

# Annual Report 2013



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# Remuneration and shareholdings

## Introduction

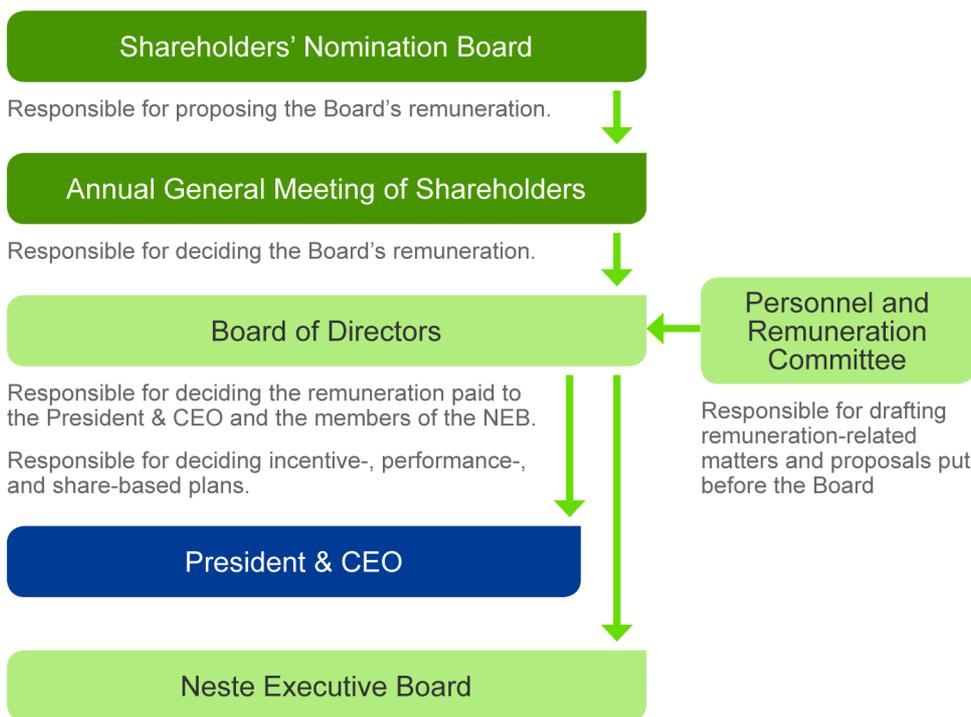
Remuneration-related discussion and decision-making at Neste Oil involves the Shareholders' Nomination Board, the Annual General Meeting of Shareholders, the Board of Directors, and the Board's Personnel and Remuneration Committee. The Nomination Board is responsible for presenting a proposal covering the remuneration payable to the Board of Directors to the AGM; while the Board of Directors is responsible for making decisions on remuneration and incentive arrangements for senior management and key personnel based on proposals made by its Personnel and Remuneration Committee. The decision-making process guarantees that decisions are fair and unbiased (see figure below).

Remuneration at Neste Oil is based on remuneration principles proposed by the Personnel and Remuneration Committee and

approved by the Board of Directors. The remuneration principles covering Neste Oil's senior management and other personnel comply with the 2010 Corporate Governance Code covering Finnish listed companies; remuneration also takes account of the recommendations of the Ownership Steering Department of the Prime Minister's Office.

The salary, fringe benefits, and short-term and long-term incentives paid to the President & CEO, together with the bases on which they are determined, are published for each financial year. The salaries and benefits received by the other members of the Neste Executive Board (NEB) are published as a combined sum. Itemized information on the shares and share-based entitlements received as remuneration is also published. The Remuneration Statement required by the Governance Code can be consulted at [www.nesteoil.com](http://www.nesteoil.com).

## Decision-making process followed in remuneration-related matters



During 2013, the Personnel and Remuneration Committee concentrated on renewing Neste Oil's remuneration principles. The aim was to clarify the incentive-related aspects and fairness of remuneration and link remuneration more clearly to the achievement of the Company's strategic targets. In addition, the Personnel and Remuneration Committee oversaw the development of a new short-term incentive program aimed at improving performance management across the Group and tying remuneration more clearly to the Company's financial success. The updated remuneration principles and new short-term incentive system came into force at the beginning of 2014.

## Personnel and Remuneration Committee's view of 2013:

The success of senior management is measured in terms of how well Neste Oil achieves its strategic and financial targets. We were extremely satisfied with the performance of the Renewable Fuels business in 2013, which exceeded the targets that had been set for the business. This excellent result should be rewarded and is in the interest of both the Company and shareholders.

Neste Oil was incorporated in 2005, and since 2013 was the first year in which we rewarded key personnel on the basis of the

Group's long-term share-based incentive programs. The rewards paid in 2013 were earned through the success achieved in implementing Renewable Fuels' strategy. In 2014, the financial performance recorded in 2013 will result in a higher level of remuneration for senior managers and whole personnel through combined short-term and long-term incentive plans than in 2012.

