



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.



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.



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.

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.



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 LCFs (California Low Carbon Credit).

RINs and LCFs 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.

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.

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 LCFs 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 LCFs 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.

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.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 6 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)