

Neste in 2015  
Review by the Board of Directors

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NESTE





# Review by the Board of Directors

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# Review by the Board of Directors 2015

Neste's comparable operating profit totaled EUR 925 million, almost 60% higher than the EUR 583 million in 2014. The Group's IFRS operating profit was EUR 699 million (150 million). The company generated an excellent result despite the largest major turnaround in the history of the Porvoo refinery, and all business areas improved their performance. Crude oil prices continued to decline, which reduced the revenue in 2015, but the margin environment remained favorable. A Stronger US dollar had a positive impact on the result. The company generated solid cash flow, and the return on average capital employed exceeded the long term target level of 15%. Oil Products' reference refining margins were supported by a particularly strong gasoline market, which was mainly driven by demand growth in the low oil price environment. The scheduled major turnaround at the Porvoo refinery,

which was successfully completed in June, had a negative impact [of EUR 130 million] on the operating profit. Renewable Products' average reference margin was lower than in 2014, but we were able to grow our additional margin. The segment's sales volumes reached a new record of 2.267 million tons, an 8% increase from the previous year. In the US the Environmental Protection Agency (EPA) finalized growing volume mandates for biomass-based diesel, and the Blender's Tax Credit (BTC) was reinstated retroactively for 2015 and in advance for 2016. The Oil Retail segment was able to increase profits by growing sales volumes and improving unit margins. The Board of Directors will propose a dividend of EUR 1.00 per share (0.65) for 2015, totaling EUR 256 million (166 million).

Figures in parentheses refer to the full-year financial statements for 2014, unless otherwise noted.

## The Group's results for 2015

Neste's revenue in 2015 totaled EUR 11,131 million (15,011 million). The decrease resulted from lower overall sales prices caused by the oil price decline, which had a negative impact of EUR 5.0 billion, and lower sales volumes, mainly due to the scheduled Porvoo refinery turnaround, which had a negative impact of EUR 0.6 billion. The change in USD/EUR exchange rate had a positive impact of EUR 1.6 billion on the revenue year-on-year. The Group's comparable operating profit for the year was EUR 925 million, almost 60% higher than the 583 million reported in 2014. Oil Products' comparable operating profit was positively impacted by higher reference margins and a favorable USD/EUR exchange rate, which more than compensated for the negative impact of the scheduled major turnaround at the Porvoo refinery and lower additional margin. In Renewable Products we improved our





comparable operating profit mainly as a result of higher sales volume, higher additional margin and a favorable USD/EUR exchange rate. Oil Retail's result was also clearly higher than in 2014 due to higher sales volumes and unit margins. The Others segment improved significantly compared to 2014, mainly due to Nynas performance. The Group's fixed costs were EUR 668 million (654 million), an increase that was mainly caused by higher personnel and ERP system implementation costs.

Oil Products' full-year comparable operating profit was EUR 439 million (285 million), Renewable Products' EUR 402 million (239 million), and Oil Retail's EUR 84 million (68 million). The comparable operating profit of the Others segment totaled EUR 2 million (–7 million), of which Nynas accounted for EUR 29 million (11 million).

The Group's full-year IFRS operating profit was EUR 699 million (150 million), which was impacted by inventory losses totaling EUR 263 million (492 million), changes in the fair value of open oil derivatives totaling EUR –15 million (74 million), and non-recurring items totaling EUR 52 million (–16 million), mainly related to the capital gain from the disposal of the Porvoo electricity grid. Pre-tax profit was EUR 634 million (78 million), and profit for the period EUR 560 million (60 million). Comparable earnings per share were EUR 2.84 (1.60), and earnings per share EUR 2.18 (0.22). The Group's effective tax rate was 12% (23%). Effective tax rate, which was lower than in the previous year, is a result of the booked tax-exempt items during the calendar year, such as the sale proceeds of the shares of Kilpilahden Sähkönsiirto Oy, and the profits generated from Neste's different countries of operation.

### Group key figures, MEUR

	2015	2014
Comparable operating profit	925	583
– inventory gains/losses	–263	–492
– changes in the fair value of open oil derivatives	–15	74
– non-recurring items	52	–16
– capital gains/losses	76	–2
– insurance and other compensations	0	0
– others	–25	–14
IFRS operating profit	699	150

### Revenue

	2015	2014
Oil Products	7,467	11,285
Renewable Products	2,372	2,269
Oil Retail	3,748	4,294
Others	267	238
Eliminations	–2,724	–3,075
Total	11,131	15,011

### Comparable operating profit

	2015	2014
Oil Products	439	285
Renewable Products	402	239
Oil Retail	84	68
Others	2	–7
Eliminations	–2	–3
Total	925	583

### IFRS operating profit

	2015	2014
Oil Products	389	–110
Renewable Products	233	207
Oil Retail	79	68
Others	0	–13
Eliminations	–2	–3
Total	699	150

## 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 25–50%. The ROACE target was reached for the first time under the current corporate set-up, and leverage ratio was comfortably at the lower end of the target range.

