

# The only way is forward



By working for cleaner traffic and transport,  
Neste Oil is helping everyone stay on  
the move – today and tomorrow.



**NESTE OIL**

Annual Report 2012 / Remuneration and shareholdings

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## Remuneration and shareholdings

Neste Oil follows remuneration principles for senior management approved by the Board and the 2010 Corporate Governance Code covering Finnish listed companies. The recommendations of the Ownership Steering Department of the Prime Minister's Office are taken into account in deciding the remuneration of senior management. The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry. The Company may also pay annual short-term incentives to senior managers and other personnel.

### Remuneration

Neste Oil's Board of Directors is responsible for making decisions on compensation and incentive arrangements for Group management and key personnel based on proposals made by its Personnel and Remuneration Committee. The Company follows remuneration principles for senior management approved by the Board and the 2010 Corporate Governance Code covering Finnish listed companies. The recommendations of the Ownership Steering Department of the Prime Minister's Office are taken into account in deciding the remuneration of senior management. The Remuneration Statement required by the Governance Code can be consulted at [www.nesteoil.com](http://www.nesteoil.com).

### Short-term incentives

The Company may pay annual short-term incentives (STI) to senior managers and other personnel in addition to their salary and fringe benefits. The criteria for any short-term incentives are based on individuals' success in reaching their personal targets and on the Company's financial performance and success in reaching its goals. The short-term incentive paid to senior managers may not exceed 40% of their annual salary.

#### 2012

Neste Oil paid a total of EUR 24.5 (20.5) million in performance-based, short-term incentives to personnel in spring 2012; this figure included pension and social insurance contributions. The Group-level performance indicators used in 2011 were Neste Oil's adjusted comparable operating profit, leverage ratio, and fixed costs. The Group-level performance indicators in 2012 were comparable operating profit and comparable earnings per share.

Read more about [Group-wide remuneration and fringe benefits](#) in the Sustainability section of the Annual Report.

## Long-term incentive plan (2010)

The Board of Directors decided on 16 December 2009 to establish a share-based incentive plan for the Group's key personnel – to align the objectives of Neste Oil's owners and key personnel through such things as increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on owning Company shares. The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this plan (LTI scheme). Currently, approx. 70 members of Neste Oil's key personnel come within the scope of the plan.

The plan includes three three-year earning periods beginning in 2010, 2011, and 2012. The Board of Directors has decided the earnings criteria and targets to be met, as well as the maximum level of the reward payable, for each earning period in the December preceding each earning period. The earnings criteria for the 2010–2012, 2011–2013, and 2012–2014 periods are sales volumes at Renewable Fuels and the total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return Index.

Any possible payments in 2013, 2014 and 2015 will be made partly in Company shares and partly in cash. The maximum sum payable may not exceed the annual gross salary of the year in

question during any earning year. The proportion to be paid in cash will cover taxes and any tax-related costs.

The plan prohibits the transfer of shares for a period of three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Following this, key personnel must retain 50% of any shares received on the basis of the plan until the total value of the shares held corresponds to their annual gross salary. This obligation shall be valid for the duration of a person's employment or service with the Group.

The criteria for the 2010-2012 earning period were partially met in respect of sales volume in the Renewable Fuels business. The total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return index failed to reach the threshold level, however. As a result, the equaling the value of around

130,000 shares of the 809,000 shares originally allocated will be paid out as a reward for the 2010-2012 earning period in 2013. President & CEO Matti Lievonon will be allocated a reward equivalent to the value of 22,500 shares (partly in shares and partly in cash) instead of the original 75,000 shares allocated to him in December 2009.

At the time of allocation, the maximum rewards of the remaining earning periods in terms of number of shares (including the proportion to be paid in cash) were:

- Approx. 842,000 Neste Oil Corporation shares (earning period 2011-2013)
- Approx. 1,093,000 Neste Oil Corporation shares (earning period 2012-2014)

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Governance ► Remuneration and shareholdings ► Long-term incentive plan (2013)

## Long-term incentive plan (2013)

Neste Oil's Board of Directors decided on 13 December 2012 to establish a new long-term share-based incentive plan (Performance Share Plan) for the Group's senior management and nominated key personnel. The aim of the plan is to align the objectives of the company's owners and key personnel to increase the company's value and to commit key personnel to the company through an incentive system based on ownership of Neste Oil shares.

The Board is responsible for annually selecting the members of Neste Oil's senior management entitled to participate in this long-term incentive plan (LTI scheme). Approximately 100 key people at Neste Oil come within the scope of the plan. The new long-term share-based incentive plan complies with the Statement by the Cabinet Committee on Economic Policy on 13 August 2012. PCA Corporate Finance and Mercer assisted Neste Oil's Board of Directors in drawing up the plan.

