

The background is a gradient from blue on the left to green on the right. It features a network of circles of various sizes connected by thin lines, resembling a molecular or network diagram. The circles are in shades of blue and green, matching the background gradient.

NESTE 2016

Review by the Board of Directors

A full-page background image showing two people in a raft on a river. The person in the foreground is wearing a blue life vest, a white helmet, and sunglasses, smiling while holding a blue paddle. The person in the background is also wearing a blue life vest and a white helmet. The water is splashing around them, and the background shows a clear blue sky and some greenery.

Review by the Board of Directors

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Review by the Board of Directors 2016

Neste had another successful year in 2016 and posted a record-high comparable operating profit of EUR 983 million compared to EUR 925 million in the previous year. The Group's IFRS operating profit was EUR 1,155 million (699 million). For the first time Renewable Products had the largest full-year comparable operating profit contribution, which reflected the continuing strategic transformation of the company. The company generated a strong cash flow and further strengthened its balance sheet. The return on average capital employed was maintained over the long-term target level of 15%. Oil Products' reference margin averaged clearly lower than the exceptionally high level in 2015, as high product inventories limited the upside in refining margins. However, additional margin reached USD 5.5/bbl level as a result of operational performance and leveraging of contango opportunities, with sales volumes back on track after the turnaround year 2015. Renewable Products' average reference margin and additional margin were higher than in 2015. The segment's sales volumes reached 2.22 million tons, almost the same level as in the previous year, despite of the scheduled maintenance at the Rotterdam refinery. A slightly higher share of the sales volumes was allocated to the North American market. Oil Retail's markets were growing and the segment was able to increase profits by higher sales volumes and unit margins. The Board of Directors will propose a dividend of EUR 1.30 per share (1.00) for 2016, totaling EUR 332 million (256 million).

Figures in parentheses refer to the full-year financial statements for 2015, unless otherwise noted.

The Group's results for 2016

Neste's revenue in 2016 totaled EUR 11,689 million (EUR 11,131 million). Sales volumes increased, but the revenue was negatively impacted by a lower average oil price year-on-year. The Group's comparable operating profit was EUR 983 million (EUR 925 million). Oil Products' result was negatively impacted by reference margin, which was materially lower than in 2015. However, additional margin increased, and the sales volume was higher compared to last year, which was impacted by the

scheduled turnaround at the Porvoo refinery. Renewable Products operating profit improved as a result of higher reference margin and additional margin. Oil Retail's result was positively impacted by increased sales volumes and unit margins. The Others segment recorded a lower comparable operating profit compared to 2015, mainly due to Nynas' lower result and higher common corporate costs.

Oil Products' full-year comparable operating profit was EUR 453 million (439 million), Renewable Products' EUR 469 million (402 million), and Oil Retail's EUR 90 million (84 million). The comparable operating profit of the Others segment totaled EUR -23 million (2 million); Nynas accounted for EUR 11 million (29 million) of this figure.

The Group's IFRS operating profit was EUR 1,155 million (699 million), which was impacted by inventory gains totaling EUR 280 million (losses of 263 million), and changes in the fair value of open commodity and currency derivatives totaling EUR -118 million (-15 million), mainly related to hedging of inventories. IFRS operating profit was also impacted by capital gains totaling EUR 23 million (76 million), mainly related to the sale of Ekokem shares and the sale of Neste's power plant to Kilpilähti Power Plant Ltd. Profit before income taxes was EUR 1,075 million (634 million), net profit EUR 943 million (560 million). Comparable earnings per share were EUR 3.10 (2.84), and earnings per share EUR 3.67 (2.18). The Group's effective tax rate was 12% (12%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Latvia, Lithuania, Singapore, and Switzerland, where Neste has business operations. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010–2023 under the applicable Singapore legislation.

