**2,540,360**	**4,563,096**	**4,656,653**

1) Base salary amount includes vacation pay which has varied between the years 2016 and 2017. The fixed gross base salary (incl. taxable benefits) of the President and CEO was unchanged since 1.1.2012.

2) Members of the NEB receive taxable car and mobile phone benefits as part of their fixed salary. For the President and CEO, the value of benefits comprises: EUR 21,180 for car and EUR 480 for telephone.

3) 2017 figures relate to performance in 2016. 2016 figures relate to performance in 2015. 2018 payments, based on performance in 2017: the President and CEO EUR 251,945 and NEB members EUR 641,434.

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

Vested LTI plan share awards

Share incentive awards for the Neste Executive Board

Name	Position	NEB member since	2017 [1] (paid 2018)	2016 [2] (paid 2017)
Matti Lievonen	The President and CEO	2008	4,068	7,791
Kaisa Hietala	EVP, Renewable Products	2014	1,402	1,572
Panu Kopra	EVP, Marketing & Services [3]	2016	740	1,244
Matti Lehmus	EVP, Oil Products	2009	1,612	2,528
Simo Honkanen	SVP, Sustainability and Public Relations	2009	771	1,907
Tuomas Hyyryläinen	SVP, Emerging Businesses	2012	1,121	1,991
Hannele Jakosuo-Jansson	SVP, Human Resources and Safety	2006	1,121	2,096
Osmo Kammonen	SVP, Communications and Brand Marketing	2004	771	1,768
Lars Peter Lindfors	SVP, Technology	2009	1,121	2,122
Jyrki Mäki-Kala	CFO	2013	1,612	3,013
Christian Ståhlberg [4]	General Counsel	2017	–	

[1] The 2017 column refers to share incentives to be paid in spring 2018 for the earning period 2015–2017. The figures indicate the net amount of shares after tax and other statutory payments. Shares are subject to holding period restrictions and ownership requirements (for more information see remuneration table).

[2] The 2016 column refers to share incentives paid in 2017 for the earning period 2014–2016. The table gives the net amount of shares transferred (after tax).

[3] Marketing & Services has been the new name of Oil Retail business area as of 7 February 2017.

[4] Appointed as member of the Neste Executive Board as of 22 May 2017.

Executive share ownership

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

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

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

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

Shareholdings[1] of the Neste Executive Board 31 December 2017

Name	Position	NEB member since	2017	2016
Matti Lievonen	The President and CEO	2008	45,548	50,757
Kaisa Hietala	EVP, Renewable Products	2014	10,000	11,174
Panu Kopra	EVP, Marketing & Services [2]	2016	5,849	10,605
Matti Lehmus	EVP, Oil Products	2009	16,810	18,282
Simo Honkanen	SVP, Sustainability and Public Relations	2009	19,519	17,162
Tuomas Hyyryläinen	SVP, Emerging Businesses	2012	8,709	6,718
Hannele Jakosuo-Jansson	SVP, Human Resources and Safety	2006	17,072	14,976
Osmo Kammonen	SVP, Communications and Brand Marketing	2004	14,043	17,275
Lars Peter Lindfors	SVP, Technology	2009	14,063	14,941
Jyrki Mäki-Kala	CFO	2013	14,013	11,000
Christian Ståhlberg	General Counsel [3]	2017	–	–

[1] Shareholdings include shares paid under the long-term incentive plan subject to prohibition of sale until share ownership requirement is fullfilled. In case of an executive leaving the Company during restriction period, the Board of Directors may, at its discretion, decide to recover the shares. The figure also includes the shares personally acquired by the executive (if any). On 31 December 2017 all NEB member exceeded the ownership requirement, except General Counsel who started in May 2017.

[2] Marketing & Services has been the new name of Oil Retail business area as of 7 February 2017.

[3] Appointed as member of the Neste Executive Board as of 22 May 2017.

Remuneration of personnel

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

For the 2016 performance year, Neste was able to fund a payout of EUR 30.7 million (EUR 29.1 million) in performance-based incentives for senior managers and employees in the spring of 2017 (including pension and social insurance contributions).

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

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

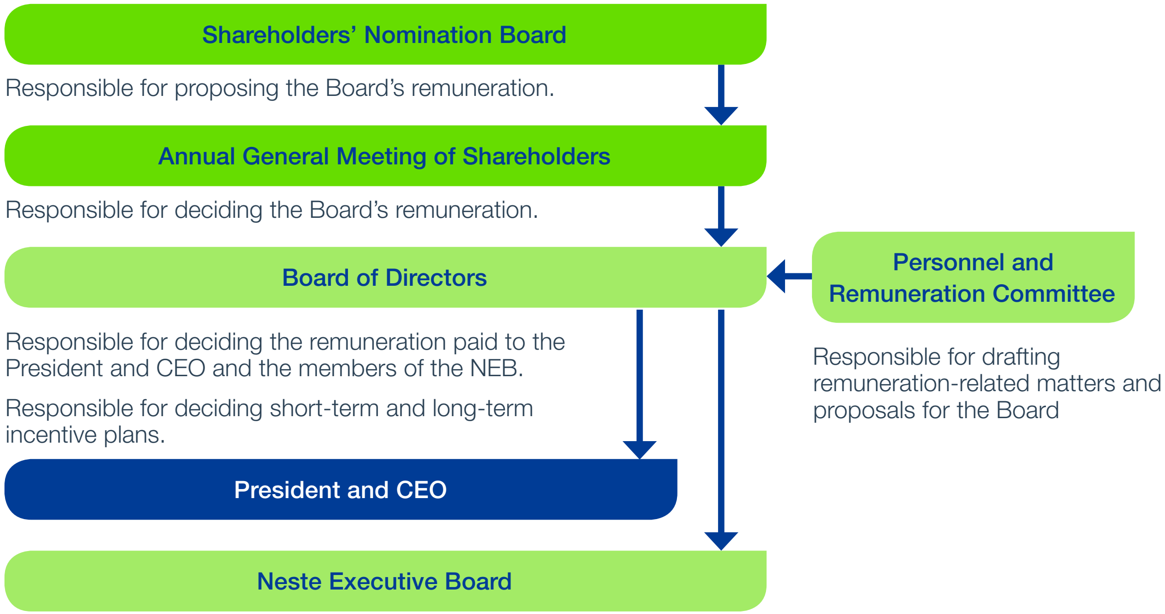
The Board of Directors sets the earning criteria for the profit share award annually. The award is tied to Neste's comparable operating profit. In 2017, the Company's personnel fund contribution was EUR 4.4 million (EUR 5.7 million) based on the excellent comparable operating profit result achieved in 2016.

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 2017, the AGM decided to keep the fees payable to the Board unchanged as follows:

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

The amounts have remained unchanged since 2008.

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

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

Remuneration paid to members of the Board

	Annual board fees (EUR)		Meeting attendance fees (EUR)	
	2017	2016	2017	2016
Jorma Eloranta	66,000	66,000	11,400	10,800
Matti Kähkönen	36,900	–	10,200	–
Maija-Liisa Friman[1)]	12,300	49,200	1,200	11,400
Martina Flöel	26,550	–	14,400	–
Heike van de Kerkhof[2)]	23,600	–	13,200	–
Laura Raitio	35,400	35,400	12,000	10,800
Jean-Baptiste Renard	35,400	35,400	18,600	18,000
Willem Schoeber	35,400	35,400	16,200	23,400
Kirsi Sormunen[1)]	8,850	35,400	1,200	12,000
Marco Wirén	35,400	35,400	12,000	12,000

[1)] Maija-Liisa Friman and Kirsi Sormunen were members of the Board of Directors until 5 April 2017.

[2)] Heike van de Kerkhof' resigned from the membership of Board of Directors on 30 November 2017.

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 69–70. These shares are personally acquired.

Review by the Board of Directors

Members of the Board of Directors
Read more

Review by the Board of Directors 2017

Neste had a very successful year in 2017, as a result of determined strategy implementation, good operational performance and improved safety. We posted an all-time high comparable operating profit of EUR 1,101 million compared to EUR 983 million in the previous year. The Group's operating profit was EUR 1,171 million (1,155 million). Renewable Products was again the largest comparable operating profit contributor. The Group generated a strong cash flow and reached a 8.7% leverage ratio. The return on average capital employed reached 17.5%, which exceeds our long term target level of 15%. Renewable Products' reference margin and sales volumes were higher than in 2016. The segment's sales volumes were almost 2.6 million tons, a new annual record and up 16% from the previous year. A higher share of the sales volumes was allocated to the European markets compared to 2016. Also Oil Products' improved its performance as a result of a favorable refining margin environment and good operational performance. The strategic refinery investments in the Solvent Deasphalting (SDA) unit and in the OneRefinery concept were completed during 2017. Marketing & Services were able to maintain sales volumes at the previous year's level, but the markets continued competitive and unit margins were clearly lower. The Board of Directors will propose a dividend of EUR 1.70 per share (1.30) for 2017, totaling EUR 435 million (332 million).

Figures in parentheses refer to the full-year financial statements for 2016, unless otherwise noted.

The Group's results for 2017

Neste's revenue in 2017 totaled EUR 13,217 million (11,689 million). The revenue increase mainly resulted from higher sales prices, which had a positive impact of approx. EUR 1,300 million. Higher sales volumes increased the revenue by approx. EUR 400 million. A weaker USD exchange rate had a negative impact of approx. EUR 200 million on the revenue. The Group's comparable operating profit was EUR 1,101 million (983 million). Renewable Products' higher sales volumes and reference margin compensated the effect of lower additional margin, and the segment achieved a new record in comparable operating profit. Oil Products' result was positively impacted by a higher reference margin compared to the previous year. Marketing & Services' result was negatively impacted by lower unit margins. The Others segment recorded almost similar comparable operating profit compared to 2016.

Renewable Products' full-year comparable operating profit was EUR 561 million (469 million), Oil Products' EUR 495 million (453 million), and Marketing & Services' EUR 68 million (90 million). The comparable operating profit of the Others segment totaled EUR –24 million (–23 million); Nynas accounted for EUR –2 million (11 million) of this figure.

The Group's operating profit was EUR 1,171 million (1,155 million), which was impacted by inventory gains totaling EUR 31 million (280 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 24 million (–118 million), mainly related to hedging of inventories. Profit before income taxes was EUR 1,094 million (1,075 million), and net profit EUR 914 million (943 million). Comparable earnings per share were EUR 3.33 (3.10), and earnings per share EUR 3.56 (3.67).

Group key figures, MEUR

	2017	2016
Comparable operating profit	1,101	983
– inventory gains/losses	31	280
– changes in the fair value of open commodity and currency derivatives	24	–118
– capital gains/losses	3	23
– insurance and other compensations	0	0
– other adjustments	12	–13
Operating profit	1,171	1,155

Revenue

	2017	2016
Renewable Products	3,243	2,690
Oil Products	8,490	7,395
Marketing & Services	3,912	3,552
Others	237	294
Eliminations	–2,666	–2,241
Total	13,217	11,689

Comparable operating profit

	2017	2016
Renewable Products	561	469
Oil Products	495	453
Marketing & Services	68	90
Others	–24	–23
Eliminations	0	–6
Total	1,101	983

Operating profit

	2017	2016
Renewable Products	476	518
Oil Products	650	563
Marketing & Services	69	89
Others	–24	–11
Eliminations	0	–5
Total	1,171	1,155

Financial targets

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

	31 Dec 2017	31 Dec 2016
Return on average capital employed after tax (ROACE)[1], %	17.5	16.9
Leverage ratio (net debt to capital), %	8.7	15.4

[1] Last 12 months

Cash flow, investments, and financing

The Group's net cash generated from operating activities totaled EUR 1,094 million (1,193 million) in 2017. The difference mainly resulted from the US Blender's Tax Credit payments concerning the year 2015 and 2016 received during 2016. The increased finance costs also included one-off costs related to the partial repurchase of existing bonds during the second quarter of 2017. Cash flow before financing activities was EUR 628 million (834 million). The Group's net working capital in days outstanding was 26.9 days (26.8 days) on a rolling 12-month basis at the end of 2017.

	2017	2016
EBITDA	1,542	1,521
Capital gains/losses	–3	–28
Other adjustments	–82	129
Change in working capital	–104	–229
Finance cost, net	–90	–63
Income taxes paid	–169	–137
Net cash generated from operating activities	1,094	1,193
Capital expenditure	–502	–407
Other investing activities	36	49
Free cash flow (Cash flow before financing activities)	628	834

Cash-out investments were EUR 502 million (407 million) in the year 2017. Maintenance investments accounted for EUR 214 million (148 million) and productivity and strategic investments for EUR 288 million (259 million). Renewable Products' investments were EUR 92 million (90 million), mainly related to the biopropane unit investment at the Rotterdam refinery. Oil Products' investments amounted to EUR 299 million (257 million), with the largest projects being the Solvent Deasphalting (SDA) unit at the refinery in Porvoo and the configuration changes at Naantali. Marketing & Services' investments totaled EUR 40 million (26 million) and were focused on the retail station network. Investments in the Others segment were EUR 72 million (35 million), concentrating on ICT and business infrastructure upgrade, and the acquisition of Jacobs Engineering's stake in Neste Jacobs.

Interest-bearing net debt was EUR 412 million at the end of December 2017, compared to EUR 683 million at the end of 2016. Net financial expenses for the year were EUR 77 million (79 million). The average interest rate of borrowing at the end of December was 3.3% (3.5%) and the average maturity 4.5 (3.6) years. At the end of the year the interest-bearing net debt/comparable EBITDA ratio was 0.3 (0.5) over the last 12 months.

The leverage ratio was 8.7% (31 Dec 2016: 15.4%), and the gearing ratio 9.5% (31 Dec 2016: 18.2%). The Group has a strong financial position, which enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,433 million at the end of December (31 Dec 2016: 2,438 million). There are no financial covenants in the Group companies' current loan agreements.

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

US dollar exchange rate

	2017	2016
EUR/USD, market rate	1.13	1.11
EUR/USD, effective rate[1)]	1.12	1.11

[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

	2017	2016
Revenue, MEUR	3,243	2,690
EBITDA, MEUR	586	628
Comparable EBITDA, MEUR	671	578
Comparable operating profit, MEUR	561	469
Operating profit, MEUR	476	518
Net assets, MEUR	1,863	1,811
Return on net assets[1)], %	25.6	28.6
Comparable return on net assets[1)], %	30.2	25.9

[1)] Last 12 months

Key drivers

	2017	2016
FAME – Palm oil price differential[1)], USD/ton	242	194
SME – Palm oil price differential[2)], USD/ton	225	222
Reference margin, USD/ton	291	207
Additional margin[3)], USD/ton	184	272
Comparable sales margin[3)], USD/ton	365	348
Biomass-based diesel (D4) RIN, USD/gal	1.01	0.91
California LCFS Credit, USD/ton	89	101
Palm oil price[4)], USD/ton	629	634
Crude palm oil's share of total feedstock, %	23	19

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

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

[3)] Based on standard variable production cost of USD 130/ton in 2016 and USD 110/ton in 2017 figures

[4)] CPO BMD 3rd

Vegetable oil prices remained quite strong in 2017, supported by crude oil price recovery and filling of inventories in the major consumer areas. Recovery of crude palm oil (CPO) production was slow due to the negative effects of the past El Nino phenomenon on the CPO yield and a labor shortage in Malaysia. Soybean oil (SBO) demand was strong in the US particularly during the second half of 2017, when higher import tariffs against Argentinian soy methyl ester (SME) biodiesel imports were implemented. In Europe rapeseed oil (RSO) stocks reached new record low levels resulting from disappointing rapeseed crop and strong RSO demand especially in the food sector. As a result, RSO ended up being the strongest vegetable oil.

Development of biodiesel margins was clearly different in Europe compared to the US in 2017. European biodiesel prices were supported by a strong RSO, while Fatty Acid Methyl Ester (FAME) biodiesel producers' margins remained unchanged. The EU Commission's decision to lower the anti-dumping tariffs on Argentinian SME imports limited further margin upside. In the US SME biodiesel was quite depressed with weak producers' margins despite SBO remaining relatively firm.

The US Renewable Identification Number (RIN) D4 price was volatile in 2017. It started at a low level due to the uncertainty regarding the US biofuel volume mandate in 2017, recovered progressively in the middle of the year, and peaked at around USD 1.10/gallon due to a relatively high final biomass-based diesel volume mandate. RIN prices decreased towards the end of the year due to speculation regarding a potential retroactive BTC for 2017. The California Low Carbon Fuel Standard (LCFS) credit price averaged USD 89/ton (101/ton) in 2017.

Renewable Products' full-year comparable operating profit was EUR 561 million (469 million). During the year 2017 reference margin averaged higher than in the previous year and had a positive impact of EUR 87 million on the segment's operating profit. Even though our additional margin improved significantly during the second half of the year, it was cumulatively lower compared to the full-year 2016 average. That was mainly due to the expiry of the US Blender's Tax Credit at the end of 2016. The lower additional margin had a negative impact of EUR 47 million year-on-year. Higher sales volumes had a positive impact of EUR 104 million on the comparable operating profit compared to the previous year. Sales volumes were 2.57 million tons in 2017, a new annual record and up 16% from the previous year. During the year 2017 approximately 74% (66%) of sales volume went to Europe and 26% (34%) to North America. The share of 100% renewable diesel delivered to end-users increased to 25% of total volumes in full-year 2017. Renewable diesel production achieved a high capacity utilization rate of 98% (88%) in 2017. Feedstock mix optimization continued successfully, and the proportion of waste and residue inputs was 76% (78%) on average. A weaker USD exchange rate had a EUR 17 million negative impact on the comparable operating profit. The segment's fixed costs were EUR 31 million higher than in 2016, mainly related to strategic growth projects.

Production

	2017	2016
Neste MY Renewable Diesel, 1,000 ton	2,587	2,213
Other products, 1,000 ton	196	175
Utilization rate, %	98	88

Sales

	2017	2016
Neste MY Renewable Diesel, 1,000 ton	2,567	2,222
Share of sales volumes to Europe, %	74	66
Share of sales volumes to North America, %	26	34

Oil Products

Key financials

	2017	2016
Revenue, MEUR	8,490	7,395
EBITDA, MEUR	863	780
Comparable EBITDA, MEUR	708	670
Comparable operating profit, MEUR	495	453
Operating profit, MEUR	650	563
Net assets, MEUR	2,497	2,424
Return on net assets[1)], %	25.6	23.2
Comparable return on net assets[1)], %	19.5	18.7

[1)] Last 12 months

Key drivers

	2017	2016
Reference refining margin, USD/bbl	5.68	4.88
Additional margin, USD/bbl	5.39	5.50
Total refining margin, USD/bbl	11.08	10.38
Urals-Brent price differential, USD/bbl	–1.39	–2.48
Urals' share of total refinery input, %	69	68

Crude oil prices were volatile during 2017. Crude oil price trended down to below USD 50/bbl during the first half of the year, driven by a growing US shale oil production and lack of confidence in the production cuts by OPEC and non-OPEC countries. However, rising geopolitical tensions, strong product demand, slower US oil rig count growth and signs production cuts continuing in 2018, turned the market up. In 2017 Brent price averaged USD 54.3/bbl, but at year end it was approx. USD 66/bbl – the highest level since the summer of 2015.

The Russian Export Blend (REB) crude averaged USD 1.4/bbl lower than Brent in 2017 and USD 0.9/bbl lower during the fourth quarter. The supply cuts by OPEC countries reduced competition from the Middle Eastern grades in the Baltic Sea and Mediterranean markets, which drove a narrower REB differential. Healthy refining margins and strong fuel oil cracks pushed European refinery runs to high levels, which increased Urals demand.

Reference margin trended modestly upwards during the first half of 2017 driven by good product demand and active refinery maintenance season in Asia. In September Hurricane Harvey closed temporarily around 25% of the US refining capacity thus impacting both crude oil market and product margins. That together with lower product inventories after the spring maintenance season and healthy product demand growth tightened product markets further. Towards the end of the year an increasing refinery utilization and a narrowing REB differential negatively impacted refining margins. On average gasoline was the strongest part of the barrel in 2017, but diesel margins strengthened significantly compared to 2016 as healthy global economic growth supported product demand and drove inventories lower. Neste's reference margin averaged USD 5.7/bbl in 2017, and USD 4.9/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 495 million (453 million). The reference margin was approx. USD 0.8/bbl higher than in the previous year, which had a positive impact of EUR 82 million on the comparable operating profit year-on-year. The lower additional margin had a negative impact of EUR 19 million compared to the previous year. Sales volumes were quite well in line with 2016. A weaker USD exchange rate had a negative impact of EUR 19 million on the comparable operating profit compared to 2016. In the year 2017 the segment's fixed costs were EUR 13 million higher than in the previous year, mainly due to maintenance activities.

Production

	2017	2016
OneRefinery		
– Porvoo production, 1,000 ton	12,190	11,718
– Porvoo utilization rate, %	92	89
– Naantali (PL5) production, 1,000 ton	1,726	1,869
– Naantali (PL5) utilization rate, %	59	62
Refinery production costs, USD/bbl	4.4	4.2
Bahrain base oil plant production (Neste's share), 1,000 ton	210	159

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

	2017	%	2016	%
Middle distillates[1]	6,808	48	6,590	46
Light distillates[2]	4,630	33	4,706	33
Heavy fuel oil	1,483	10	1,594	11
Base oils	449	3	461	3
Other products	823	6	965	7
Total	14,193	100	14,316	100

[1] Diesel, jet fuel, heating oil

[2] Motor gasoline, gasoline components, LPG

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

	2017	%	2016	%
Baltic Sea area[1]	8,268	58	8,037	56
Other Europe	4,606	32	4,596	32
North America	746	5	1,198	8
Other areas	572	4	485	3

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

Marketing & Services

Key financials

	2017	2016
Revenue, MEUR	3,912	3,552
EBITDA, MEUR	93	111
Comparable EBITDA, MEUR	93	112
Comparable operating profit, MEUR	68	90
Operating profit, MEUR	69	89
Net assets, MEUR	280	196
Return on net assets[1], %	28.7	47.3
Comparable return on net assets[1], %	28.5	47.5

[1] Last 12 months

Marketing & Services segment's full-year comparable operating profit was EUR 68 million (90 million). Sales volumes were similar to the previous year. Average unit margins were clearly lower, particularly in Finland and Russia, which had a negative impact of EUR 14 million on the result compared to the year 2016. Higher fixed costs and lower other income resulted in EUR 9 million lower profit contribution compared to the previous year.