The Board updated the criteria to be used for the 2014-2016 earning period under the share-based incentive plan approved in 2012. The total return yielded by Neste Oil's share compared to a group of 10 oil industry peers was chosen as one criterion. The Group's cumulative comparable free cash flow\* was chosen as the other criterion. By selecting these indicators, the Board's aim is to help secure Neste Oil's competitiveness and position in the industry.

\*) comparable free cash flow = Cash flow after maintenance investments, tax, interest, proceed sales of assets, and gain and losses of inventory

### Short-term incentives

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

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

## 2013

Neste Oil paid a total of EUR 19.6 (24.5) million in performance-based, short-term incentives to personnel in spring 2013; this figure included pension and social insurance contributions. The Group-level performance indicators used in 2012 were Neste Oil's comparable operating profit and comparable earnings per share. The Group-level performance indicators in 2013 were comparable operating profit and ROACE% (Return on Average Capital Employed, After Tax).

Governance ► Remuneration and shareholdings ► Long-term incentive plan (2010)

## Long-term incentive plan (2010)

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

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

Incentives from the first earning period were paid in 2013, and any other possible payments in 2014 and 2015, will be made partly in Company shares and partly in cash. The maximum sum payable may not exceed the annual gross salary of the year in question during any earning year. The proportion to be paid in cash will cover taxes and any tax-related costs.

The plan prohibits the transfer of shares for a period of three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Following this, key personnel must retain 50% of any shares received on the basis of the plan until the total value of the shares held corresponds to their annual

gross salary. This obligation shall be valid for the duration of a person's employment or service with the Group.

The criteria for the 2010–2012 earning period were partially met in respect of sales volume in the Renewable Fuels business. The total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return index failed to reach the threshold level, however. As a result, the equivalent value of around 130,000 shares of the 809,000 shares originally allocated was paid out as a reward for the 2010–2012 earning period in 2013. A total of 63,526 shares after tax were transferred. The share price at the time of the transfer was EUR 10.9977. For the rewards made to the President & CEO and senior management, [see the table](#).

The criteria for the 2011–2013 earning period were met virtually completely in respect of sales volumes in the Renewable Fuels business. The total shareholder return on Neste Oil's stock in relation to the Dow Jones Nordic Return index was around 6%-points better than the difference in percentage yields. As a result, the equivalent value of a maximum of 420,000 shares of the 842,000 shares originally allocated will be paid out as a reward for the 2011–2013 earning period in 2014. President & CEO Matti Lievonon has been paid a reward equivalent to a maximum of 51,680 shares of the total maximum of 80,000 shares allocated to him in December 2010. Payment was made partly in Company shares and partly in cash. Due to this arrangement, the amount of shares allocated will be less than half of the reward's total amount of shares.

At the time of allocation, the maximum reward of the remaining earning period (2012–2014) in terms of number of shares (including the proportion to be paid in cash) is approximately 1,093,000 Neste Oil Corporation shares.

## Long-term incentive plan (2013)

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

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

The plan includes three individual share plans, each with a three-year earning period. The share plans will start in 2013, 2014, and 2015. The Board of Directors will decide on the participants in this plan, the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period, either annually or for the entire earning period. The earning criteria for the 2013–2015 earning period of the first plan will be the Group's cumulative comparable free cash flow and the comparable operating profit of Renewable Fuels in the earning period. The earning criteria for the 2014–2016 earning period will be the Group's cumulative comparable free cash flow and the total return yielded by Neste Oil's share compared to a group of peers. The Board of Directors has selected a peer group that consists of comparable oil industry companies.

Any possible payments will be made partly in Company shares and partly in cash in 2016, 2017, and 2018. The proportion to be paid in cash will cover taxes and other tax-related costs. The target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be 40% of individuals' annual fixed salary on average. The maximum long-term incentive for the President & CEO will be 100% of his annual

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

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

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

If the targets set for the 2013–2015 and 2014–2016 earning periods of the share plan are met, the estimated aggregate value of shares to be paid on the basis of this plan for both earning periods will be approximately EUR 3.5 million. The estimated maximum value of shares to be paid on the basis of the share plans, should an excellent level of performance be achieved, will be approximately EUR 7 million.

## Remuneration principles for senior management

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

reviews the Company's remuneration principles every two years, unless there are appropriate grounds for more urgent consideration.

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

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

- align the remuneration provided to managers with Neste Oil's strategic objectives, operational business targets, and core values
- encourage and motivate senior management to achieve excellent performance, both as individuals and as team members
- reward individuals based on achieving challenging targets and outstanding operational and financial performance
- attract and retain key personnel
- underline the shared interests of owners and key personnel, and
- increase the value of the Company and shareholder value.