The plan includes three individual share plans, each with a three-year earning period. The share plans will start in 2013, 2014, and 2015. The Board of Directors will decide on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period, either annually or for the entire earning period. The earning criteria for the 2013-2015 earning period of the first plan will be the Group's comparable free cash flow and the comparable operating profit of Renewable Fuels.

Any possible payments will be made partly in Company shares in 2016, 2017, and 2018, and partly in cash. The proportion to be paid in cash will cover taxes and other tax-related costs. The target long-term incentive for the President and CEO and the

other members of Neste Executive Board (NEB) will be 40% of individuals' annual fixed salary. The maximum long-term incentive for the President and CEO will be 100% of his annual fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on target-level earnings under the long-term incentive program that has now been decided on, together with the incentive paid based on the annual short-term program, may not exceed 60% of participants' annual fixed salary in any given year. In addition, the combined amount of incentives to be paid under the short-term program and this new long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period will be three years in respect of the President & CEO and the other members of the NEB, and one year in respect of other participants.

Under the share ownership policy followed by the company, the President & CEO and the other members of the NEB shall accumulate and, once achieved, maintain a level of share ownership corresponding to their annual fixed salary for as long as they remain a member of the NEB. Each participant subject to the above share ownership requirement shall use 100% of the shares received on the basis of the incentive plan for fulfilling the share ownership requirement referred to above, until their share ownership, based on these shares or shares otherwise received or acquired, fulfills the above share ownership requirement. Once share ownership has reached the required level, the restriction period may be shortened from three years to one year.

If the targets set for the 2013-2015 earning period of the first share plan are met, the estimated aggregate value of shares to be paid on the basis of this plan will be approximately EUR 3.5 million or approximately 350,000 Neste Oil Corporation shares based on the share price as of December 2012. The estimated

maximum value of shares to be paid on the basis of the first share plan, should an excellent level of performance be achieved, will be approximately EUR 7 million or approximately 700,000 shares. The number of shares based on the total value to be paid includes the proportion to be paid in cash.

Governance ► Remuneration and shareholdings ► Remuneration principles for senior management

## Remuneration principles for senior management

The Board of Directors is responsible for making decisions on remuneration and incentives for Group management and key personnel based on proposals by its Personnel and Remuneration Committee. The Committee, assisted by Company experts, drafts proposals to be put before the Board covering salary increases for senior management, the various elements involved in determining remuneration levels, performance targets, and any possible changes in the Company's remuneration principles that are considered necessary. The Committee makes use of data on comparative salaries in other companies and outside specialists where appropriate. The remuneration paid to senior management is discussed by the Board once a year and at other times where appropriate. The Committee reviews the Company's remuneration principles in every two years, unless there are appropriate grounds for more urgent consideration.

The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry as a company that is a pioneer in the industry and has set itself the goal of becoming the preferred partner in cleaner traffic fuel solutions.

The intention of the remuneration principles followed in respect of senior management is to:

- align the remuneration provided to managers with Neste Oil's strategic objectives, operational business targets, and core values
- Encourage and motivate senior management towards excellent performance both as individuals and as team members, and also strengthen high performance culture within Neste Oil
- Reward individuals based on achieved challenging targets and world-class operational and financial performance.
- attract and retain top talent
- underline the shared interests of owners and key personnel, and
- increase the value of the Company and shareholder value.

The principles guiding remuneration are as follows:

- Remuneration shall be fair and competitive, but not market-leading

- Neste Oil treats senior managers and key personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, or other similar factors
- Remuneration shall be appropriate and based on the needs and requirements of Neste Oil
- Remuneration shall support the essential foundations of Neste Oil's business and its strategic agenda, with an emphasis on performance and sustainable long-term performance potential
- The Company's largest shareholder, the Finnish State, provides guidelines related to remuneration at listed companies partly owned by the state, and these guidelines are taken into account by Neste Oil's Board of Directors
- The remuneration principles covering senior management should align the interests of shareholders, the Company, and senior managers
- These principles cover senior managers and specific key personnel working for Neste Oil

The two key components of senior managers' remuneration are:

1. A base salary benchmarked internationally against peer companies operating in the same labor markets and, in Finland, primarily against listed companies and secondarily industrial companies. This ensures that managers have a competitive base salary on the local market.
2. A short-term incentive program that rewards managers on the basis of the annual performance of their unit, organization, and the Company as a whole. This is tied to the financial and strategic performance goals approved by the Board of Directors and approved individual performance goals that are set annually as part of the performance management process by managers and their superiors.