Sales volumes by main product categories, million liters

	2017	2016
Gasoline, station sales	1,080	1,112
Diesel, station sales	1,739	1,695
Heating oil	615	620

Net sales by market area, MEUR

	2017	2016
Finland	2,820	2,497
Northwest Russia	290	248
Baltic countries	802	777

Others

Key financials

	2017	2016
Comparable operating profit, MEUR	–24	–23
Operating profit, MEUR	–24	–11

The Others segment consists of Neste Engineering Solutions, Nynas, a joint venture owned by Neste (49.99% share) and Petróleos de Venezuela, and common corporate costs. Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017, and the company name Neste Jacobs Oy was changed to Neste Engineering Solutions Oy on 1 January 2018. The full-year comparable operating profit of the Others segment totaled EUR –24 million (–23 million); Nynas accounted for EUR –2 million (11 million) of this figure.

Shares, share trading, and ownership

Neste's shares are mainly traded on NASDAQ Helsinki Ltd. The share price closed the year 2017 at EUR 53.35, up by 46.2% compared to the end of 2016. The total shareholder return (TSR) was 49.7% (35.7%) in 2017. At its highest during 2017, the share price reached EUR 54.05, while the lowest daily closing price was EUR 31.15. Market capitalization was EUR 13.7 billion as of 31 December 2017. An average of 0.64 million shares were traded daily, representing 0.2% of the company's shares.

Neste's share capital registered with the Company Register as of 31 December 2017 totaled EUR 40 million, and the total number of shares was 256,403,686. As resolved by the AGM held on 1 April 2015, the Board of Directors was authorized to purchase and/or take as security a maximum of 1,000,000 company shares using the company's unrestricted equity. At the end of December 2017, Neste held 613,545 treasury shares purchased under this authorization. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

At the end of 2017, the Finnish State owned 50.1% (50.1% at the end of 2016) of outstanding shares, foreign institutions 31.5% (30.3%), Finnish institutions 9.6% (10.1%), and Finnish households 8.7% (9.6%).

Largest shareholders as of 31 December 2017

Shareholder	Shares	% of shares
State of Finland / Prime Minister's Office[1)]	128,458,247	50.10%
Ilmarinen Mutual Pension Insurance Company	4,700,000	1.83%
The Finnish Social Insurance Institution	2,648,424	1.03%
The State Pension Fund	1,900,000	0.74%
Varma Mutual Pension Insurance Company	1,777,514	0.69%
Kurikan Kaupunki	1,550,875	0.60%
OP-Finland Value Fund	797,459	0.31%
Elo Mutual Pension Insurance Company	750,000	0.29%
Evli Europe Fund	639,872	0.25%
Neste Oyj	613,545	0.24%
Schweizerische Nationalbank	568,116	0.22%
Nordea Pro Finland Fund	522,230	0.20%
Sigrid Jusélius Foundation	423,000	0.17%
Alhopuro Eero Sakari	362,600	0.14%
Finnish Cultural Foundation	303,113	0.12%
Seligson & Co OMX Helsinki 25 Exchange Traded Fund (ETF)	265,680	0.10%
Etola Erkki Olavi	250,000	0.10%
OP-Henkivakuutus Ltd.	248,167	0.10%
Nordea Finland Exchange Traded Fund (ETF)	218,170	0.09%
SEB Gyllenberg Finlandia Fund	214,519	0.08%
20 largest owners total	147,211,531	57.41%
Nominee registrations	79,843,777	31.14%
Others	29,348,378	11.45%
Number of shares, total	256,403,686	100.00%

[1)] State of Finland's ownership share was reduced to 49.74% on 4 January 2018.

Breakdown of share ownership as of 31 December 2017

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1–100	26,760	42.4%	1,366,172	0.5%
101–500	25,883	41.0%	6,342,925	2.5%
501–1,000	5,790	9.2%	4,389,404	1.7%
1,001–5,000	4,100	6.5%	8,216,333	3.2%
5,001–10,000	313	0.5%	2,229,894	0.9%
10,001–50,000	175	0.3%	3,537,812	1.4%
50,001–100,000	23	0.0%	1,577,453	0.6%
100,001–500,000	21	0.0%	4,162,519	1.6%
500,001–	17	0.0%	224,581,174	87.6%
Total	**63,082**	**100.0%**	**256,403,686**	**100.0%**
of which nominee registrations	11		79,843,777	

By the owner sector

	% of shares
State of Finland[1)]	50.1%
Non-Finnish shareholders	31.5%
Households	8.7%
General government	5.5%
Financial and insurance companies	1.6%
Corporations	1.0%
Non-profit organizations	1.5%
Total	**100.0%**

[1)] State of Finland's ownership share was reduced to 49.74% on 4 January 2018.

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's AGM was held in Helsinki on 5 April 2017. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2016, and discharged the Board of Directors and the President and CEO from liability for 2016. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2016, authorizing payment of a dividend of EUR 1.30 per share. The dividend was paid on 18 April 2017.

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. Jorma Eloranta, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. The following were elected as new members: Ms. Martina Flöel, Ms. Heike van de Kerkhof and Mr. Matti Kähkönen. Mr. Eloranta was re-elected as Chair and Mr. Matti Kähkönen was elected as new Vice Chair.

Convening right after the AGM, Neste's Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Heike van de Kerkhof, Matti Kähkönen and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Laura Raitio, 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.

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

Research and development

Neste's R&D expenditure totaled EUR 44 million (41 million) in 2017. Expansion of the feedstock portfolio was continued, feedstock purification technologies further developed and start-up of the feedstock hub in Sluiskil, the Netherlands, supported. Broadening of the product portfolio was continued with special focus on renewable aviation fuel, low sulphur marine fuels and new bio-based plastics and chemicals. Neste's patent portfolio in renewable feedstock, fuels and chemical applications was further strengthened with record high number of new patents and patent applications.

Expansion of the renewable feedstock base continued to be a key research topic in 2017. Volume of waste and residue based renewable feedstock increased again summing up to an annual total of 2.4 (2.1) million tons and accounted for 76% (78%) of the total renewable feed. In addition to NEXBTL feedstock expansion, a major effort was put on research of alternative refinery feeds including renewable and fossil waste based feeds, e.g. waste plastics. Improvements in renewable diesel production capacity enabled to reach total production of 2.6 (2.2) million tons. R&D also supported the development and optimization of Neste's fossil refinery units, which in 2017 included the start-up of a new cracker feedstock pretreatment unit by solvent deasphalting. Refinery optimization was continued by developing modeling tools and testing or developing catalysts with strategic partners.

Main events published during 2017

On 7 February, Neste announced that its Oil Retail business area would from now on be called Marketing & Services. Marketing & Services is one of Neste Corporation's three reporting segments. The reason for renaming the business area was the increased importance of solutions and services.

On 31 May, Neste announced that it will issue a EUR 400 million bond. The 7-year bond carries a coupon of 1.5 per cent. The bond offering was allocated to 136 investors. The proceeds from the issue will be used for the partial repurchase of the existing EUR 400 million notes due 2019 and the existing EUR 500 million notes due 2022. BNP Paribas, ING Bank N.V. and Nordea Bank AB (publ) acted as joint lead managers for the transaction.

On 9 August, Neste announced that it would begin a two-month shutdown at its Naantali refinery. The major turnaround will complete the plan to implement closer integration of the operations of the two Finnish refineries under uniform management. The Finnish refinery operations of Neste consist of four production lines at the Porvoo refinery, and one in Naantali.

On 6 September, Neste announced that its Shareholders' Nomination Board had been appointed with the following members: The Chair Pekka Timonen, Director General of the Ministry of Economic Affairs and Employment; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Elli Aaltonen, Director General of the Finnish Social Insurance Institution, and Jorma Eloranta, the Chair of Neste's Board of Directors.

On 13 September, Neste announced that it collaborates with Genève Aéroport to offer sustainable and renewable solutions for aviation. Neste and Genève Aéroport are pioneering together to make flying more sustainable by starting to decarbonize aviation towards fossil neutral growth. Genève Aéroport is planning the introduction of renewable jet fuel at the Geneva International Airport; the target is that at least 1% of the annual jet fuel consumption at the airport shall be composed of renewable jet fuel starting late 2018.

On 19 September, Neste held a Capital Markets Day in London under the theme "Delivering profitable growth". Neste's long-term financial targets are leverage ratio and ROACE after tax. The leverage target was revised to below 40%. The ROACE target remains at 15%. Neste's new dividend policy is to distribute at least 50% of the company's comparable net profit for the year. The company intends to distribute the annual dividend in two installments, and this will be proposed to the Annual General Meeting 2018.

The strategic objectives remain unchanged: be the Baltic Sea champion and create global renewables growth. The company seeks value growth in all business areas in its home markets in the Baltic Sea area. Neste is the global leader in the renewable diesel market, and is committed to developing significant business from outside road transportation markets by 2020. Sales volumes of the 100% renewable diesel delivered to end-users are targeted to grow from approx. 25% in 2017 to 50% of the total sales in 2020. Neste has introduced a Green Hub concept to promote renewable jet fuel use through airport partnerships, and the first partnership was recently announced with the Geneva Airport. Following a successful production trial, Neste aims to make the first commercial delivery of bio-based plastics during the first half of 2018.

Neste's target is to increase its renewables capacity further, and it will continue the debottlenecking of the existing capacity to 3 million tons/a by 2020. The company will finalize the feasibility studies for a new, up to 1 million ton/a production capacity by the end of 2017. These feasibility studies include the selection of the site location as well as an updated feedstock and demand outlook. The project scope includes renewable diesel and jet fuel production as well as pretreatment enabling processing of lower-quality raw materials. Neste aims to make the final investment decision on a new production unit by the end of 2018 with a target to have it operational by 2022.

On 29 September, Neste announced that it acquires Jacob Engineering's stake in Neste Jacobs Oy. Neste and Jacobs Engineering Group have agreed that Neste acquires the 40% shareholding of Jacobs in Neste Jacobs Oy. After this transaction, Neste holds all shares in Neste Jacobs.

On 30 November, Neste announced that Heike van de Kerkhof, member of the Board of Directors of Neste, has resigned from the Board of Directors as she will become employed by BP in the United Kingdom at the beginning of 2018. Laura Raitio was elected to replace van de Kerkhof as a member of the Personnel and Remuneration Committee. Raitio will also continue to be a member of the Audit Committee.

On 30 November, the Environmental Protection Agency (EPA) in the US published the final ruling covering renewable fuel volume requirements for 2018 under the Renewable Fuel Standard (RFS) program. Neste MY Renewable Diesel meets the requirements of an advanced biofuel in the biomass-based diesel category. The final ruling increases requirements for advanced biofuels in the biomass-based diesel category from the current 2.0 billion gallons to 2.1 billion gallons in 2018. The EPA also finalized a volume requirement for biomass-based diesel for 2019 to remain at the same level as in 2018.

On 12 December, Neste announced that its Board of Directors has decided on target group, allocations, and performance criteria for the Performance Share Plan (PSP) 2018–2020. Approximately 130 key persons, including the members of the Neste Executive Board, belong to the target group of the PSP 2018–2020.

On 12 December, Neste announced that the growth program for Renewable Products takes a step forward. The Board of Directors had decided that Neste's additional production capacity for renewable diesel, renewable aviation fuel and raw materials for various biochemical uses will be located in Singapore. The decision initiated technical design of the new production line, with the aim of a final investment decision by the end of 2018. If the project proceeds as planned, production at the new production line will begin by 2022.

Events after the reporting period

On 4 January 2018, Neste announced that it had received an announcement pursuant to Chapter 9, Section 5 of the Securities Markets Act regarding a change in its shareholding. Prime Minister's Office had announced that the State of Finland's aggregate holding of shares and votes in Neste Corporation had decreased below the 50% threshold and is currently 49.74%.

On 31 January 2018, Neste announced that the Shareholders' Nomination Board will propose to the AGM to be held on 5 April 2018 that the Vice Chair of the Board of Directors Mr. Matti Kähkönen shall be elected as the new Chair of the Board of Directors. In addition, the current Board Members Ms. Martina Flöel, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber, and Mr. Marco Wirén shall be re-elected for a further term of office. The Nomination Board further proposes that Ms. Raitio shall be elected as the new Vice Chair of the Board. The Shareholders' Nomination Board further proposes that the Board shall have eight members and that Ms. Elizabeth (Elly) Burghout (BSc, Chemical Engineering) and Mr. Jari Rosendal (M.Sc. Eng.) 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 has been implemented in accordance with the International Standard for risk management ISO 31000:2009. Framework and principles for risk management have been defined in Neste Corporate risk management policy that has been approved by the Board of Directors.

Risk management policy is supplemented by risk management principles, guidelines and instructions for specific risk disciplines. Communication regarding the most important risk issues takes place along the strategic planning and performance management cycle. Formal risk reporting is directed to business management and function management teams, Neste Executive Board, Audit Committee, and the Board of Directors.

Risks relating to Neste's business

There have not been any significant changes in Neste's short-term risks or uncertainties since the end of 2016.

Key risks affecting Neste's financial results for the next 12 months include changes in the biofuel regulation, unexpected changes in the market prices, changes in the competitive situation and any scheduled or unexpected shutdowns at Neste's refineries.

For more detailed information on Neste's risks and risk management, please refer to the Annual Report and the Notes to the Financial Statements.

Sustainability risks

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

Risk of adverse environmental impact from emissions to air and water

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

Risk of leaks, explosions and other chemical hazards

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

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

Main raw materials used in Neste's refineries include various vegetable oils, waste and residue fats and diverse crude oils. During the past years, use of palm oil has created a reputational risk as sustainability of palm oil sourcing has caused public discussion and concerns both from NGOs' and customers' side. Although palm oil only accounted for approximately 20% of the company's renewable raw material usage in 2017, Neste is committed to ensuring sustainable palm oil sourcing and has implemented several measures to improve transparency in its supply chain.

Risk of process safety incidents or accidents

Neste has implemented comprehensive safety rules and procedures, and is committed to continuous safety work that covers e.g., training, performance monitoring, and learning from experience.

Potential adverse human rights impacts

Neste has made policy commitments in the form of Neste Human Rights Commitment and Human Rights Principles. The human rights impact assessments that Neste conducted in 2015 and 2016 identified health and safety issue of its operations as a salient human rights risk. In the supply chain forced labour, conditions of employment, grievance mechanism, as well as social and economic development especially regarding land issues are the most at risk. Neste started a group-wide implementation program on human and labor rights to fulfil compliance to its Human Rights Commitment and Principles. Suppliers are subject to due diligence procedures, and are required to comply with Neste Supplier Code of Conduct.

Risk of corruption and bribery

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

Environment, Social and Governance (ESG)

Neste fulfills the requirements in the EU Directive on disclosure of non-financial and diversity information, and the changes made in the Finnish Accounting Act, both affecting the organizations' reporting for the first time in 2017. In addition, Neste reports according to the GRI (Global Reporting Initiative) Standards where applicable. For more on Neste's sustainability, see Neste's Annual Report and Neste's website.

Business model

Neste employed an average of 5,297 (5,013) employees in 2017, of which 1,693 (1,585) were based outside Finland. At the end of December, the company had 5,339 employees (5,001), of which 1,758 (1,602) were located outside Finland.

Neste produces a wide variety of traditional oil products and is the world's largest producer of renewable diesel. Neste's aim is to be the leading supplier of fuel solutions in the Baltic Sea region and to grow in the renewable raw material-based global market. 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 vision is to create responsible choices every day. 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 renewable solutions for the chemical and plastics industries.

Neste's reliable NEXBTL refining technology enables flexible use of various renewable raw materials. Securing the supply of renewable raw materials is considered essential for the success of Neste's growth strategy. Neste continues work on this area. It will also focus on providing excellent customer service, as well as flexible and reliable customer solutions.

Neste's value creation is based on its high-quality products, global business model for raw material sourcing and product sales, in-depth knowledge of regulations and global customer requirements for both fossil and renewable fuels, 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.

See also: Outlook for 2018

Materiality

This ESG report focuses on the most material sustainability topics for Neste and its stakeholders in relation to value creation and risk management. Neste conducts a materiality assessment once every two years.The most recent one was conducted with almost 600 stakeholders in fall 2016, and identified 24 material topics. The next assessment will take place in 2018. In 2017, Neste regrouped and combined these 24 topics into nine topics to ensure a tighter focus on these both in Neste's daily operations as well as in reporting.

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

Policies and principles

Neste's key sustainability principles are Code of Conduct, Sustainability Policy, Supplier Code of Conduct and Corporate Risk Management Policy.

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 diesel refineries have EU-compliant ISCC (International Sustainability and Carbon Certification), RSPO (Roundtable on Sustainable Palm Oil), and Hydrotreated Vegetable Oil (HVO) Scheme certificates. In the United States, the sustainability of Neste's renewable fuels is monitored through the Environmental Protection Agency's (EPA) sustainability requirements.

We procure renewable raw materials only from suppliers who meet our strict criteria and fully comply with the regulatory requirements for biofuels in our key markets. All suppliers of renewable raw materials must pass a due diligence process related to sustainability of the raw material production. Potential crude oil suppliers undergo a two-phase assessment that includes a financial review and a compliance assessment based on risk review. Neste's supplier contracts contain strict audit terms.

Neste's key policies and principles concerning environmental matters related to sourcing of renewable raw materials are No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock, as well as Sustainability Principles for Biofuels. In 2017, Neste started updating the No-Deforestation and Responsible Sourcing Guidelines for Renewable Feedstock together with Consortium of Resource Experts (CORE). The new Guidelines are planned to be completed by the end of 2018. In 2015, all of Neste's palm oil suppliers committed to no deforestation policies, and extended those to cover also their third party suppliers. Neste knows the origin of all the palm oil it uses, down to the individual plantations.

Social and employee matters

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

Neste aims at zero accidents and incidents. We believe that all accidents and incidents can be prevented. We continuously develop people safety and the safety of our assets through improving working conditions and asset integrity, and by improving the knowledge and the awareness Neste's and its contractors' and other partners' personnel. In 2017, we renewed our corporate-level Health, Safety and Environment (HSE) management system and developed 15 renewed HSE principles.

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

See also: Diversity of the Board of Directors

Respect for human rights

Neste is committed to respecting human rights and requires the same from all partners. Neste's key policies and principles concerning human rights are Neste human rights commitment and Neste human rights principles.Neste committed to the United Nations Guiding Principle (UNGP) by publishing our Human Rights Commitment in 2015. In 2016, based on a group-wide human rights impact assessment that gave an in-depth understanding of the potential impacts of our business activities, we commenced the development of Neste Human Rights Principle and updated the Commitment at the same time. Neste Human Rights Principles were signed off by the CEO in August 2017. Neste continues to engage its business partners to encourage them to set their own development programs to uphold mutual obligations to respect human rights. Neste is also developing a supplier sustainability framework for supplier audits that will include human rights criteria defined in Neste's Supplier Code of Conduct, Human Rights Principles, and other relevant policies.

Anti-corruption and bribery matters

Corruption and bribery are not tolerated in any form. Neste continuously develops and improves its efforts in this area. Neste's key policies and principles concerning anti-corruption and bribery are Anti-Corruption Principle, Code of Conduct, Supplier Code of Conduct, Supply Compliance Principles, Watch List Screening Process, and Fraud Management Principle.

Outcomes and key performance indicators

Neste's sustainability guidelines, 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. Neste's Supplier Code of Conduct defines the basic requirements Neste requires its suppliers to adhere to, and sets the minimum standards for its sustainability due diligence and audit procedures.

In 2017, Neste was included in the Dow Jones Sustainability World Index for the 11th consecutive time. Neste's performance improved and Neste belonged to the 1st quartile performers. Neste became the only energy company to reach the Leadership-class in three Climate Disclosure Project (CDP) programs: CDP Climate, CDP Forests, and CDP Water. Altogether, only 16 companies in the world reached Leadership-class in all these three areas, although nearly 2,500 companies around the world were evaluated. Neste continued to be the only company in the energy sector to transparently report on its forest footprint as part of the globally acknowledged CDP Forests program. In January 2018, Neste was ranked the second most sustainable large company in the world on the Global 100 list. This is the company's highest-ever ranking. Neste was able to improve its ranking from the 23rd place in 2017, while it also maintained its position as the world's most sustainable energy company.

Environmental matters

In April 2017, we improved our CPO supply chain transparency by launching a new Crude Palm Oil Dashboard site. The site introduces our entire CPO supply chain, i.e. all companies, mills, and estates that supplied Neste in 2016. The site will be updated with 2017 data in spring 2018. In 2017, we started developing a new Supplier Sustainability Portal to digitalize renewable raw material supplier evaluation, monitoring, and engagement. We aim at having the first release of the system ready in the second half of 2018.

Neste's operational environmental emissions were in substantial compliance at all sites during 2017. A total of 10 minor deviations from environmental permits occurred in Neste's operations. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. In 2017, several investment projects were undertaken to improve safety and environmental performance of our own operations. We, for example, completed the building a new Solvent Deasphalting (SDA) unit at our refinery in Porvoo.

Key figures	2017	2016
Emission limits and overruns: Deviations from environmental permits. Target: Halve the number of incidents within Oil Products in 2018 compared to the average number of incidents in 2016–2017	10	8
Energy efficiency, energy saving measures GWh Target: Enhance Neste's energy consumption by 500 GWh during 2017–2025	4	134
GHG reduction achieved with Neste's renewable fuels compared to crude oil based diesel, million tons.[1)] Target: Reduce GHG emissions by 7 Mton in 2017 and by 9 Mton in 2022	8.3	6.7
The number of potential renewable raw material suppliers' Due Diligence and their outcome.	Total: 91 Passed: 46 Ongoing: 44 Failed: 1	Total: 49 Passed: 34 Ongoing: 11 Failed: 4

[1)] Cumulative greenhouse gas (GHG) reduction achieved with Neste's renewable fuels compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (RES 2009/28/EC). Neste updates annually its GHG emission factors according to the updates in legislation and in the certification schemes. Recent update to certification scheme emission factors improved Neste's GHG reduction figures in 2017 compared to previous year.

Social and employee matters

Neste selects a specific focus area each year for its annual Equality Plan implementation. In 2017, Neste focused on equality in the recruitment process. According to an analysis of the employee figures in 2009–2016 conducted by an external consultant, gender does not impact career development at Neste, and gender pay gap is modest. Neste is expanding the monitoring of equality-related issues also at the sites outside of Finland. Neste joined the Diversity Charter Finland of the corporate responsibility network FIBS (Finnish Business Society) in November 2017 to strengthen Neste's diversity management.

Neste's occupational safety performance (TRIF, or rate of accidents requiring medical treatment per million hours worked, including contractors) improved, and the target for 2017 was reached. The target set for 2017 in process safety (PSER, or rate of process safety events per million hours worked) was also reached. Neste's long-term safety development activities continue according to the corporate-wide safety program focusing on behavior, leadership, operational discipline, process safety, and contractor safety. Short-term actions continue to focus on learning from incidents and effectiveness of the agreed actions.