	31 Dec 2015	31 Dec 2014
Return on average capital employed after tax (ROACE)*, %	16.3	10.1
Leverage ratio (net debt to capital), %	29.4	37.9

\* Last 12 months

## Cash flow, investments, and financing

The Group's net cash from operating activities totaled EUR 743 million (248 million) in 2015. The year-on-year difference was mainly attributable to the strong EBITDA generation of businesses. Cash flow before financing activities was EUR 480 million (–59 million). The Group's net working capital in days outstanding was 21.4 days (13.2 days) on a rolling 12-month basis at the end of 2015.

	2015	2014
EBITDA (IFRS)	1,057	480
Capital gains/losses	–77	2
Other adjustments	–27	–80
Change in working capital	–94	–33
Finance cost, net	–88	–44
Income taxes paid	–27	–77
Net cash from operating activities	743	248
Capital expenditure	–505	–272
Other investing activities	241	–34
Free cash flow (Cash flow before financing activities)	480	–59

Cash-out investments totaled EUR 505 million (272 million) in 2015. Maintenance investments accounted for EUR 374 million (201 million) and productivity and strategic investments for EUR 131 million (71 million). Oil Products' investments totaled EUR 437 million (209 million), with the largest projects being the major turnaround and the Solvent Deasphalting (SDA) unit under construction at the Porvoo refinery. Renewable Products' investments totaled EUR 32 million (29 million). Oil Retail's investments totaled EUR 19 million (18 million) and were mainly related to the station network. Investments in the Others segment totaled EUR 17 million (16 million) and were mainly related to R&D and business infrastructure.

Interest-bearing net debt was EUR 1,291 million as of the end of December 2015, compared to EUR 1,621 million at the end of 2014. Net financial expenses for the year were EUR 65 million (72 million). The average interest rate of borrowing at the end of December was 3.4% (3.6%) and the average maturity 3.7 (2.7) years.

The interest-bearing net debt/comparable EBITDA ratio was 1.0 (1.8) over the previous 12 months at the end of the year.

The Group has a very solid financial position. The leverage ratio was 29.4% (31 Dec. 2014: 37.9%), and the gearing ratio 41.6% (31 Dec. 2014: 60.9%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,246 million as of the end of December (31 Dec. 2014: 1,849 million). There are no financial covenants in the Group's current loan agreements.

In accordance with our hedging policy, Neste hedges the majority of the 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 below 50% for the next 12 months.

US dollar exchange rate	2015	2014
USD/EUR, market rate	1.11	1.33
USD/EUR, effective rate*	1.15	1.32

\* The effective rate includes the impact of currency hedges.

## Segment reviews

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

## Oil Products

## Key financials

	2015	2014
Revenue, MEUR	7,467	11,285
Comparable EBITDA, MEUR	655	478
Comparable operating profit, MEUR	439	285
IFRS operating profit, MEUR	389	–110
Net assets, MEUR	2,320	2,160
Comparable return on net assets, %	18.2	12.4

## Key drivers

	2015	2014
Reference refining margin, USD/bbl	7.74	4.73
Additional margin, USD/bbl	4.05	5.10
Total refining margin, USD/bbl	11.79	9.83
Urals-Brent price differential	-1.84	-1.72
Urals' share of total refinery input, %	62	57

Crude oil prices were highly volatile during 2015. After a really weak start for the year the prices rose towards USD 70/bbl during the first half of the year. The rise was driven by expectations of a more balanced crude oil supply and demand. Prices, however, came under significant pressure during the second half of 2015 as the agreement on nuclear energy with Iran took further positive steps indicating increasing crude volumes from Iran during 2016. This together with concerns about the Chinese economy, a clear message from OPEC not to cut production, and an oversupplied crude oil market kept crude oil prices on a falling trend. In 2015 Brent price averaged USD 53.6/bbl, but at year end it was at approx. USD 36/bbl – the lowest level since 2004.

The price differential between Brent and Russian Export Blend (REB) crude averaged USD -1.8/bbl in 2015 and USD -2.7/bbl during the fourth quarter. Oversupply in all major crude qualities contributed to a reasonably wide differential during the year. Also signs of Saudi Arabian crude oil volumes entering the Baltic Sea market drove a wider REB differential.