In addition, overall remuneration includes the following components:

- a long-term, share-based incentive program that is discretionary in nature and restricted to a limited number of participants by the Board of Directors
- other benefits benchmarked against local peers (includes supplementary pension for NEB members)
- recognition awards made under separate Neste Oil guidelines

- intangibles linked to Neste Oil's concept of wellbeing at work, including challenging responsibilities, career opportunities, personal development, management development, an inspiring

workplace, and a positive balance between work and leisure time.

Governance ▶ Remuneration and shareholdings ▶ Remuneration and shareholdings of the Board of Directors

## Remuneration and shareholdings of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors.

of double this, EUR 1,200 per meeting, is made to Board members living outside Finland.

The AGM in 2012 decided to pay the following remuneration to the Board:

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

Board members are not covered by the Company's remuneration systems and do not receive any performance- or share-related payments.

In addition, members participating in Board meetings and meetings convened by the Board's committees receive a payment of EUR 600 per meeting, together with their traveling costs, in accordance with the Company's travel policy. A payment

The shareholdings of members and the remuneration paid to them are detailed in the following table. Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

### Shareholdings and remuneration of the Board of Directors as of 31 December 2012

	Shareholdings as of 31 December			Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2012	2011	Change	2012	2012	2011
Jorma Eloranta	12,000	10,500	+1,500	61,800 <sup>1)</sup>	11,400	36,900 <sup>3)</sup>
Maija-Liisa Friman	6,000	6,000	-	45,750 <sup>2)</sup>	11,400	35,400
Michiel Boersma	5,000	5,000	-	35,400	24,000	35,400
Nina Linander	1,100	1,100	-	35,400	24,000	35,400
Laura Raitio	1,500	1,500	-	35,400	11,400	26,550 <sup>4)</sup>
Hannu Ryöppönen	3,500	3,500	-	35,400	22,800	35,400
Markku Tapio	-	-	-	35,400	11,400	35,400

<sup>1)</sup> The Chair of the Board of Directors receives an annual remuneration of EUR 66,000, and Jorma Eloranta was paid the relevant portion of this for his service between 28 March and 31 December 2012. The Vice Chair of the Board receives an annual remuneration of EUR 49,200, and Jorma Eloranta was paid the relevant portion of this for his service between 1 January and 28 March 2012.

<sup>2)</sup> The Vice Chair of the Board receives an annual remuneration of EUR 49,200, and Maija-Liisa Friman was paid the relevant portion of this for her service between 28 March and 31 December 2012. The members of the Board receive an annual remuneration of EUR 35,400, and Maija-Liisa Friman was paid the relevant portion of this between 1 January and 28 March 2012.

<sup>3)</sup> Annual remuneration paid to the Vice Chair of the Board was EUR 49,200, of which Jorma Eloranta received remuneration for the period between 14 April and 31 December 2011.

<sup>4)</sup> Annual remuneration paid to the Member of the Board was EUR 35,400, of which Laura Raitio received remuneration for the period between 14 April and 31 December 2011.

**Members of the Board 1 January–28 March 2012\*, shareholdings and remuneration**

	Share- holdings as of 28 March 2012	Share- holdings as of 31 December		Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2012	2011	Change	2012	2012	2011
Timo Peltola	15,000	15,000	-	16,500	1,800	66,000

\*Timo Peltola left Neste Oil's Board of Directors at the AGM held on 28 March 2012.

Regularly updated data can be consulted at [www.nesteoil.com/investors](http://www.nesteoil.com/investors).

Governance ► Remuneration and shareholdings ► Remuneration and shareholdings of the President & CEO and the Neste Executive Board

## Remuneration and shareholdings of the President & CEO and the Neste Executive Board

The Board of Directors is responsible for deciding the terms of employment and remuneration of the Company's President & CEO, together with the remuneration principles observed in respect of senior management. The Personnel and Remuneration Committee is responsible for making proposals in this area and for monitoring and evaluating the performance of the President & CEO and top managers.

### President & CEO

The salary and fringe benefits paid to the President & CEO in 2012 totaled EUR 55,039 a month. In addition to these payments, the President & CEO can receive an annual performance-related incentive, which may not exceed 40% of his or her annual salary and fringe benefits. The criteria for this short-term incentive are based on the President & CEO's success in achieving his or her personal targets and on the Company's financial performance and success in achieving its corporate targets. The President & CEO also comes within the scope of long-term incentive plans approved in 2009 and 2012. The maximum share reward payable under the program approved in 2009 and started in 2010 may not exceed a person's annual gross salary of the year in question during any earning year. The combined maximum amount of performance-based incentives in the program approved in 2012 and started in 2013 is 120% of a person's fixed annual salary, and the maximum amount payable annually under the short-term incentive program is 40% of a person's fixed salary. The maximum sum payable as part of these programs may not exceed 120% of participants' annual fixed in any given year.