Key figures	2017	2016
TRIF[1] Target for 2017: 2.1 and for 2018: 2.0. Long-term target: Zero accidents	2.1	2.8
PSER[2] Target for 2017: 2.4 and for 2018: 1.7. Long-term target: Zero safety deviations	2.1	3.1
New employee hires and employee turnover.	Leaving rate of permanent employees 9.8%. Hiring rate of permanent employees 13.8%.	Leaving rate of permanent employees 11.2%. Hiring rate of permanent employees 10.1%.
Employee engagement Target: Maintain the position in the highest quartile in a global benchmark.	Survey is conducted every two years.	78% of respondents are satisfied, committed and proud of Neste and would advocate Neste as an employer. The percentage is in the highest quartile in a global benchmark.

[1] Total Recordable Incident Frequency, number of cases per million hours worked. The figure includes both Neste's and contractors' personnel. Hours worked in December is an estimate based on actual working hours from January to November 2017. Estimation error is irrelevant.

[2] Process Safety Event Rate, number of cases per million hours worked. Hours worked in December is an estimate based on actual working hours from January to November 2017. Estimation error is irrelevant.

Respect for human rights

Besides the corporate-wide assessment in 2016, Neste has also conducted human rights impact assessments to map out relevant human rights issues in Neste's palm oil supply chain in 2016 and 2017. Neste has organized annual supplier workshops since 2015 to share key observations from the human rights impact assessments in the palm oil supply chain, as well as for capacity building, to communicate Neste's expectations, and to engage with Neste's suppliers and other key stakeholders. In a workshop in February 2017, we shared key observations from the social and labor assessments in Indonesia on working conditions at oil palm plantations and mills, and the impact on surrounding communities. The assessment was conducted between November 2016 and January 2017.

Key figures	2017	2016
Operations that have been subject to human rights reviews or impact assessments. Target: Reassessment of human rights impacts according to changes in operations of the company	The human rights impact assessment conducted in 2016 is still valid.	Neste conducted a corporate-wide human rights impact assessment in all operations in 2016.
New suppliers screened using social criteria. Target: An integrated due diligence system to monitor and measure suppliers' performance on social (and other sustainability) criteria that is incorporated with the new Supplier Sustainability Portal.	All approved renewable raw material suppliers.	All approved renewable raw material suppliers.

Anti-corruption and bribery matters

A new whistle-blowing system, Ethics Online, was made available on Neste's website to all Neste's external stakeholders, including workers 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 is responsible for evaluating and investigating cases. The possible irregularities or misconducts are investigated and reported regularly to the Board of Directors' Audit Committee.

In 2017, Neste updated its Anti-Corruption eLearning training module in order to improve its employees' knowledge of anti-corruption measures and methods. During 2017, also Code of Conduct training targeting all employees at Neste Group (including Board Members) was conducted. Neste Supplier Code of Conduct training was conducted at Neste's workshop for Southeast Asian suppliers to communicate Neste's expectations in respect of anti-corruption. In 2018, we will continue providing Neste Supplier Code of Conduct training for our renewable raw material and crude oil suppliers.

Key figures	2017	2016
Number of misconduct cases that were reported via Neste's whistleblower system or to internal audit or security. Target: To further develop the protocol and practices in handling the misconduct cases	13 misconduct cases. One case is still being investigated.	No cases during reporting period.

Read more about the topics on Neste's website.

Outlook for 2018

Developments in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets; and volatility in these markets is expected to continue. According to current market estimates, the US dollar is expected to stay weak in 2018.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Market volatility in feedstock prices is expected to continue, which will have an impact on the Renewable Products segment's profitability.

Neste expects the Renewable Products' additional margin to stay at a good level in 2018. Sales volumes of the 100% renewable diesel delivered to end-users are planned to grow from the levels in 2017 towards our 50% target in 2020. The vegetable oil market is expected to remain volatile, and Neste continues to expand the use of lower-quality waste and residue feedstock. Utilization rates of our renewable diesel facilities are expected to be high, except for a planned four-week maintenance shutdown at the Rotterdam refinery in the second quarter and a nine-week major turnaround at the Singapore refinery in the fourth quarter.

Global oil product demand is expected to remain strong in 2018, driven by a solid macroeconomic growth, and to be reflected in both distillates and gasoline demand. Recent oil demand growth estimates for 2018 vary between 1.3 and 1.7 million bbl/d. Global crude oil inventories have started to decline from their peak levels in the second half of 2017, which has led to a crude price increase to above USD 65/bbl. OPEC's decision to continue its production cuts into 2018 is expected to support crude oil price and market structure also in the first half of 2018.

Oil Products' reference margin is expected to be below the 2017 average in the early 2018, but to get support from the start of the driving season in the spring. Oil product supply and demand are expected to be balanced with continued robust demand growth. Distillates margins are seen to be supported by lower inventory levels compared to the previous year. Crude oil supply limitations by producing countries are likely to lead to a slightly narrower Urals-Brent price differential compared to 2017. We expect high reliability to continue in OneRefinery operations supporting good utilization rate in 2018. We will implement several scheduled unit turnarounds during the spring and autumn. The new SDA unit commissioned in 2017 reached full design capacity utilization by the end of 2017.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern. Several actions have been initiated to improve financial performance.

As a conclusion, we expect 2018 to be a strong year for Neste.

Dividend distribution proposal

Neste's dividend policy is to distribute at least 50 percent of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2017 amounted to EUR 1,948 million, and there have been no material changes in the company's financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Corporation pays a cash dividend of EUR 1.70 per share (1.30) for 2017, totaling EUR 435 million (332 million) based on the number of outstanding shares. The Board of Directors will also propose that the annual dividend shall be paid in two installments. The first installment of dividend, EUR 0.85 per share, would be paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for the first dividend installment, which shall be Monday, 9 April 2018. The Board proposes to the AGM that the first dividend installment would be paid on Monday, 16 April 2018. The second installment of dividend, EUR 0.85 per share, would be paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for the second dividend installment, which shall be Wednesday, 10 October 2018. The Board proposes to the AGM that the second dividend installment would be paid on Wednesday, 17 October 2018. The Board of Directors is authorized to set a new dividend record date and payment date for the second installment of the dividend, in case the rules and regulations on the Finnish book-entry system would be changed, or otherwise so require.

The proposed dividend represents a yield of 3.2% (at year-end 2017 share price of EUR 53.35) and 51% of the comparable net profit in 2017, and an increase of 31% compared to the dividend distributed in the previous year.

Key figures

Income statement		2017	2016	2015
Revenue	MEUR	13,217	11,689	11,131
Operating profit	MEUR	1,171	1,155	699
– of revenue	%	8.9	9.9	6.3
Comparable operating profit	MEUR	1,101	983	925
Profit before income taxes	MEUR	1,094	1,075	634
– of revenue	%	8.3	9.2	5.7
EBITDA	MEUR	1,542	1,521	1,057
Comparable EBITDA	MEUR	1,472	1,349	1,284
Comparable net profit	MEUR	851	793	726

Profitability				
Return on equity (ROE)	%	22.7	28.1	19.7
Return on average capital employed, after tax (ROACE)	%	17.5	16.9	16.3

Financing and financial position				
Interest-bearing net debt	MEUR	412	683	1,291
Leverage ratio	%	8.7	15.4	29.4
Gearing	%	9.5	18.2	41.6
Equity-to-assets ratio	%	55.8	50.6	46.1

Other indicators				
Capital employed	MEUR	5,533	5,226	4,991
Capital expenditure and investments in shares	MEUR	536	422	536
– of revenue	%	4.1	3.6	4.8
Research and development expenditure	MEUR	44	41	41
– of revenue	%	0.3	0.4	0.4
Average number of personnel		5,297	5,013	4,906

Share-related indicators		2017	2016	2015
Earnings per share (EPS)	EUR	3.56	3.67	2.18
Comparable earnings per share	EUR	3.33	3.10	2.84
Equity per share	EUR	16.96	14.60	12.06
Cash flow per share	EUR	4.28	4.67	2.91
Price/earnings ratio (P/E)		14.99	9.94	12.66
Dividend per share	EUR	1.70[1]	1.30	1.00
Dividend payout ratio	%	47.8[1]	35.4	45.8
Dividend yield	%	3.2[1]	3.6	3.6
Share prices				
At the end of the period	EUR	53.35	36.50	27.63
Average share price	EUR	38.34	32.25	23.54
Lowest share price	EUR	31.15	25.42	19.91
Highest share price	EUR	54.05	40.78	27.70
Market capitalization at the end of the period	MEUR	13,679	9,359	7,084
Trading volumes				
Number of shares traded	1,000	160,467	200,351	213,855
In relation to weighted average number of shares	%	63	78	84
Average number of shares		255,775,535	255,696,935	255,568,717
Outstanding number of shares at the end of the period		255,790,141	255,717,112	255,605,219

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

Reconciliation of key figures to IFRS Financial Statements

Reconciliation between comparable operating profit and operating profit is presented in Note 4, Segment information.

Reconciliation between comparable operating profit and comparable net profit

MEUR	2017	2016
Comparable operating profit	1,101	983
IS Total financial income and expenses	–77	–79
IS Income tax expense	–180	–133
IS Non-controlling interests	–3	–4
Tax on items affecting comparability	11	26
Comparable net profit	851	793

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

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

Reconciliation of equity-to-assets ratio, %

MEUR	2017	2016
BS Total equity	4,338	3,755
BS Total assets	7,793	7,443
Advances received	21	18
Equity-to-assets ratio, %	55.8	50.6

Calculation of key figures

Calculation of key figures

EBITDA	=	Operating profit + depreciation, amortization and impairments
Comparable EBITDA	=	Comparable operating profit + depreciation, amortization and impairments
Comparable operating profit[1)]	=	Operating profit –/+ inventory gains/losses –/+ changes in the fair value of open commodity and currency derivatives –/+ capital gains/losses – insurance and other compensations –/+ other adjustments
Items affecting comparability	=	Inventory gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations and other adjustments
Comparable net profit	=	Comparable operating profit – total financial income and expense – income tax expense – non-controlling interests – tax on items affecting comparability
Return on equity (ROE), %	= 100 ×	Profit before income taxes – income tax expense, last 12 months / Total equity average, 5 quarters end values
Return on average capital employed, after-tax (ROACE), %	= 100 ×	Comparable operating profit + financial income + exchange rate and fair value gains and losses – income tax expense – tax on other items affecting ROACE, last 12 months / Capital employed average, 5 quarters end values
Capital employed	=	Total equity + interest bearing liabilities
Interest-bearing net debt	=	Interest-bearing liabilities – cash and cash equivalents
Leverage ratio, %	= 100 ×	Interest-bearing net debt / Interest-bearing net debt + total equity
Gearing, %	= 100 ×	Interest-bearing net debt / Total equity
Equity-to-assets ratio, %	= 100 ×	Total equity / Total assets – advances received
Return on net assets, %	= 100 ×	Segment operating profit, last 12 months / Average segment net assets, 5 quarters end values
Comparable return on net assets, %	= 100 ×	Segment comparable operating profit, last 12 months / Average segment net assets, 5 quarters end values
Segment net assets	=	Property, plant and equipment + intangible assets + investments in joint ventures + inventories + interest-free receivables and liabilities – provisions – pension liabilities allocated to the business segment
Research and development expenditure	=	Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated statement of income. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.

Calculation of share-related indicators

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$
Comparable earnings per share	=	$\frac{\text{Comparable net profit}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the owners of the parent}}{\text{Adjusted number of shares at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization at the end of the period	=	Number of shares at the end of the period × share price at the end of the period

Calculation of key drivers

Oil Products reference margin (USD/bbl)	=	Product value – feed cost – standard refining variable cost – sales freights
Oil Products total refining margin (USD/bbl)	=	$\frac{\text{Comparable sales margin} \times \text{average EUR/USD exchange rate for the period} \times \text{standard refinery yield}}{\text{Refined sales volume} \times \text{standard barrels per ton}}$
Oil Products additional margin (USD/bbl)	=	Oil Products total refining margin – Oil Products reference margin
Renewable Products reference margin (USD/ton)	=	Share of sales volumes Europe × (FAME – CPO) + share of sales North America × (SME – SBO)[2)]
Renewable Products comparable sales margin (USD/ton)	=	$\frac{\text{Comparable sales margin}}{\text{Total sales volume}}$
Renewable Products additional margin (USD/ton)	=	Comparable sales margin – (reference margin – standard variable production cost)

[1)] In the business environment where Neste operates, commodity prices and foreign exchange rates are volatile and can cause significant fluctuations in inventory values and operating profit. Comparable operating profit eliminates both the inventory 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 change in working capital. Items affecting comparability are linked to unpredictable events of a significant nature that do not form part of normal day-to-day business. They include among others impairment losses and reversals, gains and losses associated with the combination or termination of businesses, restructuring costs, and gains and losses on the sales of assets. Only items having an impact of more than EUR 1 million on Neste's result will be classified as items affecting comparability.

[2)] FAME = Fatty Acid Methyl Ester (biodiesel), CPO = Crude Palm Oil, SME = Soy Methyl Ester (biodiesel), SBO = Soybean Oil

Financial Statements

Key figures 2017
Read more

Consolidated Statement of Income

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Revenue	4, 5	13,217	11,689
Other income	6	22	71
Share of profit (loss) of joint ventures	16	1	14
Materials and services	7	–10,927	–9,519
Employee benefit costs	8	–372	–349
Depreciation, amortization and impairments		–371	–366
Other expenses	9	–399	–386
Operating profit		1,171	1,155
Financial income and expenses	10		
Financial income		4	4
Financial expenses		–79	–67
Exchange rate and fair value gains and losses		–2	–17
Total financial income and expenses		–77	–79
Profit before income taxes		1,094	1,075
Income tax expense	11	–180	–133
Profit for the period		914	943
Attributable to:			
Owners of the parent		911	939
Non-controlling interests[1]		3	4
		914	943
Earnings per share from profit attributable to owners of the parent (in euro per share)	12		
Basic		3.56	3.67
Diluted		3.55	3.66

[1] Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs. Non-controlling interests include cumulative profit attributable to non-controlling interests of Neste Jacobs until the acquisition date 29 September 2017.

Consolidated Statement of Comprehensive Income

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Profit for the period	914	943
Other comprehensive income net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements on defined benefit plans	2	–21
Items that may be reclassified subsequently to profit or loss		
Translation differences	–15	6
Cash flow hedges		
recorded in equity	69	–20
transferred to income statement	–15	6
Share of other comprehensive income of investments accounted for using the equity method	2	–9
Total	40	–17
Other comprehensive income for the period, net of tax	42	–38
Total comprehensive income for the period	956	905
Total comprehensive income attributable to:		
Owners of the parent	952	902
Non-controlling interests	3	4
	956	905

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

Consolidated Statement of Financial Position

MEUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	15	100	87
Property, plant and equipment	14	3,856	3,747
Investments in joint ventures	16	213	216
Non-current receivables	18	51	55
Deferred tax assets	11	35	39
Derivative financial instruments	17, 22	4	9
Available-for-sale financial assets	18	5	5
Total non-current assets		4,262	4,157
Current assets			
Inventories	19	1,563	1,416
Trade and other receivables	3, 20	1,097	1,034
Derivative financial instruments	17, 22	86	48
Cash and cash equivalents	21	783	788
Total current assets		3,530	3,285
Total assets		7,793	7,443

MEUR	Note	31 Dec 2017	31 Dec 2016
EQUITY			
Capital and reserves attributable to owners of the parent	23		
Share capital		40	40
Other equity		4,298	3,693
Total		4,338	3,733
Non-controlling interests		0	22
Total equity		4,338	3,755
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	17, 24	1,032	1,117
Deferred tax liabilities	11	269	246
Provisions	25	55	53
Pension liabilities	26	131	136
Derivative financial instruments	17, 22	0	2
Other non-current liabilities	17, 24	17	11
Total non-current liabilities		1,504	1,565
Current liabilities			
Interest-bearing liabilities	17, 24	163	354
Current tax liabilities	24	36	40
Derivative financial instruments	17, 22	72	164
Trade and other payables	17, 24	1,679	1,565
Total current liabilities		1,951	2,123
Total liabilities		3,455	3,688
Total equity and liabilities		7,793	7,443

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

Consolidated Cash Flow Statement

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from operating activities			
Profit before income taxes		1,094	1,075
Adjustments for			
Share of profit (loss) of joint ventures	16	–1	–14
Depreciation, amortization and impairments		371	366
Other non-cash income and expenses[1)]		–81	143
Financial expenses – net	10	77	79
Profit/loss from disposal of fixed assets and shares	6	–3	–28
Cash flow before change in working capital		1,457	1,622
Change in working capital			
Decrease (+) / increase (–) in trade and other receivables		–111	–147
Decrease (+) / increase (–) in inventories		–155	–321
Decrease (–) / increase (+) in trade and other payables		162	239
Change in working capital		–104	–229
Cash generated from operations		1,353	1,393
Interest and other finance cost paid		–93	–73
Interest income received		5	6
Realized foreign exchange gains and losses[1)]		–3	4
Income taxes paid		–169	–137
Finance cost and income taxes paid		–259	–200
Net cash generated from operating activities		1,094	1,193

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from investing activities			
Purchases of property, plant and equipment		–447	–381
Purchases of intangible assets	15	–28	–26
Transactions with non-controlling interests		–27	0
Proceeds from sales of property, plant and equipment		5	40
Proceeds from non-current receivables and available-for-sale financial assets		31	9
Cash flows from investing activities		–467	–359
Cash flow before financing activities		628	834
Cash flows from financing activities			
Payment of (–) / proceeds from (+) current interest-bearing liabilities		8	0
Proceeds from non-current interest-bearing liabilities		401	0
Repayments of non-current interest-bearing liabilities		–692	–387
Dividends paid to the owners of the parent		–332	–256
Dividends paid to non-controlling interests		–15	–1
Cash flows from financing activities		–631	–644
Net decrease (–)/increase (+) in cash and cash equivalents		–3	191
Cash and cash equivalents at beginning of the period		788	596
Exchange gains (+)/losses (–) on cash and cash equivalents		–2	1
Cash and cash equivalents at end of the period	21	783	788

[1)] Working capital hedges previously included in 'Realized foreign exchange gains and losses' are now presented in 'Other non-cash income and expenses'. The change was made retrospectively without change in 'Net cash generated from operating activities'.

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

Consolidated Statement of Changes in Equity

MEUR	Note	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	**Owners of the parent**	Non-controlling interests	**Total equity**
Total equity at 1 January 2016		40	20	1	–12	–39	–54	–59	3,186	**3,084**	20	**3,104**
Profit for the period									939	**939**	4	**943**
Other comprehensive income for the period, net of tax						–23	–21	6		**–38**		**–38**
Total comprehensive income for the period		0	0	0	0	–23	–21	6	939	**902**	4	**905**
Transactions with the owners in their capacity as owners												
Dividend decision									–256	**–256**	–1	**–257**
Share-based compensation				3	2				–2	**3**		**3**
Transfer from retained earnings			1						–1	**0**		**0**
Total equity at 31 December 2016	23	40	20	4	–10	–62	–75	–52	3,867	**3,733**	22	**3,755**

MEUR	Note	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	**Owners of the parent**	Non-controlling interests	**Total equity**
Total equity at 1 January 2017		40	20	4	–10	–62	–75	–52	3,867	**3,733**	22	**3,755**
Profit for the period									911	**911**	3	**914**
Other comprehensive income for the period, net of tax						56	2	–15		**42**		**42**
Total comprehensive income for the period		0	0	0	0	56	2	–15	911	**952**	3	**956**
Transactions with the owners in their capacity as owners												
Dividend decision									–332	**–332**	–15	**–347**
Transactions with non-controlling interests									–17	**–17**	–11	**–27**
Share-based compensation				2	1				–1	**2**		**2**
Transfer from retained earnings			–1						1	**0**		**0**
Total equity at 31 December 2017	23	40	20	7	–9	–6	–73	–68	4,428	**4,338**	0	**4,338**

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

Notes to the Consolidated Financial Statements

IS
OCI
BS
CF

1 General information

Neste Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The company is listed on the NASDAQ OMX Helsinki. The address of its registered office is Keilaranta 21, P.O. Box 95, 00095 Neste, Finland.

Neste Corporation and its subsidiaries (together referred to as the Group) builds sustainable solutions for the needs of transport, businesses and consumers. As a forerunner in renewable solutions and oil refining, Neste offers cleaner traffic solutions and industrial products based on cutting-edge research and patented technology. Neste helps its customers all around the world to reduce their carbon footprint by combining high-quality and low-emission renewable products such as renewable diesel, renewable jet fuel, renewable solvents and raw materials for bioplastics as well as oil products to tailored service solutions.

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

The Board of Directors has approved these consolidated financial statements for issue on 6 February 2018.

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 notes to the consolidated financial statements also include compliance with Finnish accounting and corporate legislation. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through the comprehensive income statement.

The consolidated financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

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

There have been no new standards, significant amendments or interpretations to existing standards in year 2017, which would have had a material impact on Neste's consolidated financial statements.

New standards, amendments and interpretations not yet adopted

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial instruments

The Group starts to apply IFRS 9 from 1 January 2018. It replaces the guidance in IAS 39 Financial instruments: Recognition and measurement. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The application of IFRS 9 does not have any significant impact on the recognition or measurement of the Group's financial assets. The instruments that were classified as loan and receivable are classified under IFRS 9 at amortized cost since the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Investments in equity instruments, which were earlier classified as available for sale, are measured at fair value through profit or loss or potentially in other comprehensive income. There are no changes relating to classification and measurement of financial liabilities in Neste Group.

The new impairment model requires the recognition of impairment provisions based on expected credit losses, rather than only incurred credit losses as was the case under IAS 39. The general expected credit loss model are used for debt instruments carried at amortized cost and at fair value through other comprehensive income. The impairment is adjusted if there is further evidence of deterioration in credit quality. For trade receivables Neste adopts the simplified expected credit loss model. Every business area uses a specific provision matrix for the trade receivables due to the different nature of the business. That results in earlier recognition of credit losses on trade receivables. The change of impairment model has the impact of EUR 1.3 million to the opening balance on 1 January 2018.

IFRS 9 simplifies the requirements for hedge effectiveness testing, allows hedge accounting for risk components and changes the treatment of time value. It requires documentation of economic relationship between the hedged item and hedging instrument, and the hedged ratio to be the same as the one management actually use for risk management purposes. The concrete change for hedge accounting in Neste under IFRS 9 is the time value of foreign exchange options, which is booked into other comprehensive income in equity together with the options' intrinsic value instead of being booked into profit or loss. Otherwise the application of hedge accounting within existing hedge accounting relationships (cash flow and fair value hedges within foreign exchange and interest rate derivatives) continues under IFRS 9 as earlier. The impact of time value is EUR 1.3 million to the opening balance on 1 January 2018.