The reference refining margin started the year 2015 on a good level as a result of growing product demand and weak crude oil market. Towards the summer, the market got further support from the seasonal pick up in gasoline market and from the refinery maintenance period, which drove gasoline and refining margins to multi-year highs. During the second half of the year growing supply of diesel sent diesel margins onto a weakening trend, but reference margins were still high on a seasonally adjusted base. On average, gasoline was the strongest part of the barrel in 2015 after many years of diesel domination. Fuel oil was again the weakest due to low demand. Neste's reference margin averaged USD 7.7/bbl in 2015, and USD 5.7/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 439 million (285 million). The average reference refining margin during 2015 was USD 3.0/bbl higher than in the previous year, which had a positive impact of EUR 282 million on the result. Neste's additional margin was USD 1.1/bbl lower, mainly reflecting the lower crude oil price environment and the scheduled major turnaround at the Porvoo refinery during the second quarter, which had a negative impact of EUR 130 million on the comparable operating profit. Sales volumes were 12% lower compared to the year 2014, which reduced the operating profit by EUR 92 million. Stronger USD/EUR exchange rate had EUR 140 million

positive effect on the result. Higher depreciations, transfer of Shipping activities' result in 2015 to additional margin, and other charges had a negative impact totaling approx. EUR 45 million on the comparable operating profit year-on-year.

## Production

	2015	2014
Porvoo refinery production, 1,000 ton	9,835	11,274
Porvoo refinery utilization rate, %	75	84
Naantali refinery production, 1,000 ton	1,956	1,964
Naantali refinery utilization rate, %	62	71
Refinery production costs, USD/bbl	4.0	5.0
Bahrain base oil plant production (Neste's share), 1,000 ton	184	158

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

	2015	%	2014	%
Middle distillates*	5,395	45	6,204	46
Light distillates**	3,857	33	4,575	34
Heavy fuel oil	1,122	9	1,091	8
Base oils	433	4	469	3
Other products	1,075	9	1,201	9
TOTAL	11,881	100	13,540	100

\* Diesel, jet fuel, heating oil

\*\* Motor gasoline, gasoline components, LPG

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

	2015	%	2014	%
Baltic Sea area*	7,876	66	8,872	65
Other Europe	3,154	27	3,060	23
North America	491	4	847	6
Other areas	360	3	761	6

\* Finland, Sweden, Estonia, Latvia, Lithuania, Poland, Denmark

## Renewable Products

### Key financials

	2015	2014
Revenue, MEUR	2,372	2,269
Comparable EBITDA, MEUR	497	335
Comparable operating profit, MEUR	402	239
IFRS operating profit, MEUR	233	207
Net assets, MEUR	1,884	1,923
Comparable return on net assets, %	21.8	13.3

### Key drivers

	2015	2014
FAME – Palm oil price differential <sup>1)</sup> , USD/ton	211	231
SME – Soybean oil price differential <sup>2)</sup> , USD/ton	118	199
Reference margin <sup>3)</sup> , USD/ton	182	221
Additional margin <sup>4)</sup> , USD/ton	247	227
Comparable sales margin <sup>4)</sup> , USD/ton	299	278
Biomass-based diesel (D4) RIN, USD/gal	0.73	0.53
Palm oil price <sup>5)</sup> , USD/ton	576	733
Crude palm oil's share of total feedstock, %	31	38

<sup>1)</sup> FAME seasonal vs. CPO BMD 3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month futures price) + 70 \$/t freight to ARA (Amsterdam–Rotterdam–Antwerp)

<sup>2)</sup> SME US Gulf Coast vs. SBO CBOT 1st (Soybean Oil Chicago Board of Trade 1st month futures price)

<sup>3)</sup> Based on standard variable production cost of USD 130/ton in 2015 and USD 170/ton in 2014.

<sup>4)</sup> Includes full impact of US BTC (Blender's Tax Credit)

<sup>5)</sup> CPO BMD 3rd

The biodiesel market was quite challenging in 2015. With crude oil prices continuing their decline, vegetable oil premiums over gasoil saw multi-year highs. Despite record-high stocks in both Indonesia and Malaysia, crude palm oil (CPO) prices remained relatively steady at USD 540/ton.

Regulatory developments in both the European Union and the US, however, have been quite supportive to biofuel producers. In the EU a 7% cap on food crop-based biofuels was introduced within the 10% overall target for renewable energy in transport. While this leaves some room for both conventional as well as non-food based biofuel production to increase, the key feature of the agreement is that it provides certainty for the industry up

to 2020. In the US market, the sentiment was positive after the Environmental Protection Agency (EPA) released higher-than-expected renewable volume obligations for 2015 and 2016 under the Renewable Fuels Standard at the end of November. This was also reflected in increased Renewable Identification Number (RIN) prices. Overall, biodiesel and renewable diesel production is likely to benefit from the increase in the biomass-based diesel mandate. The reinstatement of the USD 1.00/gallon Blenders' Tax Credit for 2015 and 2016 is expected to act as an additional driver for biodiesel and renewable diesel demand in the US throughout 2016.