Group key Figures, MEUR

	2016	2015
Comparable operating profit	983	925
- inventory gains/losses	280	-263
- changes in the fair value of open commodity and currency derivatives	-118	-15
- capital gains/losses	23	76
- insurance and other compensations	0	0
- other adjustments	-13	-25
IFRS operating profit	1,155	699

Revenue

	2016	2015
Oil Products	7,395	7,467
Renewable Products	2,690	2,372
Oil Retail	3,552	3,748
Others	294	267
Eliminations	-2,241	-2,724
Total	11,689	11,131

Comparable operating profit

	2016	2015
Oil Products	453	439
Renewable Products	469	402
Oil Retail	90	84
Others	-23	2
Eliminations	-6	-2
Total	983	925

IFRS operating profit

	2016	2015
Oil Products	563	389
Renewable Products	518	233
Oil Retail	89	79
Others	-11	0
Eliminations	-5	-2
Total	1,155	699

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%. ROACE calculated over the last 12 months period was maintained over the target level, and leverage ratio continued on a downward trend.

	31 Dec 2016	31 Dec 2015
Return on average capital employed after tax (ROACE)*, %	16.9	16.3
Leverage ratio (net debt to capital), %	15.4	29.4

* Last 12 months

Cash Flow, investments and Financing

The Group's net cash generated from operating activities totaled EUR 1,193 million (743 million) in 2016. The year-on-year difference was mainly attributable to the strong EBITDA generation of businesses, and payment of the US Blender's Tax Credit from the year 2015 during 2016. Cash flow before financing activities was EUR 834 million (480 million). The Group's net working capital in days outstanding was 26.8 days (21.4 days) on a rolling 12-month basis at the end of 2016.

	2016	2015
EBITDA (IFRS)	1,521	1,057
Capital gains/losses	-28	-77
Other adjustments	121	-27
Change in working capital	-229	-94
Finance cost, net	-56	-88
Income taxes paid	-137	-27
Net cash generated from operating activities	1,193	743
Capital expenditure	-407	-505
Other investing activities	49	241
Free cash flow (Cash flow before financing activities)	834	480

Cash-out investments totaled EUR 407 million (505 million) in 2016. Maintenance investments accounted for EUR 148 million (374 million) and productivity and strategic investments for EUR 259 million (131 million). Oil Products' investments totaled EUR 257 million (437 million), with the largest single project being the Solvent Deasphalting (SDA) unit under construction at the Porvoo refinery. Renewable Products'

investments totaled EUR 90 million (32 million), mainly related to the ongoing biopropane unit investment at the Rotterdam refinery. Oil Retail's investments totaled EUR 26 million (19 million) and were mainly related to the station network. Investments in the Others segment totaled EUR 35 million (17 million) and were mainly related to IT and business infrastructure upgrade.

Interest-bearing net debt was EUR 683 million as of the end of December 2016, compared to EUR 1,291 million at the end of 2015. Net financial expenses for the year were EUR 79 million (65 million). The average interest rate of borrowing at the end of December was 3.5% (3.4%) and the average maturity 3.6 (3.7) years. The interest-bearing net debt/comparable EBITDA ratio was 0.5 (1.0) over the previous 12 months at the end of the year.

The Group has a strong financial position. The leverage ratio was 15.4% (31 Dec. 2015: 29.4%), and the gearing ratio 18.2% (31 Dec. 2015: 41.6%) at the end of the year.

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,438 million as of the end of December (31 Dec. 2015: 2,246 million). There are no financial covenants in the Group companies' current loan agreements.

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

US dollar exchange rate

	2016	2015
EUR/USD, market rate	1.11	1.11
EUR/USD, effective rate*	1.11	1.15

* 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

	2016	2015
Revenue, MEUR	7,395	7,467
EBITDA, MEUR	780	606
Comparable EBITDA, MEUR	670	655
Comparable operating profit, MEUR	453	439
IFRS operating profit, MEUR	563	389
Net assets, MEUR	2,424	2,320
Return on net assets, %	23.2	16.2
Comparable return on net assets, %	18.7	18.2

Key drivers

	2016	2015
Reference refining margin, USD/bbl	4.88	7.74
Additional margin, USD/bbl	5.50	4.05
Total refining margin, USD/bbl	10.38	11.79
Urals-Brent price differential, USD/bbl	-2.48	-1.84
Urals' share of total refinery input, %	68	62

Crude oil prices were again volatile during 2016. After a weak start for the year the prices rose significantly towards USD 50/bbl during the first half of the year. The rise was driven by expectations of a more balanced crude oil supply and demand as markets saw low crude oil price negatively impacting upstream investment. During the second half of the year prices were trending upward mainly driven by talks and a later agreement between OPEC and NON-OPEC countries to cut production. In 2016 Brent price averaged USD 43.7/bbl, but at year end it was approx. USD 55/bbl – the highest level since summer 2015.