IFRS 9 allows the application of hedge accounting in separate commodity risk components, but the Group does not apply hedge accounting in commodity derivatives. The Group hedges its commodity risk in line with its risk management policy and these derivatives will continue to be presented at fair value through profit or loss.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces all existing requirements (IAS 18 Revenue and IAS 11 Construction contracts and related interpretations).

The Group starts to apply IFRS 15 from 1 January 2018, and applies the modified retrospective model.

The Group has assessed that the implementation of IFRS 15 does not have a significant impact on the consolidated financial statements. Management has assessed the IFRS 15 impact on the different agreement types that are used in Neste's business areas. The majority of the Group's net sales comprise of fuel and other product sales which are mostly standard in nature, and the delivery terms have been investigated, with no major impact compared to the current revenue recognition. Certain storage service contracts, rebates, bonuses, penalties, warranties and other special terms and conditions that deviate from the basic agreement types have also been analyzed in more detail, and these do not have an impact on Neste's revenue recognition compared to the current accounting policy.

Some of the Group's product sales are under CIF Incoterm conditions, where the total sales price is allocated to the separate performance obligations; the first being the product and the second being the transportation (including other costs, insurance and freight). The sales price allocated to the product is recognized upon shipment, before delivery. The sales price for the transportation will be recognized when the latter performance obligation has been fulfilled. However, the allocated sales price for these is a minor part of the total revenue from contracts with customers, and the postponed revenue would have been EUR 0.8 million on 31 December 2017. The EBIT impact after the related costs is even smaller.

Subsidiary Neste Jacobs' current revenue recognition based on the percentage of completion method is also consistent with IFRS 15, as the revenue is already recognized over time.

Renewable products' RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) and other similar separate performance obligations have also been assessed, with no changes to the current revenue recognition.

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity.

IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In lessor accounting IFRS 16 substantially carries forward requirements in IAS 17.

IFRS 16 has been endorsed by EU in November 2017 and is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Group will start applying IFRS 16 from 1 January 2019, and will apply the modified retrospective model.

The Group has reviewed its leasing, service and some utility purchase contracts to assess the effects of IFRS 16. Adoption will impact Neste's financial statements and some key figures as most of the long-term operating leases (presented in Note 30) will be in the balance sheet. However, the impact is not considered significant proportional to the Group's total assets.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Estimates and judgements requiring management estimation

The preparation of Consolidated Financial Statements in conformity with the International Accounting Standard requires the Group's management to make estimates and assumptions which have an impact on reported assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. In addition, management judgement may be required in applying the accounting principles, for example, classifying assets as held for sale.

These estimates, assumptions and judgements are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual amounts may differ significantly from the estimates used in the financial statements.

The Group follows the changes in estimates, assumptions and the factors affecting them by using multiple internal and external sources of information. Possible changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed.

The sources of uncertainty which have been identified as most significant estimates by Group are presented in connection to the items considered to be affected.

Consolidation

Subsidiaries

The consolidated financial statements cover the parent company, Neste Corporation, and all those companies in which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when this control ceases.

Acquired or established subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable asset acquired and liabilities assumed in the acquired company are measured at the fair value at acquisition date. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Any contingent consideration related to the business combination is measured at fair value at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as liability is re-measured at its fair value at the end of each reporting period and the subsequent changes to fair value are recognized in profit or loss. Contingent consideration classified as equity is not subsequently re-measured. The consideration transferred does not include any transactions accounted for separately from the acquisition. Acquisition-related costs are expensed as incurred.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements.

The result for the period and items recognized in other comprehensive income are allocated to the equity holders of the company and non-controlling interests and presented in the statement of income and statement of other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the equity holders of the company. Comprehensive income is allocated to the equity holders of the company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed the non-controlling interests' investment in the company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint arrangements are arrangements in which the sharing of control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be either joint ventures or joint operations.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method. Joint operations are consolidated for its share of the assets, liabilities, revenues, expenses and cash flow on a line-by-line basis. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint arrangements are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

3 Financial risk management

Financial risk management principles

Neste Board of Directors has approved the Corporate risk management policy. This policy together with the related principles and instructions defines the framework for financial risk management within Neste. Mandates and limits that are applicable to financial risks have been defined in the risk management policy.

For more information regarding Neste's risk management, please refer to the risk management section in the annual report.

Market risks

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. For Neste, the main types of market risk are commodity price risk, foreign exchange risk and interest rate risk. These are specified in more detail in the following sections. In accordance with the Corporate risk management policy, various derivatives transactions are executed to manage the risk exposure. The positions are monitored and managed on a daily basis.

1. Commodity price risks

The main commodity price risks Neste faces in its businesses are related to market prices for crude oil, renewable feedstocks, and other feedstocks, as well as refined petroleum and renewable products. These prices are subject to significant fluctuations resulting from a periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand.

Neste's results of operations in any given period are principally driven by the demand for and prices of oil and renewable products relative to the supply and cost of raw materials. These factors, combined with Neste's own consumption of raw materials and output of refined products, drive operational performance and cash flows in Renewable Products and Oil Products, which are Neste's largest business areas in terms of revenue, profits and net assets.

Neste divides the commodity price risks affecting Neste's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

Inventory price risk

From a price risk management perspective, Neste's refinery inventory consists of two components. The first and largest component remains relatively constant over time and is referred to as the 'base inventory'. The second and daily fluctuating component is the amount of inventories differing from the base inventory level and at Neste it is called 'transaction position'.

The base inventory is the minimum level of price risk based stocks which can reasonably assure the continuous operation of the refineries and preventing deliveries from being compromised. It comprises inventories at the refineries and within the supply chain. The base inventory includes the minimum level of stocks that Neste is required to maintain under Finnish laws and regulations.

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.

In traditional oil refining, the base inventory is approximately one tenth of the total annual fossil fuel refining capacity of roughly 14 million tons per annum. In Renewable Products base inventory level is approximately half of the annual renewables refining capacity used.

The base inventory creates a risk in Neste's income statement and balance sheet since Neste applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste's inventory risk management policies target the 'transaction position' inasmuch as these stocks create cash flow risks depending on the relationships between feedstocks purchases, refinery production and refined petroleum product sales over any given period. According to the Neste risk management principle, any open exposures of the transaction position are hedged without delay.

In hedging the transaction position, derivative financial instruments are used. Because of the differences between the quality of the underlying feedstocks 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.

Refining margin risk

As the total refining margin is an important determinant of Oil Products business area's earnings, its fluctuations constitute a significant risk.

In the traditional oil refining business, the refining margin at risk is a function of the revenue from sold petroleum products and the cost of raw materials together with other costs. Neste's exposure to low refining margins in traditional oil refining is partly offset by its high-conversion refineries.

Neste is exposed to greater margin volatility in the Renewable Products' business compared to that in fossil fuel refining. In the Renewables business, the refining margin is mainly a function of the renewable fuel sale price received and the feedstocks used. The underlying indices used in renewable diesel pricing are primarily 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. In Europe, the price of renewable fuels is usually determined by the price of the local biodiesel. Typical biodiesel qualities are Fatty Acid Methyl Ester (FAME) or Rapeseed-Oil Methyl Ester (RME). In North America, the local biodiesel reference and typical renewable fuel pricing driver is

Soy Methyl Ester (SME). The cost of feedstocks depends on feedstock selection and is typically derived from different vegetable oils and fats. Feedstock prices are mainly driven by supply and demand balances, crop forecasts and regional weather. In Renewable Products business area, operational activities are the primary means of mitigating margin volatility.

With the aim of securing its margin and cash flow, Neste has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business, the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the Renewable Products' business, the targeted hedge ratios are typically higher. Hedge ratios can, however, be expected to fluctuate over time. The hedge ratio for renewable business is measured and monitored as a percentage of the quarterly sales volumes.

In hedging the refining margin, commodity derivatives are used. Hedging transactions are targeted at the components of Neste's total refining margin, based on its forecast or committed sales and refinery production, which are exposed to international market price fluctuations.

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 basis risk is typically higher in the Renewable Products' business than in the fossil fuel refining due to the nature of the feedstock selection and limited availability of hedging instruments.

The exposure to open positions of commodity derivative contracts as of 31 December 2017 (2016) is summarized in Note 22.

2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste operates and reports in Euro, this factor is one that exposes Neste's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings, and in the Group's balance sheet. Generally, this is done by hedging currency risks in contracted and forecast cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-eurozone subsidiaries (referred to as translation exposure).

Transaction exposure

In general, all business areas hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecast over a 12-month period on a rolling basis and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 70% for the first six months and 30% of the next six months for the renewable business. Deviations from the risk-neutral benchmark position are allowed in line with the limits set by treasury principles. The most important hedged currency is the U.S. dollar. Other material hedged currencies are the Malaysian Ringgit (MYR), Swedish Crown (SEK), Norwegian Crown (NOK) and Singapore Dollar (SGD). The Group's net exposure is managed through the use of forward contracts and options. All transactions are made for hedging purposes and the majority is also hedge accounted for according to IFRS. Business areas are responsible for forecasting net foreign currency cash flows, while Group Treasury & Risk Management is responsible for implementing hedging transactions.

Neste has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than home currency. The principle is to hedge this balance sheet exposure fully using forward contracts. 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 2017, the daily balance sheet exposure fluctuated between approximately EUR 769 million and 1,538 million (2016: EUR 483 million and 1,090 million). Group Treasury & Risk Management is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

The nominal and fair values of the outstanding foreign exchange derivative contracts as of 31 December 2017 (2016) are summarized in Note 22.

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. Forward contracts are used to hedge translation exposure. Any hedging decisions are made by Group Treasury & Risk Management. The total non-Euro-denominated equity of the Group's subsidiaries and joint ventures was EUR 267 million as of 31 December 2017 (2016: EUR 250 million) and the exposures and hedging ratios are summarized in the following table:

Group Translation exposure	2017			2016		
MEUR	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
SEK	189	0	0%	182	0	0%
RUB	54	0	0%	45	0	0%
USD	22	0	0%	21	0	0%
CAD	2	0	0%	2	0	0%
Other	0	0	0%	0	0	0%
	267	0	0%	250	0	0%

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 2017, the duration was 47 months. In addition to duration, Neste has defined a flow risk limitation.

Interest rate derivatives have been used to adjust the duration of the debt portfolio. The Group's interest rate risk management is handled by Group Treasury & Risk Management. The nominal and fair values of the outstanding interest rate derivative contracts as of 31 December 2017 (2016) are summarized in Note 22.

The following table summarizes the re-pricing of the Group's interest-bearing debt:

Period in which re-pricing occurs	Within 1 year	1 year – 5 years	> 5 years	Total
Financial instruments with floating interest rate				
Bonds	50	0	0	50
Loans from financial institutions	116	0	0	116
Other loans	11	0	0	11
Effect of interest rate swaps	74	–74	0	0
Financial instruments with fixed interest rate				
Bonds	0	468	399	867
Finance lease liabilities	3	21	77	101
Other loans	0	21	29	50
	254	436	505	1,195

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2017 and 2016, in millions of Euros:

	2017	2016
EUR	998	1,290
USD	100	95
SGD	97	86
	1,195	1,471

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 2018 (2017), 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		2018	2017
+/– 10% in the EUR/USD exchange rate	EUR million	–145/+177	–136/+166
+/– USD 1.00/barrel in total refining margin	USD million	+/–110	+/–105
+/– USD 10/barrel in crude oil price[1]	USD million	+/–100	+/–80
+/– USD 100/t in Renewable Products raw material price[1]	USD million	+/–125	+/–105
+/– USD 50/t in Renewable Products refining margin[2]	USD million	+/–130	+/–120

[1] Inventory gains/losses excluded from comparable operating profit

[2] Based on name-plate capacity

Sensitivity to market risks arising from financial instruments as required by IFRS 7

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the period and equity to changes in oil prices, the EUR/USD exchange rate, the USD/MYR exchange rate, and interest rates, resulting from financial instruments, such as financial assets and liabilities and derivative financial instruments, as defined by IFRS, included in the balance sheet as of 31 December 2017 (2016). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- The flat price variation for oil derivative contracts of crude oil, refined oil products and vegetable oil is assumed to be +/– 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 cash and cash equivalents, as well as derivative financial instruments
- The position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

- The variation in USD/MYR-rate is assumed to be +/– 10%
- The position includes MYR-denominated derivative financial instruments
- The position excludes MYR-denominated future cash flows

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- The variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- The interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps, however cash in bank accounts is excluded
- The income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from balance sheet items other than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items which are recorded directly in equity. Items affecting the income statement are not included in equity.

Sensitivity to market risk arising from financial instruments as required by IFRS 7		2017 Income Statement	2017 Equity	2016 Income Statement	2016 Equity
+/– 20% change in oil price[1]	EUR million	+/– 5	+/– 0	–/+ 34	–/+ 0
+/– 10% change in EUR/USD exchange rate	EUR million	+100/–124	+62/–61	+65/–76	+60/–69
1% parallel shift in interest rates	EUR million	+/–1	+/–0	+/–3	+/–0
+/– 10% change in USD/MYR exchange rate	EUR million	–/+9	+/–0	–/+ 3	–/+0

[1] Includes crude oil, refined oil products and vegetable oil derivatives

5. Hedge accounting

Neste applies hedge accounting to certain currency derivatives and interest rate derivatives. The Group uses currency derivative contracts to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted sales and earnings, as well as in Neste's balance sheet. Foreign exchange derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, or net investment hedges. The Group uses currency forwards and options as hedging instruments.

The Group uses interest rate swaps to reduce the volatility of interest expenses in the income statement. In addition, Neste reduces the volatility by adjusting the duration of the debt portfolio. Interest rate swap contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, or as hedges of the fair value of recognized assets or liabilities.

Cash flow hedges

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are, e.g. foreign currency derivative contracts hedging USD-, SEK- and NOK-sales for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2018.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity / other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2017 and 2016 the ineffective portion has been immaterial. Testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. Accrued interest of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity / other comprehensive income.

Fair value hedges

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk compensating the effect. The ineffective portion is also recognized in the income statement.

Items recognized in the income statement	2017	2016
Gain or loss on the hedging instrument	–2	–8
Gain or loss on the hedged item	3	7

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 2017 was 4.5 years (2016: 3.6 years). The most important financing programs in place are:

- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 150 million
- Domestic commercial paper program (uncommitted), EUR 400 million

Cash and cash equivalents and committed unutilized credit facilities	31 Dec 2017	31 Dec 2016
Floating rate		
– cash and cash equivalents	783	788
– overdraft facilities, expiring within one year	150	150
– revolving credit facility, expiring beyond one year	1,500	1,500
	2,433	2,438

Maturity profile of financial liabilities based on contractual payments 31 Dec 2017

	2018[1]	2019	2020	2021	2022	2023–	Total
Other than derivatives							
Trade payables	**1,163**	**0**	**0**	**0**	**0**	**0**	**1,163**
Bonds	**69**	**166**	**13**	**13**	**333**	**412**	**1,006**
– less interest expenses	19	19	13	13	12	12	88
Repayment of bonds	50	147	0	0	321	400	918
Loans from financial institutions	**102**	**14**	**0**	**0**	**0**	**0**	**116**
– less interest expenses	0	0	0	0	0	0	0
Repayment of loans from financial institutions	102	14	0	0	0	0	116
Finance lease liabilities	**16**	**16**	**17**	**16**	**15**	**187**	**267**
– less interest expenses	13	13	13	12	11	104	166
Repayment of finance lease liabilities	3	3	4	4	4	83	101
Other liabilities	**12**	**25**	**3**	**3**	**3**	**33**	**79**
– less interest expenses	4	3	2	2	2	5	18
Repayment of other liabilities	8	22	1	1	1	28	61
Other than derivatives together	**1,362**	**221**	**33**	**32**	**351**	**632**	**2,631**
Commodities	70	0	0	0	0	0	70
Interest rate swaps: inflow (–)	0	–2	0	0	0	0	–2
Gross settled forward foreign exchange contracts							
– inflow (–)	–2,399	0	0	0	0	0	–2,399
– outflow	2,348	0	0	0	0	0	2,348

[1] Repayments in 2018 are included in current liabilities in the balance sheet

Maturity profile of financial liabilities based on contractual payments 31 Dec 2016

	2017[1]	2018	2019	2020	2021	2022–	Yhteensä
Other than derivatives							
Trade payables	**1,030**	**0**	**0**	**0**	**0**	**0**	**1,030**
Bonds	**287**	**77**	**427**	**11**	**11**	**511**	**1,324**
– less interest expenses	37	27	27	11	11	11	124
Repayment of bonds	250	50	400	0	0	500	1,200
Loans from financial institutions	**101**	**8**	**14**	**0**	**0**	**0**	**123**
– less interest expenses	0	0	0	0	0	0	0
Repayment of loans from financial institutions	101	8	14	0	0	0	123
Finance lease liabilities	**15**	**15**	**16**	**15**	**14**	**161**	**236**
– less interest expenses	12	12	12	11	10	89	146
Repayment of finance lease liabilities	3	3	4	4	4	72	90
Other liabilities	**4**	**5**	**37**	**2**	**2**	**22**	**72**
– less interest expenses	4	4	4	1	1	4	18
Repayment of other liabilities	0	1	32	1	1	19	54
Other than derivatives together	**1,437**	**105**	**493**	**28**	**27**	**695**	**2,785**
Commodities	102	0	0	0	0	0	102
Interest rate swaps: inflow (–)	–3	–2	–3	0	0	0	–8
Gross settled forward foreign exchange contracts							
– inflow (–)	–2,016	0	0	0	0	0	–2,016
– outflow	2,064	0	0	0	0	0	2,064

[1] Repayments in 2017 are included in current liabilities in the balance sheet

Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of the counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size of the exposure. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. Limits, mandates and management principles for credit and counterparty risk are covered in the Corporate Risk Management Policy and separate instruction level documents.

The amount of risk is quantified as the expected loss to Neste in the event of a default by counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste's business areas, which are responsible for counter-party risk management within these limits.

When determining the credit lines for sales contracts, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral, for example, a letter of credit, bank guarantee or parent company guarantee has to be posted. In the event that collateral is required credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services. In addition, Neste may reduce its counterparty risks by selling trade receivables to a third party e.g. the bank. The sale of the receivables essentially transfers the title, benefits and interest in the trade receivables to the bank, indicating the bank to obtain all of the rights associated with the receivables. The sale and transfer shall be without guarantee from the seller in respect of the buyer's creditworthiness and with limited recourse to the seller. The seller receives the purchase price from the bank at the time of sale. Fees and other expenses are deducted from the payment or invoiced separately.

The credit lines for counterparties are divided into three categories according to contract type: physical sales contracts, derivative contracts and investments. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to rated counterparties by general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste has negotiated framework agreements in the form of an ISDA (International Swaps and Derivatives Association) master agreement with the main counterparties concerning commodity, emissions, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults and termination events. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Financial impact of netting for instruments subject to an enforceable master netting agreement (or similar)

31 Dec 2017	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	90	36	54
Trade receivables	4	3	1
Financial liabilities			
Derivatives	72	36	36
Trade payables	7	3	4

31 Dec 2016	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	56	49	7
Trade receivables	9	6	4
Financial liabilities			
Derivatives	166	49	117
Trade payables	7	6	1

Neste reduces credit risk by executing treasury transactions only with approved counter-parties. All counterparties have a minimum credit rating that is defined in Neste Risk Management Policy. Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Group, the minimum credit rating requirement is defined in Neste Treasury principles.

The Group has a large number of different counterparties on the international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure on 31 December 2017, near to 100% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from an established international credit rating agency. Respectively, Group Treasury & Risk Management had an exposure for currency and interest rate derivative contracts as at 31 December 2017 with banks, of which all have investment grade rating at a minimum. Commodity derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. Of the trade receiv-ables portfolio exposure, 47% is from counterparties or their parent companies having an investment grade credit rating; 53% consists of trade receivables from counterparties not having an investment grade credit rating, most of it comprising from a large number of corporate and private customers.

Analysis of trade receivables by age	31 Dec 2017	31 Dec 2016
Undue trade receivables	912	824
Trade receivables 1–30 days overdue	72	39
Trade receivables 31–60 days overdue	1	3
Trade receivables more than 60 days overdue	11	10
Trade receivables total	996	875
Credit loss provision	–2	–2
Trade receivables – Net	994	874

Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures access to capital markets at all times despite the volatile nature of the industry in which Neste operates. Despite the fact that the Group does not have a public credit rating, the Group's target is to have a capital structure equivalent to that of other refining and marketing companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents. Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio below 40%.

The leverage ratio	31 Dec 2017	31 Dec 2016
Total interest-bearing liabilities	1,195	1,471
Cash and cash equivalents	783	788
Interest-bearing net debt	412	683
Total equity	4,338	3,755
Interest-bearing net debt and total equity	4,750	4,438
Leverage ratio	8.7%	15.4%

Reconciliation of net debt	Cash and cash equivalents	Finance leases	Borrowings	Total
Net debt as at 1 January 2017	788	–90	–1,381	–683
Cash flows	–3	3	281	281
New finance leases	0	–19	0	–19
Foreign exchange differences and other valuations	–2	5	6	10
Other non-cash movements	0	0	0	0
Net debt as at 31 December 2017	783	–101	–1,095	–412

4 Segment information

Accounting policy

The Group's operations are divided into four operating segments: Renewable Products, Oil Products, Marketing & Services and Others. Neste's Oil Retail business area will from now on be called Marketing & Services. The business area will include the same business operations as the Oil Retail business area did. The performance of the reporting segments are reviewed regularly by the chief operating decision-maker, Neste President & CEO, to assess performance and to decide on allocation of resources. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and commodity derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the consolidated statement of income.

Segment operating assets and liabilities consists of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investments in joint ventures, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities consists of operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Neste's business structure

The Group's operations are built around three business areas and seven common functions. The business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Renewable Products, Oil Products, and Marketing & Services. The common functions are: Finance and Strategy, Human Resources and Safety, Sustainability and Public Affairs, Technology, Emerging Businesses, Communications and Brand Marketing and Legal Affairs.

Operating segments

Operating segments are engaged in the following key business activities:

Renewable Products segment produces, markets and sells renewable diesel, renewable jet fuels and solutions, renewable solvents as well as raw material for bioplastics based on Neste's proprietary technology to domestic and international wholesale markets. Renewable diesel is produced at the Porvoo, Singapore, and Rotterdam refineries with total capacity of 2.6 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 venture production plant in Bahrain. Oil refining capacity is 15 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 Jacobs; Nynas, a joint-venture 50/50-owned by Neste and Petróleos de Venezuela; and common corporate costs. Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs. Neste Jacobs Oy company name was changed to Neste Engineering Solutions Oy on 1 January 2018.