Renewable Products' full-year comparable operating profit was EUR 402 million (239 million). Timing of margin management was successful, and the higher additional margin had a positive impact of EUR 43 million on the segment's operating profit. Stronger US dollar had a positive impact of EUR 88 million, and higher sales volumes a positive impact of EUR 44 million on the segment's result year-on-year. Sales volumes reached a new record of 2.267 million tons, an 8% increase from the previous year. During the year 2015 approximately 69% (73%) of sales volumes went to Europe and Asia-Pacific and 31% (27%) to North America. Renewable diesel production achieved an average capacity utilization rate of 94% (102%) in 2015, based on the updated 2.4 Mton/a (2.0 Mton/a) nominal capacity. Feedstock mix optimization continued successfully and the proportion of waste and residue inputs rose to 68% (62%) on average.

### Production

	2015	2014
NEXBTL, 1,000 ton	2,328	2,111
Other products, 1,000 ton	165	144
Utilization rate*, %	94	102

\* Figures in 2015 based on 2.4 Mton/a nominal capacity (2.0 Mton/a in 2014).

### Sales

	2015	2014
NEXBTL, 1,000 ton	2,267	2,104
Share of sales volumes to Europe and APAC, %	69	73
Share of sales volumes to North America, %	31	27

## Oil Retail

### Key financials

	2015	2014
Revenue, MEUR	3,748	4,294
Comparable EBITDA, MEUR	115	94
Comparable operating profit, MEUR	84	68
IFRS operating profit, MEUR	79	68
Net assets, MEUR	184	201
Comparable return on net assets, %	41.2	27.6

Oil Retail's markets remain stable. In Finland light duty vehicle traffic continues to increase, but heavy duty traffic is flat year-on-year. Markets in the Baltic countries are healthy and growing. The current sluggish Russian economy affects demand and the ruble continues to be volatile.

Oil Retail's full-year comparable operating profit was EUR 84 million (68 million). Improved unit margins had a positive impact of EUR 19 million, and higher sales volume a positive impact of EUR 5 million on the segment's comparable operating profit. The weaker ruble had a negative impact of EUR 6 million on the result in Northwest Russia compared to the previous year.

### Sales volumes by main product categories, million liters

	2015	2014
Gasoline station sales	1,115	1,134
Diesel station sales	1,589	1,526
Heating oil	569	600

### Net sales by market area, MEUR

	2015	2014
Finland	2,642	3,022
Northwest Russia	255	335
Baltic countries	821	929

## Others

### Key financials

	2015	2014
Comparable operating profit, MEUR	2	-7
IFRS operating profit, MEUR	0	-13

The Others segment consists of the engineering and technology solutions company Neste Jacobs, 60/40-owned by Neste and Jacobs Engineering; Nynas, a joint venture 50/50-owned by Neste and Petróleos de Venezuela; and common corporate costs. The full-year comparable operating profit for the Others segment totaled EUR 2 million (-7 million); of which Nynas accounted for EUR 29 million (11 million). The common corporate costs increased by EUR 9 million from 2014.

### Shares, share trading, and ownership

Neste's shares are traded on NASDAQ Helsinki Ltd. The share price closed the year 2015 at EUR 27.63, up by 37.7% compared to the end of 2014. The total shareholder return (TSR) was 41.0% (44.1%) in 2015. At its highest during 2015, the share price reached EUR 27.70, while the lowest daily closing price was EUR 19.91. Market capitalization was EUR 7.1 billion as of 31 December 2015. An average of 0.85 million shares were traded daily, representing 0.3% of the company's shares.

Neste's share capital registered with the Company Register as of 31 December 2015 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 2015, Neste held 798,467 treasury shares purchased under this authorization. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

As of the end of the year, the Finnish State owned 50.1% (50.1% at the end of 2014) of outstanding shares, foreign institutions 25.0% (25.1%), Finnish institutions 13.8% (12.5%), and Finnish households 11.1% (12.3%).



### Largest shareholders as of 31 December 2015

Shareholder	Shares	% of shares
Prime Minister's Office of Finland	128,458,247	50.10%
Ilmarinen Mutual Pension Insurance Company	6,567,849	2.56%
Varma Mutual Pension Insurance Company	3,090,514	1.21%
The Social Insurance Institution of Finland, KELA	2,648,424	1.03%
The State Pension Fund	2,605,000	1.02%
The City of Kurikka	1,550,875	0.60%
Elo Mutual Pension Insurance Company	1,221,107	0.48%
Nordea Fennia Fund	908,000	0.35%
Schweizerische Nationalbank	839,917	0.33%
Neste Corporation	798,467	0.31%
Nordea Life Assurance Finland Ltd.	763,205	0.30%
Nordea Pro Finland Fund	685,000	0.27%
Säästöpankki Kotimaa Mutual Fund	547,500	0.21%
Danske Finnish Institutional Equity Fund	525,874	0.21%
OP-Delta Mutual Fund	480,000	0.19%
Veritas Pension Insurance Company Ltd.	425,199	0.17%
Sigrid Jusélius Foundation	423,000	0.17%
OP Henkivakuutus Ltd.	409,537	0.16%
Danske Invest Finnish Equity Fund	361,301	0.14%
Alhopuro Eero Sakari	348,400	0.14%
20 largest owners total	153,657,416	59.93%
Nominee registrations	62,652,050	24.44%
Others	40,094,220	15.64%
Number of shares, total	256,403,686	100.00%