The Russian Export Blend (REB) crude averaged USD 2.5/bbl lower than Brent in 2016 and USD 2.2/bbl lower during the fourth quarter. Record production in post-Soviet period and continued high exports through the Baltic ports contributed to a reasonably wide differential during the year. Also, competition from Middle Eastern sour grades in the Baltic Sea and Mediterranean markets drove a wider REB differential.

Despite a weak diesel margin due to the mild winter, the Neste reference refining margin started the year 2016 on a seasonally high level as gasoline storing for the

summer season and a weak crude oil market had positive impact on margins. During the summer refining margins came under pressure as gasoline market started to lose its strength due to high inventory levels and the slowly recovering diesel margins were not able to compensate gasoline weakness. During the second half of the year, margin recovered from the summer lows driven by refinery run cuts and autumn refinery maintenance season together with several refinery outages. On average, gasoline was the strongest part of the barrel in 2016. Neste's reference margin averaged USD 4.9/bbl in 2016, and USD 5.2/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 453 million (439 million). During 2016 the average reference refining margin was USD 2.9/bbl lower than in the previous year, which had a negative impact of EUR 235 million on the result. On the other hand, additional margin was USD 1.5/bbl higher and had a positive impact of EUR 206 million on the comparable operating profit year-on-year. Sales volumes were 20% higher compared to the year 2015, which was impacted by the scheduled major turnaround at Porvoo. Higher sales volumes increased the operating profit by EUR 69 million. The segment's fixed costs were approx. EUR 33 million higher year-on-year, mainly as a result of higher maintenance activities.

Production

	2016	2015
Porvoo refinery production, 1,000 ton	11,718	9,835
Porvoo refinery utilization rate, %	89	75
Naantali refinery production, 1,000 ton	1,869	1,956
Naantali refinery utilization rate, %	62	62
Refinery production costs, USD/bbl	4.2	4.0
Bahrain base oil plant production (Neste's share), 1,000 ton	159	184

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

	2016	%	2015	%
Middle distillates*	6,590	46	5,395	45
Light distillates**	4,706	33	3,857	33
Heavy fuel oil	1,594	11	1,122	9
Base oils	461	3	433	4
Other products	965	7	1,075	9
Total	14,316	100	11,881	100

* Diesel, jet fuel, heating oil

** Motor gasoline, gasoline components, LPG

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

	2016	%	2015	%
Baltic Sea area*	8,037	56	7,876	66
Other Europe	4,596	32	3,154	27
North America	1,198	8	491	4
Other areas	485	3	360	3

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

Renewable Products

Key Financials

	2016	2015
Revenue, MEUR	2,690	2,372
EBITDA, MEUR	628	327
Comparable EBITDA, MEUR	578	497
Comparable operating profit, MEUR	469	402
IFRS operating profit, MEUR	518	233
Net assets, MEUR	1,811	1,884
Return on net assets, %	28.6	12.6
Comparable return on net assets, %	25.9	21.8

Key drivers

	2016	2015
FAME - Palm oil price differential*, USD/ton	194	211
SME - Soybean oil price differential**, USD/ton	204	118
Reference margin, USD/ton	207	182
Additional margin***, USD/ton	272	247
Comparable sales margin***, USD/ton	348	299
Biomass-based diesel (D4) RIN, USD/gal	0.91	0.73
Palm oil price****, USD/ton	634	576
Crude palm oil's share of total feedstock, %	19	31

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

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

*** Includes impact of US BTC (Blender's tax Credit); full-year 2015 contribution in both 10-12/15 and 2015 figures

**** CPO BMD 3rd

During 2016, crude palm oil (CPO) and other vegetable oil prices were supported by low inventories globally. Severe El Nino weather phenomenon reduced palm oil production with some time lag, and as exports continued at reasonably high level, CPO inventories were drawn down. CPO price averaged 10% higher in 2016 than in the previous year. Rapeseed oil (RSO) supply was negatively impacted by the poor European rapeseed crop. Soybean oil (SBO) price got support later in the year by strong worldwide demand and continued positive outlook for the US Renewable Fuel Standard requirements in 2017.