The operating segments presented above do not include any segments which are formed from aggregating two or more smaller segments.

The 'other expenses' included in the consolidated statement of income for each business segment includes the following major items:

Renewable Products: repairs and maintenance, planning and consulting services, rents, other property costs and insurance premiums
Oil Products: repairs and maintenance, planning and consulting services, rents, other property costs, HSE costs and insurance premiums
Marketing & Services: repairs and maintenance, rents, other property costs and marketing costs

Group's customer structure in 2017 and 2016 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 2017 and 2016 is presented in the following tables:

2017	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
IS External revenue	2,865	6,384	3,879	89	0	13,217	
Internal revenue	379	2,106	33	148	–2,666	0	
IS Total revenue	3,243	8,490	3,912	237	–2,666	13,217	5
IS Other income	2	13	4	17	–14	22	6
IS Share of profit (loss) of joint ventures	0	3	0	–2	0	1	16
IS Materials and services	–2,500	–7,237	–3,699	–70	2,579	–10,927	7
IS Employee benefit costs	–35	–144	–36	–157	0	–372	8
IS Depreciation, amortization and impairments	–110	–213	–25	–24	0	–371	
IS Other expenses	–124	–262	–88	–25	101	–399	9
IS Operating profit	476	650	69	–24	0	1,171	
IS Financial income and expense						–77	10
IS Profit before income taxes						1,094	
IS Income tax expense						–180	11
IS Profit for the period						914	
Comparable operating profit	561	495	68	–24	0	1,101	
inventory gains/losses	–80	111	0	0	0	31	
changes in the fair value of open commodity and currency derivatives	–5	29	0	0	0	24	
capital gains and losses	0	3	0	0	0	3	
insurance and other compensations	0	0	0	0	0	0	
other adjustments	0	12	0	0	0	12	
IS Operating profit	476	650	69	–24	0	1,171	
Capital expenditure and investments in shares	122	307	37	70	0	536	
Segment operating assets	2,255	3,803	585	310	–308	6,646	
BS Investments in joint ventures	0	24	0	189	0	213	16
BS Deferred tax assets						35	11
Unallocated assets						899	
BS Total assets	2,255	3,827	585	499	–308	7,793	
Segment operating liabilities	392	1,330	306	206	–295	1,939	
BS Deferred tax liabilities						269	11
Unallocated liabilities						1,247	
BS Total liabilities	392	1,330	306	206	–295	3,455	
Segment net assets	1,863	2,497	280	292	–12	4,920	
Return on net assets, %	25.6	25.6	28.7	–8.7			
Comparable return on net assets, %	30.2	19.5	28.5	–8.7			

IS
BS

2016	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Group	Note
IS External revenue	2,467	5,629	3,523	69	0	11,689	
Internal revenue	223	1,766	28	225	–2,241	0	
IS Total revenue	2,690	7,395	3,552	294	–2,241	11,689	5
IS Other income	6	42	7	34	–19	71	6
IS Share of profit (loss) of joint ventures	0	3	0	11	0	14	16
IS Materials and services	–1,939	–6,266	–3,326	–64	2,076	–9,519	7
IS Employee benefit costs	–32	–138	–33	–148	2	–349	8
IS Depreciation, amortization and impairments	–109	–217	–22	–18	0	–366	
IS Other expenses	–97	–256	–88	–121	177	–386	9
IS Operating profit	518	563	89	–11	–5	1,155	
IS Financial income and expense						–79	10
IS Profit before income taxes						1,075	
IS Income tax expense						–133	11
IS Profit for the period						943	
Comparable operating profit	469	453	90	–23	–6	983	
inventory gains/losses	123	157	0	0	0	280	
changes in the fair value of open commodity and currency derivatives	–60	–57	0	0	0	–118	
capital gains and losses	0	11	0	12	0	23	
insurance and other compensations	0	0	0	0	0	0	
other adjustments	–13	0	0	0	0	–13	
IS Operating profit	518	563	89	–11	–5	1,155	
Capital expenditure and investments in shares	104	249	31	38	0	422	
Segment operating assets	2,191	3,560	545	307	–310	6,293	
BS Investments in joint ventures	0	21	0	195	0	216	16
BS Deferred tax assets						39	11
Unallocated assets						894	
BS Total assets	2,191	3,581	545	502	–310	7,443	
Segment operating liabilities	380	1,157	350	253	–297	1,843	
BS Deferred tax liabilities						246	11
Unallocated liabilities						1,599	
BS Total liabilities	380	1,157	350	253	–297	3,688	
Segment net assets	1,811	2,424	196	249	–12	4,667	
Return on net assets, %	28.6	23.2	47.3	–5.3			
Comparable return on net assets, %	25.9	18.7	47.5	–11.3			

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BS

Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and retail selling network in Finland, North-West Russia, Estonia, Latvia and Lithuania. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets 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.

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2017	Finland	Other Nordic countries	Baltic Rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	4,559	2,546	1,227	3,038	1,411	435	13,217
Non-current assets	2,664	188	105	682	0	529	4,168
Capital expenditure	419	0	17	78	0	22	536

2016	Finland	Other Nordic countries	Baltic Rim	Other European countries	North and South America	Other countries	Group
IS Revenue by destination	4,181	1,983	1,135	2,504	1,790	96	11,689
Non-current assets	2,545	195	103	650	0	557	4,049
Capital expenditure	315	0	8	84	0	15	422

5 Revenue

Accounting policy

Revenue from the sale of goods is recorded in the consolidated statement of income when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when services have been provided. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licenses are recognized when the risks and rewards are transferred to the buyer.

Revenue will be recognized as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission.

Revenue includes sales from actual operations, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the consolidated statement of income.

Blender's Tax Credit (BTC), Low Carbon Fuels Standard credits (LCFS) and Renewable Identification Numbers (RINs) are recognized in revenue. Blender's Tax Credit is recognized if the Government of the United States will make decision to grant it. It is made annually. Blender's Tax Credit is an incentive given to fuel blenders to use more renewable fuel by making the bio mandates less costly to achieve.

	2017	2016
Sale of goods	13,060	11,526
Revenue from services	152	158
Royalty income	4	3
Other	1	1
IS Revenue	13,217	11,689

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 1,485 million (2016: EUR 1,457 million) are included in product sales. The corresponding amount is included in 'Materials and Services', 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 25 million (2016: EUR –3 million).

Revenue from services mainly comprises revenue from the chartering services and Neste Jacobs, which is included in the Others segment.

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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.

	2017	2016
Capital gains on disposal of other non-current assets	3	28
Rental income	7	22
Government grants	6	6
Insurance compensations	0	10
Other	7	5
IS Other income	22	71

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation. Capital gains on disposal of other non-current assets in 2016 relate mainly to the sale of a minority share in Ekokem Corporation.

7 Materials and services

	2017	2016
Materials and supplies	11,007	9,780
Change in inventories	–150	–317
External services	70	56
IS Materials and services	10,927	9,519

Materials and supplies include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,485 million (2016: EUR 1,457 million). The corresponding amount is included in 'Revenue', Note 5.

The net result of non-hedge accounted commodity and foreign exchange derivatives amounted to EUR 85 million (2016: EUR –144 million). Net gains/losses on derivative instruments related to purchases designated as cash flow hedges amounted to EUR 0 million (2016: EUR –5 million). Both above-mentioned items are included in Materials and supplies.

8 Employee benefit costs

	2017	2016
Wages and salaries	290	266
Social security costs	23	26
Pension costs – defined contribution plans	45	42
Pension costs – defined benefit plans	9	8
Other costs	5	7
IS Employee benefit costs	372	349

Number of personnel (average)	2017	2016
Renewable Products	301	267
Oil Products	1,718	1,693
Marketing & Services	1,432	1,354
Others	1,846	1,699
	5,297	5,013

9 Other expenses

	2017	2016
Operating leases and other property costs	47	44
Repairs and maintenance	137	143
Services	120	107
Insurance	17	18
Other	78	73
IS Other expenses	399	386

Operating leases include rents for land, premises, machinery and equipment. Services include planning and consulting services, IT services and other services. Other expenses include travel expenses, HSE and advertising costs.

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	2017	2016
Audit fees	1,326	936
Tax advisory	66	67
Other advisory services	352	221
	1,745	1,224

PricewaterhouseCoopers Oy has provided non-audit services to entities of Neste Group in total 361 thousand euros during the financial year 2017. These services included tax advisory (33 thousand euros) and other advisory services (328 thousand euros).

10 Financial income and expenses

	2017	2016
Financial income		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	4	4
Other financial income	0	0
	4	4
Financial expenses		
Interest expenses for financial liabilities at amortized cost	–42	–60
Interest rate derivatives, non-hedge accounted	1	0
Interest rate derivatives, hedge accounted	1	–1
Other financial expenses[1)]	–38	–6
	–79	–67
Exchange rate and fair value gains and losses		
Loans and receivables	11	–15
Other	–13	4
Foreign exchange derivatives, non-hedge accounted	0	–6
	–2	–17
IS Total financial income and expenses	–77	–79

[1)] 2017 'Other financial expenses' include one-off costs related to the partial repurchase of existing bonds in Q2/2017.

Net gains/losses on financial instruments included in operating profit	2017	2016
Foreign exchange derivatives, hedge accounted	25	–8
Foreign exchange derivatives and commodity derivatives, non-hedge accounted	85	–144
	110	–151

Net gains/losses contain realized and unrealized gains and losses on derivative financial instruments included in operating profit. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR 80 million (2016: EUR –137 million), and transactions entered into for trading purposes amounting to EUR 5 million (2016: EUR –7 million). Financial instruments held for trading purposes include also the net result of physical trading transactions for some of the contracts that can be settled net in cash and are not entered into and held for the purpose of the receipt or delivery in accordance with expected purchase, sale or usage requirements. The net result of non-hedge accounted derivative financial instruments are included in Materials and services (Note 7).

Net gains/losses on financial instruments related to sales designated as cash flow hedges are included in Revenue (Note 5). Net gains/losses on financial instruments related to purchases designated as cash flow hedges are included in Materials and services (Note 7).

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11 Income taxes

Accounting policy

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. In respect of the deferred tax liability on undistributed foreign earnings, the amount recorded is based on expected circumstances and management expectations regarding the profit distribution. For items recognized directly in equity or other comprehensive income, the income tax effect is similarly recognized.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets are recognized for tax loss carryforwards and other unused tax credits to the extent that the utilization of the related tax benefit through future taxable profits is probable.

Estimates and judgements requiring management estimation

Determination of income taxes and deferred tax assets and liabilities and the amount of deferred tax asset to be recognized requires management judgement.

The Group has deferred tax assets and liabilities which are expected to be realized through the income statement over extended periods of time in the future. In calculating the deferred tax items, the Group is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets, and liabilities as recorded in the financial statements and their tax basis.

The major components of income tax expense in the consolidated statement of income

	2017	2016
Current tax	166	150
Adjustments recognized for current tax for prior periods	0	2
Change in deferred taxes	14	–20
IS Income tax expense	180	133

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The reconciliation of income taxes at the statutory tax rate in Finland and income tax expense recognized in the consolidated statement of income:

	2017	2016
IS Profit before income taxes	1,094	1,075
Hypothetical income tax calculated at Finnish tax rate 20%	–219	–215
Differences in tax rates in other countries	38	81
Effect of change in Estonian income tax rate	1	0
Non-deductible expenses	–1	–2
Tax on undistributed earnings	0	–1
Taxes for prior periods	0	–2
Net results of joint ventures	0	2
Realisability of deferred tax assets	0	1
Other	1	3
IS Income tax expense	–180	–133

The Group's effective tax rate was 16% (12%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Estonia, Latvia, Lithuania, Singapore and Switzerland, where Neste has business operations. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010–2023 under the applicable Singapore legislation.

BS

Changes in deferred tax assets and liabilities:

2017	On 1 Jan 2017	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	On 31 Dec 2017
Deferred tax assets					
Tax loss carried forward	6	–4	0	0	2
Provisions	3	1	0	0	4
Pensions	27	–1	0	0	26
Fixed assets	12	13	0	0	25
Financial instruments	8	–8	0	0	0
Other temporary differences	4	2	0	0	6
Total deferred tax assets	59	3	0	0	62
Netting against liabilities	–20	–7	0	0	–27
BS Deferred tax assets	39	–4	0	0	35
Deferred tax liabilities					
Depreciation difference and untaxed reserves	234	10	0	0	244
Tax on undistributed earnings	11	0	0	0	11
Finance leases	0	0	0	0	0
Other fixed assets	19	14	0	0	34
Financial instruments	0	–7	12	0	5
Other temporary differences	2	–1	0	0	1
Total deferred tax liabilities	267	16	12	0	295
Netting against assets	–20	–7	0	0	–27
BS Deferred tax liabilities	246	9	12	0	269

2016	On 1 Jan 2016	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	On 31 Dec 2016
Deferred tax assets					
Tax loss carried forward	2	4	0	0	6
Provisions	2	0	0	0	3
Pensions	23	–1	5	0	27
Fixed assets	6	6	0	0	12
Financial instruments	0	0	8	0	8
Other temporary differences	4	1	0	–1	4
Total deferred tax assets	36	11	13	0	59
Netting against liabilities	–8	–13	0	0	–20
BS Deferred tax assets	29	–2	13	0	39
Deferred tax liabilities					
Depreciation difference and untaxed reserves	242	–8	0	0	234
Tax on undistributed earnings	12	–1	0	0	11
Finance leases	1	–1	0	0	0
Capitalized interest	11	0	0	0	11
Financial instruments	0	0	0	0	0
Other temporary differences	6	1	3	0	10
Total deferred tax liabilities	272	–9	3	0	267
Netting against assets	–8	–13	0	0	–20
BS Deferred tax liabilities	265	–22	3	0	246

BS

There are altogether EUR 3 million (2016: EUR 7 million) tax loss carry forwards and other unused tax credits for which no deferred tax asset is recognized. Expiry dates are between 2018 and 2026 for EUR 2 million and no expiry for EUR 1 million.

A deferred tax liability has been recognized for undistributed earnings of subsidiaries where income taxes would be payable upon distribution.

Deferred tax recognised relating to components of other comprehensive income:

	2017		
	Before tax	Tax (charge) / credit	After tax
OCI Remeasurements of defined benefit plans	2	0	2
OCI Translation differences	–15	0	–15
Cash flow hedges			
OCI recorded in equity	84	–15	69
OCI transferred to income statement	–19	3	–15
OCI Share of other comprehensive income of investments accounted for using the equity method	2	0	2
OCI Other comprehensive income	54	–13	42

	2016		
	Before tax	Tax (charge) / credit	After tax
OCI Remeasurements of defined benefit plans	–26	5	–21
OCI Translation differences	6	0	6
Cash flow hedges			
OCI recorded in equity	–25	5	–20
OCI transferred to income statement	6	0	6
OCI Share of other comprehensive income of investments accounted for using the equity method	–9	0	–9
OCI Other comprehensive income	–48	10	–38

12 Earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. The average number of shares has been adjusted with treasury shares, 613,545 shares (2016: 686,574), as described in Note 23. Diluted earnings per share reflect the impact of the share-based incentive plans. The company has not granted any options.

	2017	2016
IS Profit for the period attributable to owners of the parent, MEUR	911	939
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands)	255,776	255,697
Number of ordinary shares, including treasury shares, used as the denominator in calculating diluted earnings per share (thousands)	256,404	256,404
IS Basic earnings per share (euro per share)	3.56	3.67
IS Diluted earnings per share (euro per share)	3.55	3.66

13 Dividend per share

The dividends paid in 2017 were EUR 1.30 per share, totalling EUR 332 million (2016: EUR 1.00 per share, totalling EUR 256 million). A dividend of EUR 1.70 per share will be proposed at the Annual General Meeting on 5 April 2018, corresponding to total dividends of EUR 435 million for 2017. This dividend is not reflected in the financial statements.

IS
OCI

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, including special spare parts	15–20 years
Marine fleet	15–20 years
Retail station network infrastructure and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

The residual values and useful lives of assets are reviewed and adjusted where appropriate at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated statement of income.

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility.

Expenditure on development activities is capitalized only when it fulfills strict criteria e.g. development relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

Finance leases

Lease arrangements that transfer substantially all the risks and rewards related to a leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments, as determined at the inception of the lease. Lease payments are allocated between the reduction of the outstanding liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the consolidated statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shortest.

Determining whether an arrangement is, or contains, a lease is based on IFRIC interpretation 4 in such cases where an arrangement does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) relating to property, plant and equipment are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

BS

2017	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2017	75	2,215	4,045	318	366	7,019
Exchange rate differences	–1	–5	–2	0	0	–8
Additions	2	73	455	16	–64	481
Disposals	–1	5	–14	–8	–4	–22
Reclassifications	0	0	79	–59	–24	–3
Gross carrying amount at 31 December 2017	76	2,288	4,563	267	274	7,468
Accumulated depreciation and impairment losses at 1 January 2017	0	899	2,266	108	0	3,272
Exchange rate differences	0	–2	–1	0	0	–4
Disposals	0	2	–11	–3	0	–12
Reclassifications	0	0	24	–25	0	–1
Depreciation for the period	0	73	279	4	0	356
Accumulated depreciation and impairment losses at 31 December 2017	0	971	2,557	84	0	3,612
BS Carrying amount at 1 January 2017	75	1,316	1,779	210	366	3,747
BS Carrying amount at 31 December 2017	76	1,317	2,006	182	274	3,856

2016	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2016	73	2,189	4,005	321	165	6,753
Exchange rate differences	2	12	5	0	0	19
Additions	1	53	101	27	214	396
Disposals	–1	–22	–87	–30	–9	–149
Reclassifications	0	–17	21	0	–4	0
Gross carrying amount at 31 December 2016	75	2,215	4,044	318	366	7,019
Accumulated depreciation and impairment losses at 1 January 2016	0	835	2,073	100	0	3,008
Exchange rate differences	0	6	3	0	0	9
Disposals	0	–17	–70	–14	0	–101
Reclassifications	0	0	0	0	0	0
Depreciation for the period	0	75	259	22	0	356
Accumulated depreciation and impairment losses at 31 December 2016	0	899	2,265	108	0	3,272
Carrying amount at 1 January 2016	73	1,353	1,932	221	165	3,745
BS Carrying amount at 31 December 2016	75	1,316	1,779	210	366	3,747

Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table:

	2017	2016
Gross carrying amount	130	108
Accumulated depreciation	40	33
Carrying amount	90	74

Capitalized borrowing costs

During 2017 borrowing costs amounting to EUR 6.5 million (2016: EUR 5.5 million) were capitalized related mainly to Oil Products investments. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.3% in 2017 (2016: 3.5%).

15 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% and growth rate are used purely for the impairment testing.

The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering and project management services, as well as the billability rate. The key assumptions used in the impairment test are the billability rate affecting the EBITDA.

The key assumptions for the plans in Oil Products are the demand and the margin level for oil products.

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.

2017	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2017	11	204	216
CF Additions	0	28	28
Disposals	0	–4	–4
Gross carrying amount at 31 December 2017	11	228	240
Accumulated amortization and impairment losses at 1 January 2017	0	129	129
Disposals	0	–4	–4
Amortization for the period	0	15	15
Accumulated amortization and impairment losses at 31 December 2017	0	140	140
BS Carrying amount at 1 January 2017	11	76	87
BS Carrying amount at 31 December 2017	11	88	100

2016	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2016	11	182	193
CF Additions	0	26	26
Disposals	0	–4	–4
Gross carrying amount at 31 December 2016	11	204	216
Accumulated amortization and impairment losses at 1 January 2016	0	122	122
Disposals	0	–3	–3
Amortization for the period	0	10	10
Accumulated amortization and impairment losses at 31 December 2016	0	129	129
Carrying amount at 1 January 2016	11	60	71
BS Carrying amount at 31 December 2016	11	76	87

BS
CF

IS
OCI
BS
CF

Impairment test of goodwill

Goodwill is allocated to Group's cash-generating units (CGU's). From identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

	WACC%	2017	2016
Oil Products	6.5	2	2
Other	5.7	9	9
		11	11

A decrease of 10% in cash flows or 2%-points increase in the discount rate would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts. Cash flows beyond the three-year period are extrapolated by using 1.0% nominal growth rate.

16 Investments in joint ventures

Carrying amount	2017	2016
On 1 January	216	220
IS, CF Share of profit (loss) of joint ventures	1	14
Translation differences	–8	–8
OCI Share of other comprehensive income of investments accounted for using the equity method	2	–9
Other changes	2	–1
BS On 31 December	213	216

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	2017 % interest held	2016 % 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. Neste has entered into a 10+2-year time charter contract with the joint venture for the vessel, of which 1 year remain.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which (limited liability company) separates the assets and liabilities of the arrangement from the assets and liabilities of its shareholders, and are directed so that the relevant activities of the company require unanimous consent from all shareholders.

Note 2: Nynas AB (publ) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. Neste owns 49.99% of the shares of the company. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petróleos de Venezuela S.A. Nynas AB (publ) is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle the legal form of which separates its assets and liabilities from the assets and liabilities of its shareholders, and that the terms and conditions of the shareholders' agreement or other facts and circumstances do not give Neste or Petróleos de Venezuela S.A. rights to the assets and obligations for the liabilities of Nynas AB (publ).

Note 3: Kilpilahti Power Plant Limited is a joint venture company that produces and supplies steam and other utilities to Neste's refinery and Borealis' petrochemical plant in Porvoo, Finland. The company, Kilpilahti Powerplant Ltd is owned 40% each by Neste and Veolia and 20% by Borealis.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which separates its assets and liabilities of its shareholders and it is directed so that the relevant activities of the company require unanimous consent from all parties sharing control. The new power plant's capacity is meant to serve also external customers in addition to Neste and Borealis and thus optimize the returns of all shareholders in form of net profit. Management has also taken into account that Kilpilahti Power Plant Ltd plans and executes the power plant operations as its own business decisions which are operated by Veolia.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table:

	Kilpilahti Power Plant Ltd		Glacia Limited		Nynas AB (publ)	
	2017	2016	2017	2016	2017	2016
Non-current assets	328	186	27	35	582	610
Current assets						
Cash and cash equivalents	42	25	15	11	84	39
Other current asset (excl. Cash and cash equivalents)	43	35	0	0	676	608
Total current assets	85	60	15	11	760	647
Non-current liabilities						
Non-current financial liabilities (excl. Trade payables and provisions)	345	192	0	0	462	424
Other non-current liabilities	0	0	0	0	116	142
Total non-current liabilities	345	192	0	0	579	566
Current liabilities						
Current financial liabilities (excl. Trade payables and provisions)	0	0	0	0	113	43
Other current liabilities	56	53	1	2	274	259
Total current liabilities	56	53	1	2	387	302
Net assets	11	0	41	42	376	388
Revenue	124	85	9	11	1,522	1,321
Depreciation, amortization and impairments	8	7	4	4	59	47
Interest income	0	0	0	0	7	2
Interest expense	2	0	0	0	20	15
Income tax expense	0	0	0	0	–1	10
Profit/loss	2	0	2	4	–4	22

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2017 and 2016 financial information above is based on 30 September 2017 and 30 September 2016 published interim reports. The share of profits of Glacia Limited and Kilpilahti Power Plant Ltd for 2017 are consolidated based on the companys' preliminary results for the financial period.