### Breakdown of share ownership as of 31 December 2015

#### By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1 – 100	26,141	37.8%	1,437,751	0.6%
101 – 500	29,545	42.7%	7,454,349	2.9%
501 – 1000	7,344	10.6%	5,645,716	2.2%
1,001 – 5,000	5,410	7.8%	10,906,776	4.3%
5,001 – 10,000	457	0.7%	3,303,631	1.3%
10,001 – 50,000	261	0.4%	5,062,732	2.0%
50,001 – 100,000	37	0.1%	2,593,252	1.0%
100,001 – 500,000	29	0.0%	6,858,645	2.7%
500,001 –	18	0.0%	213,140,834	83.1%
<b>Total</b>	<b>69,242</b>	<b>100.0%</b>	<b>256,403,686</b>	<b>100.0%</b>
of which nominee registrations	12		62,652,050	

#### By shareholder category

	% of shares
State of Finland	50.1%
Non-Finnish shareholders	25.0%
Households	11.1%
General government	7.4%
Financial and insurance companies	2.6%
Corporations	1.9%
Non-profit organizations	1.9%
<b>Total</b>	<b>100.0%</b>

### Corporate governance

The control and management of Neste Corporation is divided between shareholders, the Board of Directors, and the President & Chief Executive Officer. The General Meeting of Shareholders appoints the Board of Directors based on a proposal made by the AGM Nomination Board. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting following its election. Neste's President & 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 Annual General Meeting (AGM) was held in Helsinki on 1 April 2015. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2014 and discharged the Board of Directors and the President & CEO from liability for 2014. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2014, authorizing payment of a dividend of EUR 0.65 per share. The dividend was paid on 14 April 2015.

In accordance with the proposal made by the Shareholders' Nomination Board, the AGM confirmed the membership of the Board of Directors at seven members, and the following were re-elected to serve until the end of the next AGM: Mr. Jorma Eloranta, Ms. Maija-Liisa Friman, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber, and Ms. Kirsi Sormunen. Mr Marco Wirén was elected as a new Board member. Jorma Eloranta was re-elected as Chair and Maija-Liisa Friman as Vice Chair. The AGM decided to keep the remuneration of Board members unchanged.

Convening after the Annual General Meeting, the Neste's Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Laura Raitio and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Maija-Liisa Friman, Willem Schoeber, and Kirsi Sormunen 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.

In accordance with a proposal by the Board of Directors, the AGM amended the Company's Articles of Association 1 § as follows:

"1 § Company Name and Domicile

The company name of the Company is Neste Oyj, Neste Abp in Swedish, and Neste Corporation in English. The Company is domiciled in Espoo."

In accordance with a proposal by the Board of Directors, the AGM authorized the Board to decide the purchase of the Company's own shares ('Buyback authorization') under the following terms:

Under this Buyback authorization, the Board shall be authorized to decide the purchase of and/or take as security a maximum of 1,000,000 Company shares using the Company's unrestricted equity. The number of shares shall be equivalent to approximately 0.39% of the Company's total shares.

Shares may be purchased in one or more lots. The purchase price shall be at least the lowest price paid for Company shares in regulated trading at the time of purchase and no more than the highest price paid for Company shares in regulated trading at the time of purchase. In connection with the buyback of Company shares, derivative, share lending,

or other agreements that are normal within the framework of capital markets may take place in accordance with legislative and regulatory requirements and at a price determined by the market. The authorization shall allow the Board to decide to purchase shares otherwise than in proportion to shareholders' current holdings (directed buyback).

Shares so purchased can be used as consideration in possible acquisitions or in other arrangements that are part of the Company's business, to finance investments, as part of the Company's incentive program, or be retained, conveyed, or cancelled by the Company.

The Board of Directors shall decide the other terms related to the buyback of Company shares. The Buyback authorization shall remain in force for eighteen (18) months from the decision taken by the AGM.

In accordance with a proposal by the Board of Directors, the AGM authorized the Board to decide the conveyance of the treasury shares held by the Company under the following terms:

Under this authorization, the Board shall be authorized to take one or more decisions concerning the distribution of the treasury shares held by the Company, with the proviso that the number of shares thereby conveyed totals a maximum of 2,000,000 shares, equivalent to approximately 0.78% of all the Company's shares.