European Fatty Acid Methyl Ester (FAME) biodiesel demand did not grow in 2016. FAME prices were on an increasing trend supported by stronger RSO, but producer margins declined. In the US market Soy Methyl Ester (SME) demand growth in 2016 was driven by increased biomass-based diesel volume obligations, need to replace ethanol due to the gasoline blend wall issue, and limitations in Brazilian ethanol supply for the advanced biofuels category. SME margins improved clearly from the previous year despite the higher SBO prices. This was also reflected in Renewable Identification Number (RIN) prices, which increased by USD 0.18/gallon (D4 RIN) on average in 2016. Overall, biodiesel and renewable diesel production benefited from the increase in the biomass-based diesel mandate and the US Blenders' Tax Credit introduced for 2016. The California Low Carbon Fuel Standard (LCFS) program progressed as expected, and the LCFS credit prices increased by approx. USD 50/ton from 2015 on average.

Renewable Products' full-year comparable operating profit was EUR 469 million (402 million). The reference margin in 2016 was higher than in the previous year, which had EUR 49 million positive impact on the segment's operating profit. The additional margin also improved through successful margin management and sales allocation, which had a positive impact of EUR 52 million year-on-year. Sales volume was 2.222 million tons in 2016, down only 2% from the record level of the previous year, despite the scheduled turnaround at the Rotterdam refinery in the second quarter. During the year 2016 approximately 66% (69%) of sales volume went to Europe and 34% (31%) to North America. Demand for renewable diesel delivered as 100% to end-users has increased steadily in Europe and North America, as it is an efficient solution to quickly reduce greenhouse gas and other emissions in existing fleets. In 2016 100% renewable diesel sales accounted for more than 15% of our total renewable diesel sales volumes. Renewable diesel production achieved an average capacity utilization rate of 88% (94%) in 2016, mainly impacted by the scheduled turnaround and other maintenance at the Rotterdam refinery. Feedstock mix optimization continued successfully, and the proportion of waste and residue inputs rose to 78% (68%) on average. Fixed costs and depreciations increased by EUR 29 million year-on-year.

Production

	2016	2015
Neste Renewable Diesel, 1,000 ton	2,213	2,328
Other products, 1,000 ton	175	165
Utilization rate, %	88	94

Sales

	2016	2015
Neste Renewable Diesel, 1,000 ton	2,222	2,267
Share of sales volumes to Europe, %	66	69
Share of sales volumes to North America, %	34	31

Oil Retail

Key Financials

	2016	2015
Revenue, MEUR	3,552	3,748
EBITDA, MEUR	111	110
Comparable EBITDA, MEUR	112	115
Comparable operating profit, MEUR	90	84
IFRS operating profit, MEUR	89	79
Net assets, MEUR	196	184
Return on net assets, %	47.3	38.9
Comparable return on net assets, %	47.5	41.2

Oil Retail's markets grew modestly in Finland and more rapidly in the Baltic countries. Heavy duty traffic continued to recover in Finland. Russian economy affects consumer demand, but the ruble has stabilized.

Oil Retail's full-year comparable operating profit was EUR 90 million (84 million). Higher sales volumes had a positive impact of EUR 4 million and improved unit margins a positive impact of EUR 2 million on the segment's comparable operating profit year-on-year. The weaker ruble had a negative impact of EUR 1 million on the result in Northwest Russia compared to the previous year.

Sales volumes by main product categories, million liters

	2016	2015
Gasoline, station sales	1,112	1,115
Diesel, station sales	1,695	1,589
Heating oil	620	569

Net sales by market area, MEUR

	2016	2015
Finland	2,497	2,642
Northwest Russia	248	255
Baltic countries	777	821

Others

Key Figures

	2016	2015
Comparable operating profit, MEUR	-23	2
IFRS operating profit, MEUR	-11	0

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 -23 million (2 million); of which Nynas accounted for EUR 11 million (29 million). Nynas' result was negatively impacted by lower margins and effects of the delayed Harburg refinery start-up.