Transactions carried out with joint arrangements are disclosed in Note 28.

Contingent liabilities relating to the Group's interest in the joint arrangements are disclosed in Note 30.

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture.

	Kilpilahti Power Plant Ltd		Glacia Limited		Nynas AB (publ)	
Summarized financial information	2017	2016	2017	2016	2017	2016
Opening net assets 1 January	0	0	42	37	388	402
Investment in joint venture	9	0	0	0	0	0
Profit for the period	2	0	2	4	–4	22
Other comprehensive income	0	0	–4	1	–8	–36
Closing net assets 31 December	11	0	41	42	376	388
Interest in joint venture	4	0	20	21	188	194
Carrying value	4	0	20	21	188	194

17 Financial assets and liabilities by measurement categories

Accounting policy

The Group classifies financial assets according to IAS 39. The classification depends on the purpose for which the financial assets were acquired. Purchases and sales of financial assets are recognized on the settlement date (excluding derivatives). Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Detailed accounting policies relating to financial assets and liabilities can be found in notes 18, 20, 21, 22 and 24.

BS

Financial assets and liabilities divided by categories were as follows as of December 31:

2017 Balance sheet item	Derivatives, hedge accounting	Assets/ liabilities at fair value trough income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amount	Fair value	Note
Non-current financial assets								
BS Non-current receivables			51			51	51	18
BS Derivative financial instruments	2	2				4	4	22
BS Available-for-sale financial assets				5		5	5	18
Current financial assets								
Trade and other receivables[1)]			1,094			1,094	1,094	20
BS Derivative financial instruments	29	58				86	86	22
BS Cash and cash equivalents			783			783	783	21
Financial assets	30	60	1,928	5	0	2,023	2,023	
Non-current financial liabilities								
BS Interest-bearing liabilities					1,032	1,032	1,065	24
BS Derivative financial instruments	0	0				0	0	22
BS Other non-current liabilities					17	17	17	24
Current financial liabilities								
BS Interest-bearing liabilities					163	163	163	24
BS Derivative financial instruments	2	70				72	72	22
BS Trade and other payables					1,679	1,679	1,679	24
Financial liabilities	2	70	0	0	2,892	2,964	2,997	

[1)] excluding non-financial assets

BS

2016 Balance sheet item	Derivatives, hedge accounting	Assets/ liabilities at fair value trough income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amount	Fair value	Note
Non-current financial assets								
BS Non-current receivables			55			55	55	18
BS Derivative financial instruments	8	1				9	9	22
BS Available-for-sale financial assets				5		5	5	18
Current financial assets								
Trade and other receivables[1)]			1,029			1,029	1,029	20
BS Derivative financial instruments	2	46				48	48	22
BS Cash and cash equivalents			788			788	788	21
Financial assets	10	47	1,873	5	0	1,934	1,934	
Non-current financial liabilities								
BS Interest-bearing liabilities					1,117	1,117	1,172	24
BS Derivative financial instruments	2	0				2	2	22
BS Other non-current liabilities					11	11	11	24
Current financial liabilities								
BS Interest-bearing liabilities					354	354	355	24
BS Derivative financial instruments	46	118				164	164	22
BS Trade and other payables					1,565	1,565	1,565	24
Financial liabilities	48	118	0	0	3,047	3,213	3,270	

[1)] excluding non-financial assets

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the assets or liability that is not based on observable market data (unobservable inputs).

BS

2017 Fair value hierarchy

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	3	0	3
Commodity derivatives	0	1	0	1
BS Available-for-sale financial assets	0	0	5	5
Non-current financial assets	0	4	5	8
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	58	0	58
Commodity derivatives	1	28	0	29
Current financial assets	1	86	0	86
Total financial assets	1	89	5	94

Financial liabilities	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Commodity derivatives	0	0	0	0
Non-current financial liabilities	0	0	0	0
Current derivative financial instruments				
Interest rate derivatives	0	1	0	1
Currency derivatives	0	1	0	1
Commodity derivatives	8	62	0	70
Current financial liabilities	8	64	0	72
Total financial liabilities	8	64	0	72

During the financial period 2017 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. Available for sale financial assets consist of shares in unlisted companies of EUR 5 million (2016: EUR 5 million), for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

2016 Fair value hierarchy

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	8	0	8
Commodity derivatives	0	1	0	1
BS Available-for-sale financial assets	0	0	5	5
Non-current financial assets	0	9	5	13
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	4	0	4
Commodity derivatives	0	43	0	43
Current financial assets	0	47	0	48
Total financial assets	0	56	5	61

Financial liabilities	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	2	0	2
Commodity derivatives	0	0	0	0
Non-current financial liabilities	0	2	0	2
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	62	0	62
Commodity derivatives	48	53	0	102
Current financial liabilities	48	116	0	164
Total financial liabilities	48	118	0	166

During the financial period 2016 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

18 Non-current receivables and available-for-sale financial assets

Accounting policy

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in non-current assets, except for maturities within 12 months after the balance sheet date, which are classified as current assets. Loans and receivables are carried at amortized cost, using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in "financial assets at fair value through income statement" or "loans and receivables" category. They consist of shares in unlisted companies and they are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses' .

	Carrying amount	
Non-current receivables	2017	2016
Non-current interest-bearing receivables	44	47
Other non-current receivables	7	9
BS Non-current receivables	51	55

Fair values of loan receivables are not materially different from the carrying amounts. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted companies, and are measured at cost less possible impairment, because their fair value cannot be reliably measured in the absence of an active market.

19 Inventories

Accounting policy

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the first-in, first-out (FIFO) method. 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.

BS

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.

	2017	2016
Materials and supplies	659	643
Finished products and goods	897	765
Other inventories	7	8
BS Inventories	1,563	1,416

Cumulative inventory gains due to oil price changes amounted EUR 31 million (2016: EUR 280 million) of which EUR 19 million (2016: EUR 6 million) consisted of inventory write-downs recorded at the end of the period.

20 Trade and other receivables

Accounting policy

Trade receivables are recognized initially at fair value. A provision for impairment of trade receivables is established for receivables over 90 days overdue, or when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. Impairment for doubtful trade receivables are based on a periodic review of outstanding amounts, including an analysis of historical bad debt, customer creditworthiness, past due amounts and changes in customer payment terms. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the loss is recognized in the consolidated statement of income within 'Other expenses'. When the trade receivables are sold to a third party, the Group receives the purchase price, less a discount for commission and fees. These fees are booked to financial expenses. The Group derecognizes a trade receivable when the contractual rights to the cash flows from the asset expire, or when it transfers the asset and substantially all the related risks and rewards to the third party.

	Carrying amount	
	2017	2016
Trade receivables	994	874
Other receivables	70	118
Advances paid	10	13
Accrued income and prepaid expenses	23	29
BS Trade and other receivables	1,097	1,034

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Credit loss of trade receivables amounted to EUR 1 million (2016: EUR 1 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

No part of trade receivables has been sold to a third party during 2017. An unsubstantial part of the trade receivables was sold to a third party during 2016.

21 Cash and cash equivalents

Accounting policy

Cash and cash equivalents are carried in the consolidated statement of financial position at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

BS
CF

Cash and cash equivalents include the following:

	2017	2016
Cash at bank and in hand	757	768
Short term deposits	26	20
BS, **CF** Cash and cash equivalents	783	788

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

22 Derivative financial instruments

Accounting policy

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. They are included in current assets or liabilities, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets or liabilities. The method of recognizing any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as either:

1) hedges of highly probable forecast transactions (cash flow hedges);
2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in Note 3.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity / other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecast sale that is being hedged takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD, SEK and NOK-sales are recorded within revenue. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity / other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the consolidated statement of income in 'financial income and expenses', together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk compensating the effect.

Derivative financial instruments that do not qualify for hedge accounting

Some derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Relating to those contracts the gains and losses arising from changes in the fair value are included in operating profit. The changes due to financial instruments related to financing activities are recognized in 'financial income and expenses'. Any movements in the fair value of these contracts are recognized in the income statement in the period in which they arise.

Nominal values of interest rate and currency derivative contracts	2017			2016		
	Remaining maturities			Remaining maturities		
	< 1 year	1–2 years	Total	< 1 year	1–3 years	Total
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps	50	0	50	0	50	50
Forward foreign exchange contracts	714	0	714	954	0	954
Currency options						
– Purchased	339	0	339	388	0	388
– Written	339	0	339	388	0	388
	1,442	0	1,442	1,730	50	1,780
Derivative financial instruments designated as fair value hedges						
Interest rate swaps	0	74	74	100	200	300
	0	74	74	100	200	300
Non-hedge accounting derivative financial instruments						
Interest rate swaps	0	26	26	0	0	0
Forward foreign exchange contracts	1,634	0	1,634	1,132	0	1,132
	1,634	26	1,660	1,132	0	1,132

Volumes of commodity derivative contracts	2017			2016		
	Volume million bbl			**Volume million bbl**		
	Remaining maturities			Remaining maturities		
	< 1 year	1–2 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives[1]						
Futures and forwards						
– Sales contracts	17	0	17	27	0	27
– Purchase contracts	15	0	15	17	0	18
	32	0	32	44	1	45
	Volume GWh			**Volume GWh**		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting electricity and gas derivative contracts						
Futures and forwards						
– Purchase contracts	1,981	884	2,865	1,716	665	2,381
	1,981	884	2,865	1,716	665	2,381

[1] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil and freight derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

Fair values of derivative financial instruments	**Fair value 2017**				**Fair value 2016**			
	Positive		Negative		Positive		Negative	
Interest rate and currency derivative contracts	< 1 year	1–2 years	< 1 year	1–2 years	< 1 year	1–3 years	< 1 year	1–3 years
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps	0	0	1	0	0	0	0	2
Forward foreign exchange contracts	22	0	0	0	0	0	35	0
Currency options								
– Purchased	3	0	1	0	1	0	3	0
– Written	3	0	0	0	0	0	8	0
	29	0	2	0	1	0	46	2
Derivative financial instruments designated as fair value hedges								
Interest rate swaps	0	2	0	0	0	8	0	0
	0	2	0	0	0	8	0	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps	0	1	0	0	0	0	0	0
Forward foreign exchange contracts	29	0	0	0	3	0	17	0
	29	1	0	0	3	0	17	0

BS

	Fair value 2017				**Fair value 2016**			
	Positive		Negative		Positive		Negative	
Commodity derivative contracts	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years
Non-hedge accounting commodity derivative contracts[1]								
Futures and forwards								
– Sales contracts	1	0	60	0	1	0	89	0
– Purchase contracts	28	1	10	0	42	1	12	0
	29	1	70	0	43	1	102	0

[1] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, freight, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

	2017				**2016**			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Balance sheet reconciliation								
BS Derivative financial instruments	86	4	72	0	48	9	164	2

Fair value estimations

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.

23 Equity

Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2017 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined. There have been no changes in share capital in 2017 or 2016.

	Number of shares, 1,000	Treasury shares, 1,000	Outstanding shares, 1,000
1 January 2017	256,404	–687	255,717
Transfer of treasury shares		73	73
31 December 2017	256,404	–614	255,790
1 January 2016	256,404	–798	255,605
Transfer of treasury shares		112	112
31 December 2016	256,404	–687	255,717

Treasury shares

On 15th March 2017 a total of 73,029 treasury shares have been conveyed without consideration to the key persons participating in the Share Ownership 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 1st April 2015. A total of 79 people are in the target group of the payment from the plan. The number of treasury shares after the directed share issue is 613,545 shares. The acquisition cost including transaction costs, has been deducted from equity.

Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, 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.

24 Non-current and current liabilities

Accounting Policy

Financial liabilities are recognized initially at fair value, net of transaction costs, 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.

Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date. Bank overdrafts are shown in current liabilities on the balance sheet. Fees of revolving credit facility are capitalized and amortized over the period of the facility.

BS

	Carrying amount	
Non-current liabilities	2017	2016
Bonds	867	954
Loans from financial institutions	14	22
Finance lease liabilities	98	87
Other loans	53	54
Other non-current liabilities	14	7
Accruals and deferred income	4	4
Non-current liabilities total	1,050	1,128
BS of which interest-bearing	1,032	1,117

The fair values of non-current interest-bearing 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 900 million (2016: EUR 1,009 million) belonging to fair value hierarchy level 1. The fair values of other non-current liabilities are not materially different from their carrying amounts.

	Carrying amount	
Current liabilities	2017	2016
Bonds	50	250
Loans from financial institutions	102	101
Finance lease liabilities	3	3
Other loans	8	0
Advances received	13	17
Trade payables	1,163	1,030
Other current liabilities	398	407
Current tax liabilities	36	40
Accruals and deferred expenses	104	112
Current liabilities total	1,879	1,959
BS of which interest-bearing	163	354

The fair values of current interest-bearing 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 50 million (2016: EUR 252 million) belonging to fair value hierarchy level 2. The fair values of other current liabilities are not materially different from their carrying amounts.

Re-pricing periods of the Group's interest-bearing debt is disclosed in Note 3, Financial risk management, section 'Market risk'.

Listed bond issues

Issued/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2012/2019	Fixed	4.0000	4.0780	EUR	147	149
2015/2022	Fixed	2.1250	2.2080	EUR	321	319
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total 31 December 2017						867

In addition private placement (2011/2018) of EUR 50 million with floating interest

The future minimum lease payments of finance lease liabilities and their present value in the balance sheet

	2017			2016		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	16	13	3	15	12	3
Between one and five years	80	60	20	73	55	18
More than 5 years	171	93	78	150	80	69
Total amounts payable	267	166	101	238	147	90

Finance lease liabilities arise from contracts related to Singapore refinery. The agreements are made with two local companies that provide utility and terminalling services. Major assets under these agreements are tanks and jetty used for storing, loading and discharging of products and feedstock and facilities used for recycling of refinery by-products. Lengths of the contracts are from 15 to 30 years.

25 Provisions

Accounting policy

The nature of certain Group's businesses exposes the Group to risks of environmental costs and potential contingent liabilities. The risks arise from the manufacture, use, storage, disposal and maritime and inland transport as well as sale of materials that may be considered to be contaminants when released into the environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

A provision is recognized in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met. The Group has asset retirement obligations recorded in the consolidated statement of financial position.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

Estimates and judgements requiring management estimation

The existence of criteria for recognizing provisions and the amounts of provisions are determined based on estimates. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date or transfer to a third party. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, the opinion of external experts. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation. In addition to the provisions recognized, there are some off-balance-sheet contingent liabilities for which the future potential outcome (timing, costs) cannot be estimated reliably.

The most significant provisions in the consolidated statement of financial position relate to environmental liabilities. Environmental provisions are based on management's best estimate of remediation costs. The restructuring provision is recognized when the Group has prepared a detailed restructuring plan and published it.

	Environmental provisions	Provision to return emission allowances	Other provisions	Total
BS On 1 January 2017	50	2	1	53
Additions	12	0	1	12
Amounts used during the period	–7	–2	0	–9
Reversed unused provisions	–1	0	0	–1
BS On 31 December 2017	54	0	1	55

BS

	Environmental provisionst	Provision to return emission allowances	Other provisions	Total
On 1 January 2016	36	0	3	39
Additions	15	2	0	17
Amounts used during the period	–1	0	–3	–4
Reversed unused provisions	0	0	0	0
BS On 31 December 2016	50	2	1	53

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 20.3 million tons emission allowances for the period 2013–2020. 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 2017 there was no estimated obligation to purchase emission allowances in the balance sheet of Neste (2016: provision EUR 2 million). The actual amount of CO_2 emissions in 2017 were 3.4 million tons (2016: 3.2 million tons). The Group has traded emission allowances for net amount of 0.8 million tons during the financial period ended 31 December 2017 (2016: 0.3 million tons).

26 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 and Switzerland. The largest plans are in Finland, which account for 97% (2016: 96%) of the Group's total defined benefit pension obligation and 98% of the Group's total plan assets. The voluntary pension plan in Finland accounting for most of this has been closed since 1 January 1994. The insured supplementary pension scheme consists of defined benefit group pension insurances, which are very similar in structure, with the exception of retirement age and pension accrual rules

Other long-term employee benefits are long-service remunerations, which are accounted for as an unfunded defined benefit plan in accordance to IAS 19.

Characteristics of the post-employment defined benefit plans in Finland

In Finland the Group has a voluntary pension plan for a certain group of employees to fulfill an aggregated benefit after retirement. The voluntary pension plan is managed in an insurance company. There was a pension reform in Finland starting 1 January 2017. The Group did not compensate the changes in a majority of the defined benefit pension plans and thus the benefits of the plan did not change significantly due to the reform.

The voluntary plan's benefit is based on the aggregated benefits determined by the insurance contract. The voluntary benefit is the difference between aggregated benefits and compulsory benefits calculated at the age 63 in the old age plan. The aggregated benefits are at most 60% or 66% of the supplementary pension salary depending on the plan. The supplementary pension salary is calculated based on the last 10 years' salaries prior to the pension event adjusted by the index level. The benefits in the plans are old age and disability pensions, survivors' pensions for widows and children, and funeral grants. Old-age pension ages are 60, 62 and 65 years. In some pension schemes the pension cover also includes the right to early old-age pension retirement ages.

The insurance company collects premiums on yearly basis from the employer. The future premiums are adjusted so that the old-age pension will be fully funded until retirement. The disability and survivor's pension are also financed by risk premiums collected during the employment period. The premiums with fixed discount rate 1.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees the same interest yield to the assets in the plan, as the one they have used in calculating the premiums.

The employer finances the index-linkage by paying an additional premium covering the index increase during the year. Discretionary bonuses from the insurance company will lower the index premium. The insurance company decides the amount of the bonus annually.

The Group has insured the benefits index increases each year as the benefits have been increased. If the insurance company's granted bonus index does not cover the annual index increase, the insurance company collects a premium from the employer to cover the increase. The insurance company's bonus index varies on yearly basis.

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	2017	2016
Service cost	9	8
Net interest (+expense/–income)	2	2
Remeasurements related to other long-term remunerations	0	1
Defined benefit cost recognized in the consolidated statement of income	11	11

Remeasurements of defined benefit plans	2017	2016
Actuarial gains/losses:		
Changes in demographic assumptions	–1	1
Changes in financial assumptions	4	–63
Return on plan assets, excluding amounts included in net interest expense	–9	32
Experience adjustments	7	4
Total remeasurements recognized in other comprehensive income	2	–27

Amounts recognized in the consolidated statement of financial position	2017	2016
Present value of funded defined benefit obligations	493	508
Present value of unfunded defined benefit obligations	9	8
Fair value of plan assets	–370	–381
BS Net defined benefit liability	131	136

Changes in fair value of plan assets	2017	2016
January 1	381	346
Interest income	5	7
Return on plan assets (excluding amounts included in net interest expense)	–9	32
Employer contributions	14	15
Benefits paid	–20	–19
December 31	370	381

BS

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	2017		2016	
	Funded	Unfunded	Funded	Unfunded
January 1	508	8	451	8
Current service cost	8	1	7	1
Interest cost	7	0	9	0
Actuarial gains (–)/ losses (+)	–11	0	58	1
Settlements	0	0	–1	0
Benefits paid	–19	–1	–17	–1
December 31	493	9	508	8

The expected contributions to be paid to the defined benefit plans in 2018 are EUR 13 million.

Significant actuarial assumptions (presented as weighted average)	2017	2016
Discount rate, %		
Finland	1.43%	1.37%
Other countries	0.96%	0.96%
Future salary increase, %		
Finland	3.0%	3.0%
Other countries	2.0%	2.0%
Insurance company's bonus index, %		
Finland	0.0%	0.0%
Other countries	0.0%	0.0%
Future benefit increase, %		
Finland	1.8%	1.8%
Other countries	0.0%	0.0%

Sensitivity analysis of significant actuarial assumptions

Reasonably possible changes at the reporting date to one of the weighted principal assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation as shown below:

			Impact on the defined benefit pension obligation	
Assumptions	Change in assumption		2017	2016
Discount rate				
	0.50% increase	EUR million	–34	–36
	0.50% decrease	EUR million	36	38
Future salary increase				
	0.50% increase	EUR million	9	10
	0.50% decrease	EUR million	–9	–10
Future benefit increase				
	0.50% increase	EUR million	29	30
	0.50% decrease	EUR million	–28	–29

- 0.50% increase/decrease in the discount rate would lead to a decrease/increase of 6.6%/7.0% in the defined benefit obligation.
- 0.50% increase/decrease in the rate of salary increase would lead to a increase/decrease of 1.8%/1.7% in the defined benefit obligation.
- 0.50% increase/decrease in the rate of pension index would lead to a increase/decrease of 5.8%/5.5% 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	2017
Within the next 12 months	21
Between 1 and 5 years	89
Between 5 and 10 years	99
Beyond 10 years	264
Total	473

The average duration of the defined benefit pension obligation at the end of the reporting period is 13 years.

27 Share-based payments

Accounting policy

The share-based incentive plans are accounted for as a share-based transaction. The portion of the earned reward for which the participants will receive shares is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants, is accounted for as a cash settled transaction. The earned reward is entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the consolidated statement of income are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The equity-settled part is measured at fair value prevailing at grant date. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the consolidated statement of income.

The aim of all of the Company's share-based long-term incentives plans is to align the objectives of the company's owners and key personnel to increase the company's value and to commit key personnel to the company through an incentive system based on ownership of Group's shares. The Board annually selects the members of Group's senior management and other key personnel entitled to participate in the long-term incentive plans.

Share-based incentive plan as of 1 January 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. The third plan will start in 2018. Any possible payments will be made partly in Company shares and partly in cash in 2019, 2020, and 2021. The proportion to be paid in cash will cover taxes and other tax-related costs.