The Company may terminate the President & CEO's employment by giving a six-month period of notice, and the President & CEO may resign with the same period of notice. Should the Company decide to give notice of termination, the President & CEO shall be

entitled to his or her 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 or her pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2012 totaled EUR 464,211.

### Agreements and pension arrangements for the other members of Neste Executive Board

Neste Executive Board members are paid a basic salary and are entitled to fringe benefits. In addition, they can receive annual performance-based remuneration equivalent to a maximum 40% of their annual salary including fringe benefits. They have concluded director agreements that specify a typical termination period of six months and possible six months of severance pay.

The members of the Neste Executive Board come within the scope of the Finnish national pension and supplementary pension system. Pensionable age is 60, 62, or 63. Under the terms of the oldest defined benefit plans, pensions can be a maximum of 60% of a person's pensionable salary. Pensions are calculated on the basis of the average annual monthly salary paid in accordance with the Finnish national pension system during the 10 years preceding retirement. Neste Oil's Board of Directors has outlined that newer supplementary pension plans agreed after 1 January 2009 take the form of defined contribution plans.

Director agreements agreed after 1 January 2009 specify a retirement age of 62 and director agreements agreed after 1 of July 2012 a retirement age of 63. These pension insurance payments in 2012 totaled EUR 295,745.03.

Both defined benefit and contribution plans are insured by a pension company.

**Remuneration paid to the President & CEO and NEB members, EUR**

	2012			2011
	Salaries and benefits	Performance-based short-term incentives for 2011	Total	Total
President & CEO	700,022,76	161,787.50	861,810.26	859,652.60
Other NEB members	1,763,665,54	412,182.30	2,175,847.84	2,029,907.38

**Shareholdings and share incentives of the Neste Executive Board as of 31 December 2012**

Name	Born	Position	NEB member since	Shareholdings as of 31 December			Share participations from the LTI arrangement 2010-2012*
				2012	2011	Change	
Matti Lievonen	1958	President & CEO	2008	17,000	17,000	-	22,500
Matti Lehmus	1974	EVP, Oil Products and Renewables	2009	6,010	6,010	-	7,840
Sakari Toivola	1953	EVP, Oil Retail	2007	1,400	1,000	+400	7,840
Simo Honkanen	1958	SVP, Sustainability & HSEQ	2009	3,222	3,222	-	5,880
Tuomas Hyryläinen <sup>1)</sup>	1977	SVP, Strategy	2012	-	-	-	-
Hannele Jakosuo-Jansson	1966	SVP, Human Resources	2006	3,869	3,779	+90	5,880
Osmo Kammonen	1959	SVP, Communications, Marketing & Public Affairs	2004	9,022	9,022	-	5,880
Lars Peter Lindfors	1964	SVP, Technology	2009	3,450	3,450	-	5,880
Matti Piri <sup>2)</sup>	1969	Acting CFO	2012	-	-	-	-
Ilkka Poranen	1960	SVP, Production & Logistics	2009	5,942	5,942	-	5,880

Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

<sup>1)</sup> Member of the Neste Executive Board since 1 July 2012.

<sup>2)</sup> Member of the Neste Executive Board since 1 September 2012.

\*This column refers to the number of shares approved for distribution under the long-term share-based incentive plan that began in 2010. The net number of shares that will be distributed is estimated to be 40-50% of the amount shown here after taxes and other statutory payments have been deducted. Shares will be distributed in spring 2013 and will be covered by a restriction period and a share ownership requirement.

## Personnel Fund

Neste Oil's Personnel Fund was established in spring 2005 and covers the Group's personnel in Finland. Those participating in the Group's share-based incentive program cannot be members. The Board of Directors determines the criteria for the profit-sharing bonus paid into the Fund annually. The Personnel Fund's profit-sharing earnings for 2012 were tied to the company's operating profit.

Personnel employed under both permanent and fixed-term employment contracts are members of the Personnel Fund. Membership begins after an uninterrupted period of six months of employment and ends once a member has received his or her share of the Fund in full.

The profit-sharing bonuses paid into the Fund are distributed equally between members. Each employee's share is divided into a tied amount and an amount available for withdrawal. When an employee has been a member of the Fund for five years, he or she can transfer an amount equivalent to no more than 15% of the capital from the tied amount for withdrawal. The amount available for withdrawal will be determined annually and paid to members who wish to exercise their withdrawal rights. Members can choose whether they want to receive the amount available for withdrawal in cash or in Neste Oil shares acquired through the Personnel Fund.

### 2012

In 2012, the profit-sharing earnings paid into Neste Oil's Personnel Fund for 2011 totaled EUR 845,303 (EUR 674,541 in 2011).