The treasury shares held by the Company can be distributed to the Company's shareholders in proportion to the shares they already own or via a directed share issue that bypasses shareholders' pre-emptive rights if the Company has a weighty financial reason for doing so, such as using the shares in question as consideration in possible acquisitions or in other arrangements that are part of the Company's business, to finance investments, or as part of the Company's incentive program.

The treasury shares held by the Company can be conveyed against payment or distributed free of charge. A directed share issue can only be made free of charge if there is a particularly weighty financial reason, in respect of the Company's interests and those of all its shareholders, for doing so.

The Board will also be responsible for the other terms and conditions of a share issue. The authorization shall remain in force until 30 June 2018.

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

## Personnel

Neste employed an average of 4,906 (4,989) employees in 2015, of which 1,553 (1,512) were based outside Finland. As of the end of December, the company had 4,856 employees (4,833), of which 1,577 (1,524) were located outside Finland.

## Health, safety, and the environment

Neste's safety performance in 2015 remained close to the level established during the past few years. Safety was supported by an extensive development program focused on leadership and key operational areas among Neste employees and contractors.

People safety performance regressed partly due to the Porvoo refinery major turnaround, but was nevertheless better than in the last turnaround year five years ago. The total recordable injury frequency (TRIF, number of incidents per million hours worked) was 3.3 (2.7). The figure includes both Neste's own and contractors' personnel. TRIF related to Neste's own personnel was 2.2 as the contractor TRIF stayed at the same level compared to previous year. The corporate target for 2015 was below 2.7. Process safety improved, and the Process Safety Events Rate (PSER, number of process safety events per million hours worked) was 2.4 (3.0). The corporate PSER target for 2015 was 2.7.

Operational environmental emissions were substantially in compliance at all sites. Permitted levels were exceeded six times, but all were of a minor nature. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production facilities in 2015. Successful corrective actions were taken at the Naantali refinery in Finland to get emissions into air in compliance and to respond to smell complaints.

In 2015 Neste continued verifying the implementation of the company's No-deforestation guidelines among the palm oil suppliers. The verification carried out in cooperation with The Forest Trust (TFT) covers risk assessment of supply chain and goes beyond Neste's own operations to identify potential sustainability risks linked to the company's suppliers. By the end of 2015, all the main suppliers had adopted no-deforestation policies.

The 100% palm oil sustainability certification rate reached in 2013 was continued in 2015. Neste retained its position in a number of sustainability indexes during 2015, and was included in the Dow Jones Sustainability World Index (DJSI World) and on The Global 100 list of the world's most sustainable companies for the ninth year in succession. In the CDP Forest 2015, Neste was the only company in energy sector to report its forest footprint.

In promoting better practices in labor issues in Malaysia, Neste hired BSR (Business for Social Responsibility) to carry out a desktop study on social issues in palm industry, and arranged a social/labor workshop that was attended by all suppliers and several stakeholders in South-East Asia. Neste also updated its human rights commitment.

In combating climate change, Neste has signed the Paris Pledge for Action, which demonstrates that non-governmental actors are ready to play their part in supporting the objectives of the Paris Agreement.

## Research and development

Neste's R&D expenditure totaled EUR 41 million (40 million) in 2015. In addition to continuing work on feedstock expansion, significant R&D efforts were devoted in 2015 to broadening the current product portfolio beyond fuel applications. Suitability of NEXBTL isoalkanes for different commercial applications was studied broadly, e.g. for paints and coatings. Development work continued on renewable aviation fuel and low sulphur marine fuels. Introduction of high renewable content diesel fuel grades in the US and Sweden was technically supported. To support current and future business, Neste's patent portfolio in renewable fuels and applications was strengthened with new patents and patent applications.

Expansion of the fossil and renewable feedstock base continued to be a key research topic in 2015. Numerous new crude oils were accepted for commercial use. The use of waste and residue based renewable feedstock increased by 20% to 1.9 (1.6) million tons and accounted already for 68% (62%) of the total feed. At the same time the overall renewable diesel production volume increased by 10% to 2.3 (2.1) million tons. Especially lower grade waste and residue feedstock, such as used cooking oil and low quality animal fat quantities were increased. Long term research focused on new feedstock with focus on algae oil and on lignocellulose based feedstock such as forest and agricultural residues. More than 40 renewable fuel technologies for next generation feedstock were evaluated and benchmarked against each other. The most promising technologies were selected for further study and are being developed towards commercial use in-house and with partners.

## Main events published during 2015

On 4 February, Neste announced that Neste Oil's Board of Directors will propose to the Annual General Meeting (AGM) that the company's name be changed to Neste Corporation. The change would communicate the changes in the company's business and the company's seeking of growth from products other than conventional oil products. The proposal for the name change was processed as an amendment of the Articles of Association during the AGM of Neste Oil on 1 April 2015.