The Board of Directors have decided on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each on-going earning period. The earning criteria for the earning periods 2016–2017, 2017–2019 and 2018–2020 are the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to STOXX Europe 600 index (25%). In plan 2016–2018 the target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be around 40% of individuals' annual fixed salary. In plan 2017–2019 and 2018–2020 the target long-term incentive for the President & CEO and the other members of the NEB is around 30% of individuals' annual fixed salary. The maximum long-term incentive for the President & CEO will be 100% of his annual fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on earnings under the long-term incentive program together with the incentive paid on the annual short-term program, may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The lenght of this period will be three years in the 2016–2018 plan. In 2017–2019 and 2018–2020 plan the restriction period will be one year.

There is Ownership requirement for all participants for shares earned from the long-term incentive plans. For NEB, reward shares must be held until ownership exceeds 100% of annual gross base salary. For others, reward shares must be held until ownership exceeds 50% of annual gross base salary.

Share-based incentive plan as of 1 January 2013

The Board of Directors decided on 13 December 2012 to establish a long-term share-based incentive plan for the Group's senior management and nominated key personnel.

The plan includes three individual share plans, each with a three-year earning period. The share plans have started in 2013, 2014, and 2015. The Board of Directors have decided on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period and for the entire earning period. The earning criteria for the earning period 2013–2015 are the Group's comparable free cash flow (75%) and the comparable operating profit of Renewable Products (25%). The earning criteria for the earning periods 2014–2016 and 2015–2017 is the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to a peer group of 10 oil industry peers (25%). 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 will be three years in respect of the President and CEO and the other members of the NEB, and one year in respect of other participants.

Earnings period of share-based incentive plan 2014–2016 ended 31 December 2016. The earning criteria was met fully resulting in the delivery of shares to the participants in 2017. A gross reward of 167,693 shares equaling to EUR 5.7 million was delivered to the participants. The net amount of shares delivered totaled 73,029 shares and the rest of the reward was paid in cash to cover taxes. The fair value of the share as at delivery date was 33.9 euros. The members of company's Executive Board received a gross reward equaling to 58,513 (2016: 76,768) shares.

Share-based incentive plan as of 1 January 2010

The Board of Directors decided in December 2009 to establish a new share-based incentive plan for the Group's key personnel. The plan has included three three-year earning periods beginning of 2010, 2011 and 2012. Earning period of share-based incentive plan 2011–2013 ended 31 December 2013 and the restriction period for this earning period ended 1 January 2017. The plan 2012–2014 ended 31. December 2014 and the restriuction period will end 1 January 2018.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan:

Plan	Long-Term Incentive Plan 2016		Long-Term Incentive Plan 2013			Plan 2010
Type	Share allocation		Money Allocation			Share Allocation
Instrument	Plan 2017–2019	Plan 2016–2018	Plan 2015–2017	Plan 2014–2016	Plan 2013–2015	Plan 2012–2014
Grant dates	19 Jan 2017	1 Feb 2016	11 Feb 2015	1 Feb 2014	10 Feb 2013	2 Jan 2012
Grant prices, euros	30.18	26.09	–	–	–	6.70
Share price as at grant date, euros	34.22	28.74	–	–	–	8.10
Beginning of earnings period	1 Jan 2017	1 Jan 2016	1 Jan 2015	1 Jan 2014	1 Jan 2013	1 Jan 2012
End of earnings period	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
End of restriction period	31 Mar 2021	30 Apr 2022	31 Mar 2019/ 31 Mar 2021	31 Mar 2018/31 Mar 2020	31 Mar 2017/31 Mar 2019	1 Jan 2018
Changes during the period, share allocation[1]	Shares	Shares				Shares
Outstanding at the beginning of the reporting period, pcs	0	241,062				369,711
Granted during the period	157,648	0				0
Forfeited during the period	1,840	2,320				0
Excercised during the period	0	0				0
Outstanding at the end of the period, pcs	155,808	238,742				369,711
Number of persons at the end of the reporting year	85	89	82	77	10	58
Share price at the end of the reporting period, euros	53.35	53.35	53.35	33.96	26.52	23.28
Estimated rate of realization of the earnings criteria, %	66%	88%	100%	100%	100%	100%
Estimated termination rate before the end of the restriction period, %	10%	10%	0%	0%	0%	0%

[1] Changes during the period, money allocation: 149,481 shares excercised from plan 2013–2015, 883 shares forfeited from plan 2014–2016 and 562 shares forfeited from plan 2015–2017.

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earning period.

The expense included in the income statement is specified in the following table:

	2017	2016
Expense arising from equity-settled share-based payment transactions	3	3
Expense arising from cash-settled share-based payment transactions	5	4
Total expense arising from share-based payment transactions	7	6

The liability recognized in the balance sheet related to share-based payments amounted to EUR 6 million (2016: EUR 5 million). The expense to be recognized during the financial periods 2018–2022 is estimated on 31 December 2017 to amount to EUR 8 million. The actual amount may differ from this estimate.

28 Related party transactions

The Group is controlled by the State of Finland, which owns 50.1% of the company's shares. The remaining 49.9% of shares are widely held.

The Group has a related party relationship with its subsidiaries, joint arrangements (Note 29) and the entities controlled by Neste's controlling shareholder the State of Finland. Related party also includes the members of the Board of Directors, the President and CEO and other members of the Neste Executive Board (key management persons), close members of the families of the mentioned key management persons and entities controlled or jointly controlled by the mentioned key management persons or close members of those persons' families.

Parent company of the Group is Neste Corporation. The transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated during consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions between Neste and other companies controlled by the State of Finland are on an arm's length basis.

Transactions carried out with related parties

2017	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	158	135	81	1	4
Other related parties	33	46	4	0	0
Total	191	182	84	1	4

2016	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	131	95	74	0	8
Other related parties	41	63	8	0	3
Total	173	158	82	0	10

There were no material transactions with key management persons or entities controlled by them.

The major part of business between Neste and its joint ventures becomes from Nynas and Kilpilahti Power Plant Ltd. Transactions with Nynas comprises 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	2017	2016
Salaries and other short-term employee benefits	4,026	3,975
Statutory pensions	660	653
Supplementary pensions	1,682	1,445
Share-based payments	1,996	2,169
Total (Including statutory pensions)	8,364	8,241

Key management consists of President and CEO and other members of the Neste Executive Board. There were no outstanding loan receivables from key management on 31 December 2017 or 31 December 2016.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Managament Performance Share Arrangements have been disclosed in Note 27, Share based payments.

Compensation to President and CEO and members of the Neste Executive Board

	President and CEO		Members of the Neste Executive Board	
EUR thousand	2017	2016	2017	2016
Annual remuneration				
Base salary	667	686	1,973	1,846
Taxable benefits	22	7	107	102
Annual incentive (STI plan)	238	260	594	683
Total annual remuneration	927	953	2,674	2,631
Vested long term remuneration				
Supplementary pension (insurance contributions)	1,191	957	491	488
Share-based incentive plan	597	630	1,399	1,539
Total remuneration	2,715	2,540	4,563	4,657

Compensation to the Board of Directors

EUR thousand	2017	2016
Board of Directors at 31 December 2017		
Jorma Eloranta	77	77
Matti Kähkönen, as of 5 April 2017	47	0
Martina Flöel, as of 5 April 2017	41	0
Laura Raitio	47	46
Jean-Baptiste Renard	54	53
Willem Schoeber	52	59
Marco Wirén	47	47
Former Board members		
Maija-Liisa Friman, until 5 April 2017	14	61
Kirsi Sormunen, until 5 April 2017	10	47
Heike van de Kerkhof, as of 5 April 2017, until 30 November 2017	37	0
Board of Directors, all members total	426	391

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended. Board members are not covered by the company's remuneration systems and do not receive any performance or share related payments.

Should the company decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2017 totaled EUR 1,191 thousand (2016: EUR 957 thousand). Net liability of defined benefit plan on 31 December 2017 was EUR 454 thousand (2016: EUR 862 thousand). Statutory pension insurance contributions in 2017 were EUR 170 thousand (2016: EUR 174 thousand).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2017 were EUR 1,517 thousand (2016: EUR 1,657 thousand).

29 Group companies

Subsidiaries	Group holding %	Country of incorporation
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
Navidom Oy	50.00%	Finland
Neste (Suisse) S.A.	100.00%	Switzerland
Neste AB	100.00%	Sweden
Neste Affiliate B.V.	100.00%	The Netherlands
Neste Canada Inc.	100.00%	Canada
Neste Components B.V.	100.00%	The Netherlands
Neste Eesti AS	100.00%	Estonia
Neste Insurance Limited	100.00%	Guernsey
Neste Jacobs Aktiebolag	100.00%	Sweden
Neste Jacobs AS (new)	100.00%	Norway
Neste Jacobs B.V.	100.00%	The Netherlands
Neste Jacobs Oy	100.00%	Finland
Neste Jacobs Pte. Ltd.	100.00%	Singapore
Neste Markkinointi Oy	100.00%	Finland
Neste N.V.	100.00%	Belgium
Neste Netherlands B.V.	100.00%	The Netherlands
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Singapore Pte. Ltd.	100.00%	Singapore
Neste US, Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
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
NSE Biofuels Oy Ltd	50.00%	Joint Venture	Finland
Nynas AB (publ)	49.99%	Joint Venture	Sweden
Oy Innogas Ab	50.00%	Joint Operation	Finland
Porvoon Alueverkko Oy	33.33%	Joint Operation	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Joint Operation	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Joint Operation	Finland
Vaskiluodon Kalliovarasto Oy	50.00%	Joint Operation	Finland

Specification of financial information on subsidiaries with material non-controlling interests

	Neste Jacobs Oy	Navidom Oy	
	2016	2017	2016
Proportion of shares held by non-controlling interests	40.00%	50.00%	50.00%
Current assets	88	0	0
Non-current assets	7	0	0
Current liabilities	45	0	0
Non-current liabilities	0	0	0
Revenue	154	1	1
Profit for the period	9	0	0
Dividends paid to non-controlling interests	1	0	0
Cash flows from operating activities	16	0	0
Cash flows from investing activities	–12	0	0
Cash flows from financing activities	–3	0	0

Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs.

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 is involved and supports the company in different ways and it can be considered that Neste has the possibility to influence the 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 been supplying small and decreasing part of the operating services needed in electricity distribution. 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 influence 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 effective operation of the distribution network.

Consolidated structured entities

Since 2014, Neste has treated the sold vessels' sale-and-leaseback agreements made with Ilmarinen Mutual Pension Insurance Company and Finland's National Emergency Supply Agency as structured entities. As a part of these arrangements, Neste guarantees the vessels' residual value and certain return on the investors' investments.

30 Contingencies and commitments

Contingent liabilities	2017	2016
On own behalf for commitments		
Real estate mortgages	17	17
Pledged assets	116	116
Other contingent liabilities	40	48
Total	174	182
On behalf of joint arrangements		
Pledged assets	45	46
Guarantees	1	1
Total	46	47
On behalf of others		
Guarantees	1	2
Other contingent liabilities	0	0
Total	1	2
	221	230

Operating leases

Total future minimum lease payments under non-cancellable operating leases

Operating lease liabilities	2017	2016
Due within one year	74	79
Due between one and five years	61	80
Due later than five years	71	78
	206	237

The Group's operating lease commitments primarily relate to time charter vessels, land and office space. Lease rental expenses amounted to EUR 121 million (2016: EUR 113 million).

Capital commitments

Commitments	2017	2016
Commitments for purchase of property, plant and equipment	32	26
	32	26

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 2017 are presented in the table below.

Fixed fees payable under take-or-pay contracts	2017	2016
Payable	17	17
Payable after the financial period	132	150
Total payable	149	167

31 Disputes and potential litigations

The previous years' bio mandate disputes were closed favourably for Neste in 2017. In March 2017 the Supreme Administrative Court decided that the penalty fee of 44 million euros paid by Neste in 2014 and received back from the Finnish Customs in August 2015 (based on the decision of the Administrative Court of Helsinki) was levied without justification. In June 2017 the Administrative Court of Helsinki decided that also the penalty payment of 17 million euros levied in 2015 was unjustified and Tax Administration returned the penalty payment to Neste in July 2017 with no intentions to appeal against the decision. The dispute regarding two shippings placed under an export procedure in 2013 was closed favorably for Neste in August 2017. The representative of Finnish state did not appeal against the administrative court about the Finnish Customs' decision not to levy excise tax, interest and additional tax totalling approximately EUR 18 million.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment was charged to the income statement in 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when export outside the EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of the EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste will appeal the case to Administrative Court of Helsinki in 2018.

Neste Shipping is one of the shipping companies party to a dispute concerning refunding of fairway dues. The District Court of Helsinki awarded in February 2015 Neste Shipping approximately EUR 23 million from the State of Finland as a refund for unjustifiably collected fairway dues for 2001–2004. The State of Finland appealed the ruling of the District Court to the Court of Appeals which ruled in favor of the State of Finland and repealed the ruling of the District Court in August 2016. Thereafter, the shipping companies (including Neste Shipping) asked for a leave to appeal the case to the Supreme Court, and one of the shipping companies was granted such leave to appeal. As the Supreme Court did not, in its ruling in December 2017, change the outcome of the ruling of the Court of Appeals, Neste Shipping's leave to appeal will in all likelihood not result in the change of the outcome of the ruling of the Court of Appeals.

Neste is currently engaged in arbitration with its joint arrangement's co-shareholders and considers the co-owners' claims unfounded. Neste has made counterclaims and the management estimates that the case will be solved in 2019.

Neste Oil Bahrain W.L.L. has in January 2018 become aware of claim by the Bahraini Ministry of Finance concerning an initial payment and certain other demands relating to an alleged income tax liability. The company considers the claim to be without merit and it will defend itself in competent courts.

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.

32 Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.

Parent Company Income Statement

MEUR	Note	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Revenue	2	7,595	6,429
Change in product inventories		18	59
Other operating income	3	15	58
Materials and services	4	–6,397	–5,459
Personnel expenses	5	–207	–197
Depreciation, amortization and write-downs	6	–185	–179
Other operating expenses	7	–306	–278
Operating profit/loss		533	433
Financial income and expenses	8	–47	112
Profit/loss before appropriations and taxes		486	545
Appropriations	9	252	84
Income tax expense	10	–143	–95
Profit for the year		595	534

Parent Company Balance Sheet

MEUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Fixed assets and other long-term investments	11, 12		
Intangible assets		78	64
Tangible assets		1,914	1,804
Other long-term investments		2,122	2,096
		4,114	3,964
Current assets			
Inventories	13	788	747
Long-term receivables	14	4	19
Short-term receivables	15	1,403	1,041
Cash and cash equivalents		705	727
		2,900	2,533
Total assets		7,013	6,497
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Share capital		40	40
Other reverses		26	–15
Retained earnings		1,352	1,151
Profit for the year		595	534
		2,013	1,710
Accumulated appropriations	17	979	925
Provisions for liabilities and charges	18	2	5
Liabilities	19		
Long-term liabilities		1,034	1,114
Short-term liabilities		2,985	2,742
		4,019	3,856
Total equity and liabilities		7,013	6,497

Parent Company Cash Flow Statement

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from operating activities		
Profit/loss before approriations and taxes	486	545
Depreciation, amortization and write-downs	185	179
Other non-cash income and expenses	–83	61
Financial income and expenses	47	–112
Divesting activities, net	–3	–28
Operating cash flow before change in working capital	632	645
Change in working capital		
Decrease (+)/increase (–) in interest-free receivables	–161	–223
Decrease (+)/increase (–) in inventories	–41	–185
Decrease (–)/increase (+) in interest-free liabilities	533	196
Change in working capital	331	–213
Cash generated from operations	963	433
Interest and other financial expenses paid, net	–62	–50
Dividends received	26	164
Income taxes paid	–121	–93
Realized foreign exchange gains and losses	0	13
Net cash from operating activities	805	467
Cash flows from investing activities		
Capital expenditure	–310	–263
Proceeds from sale of fixed assets	4	12
Investments in shares in subsidiaries	–27	0
Investments in shares in other shares	0	0
Proceeds from shares in subsidiaries	0	404
Procedds from other shares	0	12
Change in other investments, increase (–)/decrease (+)	31	–83
Net cash used in investing activities	–302	83
Cash flow before financing activities	504	550

MEUR	1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Cash flows from financing activities		
Sale of treasury shares	0	0
Proceeds from long-term liabilities	399	150
Payments of long-term liabilities	–681	–377
Change in short-term liabilities	10	–99
Dividends paid	–332	–256
Group contributions, net	79	202
Cash flow from financing activities	–526	–379
Net increase (+)/decrease (–) in cash and cash equivalents	–23	170
Cash and cash equivalents at the beginning of the period	727	557
Cash and cash equivalents at the end of the period	705	727
Net increase (+)/decrease (–) in cash and cash equivalents	–23	170

Notes to the Parent Company Financial Statements

1 Accounting Policies

The financial statements of Neste Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

Revenue

Revenue include sales revenues from actual operations less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged.

Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

Financial assets and liabilities

Financial instruments are valued at fair value according alternative method of the Finnish Accounting act article 5.2a §. Loans and receivables and other financial liabilities are recognized at amortized cost. Available for sale financial assets include non-listed shares, which are at amortized cost.

Loans and receivables consist of cash and cash equivalents, loans granted together with trade and other receivables. Other financial liabilities include interest bearing liabilities together with trade and other payables.

Derivatives without hedge accounting status are recognized to profit and loss. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Derivatives are recognized on the trade date at fair value and other financial assets on the settlement date. Later derivatives are re-measureded at their fair value each reporting date and any subsequent change is recognized at profit and loss if hedge accounting is not used.

Derivative financial instruments

The company uses derivative financial instruments mainly to hedge commodity price, foreign exchange and interest rate exposures.

Derivatives without hedge accounting are recognized in the income statement in operating profit material and services or alternatively in financial income and expenses if they are relate to financial activities.

Hedge accounting

The company applies hedge accounting on certain forward foreign exchange contracts, options and interest rate derivatives.

Cash flow hedges

The company applies cash flow hedge accounting to reduce exposure of currency and interest rates. Currency derivative contracts hedging future currency cash flows and qualifying for hedge accounting are booked once matured and the underlying exposure occurs. Gains or losses for interest rate swaps derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

Fair value hedges

The company applies fair value hedge accounting to reduce exposure to fair value fluctuations of interest-bearing liabilities due to changes in interest rates. Changes in fair value of derivatives designated and qualifying as fair value hedges, together with any changes in the fair value of hedged liabilities attiributable to the hedged risk, are recognized in financial income and expenses.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated.

The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 years

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

Research and development

Research expenditure is recognized as an expense as incurred and included in other operating expences in the income statement. Expenditure on development activities is capitalized only when it fulfills tight criteria e.g. development relates to new products that are technically 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	2017	2016
Oil Products	7,529	6,376
Renewable Products	4	1
Marketing & Services	0	0
Other	62	129
Eliminations	0	–76
	7,595	6,429

Revenue by market area	2017	2016
Finland	3,305	2,931
Other Nordic countries	713	671
Baltic countries, Russia and Poland	506	472
Other European countries	2,934	1,752
North and South America	2	475
Other countries	134	127
	7,595	6,429

3 Other operating income

	2017	2016
Rental income	9	24
Gain on sale of intangible and tangible assets	3	15
Gain on sale of shares	0	12
Insurance compensations	0	5
Government grants	1	1
Other	2	0
	15	58

4 Materials and services

	2017	2016
Materials and supplies		
Purchases during the period	6,412	5,571
Change in inventories	–24	–121
	6,389	5,450
External services	9	9
	6,397	5,459

5 Personnel expenses

	2017	2016
Wages, salaries and remunerations	163	150
Indirect employee costs		
Pension costs	39	36
Other indirect employee costs	7	13
Wages and salaries capitalized in fixed assets	–3	–3
	207	197

Salaries and remuneration

Key management compensations are presented in Note 28 in the Neste Group consolidated financial statements.