Shares, share trading, and ownership

Neste's shares are traded on NASDAQ Helsinki Ltd. The share price closed the year 2016 at EUR 36.50, up by 32.1% compared to the end of 2015. The total shareholder return (TSR) was 35.7% (41.0%) in 2016. At its highest during 2016, the share price reached EUR 40.78, while the lowest daily closing price was EUR 25.42. Market capitalization was EUR 9.4 billion as of 31 December 2016. An average of 0.79 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 2016 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 2016, Neste held 686,574 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 2015) of outstanding shares, foreign institutions 30.3% (25.0%), Finnish institutions 10.1% (13.8%), and Finnish households 9.6% (11.1%).

Largest shareholders as of 31 December 2016

Shareholder	Shares	% of shares
Prime Minister's Office of Finland	128,458,247	50.10%
Ilmarinen Mutual Pension Insurance Company	4,820,849	1.88%
The Social Insurance Institution of Finland, KELA	2,648,424	1.03%
The State Pension Fund	1,900,000	0.74%
Varma Mutual Pension Insurance Company	1,777,514	0.69%
The City of Kurikka	1,550,875	0.60%
Elo Mutual Pension Insurance Company	1,221,107	0.48%
Schweizerische Nationalbank	933,413	0.36%
Neste Corporation	686,574	0.27%
OP-Delta Mutual Fund	580,000	0.23%
Sigrid Jusélius Foundation	423,000	0.17%
OP-Finland Value Fund	370,918	0.14%
Alhopuro Eero Sakari	348,400	0.14%
Veritas Pension Insurance Company Ltd.	306,934	0.12%
Finnish Cultural Foundation	302,882	0.12%
OP-Focus Fund	290,000	0.11%
Etola Erkki Olavi	250,000	0.10%
OP Bank Group Pension Fund	238,442	0.09%
Danske Finnish Institutional Equity Fund	212,874	0.08%
Jenny and Antti Wihuri Foundation	210,000	0.08%
20 largest owners total	147,530,453	57.54%
Nominee registrations	76,111,549	29.68%
Others	32,761,684	12.78%
Number of shares, total	256,403,686	100.00%

Breakdown of share ownership as of 31 December 2016

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1–100	26,356	40.7%	1,386,733	0.6%
101–500	26,977	41.6%	6,698,990	2.6%
501–1,000	6,301	9.7%	4,815,283	1.9%
1,001–5,000	4,524	7.0%	9,094,641	3.6%
5,001–10,000	363	0.6%	2,611,541	1.0%
10,001–50,000	208	0.3%	4,113,315	1.6%
50,001–100,000	21	0.0%	1,439,235	0.6%
100,001–500,000	29	0.1%	5,881,083	2.3%
500,001–	15	0.0%	220,362,865	85.9%
Total	64,794	100.0%	256,403,686	100.0%
of which nominee registrations	11		76,111,549	

By shareholder category

	% of shares
State of Finland	50.1%
Non-Finnish shareholders	30.3%
Households	9.6%
General government	5.9%
Financial and insurance companies	1.3%
Corporations	1.6%
Non-profit organizations	1.2%
Total	100.0%

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 30 March 2016. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2015, and discharged the Board of Directors and the President & CEO from liability for 2015. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2015, authorizing payment of a dividend of EUR 1.00 per share. The dividend was paid on 8 April 2016.

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, Ms Kirsi Sormunen and Mr Marco Wirén. Mr Eloranta was re-elected as Chair and Ms Friman as Vice Chair.

Convening after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Maija-Liisa Friman and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Laura Raitio, 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 Annual General Meeting authorized the Board to decide on donations in the aggregate maximum amount of EUR 1,500,000 to be given to universities and higher education institutions. The donations can be made in one or more installments. The Board may decide on the donation beneficiaries and the amount of each donation. The authorization shall be in force until the closing of the next Annual General Meeting.

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

Personnel

Neste employed an average of 5,013 (4,906) employees in 2016, of which 1,585 (1,553) were based outside Finland. As of the end of December, the company had 5,001 employees (4,856), of which 1,602 (1,577) were located outside Finland.