## The principles guiding remuneration are as follows:

- Remuneration shall be fair and competitive, but not market-leading
- Neste Oil treats senior managers and key personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, or other similar factors
- Remuneration shall be appropriate and based on the needs and requirements of Neste Oil
- Remuneration shall support the essential foundations of Neste Oil's business and its strategic agenda both individual and team level, with an emphasis on performance and sustainable long-term performance
- The Company's largest shareholder, the Finnish State, provides guidelines related to remuneration at listed companies partly owned by the state, and these guidelines are taken into account by Neste Oil's Board of Directors in accordance with the interest of the Company and all of its shareholders
- The remuneration principles covering senior management should align the interests of shareholders, the Company, and senior managers

- These principles cover senior managers and specific key personnel working for Neste Oil.

## The two key components of senior managers' remuneration are:

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

## In addition, overall remuneration includes the following components:

- a long-term, share-based incentive program that is discretionary in nature and restricted to a limited number of participants by the Board of Directors
- other benefits benchmarked against local peers (includes a supplementary pension for NEB members)
- recognition awards made under separate Neste Oil guidelines
- intangibles linked to Neste Oil's concept of wellbeing at work, including challenging responsibilities, career opportunities, personal development, management development, an inspiring workplace, and a positive balance between work and leisure time.

In all remuneration decisions concerning senior management and employees, Neste Oil adopts the 'Grandfather Principle'. This means that decisions of remuneration must always be approved by superior's superior.

## Remuneration and shareholdings of the Board of Directors

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

### The AGM in 2013 decided to pay the following remuneration to the Board:

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

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

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

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

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

## Members of the Board, remuneration as of 31 December 2013

	Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2013	2013	2012
Jorma Eloranta	66,000	10,200	61,800 <sup>1)</sup>
Maija-Liisa Friman	49,200	10,200	45,750 <sup>2)</sup>
Per-Arne Blomquist	26,550 <sup>3)</sup>	18,000	–
Michiel Boersma	35,400	22,800	35,400
Laura Raitio	35,400	11,400	35,400
Willem Schoeber	26,550 <sup>3)</sup>	16,800	–
Kirsi Sormunen	26,550 <sup>3)</sup>	9,000	–

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

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

<sup>3)</sup> Annual remuneration paid to the Member of the Board was EUR 35,400, of which Per-Arne Blomquist, Willem Schoeber and Kirsi Sormunen received remuneration for the period between 4 April and 31 December 2013.

## Members of the Board, shareholdings as of 31 December 2013

	2013	2012	Change, pcs
Jorma Eloranta	14,000	12,000	2,000
Maija-Liisa Friman	6,000	6,000	–
Per-Arne Blomquist	3,000	–	3,000
Michiel Boersma	5,000	5,000	–
Laura Raitio	1,500	1,500	–
Willem Schoeber	1,500	–	–
Kirsi Sormunen	–	–	–

Members of the Board have not received any share-related payments, but acquired the shares they own at their own expense.

## Members of the Board, remuneration and shareholdings, 1 January 2013–4 April 2013<sup>\*)</sup>

	Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2013	2013	2012
Nina Linander	8,850	4,800	35,400
Hannu Ryöppönen	8,850	4,800	35,400
Markku Tapio	8,850	1,800	35,400

<sup>\*)</sup> Nina Linander, Hannu Ryöppönen, and Markku Tapio left Neste Oil's Board of Directors at the AGM held on 4 April 2013.

	Shareholdings as of 4 April	Shareholdings as of 31 December	Change, pcs
	2013	2012	
Nina Linander	1,100	1,100	–
Hannu Ryöppönen	3,500	3,500	–
Markku Tapio	–	–	–

<sup>\*)</sup> Nina Linander, Hannu Ryöppönen, and Markku Tapio left Neste Oil's Board of Directors at the AGM held on 4 April 2013.  
Members of the Board have not received any share-related payments, but acquired the shares they own at their own expense.

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

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

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

### President & CEO

The salary and fringe benefits paid to the President & CEO in 2013 totaled EUR 55,039 a month, as in 2012. In addition to these payments, the President & CEO can receive an annual short-term performance-related incentive, which may not exceed 40% of his annual salary and fringe benefits. The criteria for this short-term incentive are based on the President & CEO's success in achieving his personal targets and on the Company's financial performance and success in achieving the corporate targets that the Board of Directors have set for the time in question.

The main performance indicators used for the President & CEO in 2012 were comparable EBIT and EPS (earning per share). In 2013, they were comparable EBIT, ROACE% (return on average capital employed, after-tax), and TRIF (Total Recordable Incident Frequency) and availability of all refineries. In 2014, the main performance indicators used for the President & CEO will be comparable EBIT, ROACE%, and TRIF. The President & CEO also comes within the scope of long-term incentive plans approved in 2009 and 2012. The maximum share reward payable under the program approved in 2009 and started in 2010 may not exceed a person's annual gross salary of the year in question during any earning year. The combined maximum amount of performance-based incentives in the program approved in 2012 and started in 2013 is 120% of a person's fixed annual salary, and the maximum amount payable annually under the short-term incentive program is 40% of a person's fixed salary.