On 10 March, Neste announced that it had issued a EUR 500 million bond. The 7-year bond carries a coupon of 2.125%. The bond offering was clearly oversubscribed and the bonds were allocated to approximately 150 investors. The proceeds of the offering will be used for refinancing and general corporate purposes.

On 21 April, Neste announced that it had revised its guidance as a result of the strong performance during the first quarter and based on the current market outlook for the remainder of the year. The company now estimated the Group's full-year 2015 comparable operating profit to remain robust and to be higher than that reached in 2014.



On 16 June, Neste announced that its Porvoo refinery was back in production after the scheduled maintenance turnaround. Starting in April, the turnaround was the largest in the history of the refinery, and it will help ensure the refinery's good performance and safety for the next five years. The turnaround was expected to have a negative impact of approximately EUR 130 million on the Oil Products segment's comparable operating profit.

On 16 June, Neste announced that it will sell the product vessels Purha and Jurmo to Swedish shipping company Rederi AB Donsötank. The ships will be handed over to its new owner in September 2015. The sale was based on Neste's decision to divest its shipping operations, announced in fall 2013. Neste has now sold all the vessels it fully owns.

On 4 August, Neste announced that it had decided to invest about EUR 60 million in the Naantali refinery production. The investments are connected to the program announced in October 2014 with which Neste will develop the refineries in Porvoo and Naantali as one unit to improve the competitiveness of its refinery operations.

On 21 August, Neste announced that the company's Shareholders' Nomination Board had been appointed with the following members: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department (Chair); Mikko Mursula, Chief Investment Officer of Ilmarinen Mutual Pension Insurance Company; Reima Rytsölä, Executive Vice-President, Investments of Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste's Board of Directors. The Nomination Board will forward its proposals for the AGM to the Board of Directors by 31 January 2016.

On 15 September, Neste held a Capital Markets Day in London and highlighted its strategy based on a renewed vision "Creating responsible choices every day". The vision sets the direction for the company's ambition to grow and offer its customers low carbon solutions. Neste's strategic targets remain unchanged: be the Baltic Sea champion and grow in the global renewable markets. The company aims to have 20% of its renewable business sales volume from non-traffic applications by 2020. It also targets to generate EUR 100 million additional EBIT in Renewable Products, including the non-traffic applications, by 2020. Neste is determined to generate shareholder value and strong cash flow to support investments in improved productivity and opportunities for growth, to optimize debt, and to ensure favorable dividend distribution. Neste's financial targets and dividend policy remain unchanged.

On 4 November, Neste announced that it will work together with Boeing, the world's largest aircraft manufacturer, to promote and accelerate the commercialization of renewable aviation fuel. The companies will work toward American Society for Testing and Materials (ASTM) fuel standard approval allowing the commercial use of high freezing point renewable aviation fuel by airlines. The goal is also to gain widespread market acceptance for renewable aviation fuels, and to progress sustainability accreditation efforts.

On 1 December, Neste announced that it welcomes the US Environmental Protection Agency's (EPA) renewable fuel volume requirements. The EPA published the final ruling covering renewable fuel volume requirements retrospectively for 2014 and prospectively for 2015 and 2016. Neste's NEXBTL renewable diesel meets the requirements of an advanced biofuel in the biomass-based diesel category (D4). Volume requirements for biomass-based diesel for 2015, 2016, and 2017 are higher than the ones proposed by the EPA in May 2015.

On 9 December, Neste announced that its Porvoo refinery is expected to run with a utilization rate of about 70% until mid-January due to an equipment malfunction. The malfunction had decreased the refinery's utilization rate since November. The malfunctioning air cooler is new: it was installed in the refinery's maintenance turnaround that ended in June. Neste estimated that the issue will cause a production loss of a several tens of millions of euros. However, due to the high refining margins at the beginning of the quarter, the refinery's lower utilization rate did not have an impact on the company's outlook for 2015.

On 15 December, Neste announced that Neste, Veolia and Borealis have agreed to create a joint venture company to build a new combined heat and power plant and produce and supply steam and other utilities to Neste's refinery and Borealis' petrochemical plant in Porvoo, Finland. The company, Kilpilahti Power Plant Limited (KPP) will be owned 40% each by Neste and Veolia and 20% by Borealis. Neste will contribute its required equity share in KPP by transferring the current power plant to the joint venture company. The arrangement is subject to financing deals which are expected to take place during the first quarter of 2016. KPP will build new steam and power generation assets running on side streams from the refineries as well as natural gas. The total investment is expected to be around 400 million euros.