Health, safety, and the environment

Key Figures

	2016	2015
TRIF*	2.8	3.3
PSER**	3.1	2.4

* Total Recordable Incident Frequency, number of cases per million hours worked. The figure includes both Neste's and contractors' personnel.

** Process Safety Event Rate, number of cases per million hours worked.

Neste's safety performance improved towards the end of the year, but, however, the targets for 2016 were not reached. The occupational safety key performance indicator TRIF in 2016 was better than in the previous year. PSER, the main indicator for process safety, was higher than the target and higher than the 2015 result. Several short-term initiatives have been started to ensure reaching the targets for 2017. Our long-term safety development activities continue according to the corporate-wide Way Forward to Safety program plan focusing on behavior, leadership, operational discipline, process safety and contractor safety.

Neste's operational environmental emissions were in substantial compliance at all sites during 2016. A total of eight environmental non-compliance cases occurred in Neste's operations. All these cases were minor and had a limited environmental impact only. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. In December 2016 the Porvoo refinery was granted an amended environmental permit pursuant to the EU Best Available Technology (BAT) requirements for oil refineries.

Neste was included in the Dow Jones Sustainability World Index for the tenth consecutive time, this year being the only company in the European oil refining and retail sector included on the list. The company was also recognized as a world leader for corporate action on climate change, reaching the Climate A List of Carbon Disclosure Project (CDP). In December, Neste's actions to prevent deforestation received high score and Leadership-status also in the CDP Forests program 2016.

Neste continued to be the only company in the energy sector to transparently report on its forest footprint as part of the globally acknowledged CDP Forests program.

Read more about the topics on [Neste's website](#).

Research and development

Neste's R&D expenditure totaled EUR 41 million (41 million) in 2016. Expansion of the feedstock portfolio and broadening of the product portfolio also beyond fuel applications was continued. Participation in standardization group work has been active. The approval of the new paraffinic diesel standard EN 15940 in 2016 was an important step to larger scale use of 100% renewable diesel. Product development work has continued on renewable aviation fuel and new application areas, where e.g. cooperation with Ikea on bioplastics and with Avantherm on heat exchanger fluids has been continued. Neste's patent portfolio in renewable feedstock, fuels and applications was further strengthened with new patents and patent applications.

Expansion of the renewable feedstock base continued to be a key research topic in 2016. Volume of waste and residue based renewable feedstock increased significantly summing up to annual total of 2.1 (1.9) million tons and accounted already for 78% (68%) of the total feed. Especially lower grade waste and residue feedstock, such as low quality animal fats, technical corn oil and used cooking oil quantities were increased. Improvements in renewable diesel production capacity enabled to reach total production of 2.2 (2.3) million tons despite of the scheduled Rotterdam turnaround in spring 2016. R&D also supported the development and optimization of both fossil and renewables refinery units, including selection of the most suitable catalysts for the catalytic units.

Main events published during 2016

On 16 March, Neste announced that the power plant arrangement between Neste, Veolia and Borealis was closed in the form it was announced in December 2015. In the arrangement, Neste will transfer its existing power plant to Kilpilahti Power Plant Limited (KPP). The company will build a new combined heat and power plant in Porvoo to match the needs of Neste and Borealis. Neste and Veolia both own 40% of KPP, and Borealis owns 20%. The total investment value of the power plant is about EUR 400 million. The plant, to be operated by Veolia, is scheduled for commissioning in 2018.

On 29 March, Neste announced that the name of the Neste Oil station network will change to Neste.

On 12 May, Neste announced that it had been informed of the State of Finland's

proposed amendments to its ownership policy. The Government proposes a new lower limit of 33.4% for the implementation of strategic interest, which would be applied to Neste. The planned changes in the shareholding of the State of Finland will not have effects on Neste's business. The Finnish Parliament decides on ownership limits and changes in them.

On 2 September, 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; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Liisa Hyssälä, Director General of Kela, 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 2017.

On 6 September, Neste and Ikea of Sweden announced a partnership to deliver renewable, bio-based plastics. Neste and IKEA have joined forces to take leadership in renewable, bio-based materials, and invite other companies to join the initiative. The partnership includes the production of plastics and other materials utilizing Neste's renewable solutions in polymer production. The partnership combines IKEA's commitment to reduce their dependence on virgin fossil based materials and Neste's expertise in renewable solutions. The companies will work with a number of partners in the supply chain.