Average number of employees	2017	2016
White-collar	1,393	1,303
Blue-collar	1,031	1,000
	2,424	2,303

6 Depreciation, amortization and write-downs

	2017	2016
Depreciation according to plan	183	173
Write-offs	3	6
Write-offs of fixed assets in progress	–1	0
	185	179

7 Other operating expenses

	2017	2016
Operating leases and other property costs	23	17
Repairs and maintenance	132	109
Other	151	152
	306	278

Fees charged by the statutory auditor, PricewaterhouseCoopers

EUR thousands	2017	2016
Audit fees	664	339
Tax advisory	28	20
Other advisory services	238	207
	930	566

8 Financial income and expenses

	2017	2016
Dividend income		
From Group companies	26	163
From associated companies	0	0
From others	0	0
Dividend income total	26	164
Interest income from long-term loans and receivables		
From Group companies	4	2
From others	1	0
Interest income from long-term loans and receivables total	5	3
Other interest and financial income		
From Group companies	0	0
Other	–1	0
Other interest and financial income total	–1	1
Write-downs on long-term investments	0	0
Interest expenses and other financial expenses		
To Group companies	–2	–1
Other	–62	–50
Interest expenses and other financial expenses totalä	–63	–51
Exchange rate differences	–16	–4
Financial income and expenses total	–47	112

Total interest income and expenses	2017	2016
Interest income	6	3
Interest expenses	–26	–46
Net interest expenses	–19	–43

9 Appropriations

Change in depreciation difference	2017	2016
Difference between depreciation according to plan and depreciation in taxation	–53	5
Group contributions		
Group contributions received	305	79
Appropriations total	305	79
Appropriations total	252	84

10 Income tax expense

	2017	2016
Income taxes on regular business operations	143	95
Taxes for prior periods	0	0
Change in deferred tax assets	0	0
	143	95

11 Fixed assets and long-term investments

Change in acquisition cost 2017

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2017	1	151	152
Increases	0	27	27
Decreases	0	–1	–1
Transfers between items	0	0	0
Acquisition cost as of 31 December 2017	1	178	178
Accumulated amortization and write-downs as of 1 January 2017	1	87	88
Accumulated amortization and write-downs of decreases and transfers	0	–1	–1
Amortization for the period	0	13	13
Accumulated amortization and write-downs as of 31 December 2017	1	100	101
Balance sheet value as of 31 December 2017	0	78	78

Change in acquisition cost 2016

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2016	1	127	128
Increases	0	26	26
Decreases	0	–2	–2
Transfers between items	0	0	0
Acquisition cost as of 31 December 2016	1	151	152
Accumulated amortization and write-downs as of 1 January 2016	1	81	82
Accumulated amortization and write-downs of decreases and transfers	0	–2	–2
Amortization for the period	0	8	8
Accumulated amortization and write-downs as of 31 December 2016	1	87	88
Balance sheet value as of 31 December 2016	0	64	64

Change in acquisition cost 2017

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2017	26	1,164	2,442	119	260	4,011
Increases	0	51	359	2	287	699
Decreases	0	–8	–19	–4	–418	–450
Transfers between items	0	0	26	–26	0	0
Acquisition cost as of 31 December 2017	26	1,206	2,809	90	129	4,260
Accumulated depreciation and write-downs as of 1 January 2017	0	600	1,587	47	0	2,234
Accumulated depreciation and write-downs of decreases and transfers	0	–8	–14	–9	0	–31
Depreciation and write downs for the period	0	33	135	2	0	171
Accumulated depreciation and write-downs as of 31 December 2017	0	626	1,708	39	0	2,374
Revaluations	6	21	0	0	0	0
Balance sheet value as of 31 December 2017	31	602	1,101	51	129	1,914
Balance sheet value of machinery and equipments used in production						1,101

Change in acquisition cost 2016

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2016	25	1,193	2,494	108	136	3,957
Increases	0	28	57	20	138	242
Decreases	0	–37	–128	–9	–14	–189
Transfers between items	0	–19	19	0	0	0
Acquisition cost as of 31 December 2016	26	1,164	2,442	119	260	4,011
Accumulated depreciation and write-downs as of 1 January 2016	0	591	1,577	42	0	2,209
Accumulated depreciation and write-downs of decreases and transfers	0	–23	–114	–9	0	–146
Depreciation and write downs for the period	0	32	123	15	0	170
Accumulated depreciation and write-downs as of 31 December 2016	0	600	1,587	47	0	2,234
Revaluations	6	22	0	0	0	28
Balance sheet value as of 31 December 2016	31	586	856	71	260	1,804
Balance sheet value of machinery and equipments used in production						856

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2017	1,973	73	0	46	3	0	2,096
Increases	27	0	3	0	0	0	30
Decreases	0	–1	0	–3	0	0	–4
Acquisition cost as of 31 December 2017	2,000	72	3	43	3	0	2,122
Accumulated depreciation and write-downs as of 1 January 2017	0	0	0	0	0	0	0
Accumulated depreciation and write-downs as of 31 December 2017	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2017	2,000	72	3	43	3	0	2,122

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2016	2,377	1	0	0	4	0	2,382
Increases	0	73	0	46	0	0	119
Decreases	–404	–1	0	0	0	0	–406
Transfers between items	0	0	0	0	0	0	0
Acquisition cost as of 31 December 2016	1,973	73	0	46	3	0	2,096
Accumulated depreciation, amortization and write-downs as of 1 January 2016	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2016	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2016	1,973	73	0	46	3	0	2,096

Interest-bearing and interest-free receivables	2017	2016
Interest-bearing receivables	114	119
Interest-free receivables	0	0
	115	119

12 Revaluations

	Revaluations as of Jan 1 2017	Increases	Decreases	Revaluations as of Dec 31 2017
Land areas	6	0	0	6
Buildings	22	0	0	21
Total	28	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

	2017	2016
Raw materials and supplies	396	372
Products/finished goods	386	367
Advance payments on inventories	6	7
	788	747
Replacement value of inventories	796	758
Book value of inventories	788	747
Difference	8	11

14 Long-term receivables

	2017	2016
Long-term advance payments	1	2
Receivables from Group companies		
Other long-term receivables	4	9
Deferred tax assets	0	8
	4	19

15 Short-term receivables

	2017	2016
Trade receivables	337	345
Receivables from Group companies		
Trade receivables	386	289
Other receivables	458	134
Accrued income and prepaid expenses	59	91
Total	902	513
Receivables from associated companies		
Trade receivables	28	27
Other receivables	1	0
Total	29	27
Other receivables	44	84
Accrued income and prepaid expenses	90	72
	1,403	1,041

Short-term accrued income and prepaid expenses	2017	2016
Accrued interest	1	2
Derivative financial instruments	156	151
Other	8	10
	164	163

16 Changes in shareholders' equity

	2017	2016
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Fair value reserve at 1 January	–22	–5
Increases	1,585	4
Decreases	–1,547	–22
Fair value reserve at 31 December	15	–22
Invested non-restricted equity fund at 1 January	8	5
Transfer of treasury shares	2	3
Invested non-restricted equity fund at 31 December	10	8
Retained earnings at 1 January	1,685	1,406
Dividends paid	–332	–256
Profit for the year	595	534
Retained earnings at 31 December	1,947	1,685
Capitalized development expenditure	–10	0
Distributable equity	1,948	1,670

17 Accumulated appropriations

	2017	2016
Depreciation difference	979	925

18 Provisions for liabilities and charges

	2017				2016			
	Restructuring provisions	Provision for environment	Liability to return emission rights	Total	Restructuring provisions	Provision for environment	Liability to return emission rights	Total
Provisions as of 1 January	0	3	2	5	3	2	0	5
Increase	0	0	0	0	0	1	2	3
Decrease	0	1	2	3	3	0	0	3
Provisions as of 31 December	0	2	0	2	0	3	2	5

19 Liabilities

Long-term liabilities	2017	2016
Bonds	867	954
Advanced payments	8	1
Liabilities to Group companies		
Other long-term liabilities	150	150
Deferred tax liabilities	2	
Other long-term liabilities	3	3
Accruals and deferred income	4	5
	1,034	1,114

Interest- bearing liabilities due after five years	2017	2016
Bonds	719	497

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 900 million (2016: EUR 1,261 million) of which EUR 900 million belong to level 1. The fair values of other non-current liabilities are not materially different from their carrying amounts.

Short-term liabilities	2017	2016
Bonds	50	250
Loans from financial institutions	0	0
Advances received	0	0
Trade payables	797	667
Liabilities to Group companies		
Advances received	0	0
Trade payables	89	43
Other short-term liabilities	1,504	1,138
Accruals and deferred income	35	45
Total	1,627	1,226
Liabilities to associated companies		
Other short-term liabilities	4	0
Total	4	0
Other short-term liabilities	347	338
Accruals and deferred income	160	260
	2,985	2,742

The fair values of current interest-free liabilities are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. The fair value of the bonds was EUR 50 million (2016: EUR 252 million) of which EUR 50 million belong to fair value hierarchy level 2. The fair values of other current liabilities are not materially different from their carrying amounts.

Short-term accruals and deferred income	2017	2016
Salaries and indirect employee costs	50	53
Accrued interests	11	21
Accrued taxes	31	9
Derivative financial instruments	117	222
Other short-term accruals and deferred income	1	0
	210	306

Interest-bearing and interest-free liabilities	2017	2016
Long-term liabilities		
Interest-bearing liabilities	1,020	1,099
Interest-free liabilities	15	16
	1,034	1,114
Short-term liabilities		
Interest-bearing liabilities	1,490	1,365
Interest-free liabilities	1,480	1,377
	2,970	2,742

Listed bond issues

Issue/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2012/2019	Fixed	4.0000	4.0780	EUR	147	149
2015/2022	Fixed	2.1250	2.2080	EUR	321	319
2017/2024	Fixed	1.5000	1.5080	EUR	400	399
Total outstanding carrying amount 31 December 2017						867

In addition Private Placement (2011/2018) of EUR 50 with floating interest

20 Contingent liabilities

Contingent liabilities	2017	2016
Operating lease liabilities		
Due within a year	3	3
Due after a year	3	3
	6	6
Contingent liabilities given on own behalf		
Real estate mortgages	17	17
Pledged assets	0	0
Other contingent liabilities	21	18
	38	35
Contingent liabilities given on behalf of Group companies		
Guarantees	105	94
	105	94
Contingent liabilities given on behalf of associated companies		
Guarantees	1	1
	1	1
Contingent liabilities given on behalf of others		
Guarantees	1	2
	1	2
Contingent liabilities total	150	137

21 Derivative financial instruments

Nominal values of interest rate and currency derivative contracts	2017			2016		
	Remaining maturities			Remaining maturities		
	< 1 year	1–2 years	Total	< 1 year	1–3 years	Total
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps[1]	50	0	50	0	50	50
Forward foreign exchange contracts	518	0	518	967	0	967
Currency options						
– Purchased	120	0	120	178	0	178
– Written	120	0	120	178	0	178
	808	0	808	1,323	50	1,373
Derivative financial instruments designated as fair value hedges						
Interest rate swaps[1]	0	74	74	100	200	300
	0	74	74	100	200	300
Non-hedge accounting derivative financial instruments						
Interest rate swaps[1]	0	26	26	0	0	0
Forward foreign exchange contracts	1,830	0	1,830	1,119	0	1,119
Intra-group forward foreign exchange contracts	574	0	574	467	0	467
Currency options						
– Purchased	219	0	219	0	0	0
– Written	219	0	219	0	0	0
Intra-group currency options						
– Purchased	219	0	219	210	0	210
– Written	219	0	219	210	0	210
	3,280	26	3,306	2,006	0	2,006

[1] Interest rate swaps mature in 2 years.

Volumes of commodity derivative contracts	**2017**			**2016**		
	Volume million bbl			**Volume million bbl**		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives[2)]						
Futures and forwards						
– Sales contracts	17	0	17	28	0	29
– Purchase contracts	16	0	16	19	0	19
Intra-group Futures and forwards						
– Sales contracts	15	0	15	15	0	15
– Purchase contracts	15	0	15	16	0	17
	63	0	63	78	2	80

	Volume GWh			**Volume GWh**		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting electricity and gas derivative contracts						
Futures and forwards						
– Sales contracts	0	0	0	0	0	0
– Purchase contracts	1,981	884	2,865	1,716	665	2,381
Intra-group Futures and forwards						
– Sales contracts	832	372	1,204	765	196	961
– Purchase contracts	0	0	0	0	0	0
	2,813	1,256	4,069	2,481	861	3,342

[2)] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

Fair values of derivative financial instruments

Interest rate and currency derivative contracts	**Fair value 2017**				**Fair value 2016**			
	Positive		Negative		Positive		Negative	
	< 1 year	1–2 years	< 1 year	1–2 years	< 1 year	1–3 years	< 1 year	1–3 years
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps[1)]	0	0	1	0	0	0	0	2
Forward foreign exchange contracts	17	0	0	0	0	0	15	0
Currency options								
– Purchased	2	0	0	0	1	0	3	0
– Written	1	0	0	0	5	0	8	0
	20	0	1	0	6	0	32	2
Derivative financial instruments designated as fair value hedges								
Interest rate swaps[1)]	0	2	0	0	0	8	0	0
	0	2	0	0	0	8	0	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps[1)]	0	1	0	0	0	0	0	0
Forward foreign exchange contracts	35	0	0	0	0	0	15	0
Intra-group forward foreign exchange contracts	1	0	12	0	11	0	1	0
Currency options								
– Purchased	1	0	1	0	1	0	3	0
– Written	2	0	0	0	0	0	8	0
Intra-group currency options								
– Purchased	0	0	1	0	0	0	1	0
– Written	0	0	2	0	5	0	0	0
	39	1	16	0	17	0	28	0

[1)] Interest rate swaps mature in 2 years.

Commodity derivative contracts	Fair value 2017 Positive < 1 year	Fair value 2017 Positive 1–3 years	Fair value 2017 Negative < 1 year	Fair value 2017 Negative 1–3 years	Fair value 2016 Positive < 1 year	Fair value 2016 Positive 1–3 years	Fair value 2016 Negative < 1 year	Fair value 2016 Negative 1–3 years
Non-hedge accounting commodity derivative contracts[2)]								
Futures and forwards								
– Sales contracts	5	0	60	0	10	0	91	0
– Purchase contracts	28	1	14	0	43	1	22	0
Intra-group Futures and forwards								
– Sales contracts	14	0	21	0	14	0	36	0
– Purchase contracts	49	0	5	0	60	0	10	0
	96	1	100	0	127	1	159	0

[2)] Commodity derivative contracts with non-hedge accounting status include oil, vegetable oil, electricity and gas derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

Balance sheet reconciliation	2017 Assets Current	2017 Assets Non-current	2017 Liabilities Current	2017 Liabilities Non-current	2016 Assets Current	2016 Assets Non-current	2016 Liabilities Current	2016 Liabilities Non-current
Derivative financial instruments	156	4	117	0	151	9	219	3

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	**2017**				**2016**			
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments								
Interest rate derivatives	0	3	0	3	0	8	0	8
Currency derivatives	0	0	0	0	0	0	0	0
Commodity derivatives	0	1	0	1	0	1	0	1
Non-current available-for-sale financial assets	0	0	5	5	0	0	5	5
Current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	0	0	0
Currency derivatives	0	59	0	59	0	7	0	7
Commodity derivatives	7	89	0	96	25	102	0	127
Financial liabilities								
Non-current derivative financial instruments								
Interest rate derivatives	0	0	0	0	0	2	0	2
Currency derivatives	0	0	0	0	0	0	0	0
Commodity derivatives	0	0	0	0	0	0	0	0
Current derivative financial instruments								
Interest rate derivatives	0	1	0	1	0	0	0	0
Currency derivatives	0	14	0	14	0	58	0	58
Commodity derivatives	13	87	0	100	58	101	0	159

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierachy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assests or liability, either directly (i.e. as prices) or indirectly (i.e derived from prices)

Level 3: inputs for the assets or liablity that is not based on obervable market data (unobservable inputs).

22 Other contingent liabilities

Real estate investments

The Company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10 years control period.

23 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2017 EUR thousands
Subsidiary shares				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	36,725
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Navidom Oy	Finland	50	50.00	1
Neste Eesti AS	Estonia	10,000	100.00	5,927
Neste Jacobs Oy	Finland	2,100	100.00	27,780
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste AB	Sweden	2,000,000	100.00	23,972
Neste Components B.V.	Netherlands	40	100.00	8,022
Neste Affiliate B.V.	Netherlands	26,090	100.00	19,177
Neste Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste N.V.	Belgium	4,405,414	99.99	13,753
Neste (Suisse) S.A.	Switzerland	200	100.00	62
Neste US, Inc.	USA	1,000	100.00	19,528
Neste Renewable Fuels Oy	Finland	200	100.00	1,676,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,000,194
Associated companies				
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Kilpilahti Powerplant Ltd.	Finland	20,000	40.00	3,351
Neste Arabia Co. Ltd.	Saudi Arabia	480	48.00	0
Porvoon Alueverkko Oy	Finland	40	33.33	7
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	5
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	7
				3,494

Other shares and holdings

CLEEN Oy	Finland	100	100
East Office of Finnish Industries Oy	Finland	1	10
Kiinteistö Oy Anttilankaari 8	Finland	51	545
Kiinteistö Oy Himoksen Aurinkopaikka	Finland	51	457
Kiinteistö Oy Katinkullan Hiekkaniemi	Finland	102	903
Kiinteistö Oy Katinkultaniemi	Finland	51	398
Kiinteistö Oy Kuusamon Tähti 1	Finland	51	457
Kiinteistö Oy Laavutieva	Finland	51	311
Kiinteistö Oy Lapinniemi & Osakeyhtiö Lapinniemi	Finland	24	125
Posintra Oy	Finland	190	34
			3,340

Telephone shares

Elisa Oyj	Finland	1	0
Pietarsaaren Seudun Puhelin Oy	Finland	3	1
Osuuskunta PPO	Finland	1	0
Savonlinnan Puhelinosuuskunta SPY	Finland	1	1
			2
Connection fees			63
Total			2,007,093

24 Disputes and potential litigations

The previous years' bio mandate disputes were closed favourably for Neste in 2017. In March 2017 the Supreme Administrative Court decided that the penalty fee of 44 million euros paid by Neste in 2014 and received back from the Finnish Customs in August 2015 (based on the decision of the Administrative Court of Helsinki) was levied without justification. In June 2017 the Administrative Court of Helsinki decided that also the penalty payment of 17 million euros levied in 2015 was unjustified and Tax Administration returned the penalty payment to Neste in July 2017 with no intentions to appeal against the decision. Dispute regarding two shippings placed under an export procedure in 2013 was closed favorably for Neste in August 2017. The representative of Finnish state did not appeal against the administrative court about the Finnish Customs' decision not to levy excise tax, interest and additional tax totalling approximately EUR 18 million.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment was charged to the income statement in 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when export outside the EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of the EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste will appeal the case to Administrative Court of Helsinki in 2018.

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 2017 stood at EUR 1,948 million. The Board of proposes Neste Corporation to pay a dividend of EUR 1.70 per share for 2017, totalling EUR 435 million, and that any remaining ditributable funds be allocated to retained earnings.

Espoo, 6 February 2018

Jorma Eloranta

Martina Flöel

Laura Raitio

Matti Kähkönen

Willem Schoeber

Marco Wirén

Jean-Baptiste Renard

Matti Lievonen
President and CEO

Helsinki, 6 February 2018

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 2017. 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.

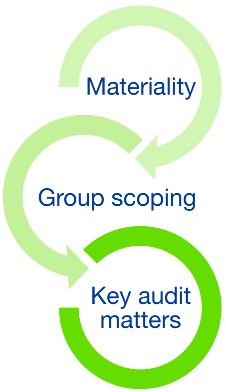
Independence

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: € 50 million (previous year € 40 million)

Audit scope

- The scope of our group audit has encompassed all significant refineries, as well as selected sales companies.

Key audit matters

- Timing of revenue recognition
- The valuation of inventories
- System environment and internal controls
- Disputes and potential litigations
- Biofuel credits in the USA

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 50 million (previous year € 40 million)
How we determined it	Approximately 5% of profit before tax (previous year approximately 4% of profit before tax)
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The scope included the refineries and operations in Finland, Switzerland, Singapore, the Netherlands, Sweden and the USA, covering the most significant companies in the Renewable products, Oil products and Marketing & Services segments. We obtained, through our audit procedures at the aforementioned reporting units, combined with additional procedures at the Group level, sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Timing of revenue recognition Refer to note 5 in the financial statements The group has several different revenue streams, under the Renewable Products, Oil Products, and Marketing & Services segments. In both the Renewable Products and Oil Products segments, the company has deliveries, which can be considered individually significant. We consider there to be a risk of misstatement of the financial statements related to transactions occurring close to the year-end, as transactions could be recorded in the wrong financial period (cut-off). The Marketing & Services segment's revenues consist of several small transactions, with short payment terms, low complexity and significant automation, therefore resulting in a lower risk related to cut-off. Accordingly, we focused our work on cut-off in the Renewable Products and Oil Products segments. This matter is a significant risk of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014.	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 19 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. The calculations are complex and include inputs from a variety of different sources, introducing a risk of error. Accordingly, we focused on the appropriate valuation of inventory as part of our audit. 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. Renewable Products 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. Oil Products The cost of inventory in the Oil Products reflects purchase prices, which are impacted by the market prices of crude oil, and the cost of refining. The net realizable value of the inventory is affected by the market prices of refined products such as gasoline and diesel, as well as by crude oil prices.	Inventories are valued at the lower of cost or net realizable value. The valuation of inventory at cost is determined based on the assumption that goods are sold on in the same order in which they were purchased (the FIFO principle). Renewable Products We compared the cost of raw materials and pre-treated products to purchase invoices, verifying the application of the FIFO principle and application of the appropriate purchase prices. We tested the cost of the finished products by tracing the purchase cost of the used raw materials to purchase invoices. We also verified that the capitalised production costs were based on actual refining costs and thereby appropriate. Our testing of the net realizable value covered raw materials, pre-treated products and finished products. We compared raw materials and pre-treated products to relevant market prices where such exist. Where no readily available market price could be found, we performed a compound level comparison to the respective compound's repurchase price or the average purchase price based on the latest purchases. We compared finished products to a weighted average of sales made or agreed during the last month of the year. We verified that the principle of valuing inventory at the lower of cost or net realisable value was appropriately applied. Oil Products We traced the cost of raw materials and finished goods to purchase invoices, verifying the application of the FIFO principle and purchase prices. We checked the cost of refining against the actual refining costs of the respective refineries. Our testing of the net realizable value covered a selection of finished goods and raw materials, comparing the cost of the item to the relevant market price of the same compound, or similar compounds, where an exact match could not be found in the market.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
System environment and internal controls The group has a fragmented system environment, reflecting the different nature of the different operating segments. The group is also in the process of implementing a new ERP system. The fragmented system environment introduces risks related to system access, change management and data transfer between the different systems, and we have accordingly designated this as a focus area in the audit. Management has mitigated this risk by means of manual controls.	Our response to the risks related to the fragmented system environment includes both the test of IT and business process controls. We also performed sufficient tests of details as part of our audit. We tested the company's controls around access and change management related to key IT systems. The scope of testing included the new partly implemented ERP system. We also tested the company's controls around system interfaces, and the transfer of data from one system to another. We noted certain weaknesses related to access controls to certain key systems. We have reported these control weaknesses to management, and included sufficient tests of detail in our audit response in order to sufficiently mitigate the related risks in our audit.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Disputes and potential litigations Refer to note 31 in the financial statements Neste is involved in a few legal proceedings, both for and against the company. For a smaller number of claims against the company, management has assessed that the probability of success of the claim is remote. Accordingly, the company has not accounted for or disclosed the claims. In many cases, Neste has counter claims against the other party. Management judgement is involved in assessing the accounting for claims, and in particular in considering the probability of a claim being successful and we have accordingly designated this as a focus area of the audit. The risk related to the claims is mainly associated with the completeness of the disclosure, and the completeness of the provisions in the financial statements.	In response to the risk of completeness of the disclosures and the completeness of the provisions in the financial statements, we obtained external confirmations directly from Neste's legal advisors. We discussed the cases with management, and reviewed correspondence and other documents exchanged between Neste and the other parties involved in the disputes. We read the minutes of the board meetings, and inspected the company's legal expenses, in order to ensure that all cases have been identified. We tested provisions recorded in the accounting records, and 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 19 in the financial statements Neste has sales operations in the USA, with sales operations being mainly focused in California. Neste earns biofuel credits related to the import and sale of renewable fuels in the US and California in the form of RINs (Renewable Identification Number) and LCFSs (California Low Carbon Credit). RINs and LCFSs are accounted for as government grants upon receipt of the product inventory in the USA, and are accounted for as inventory to the extent they have been separated from the physical goods, which happens when renewable fuel is blended with fossil fuel. We identified the biofuel credits in the USA as an area of focus in the audit as there is a risk related to the application of the appropriate accounting treatment and valuation of these.	Our testing of the biofuel credits included verification of the balances against the systems administered by the EPA (Environmental Protection Agency) and verification of balances against purchase and sales contracts. Our testing of the valuation of these included: • Comparing the valuation of RINs and LCFSs accounted for as inventory to quoted market prices, assessing the reasonability of the difference taking into account the liquidity of the market • Comparing the value of RINs and LCFSs against historical sales prices obtained by Neste In addition, we agreed the calculated balances to the accounting records, verifying that these had been accounted for in line with Neste's accounting policy.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the 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 4 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.

- 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 6 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)