On 21 December, Neste announced that the US Blender's Tax Credit (BTC) had been approved retroactively for the year 2015 and prospectively for 2016. In the US qualified biofuel blenders are eligible for a Blender's Tax Credit of \$1.00 per gallon of biodiesel or renewable diesel used in the blending process. The retroactive reinstatement of the BTC was expected to improve Neste's comparable operating profit by more than EUR 100 million in 2015, and the respective cash flow was expected to be received during the first half of 2016.

### Events after the reporting period

On 25 January, 2016, Neste announced that the Shareholders' Nomination Board, established by Neste Corporation's Annual General Meeting (AGM) on 4 April 2013, will propose to the AGM to be held on 30 March 2016 that the company's Board of Directors should comprise the following members: Mr. Jorma Eloranta should be re-elected as Chair

and Ms. Maija-Liisa Friman as Vice Chair of the Board. In addition, Board members Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber, Ms. Kirsi Sormunen and Mr. Marco Wirén should be re-elected for a further term of office.

## Potential risks

During the last few years, the uncertain world economy and geopolitical tensions have had an effect on general business conditions in markets where Neste operates. Also the oil market has been and is expected to continue to be very volatile.

Key market drivers affecting Neste's financial results include refining margin, feedstock price differences and the USD/EUR exchange rate.

Price differential, or margin, is calculated as a difference between refined petroleum and renewable product prices; and the prices for crude oil, different vegetable oils and other feedstock used. General turbulence in the oil markets may result in unexpected swings in crude oil and feedstock prices that are one factor contributing to the margin. Other factors include changes in supply and demand conditions, product price fluctuations and evolution of worldwide refining capacity. Historically, refining margins have been volatile and are likely to be so also in the future.

In addition to the above described refining margin risk, rapid and large changes in feedstock and product prices may also lead to significant inventory gains or losses, or changes in working capital, and may therefore have a material impact on the company's IFRS operating profit and net cash from operations.

Changes in laws and unpredictable regulation present a potential risk area especially for the Renewable Products business. Changing biofuel legislation in the EU, North America and other key markets may influence the speed at which the demand for renewable products develops. Over the longer term, failure to protect Neste's proprietary technology, or the introduction and implementation of competing technologies may have a negative impact on the company's result.

Neste's business is dependent to a significant extent on its wholly-owned oil refineries in Finland and its renewable diesel refineries in Singapore and in Rotterdam, the Netherlands. Any scheduled or unexpected shutdowns at these refineries will have an adverse effect on Neste's business, financial condition, operational results and future prospects.

Over the longer term, access to funding and rising capital costs may impact the company's results.

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

## Risk management

Neste considers risk management as an integral part of daily management processes and good corporate governance. Risk is recognized as 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.

Framework and principles for risk management in Neste have been defined in Corporate Risk Management Policy, which is 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. 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 teams, Neste Executive Board, Audit Committee and Board of Directors.

For more detailed information on Neste's risks and risk management, please refer to the company's Corporate Governance Statement, which has been published as a separate document, and to the note 3 of Financial Statements for 2015.

## Outlook for 2016

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.

Low crude oil prices are expected to continue supporting product demand. Crude oil supply is expected to increase as the economic sanctions against Iran are lifted and more medium heavy crude oil will be brought to the European market in 2016. Global oil demand growth estimates for 2016 have been increased to a level of 1.2–1.4 million bbl/d, as especially gasoline demand is expected to continue solid growth. In light of the expected refining capacity growth the global product supply and demand look reasonably balanced.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks, but no fundamental changes in the drivers influencing long-term average feedstock price differentials are expected. Market volatility in feedstock prices is expected to continue, which will have an impact on the Renewable Products segment's profitability.

In 2016, Neste's effective USD/EUR exchange rate is expected to stay close to the current market rate, the capital expenditure is estimated to be approximately EUR 400 million, and the Group's effective tax rate is expected to average approx. 20%.

Neste expects Oil Products' reference refining margin to continue to be supported by relatively good gasoline margins. The Porvoo refinery is expected to run at high utilization rate with no major maintenance outages scheduled.

Renewable Products' reference margin is expected to remain at approximately the average level of the year 2015. Utilization rates of our renewable diesel production facilities are expected to be high, excluding the seven-week scheduled turnaround at the Rotterdam refinery in April-May 2016.

In Oil Retail the sales volumes and unit margins are expected to follow the previous years' seasonality pattern.

As communicated in the third quarter interim report on 23 October 2015, Neste has discontinued giving numerical result guidance to be consistent with industry practice.

### **Dividend distribution proposal**

Neste's dividend policy is to distribute at least one third of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2015 amounted to EUR 1,411 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 1.00 per share (0.65) for 2015, totaling EUR 256 million (166 million) based on the number of outstanding shares.

The proposed dividend represents a yield of 3.6% (at year-end 2015 share price of EUR 27.63) and 35% of the comparable net profit in 2015.