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

decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his retirement salary, equivalent to an average monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions of supplementary pension paid during 2013 totaled EUR 525,143.

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

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

The members of the Neste Executive Board come within the scope of the Finnish national pension and supplementary pension system. Pensionable age is 60, 62, or 63. Under the terms of the oldest defined benefit plans, pensions can be a maximum of 60% of a person's pensionable salary. Pensions are calculated on the basis of the average annual monthly salary paid in accordance with the Finnish national pension system during the 10 years preceding retirement. Neste Oil's Board of Directors has outlined that newer supplementary pension plans agreed after 1 January 2009 take the form of defined contribution plans. Director agreements agreed after 1 January 2009 specify a retirement age of 62 and director agreements agreed after 1 July 2012 a retirement age of 63. Insurance contributions of supplementary pension totaled EUR 523,799 in 2013.

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

## Salaries and remuneration paid to the President & CEO and NEB members, EUR

	Salaries and benefits for 2013	Performance-based short-term incentives for 2012	Salaries, benefits and incentives total for 2013	Salaries, benefits and incentives total for 2012
President & CEO	700,067.28	143,651.79	843,719.07	861,810.26
Other NEB members <sup>*)</sup>	1,810,604.07	323,930.80	2,134,534.87	2,175,847.84

<sup>\*)</sup> Includes also Mr Piri's salary before Mr Mäki-Kala's appointment

## Shareholdings and share incentives of the Neste Executive Board as of 31 December 2013, pcs

Name	Born	Position	NEB member since	2013	2012	Change	Distributed shares from the LTI arrangement, 2010–2012**	Distributed shares from the LTI arrangement, 2011–2012***
Matti Lievonen	1958	President & CEO	2008	27,912	17,000	10,912	10,912	51,680 (25,064)
Matti Lehmus	1974	EVP, Oil Products and Renewables	2009	9,655	6,010	3,645	3,645	17,559 (8,164)
Sakari Toivola	1953	EVP, Oil Retail	2007	5,124	1,400	3,724	3,724	15,528 (7,298)
Simo Honkanen	1958	SVP, Sustainability & HSEQ	2009	5,962	3,222	2,704	2,704	12,684 (5,834)
Tuomas Hyyryläinen	1977	SVP, Strategy	2012	–	–	–	–	–
Hannele Jakosuo-Jansson	1966	SVP, Human Resources	2006	6,544	3,869	2,657	2,657	15,080 (6,786)
Osmo Kammonen	1959	SVP, Communications, Marketing & Public Affairs	2004	11,815	9,022	2,793	2,793	14,365 (6,751)
Lars Peter Lindfors	1964	SVP, Technology	2009	4,310	3,450	860	2,910	15,195 (7,521)
Jyrki Mäki-Kala *)	1961	CFO	2013	7,500	–	7,500	–	–
Ilkka Poranen	1960	SVP, Production & Logistics	2009	8,705	5,942	5,942	2,763	14,127 (6,639)

\*) Member of the Neste Executive Board since 6 May 2013.

\*\*\*) This column refers to the net number of shares distributed under the long-term share-based incentive plan that began in 2010.

\*\*\*\*) This column refers to the total number of shares approved for reward under the long-term share-based incentive plan that began in 2011. The net number of shares after taxes and other statutory payments is given in brackets. The maximum incentive payable for any earning period under the terms of the plan cannot exceed a participant's annual fixed gross salary in any given year. Shares will be distributed in spring 2014 and will be covered by a restriction period and a share ownership requirement.

Governance ► Remuneration and shareholdings ► Personnel Fund

## Personnel Fund

Neste Oil's Personnel Fund was established in spring 2005 and covers the group's personnel in Finland. Those participating in the Group's share-based incentive program cannot be members of the Fund during the program's earning periods. The Board of Directors determines the criteria used for the profit-sharing earnings paid into the Fund annually. The earnings paid in 2013 were tied to the Company's comparable operating profit in 2012.

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

The profit-sharing earnings paid into the Fund are distributed equally between members. Each employee's share is divided into

a tied amount and an amount available for withdrawal. The amount available for withdrawal will be determined annually and paid to members who wish to exercise their withdrawal rights. Members can choose whether they want to receive the amount

available for withdrawal in cash or in Neste Oil shares acquired through the Personnel Fund.

## 2013

In 2013, the profit-sharing earnings paid into Neste Oil's Personnel Fund for 2012 totaled EUR 2,86 million (EUR 2,864,256); EUR 845,303 was paid in 2012.