On 8 September, Neste announced that it will be renewing the Finnish diesel market by introducing 100% renewable diesel. Neste is planning to start selling diesel produced entirely from renewable raw materials at selected stations in Finland around the turn of the year. The new product offers environmentally conscious consumers and corporate customers a sustainable and easy solution for reducing traffic-borne emissions. Majority of the renewable raw materials the company uses consists of waste and residues.

On 13 September, Neste announced changes in the Neste Executive Board's roles and responsibilities. Tuomas Hyryläinen was appointed Senior Vice President, Emerging Businesses Unit as of 14 September, 2016. He will continue as a member of the Executive Board, reporting to President and CEO Matti Lievonon. Strategy and related operations will report to Jyrki Mäki-Kala, CFO.

On 14 September, Neste held a Capital Markets Day in London under the theme "Creating the next wave of profitable growth." The company's strategic objectives remain unchanged: be the Baltic Sea champion and grow in the global renewables markets. Neste continues its efforts to enhance Oil Products' additional margin. The target for additional margin has been raised from the earlier USD 5.0/bbl to above USD 5.5/bbl on average. Neste sees great potential in many new renewable product

applications such as renewable jet fuel and bio-based chemicals, and targets to have 20% of its renewable business sales volume from these new applications by 2020. The company's ambition is to increase its renewable products capacity from the current 2.6 million tons/a further to maintain its global market leadership in drop-in solutions. The company is exploring different options for the new capacity increase program, and will give more information during the first quarter of 2017. Neste's most important financial targets are leverage and ROACE after tax, and they remain unchanged. Neste's dividend policy has been revised. The company will distribute at least 40% of the company's comparable net profit for the year in the form of dividends.

On 2 November, Neste announced that to celebrate the 100th anniversary of Finland's independence, Neste will donate a total of EUR 1.5 million to Finnish universities. The donation will be split between Aalto University, Åbo Akademi, Lappeenranta University of Technology, and the University of Helsinki.

On 23 November, Neste announced that the US Environmental Protection Agency (EPA) had published the final ruling covering renewable fuel volume requirements for 2017 under the Renewable Fuel Standard (RFS) program. The final rule calls for further increases in the volume requirements above those in proposed rule published on 18 May 2016, and includes an increased volume requirement for biomass-based diesel for 2018.

On 30 November, Neste announced that the European Commission had published its proposal on the revised Renewable Energy Directive for the years 2021 through 2030. Neste welcomes EU's continuing commitment to long-term policies and ambitious climate targets. The goal of the Directive is to increase the proportion of renewable energy in Europe to 27% by 2030. The proposed Renewable Energy Directive introduces aviation and marine sectors to contribute to the climate effort. The proposal will next be considered by the European Council and the European Parliament.

On 15 December, Neste announced that Christian Ståhlberg, M.Sc. (Laws), had been appointed as General Counsel of Neste Corporation and member of the Neste Executive Board. He will join Neste on 1 July 2017, at the latest, and will report to President and CEO Matti Lievonon.

On 27 December, Neste announced that it had signed an agreement with Electrawinds ReFuel B.V. on the acquisition of a former biodiesel plant in Sluiskil in the Netherlands. Neste intends to use the Sluiskil plant for the storage and pre-treatment of renewable raw materials for the company's renewable diesel refineries. The aim is to complete the transaction during the first quarter of 2017. The purchase price is not disclosed.

Events after the reporting period

On 2 January, 2017, Neste announced the following change in membership in Neste's Shareholders' Nomination Board: Due to the retirement of Liisa Hyssälä, the new Director General of Kela, Elli Aaltonen, has succeeded her as a member of the Neste's Shareholders' Nomination Board on 1 January 2017.

On 27 January, 2017, Neste announced that the Shareholders' Nomination Board will propose to the AGM to be held on 5 April 2017 that the company's Board of Directors should comprise the following members: Mr. Jorma Eloranta should be re-elected as Chair, and Board members Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén should be re-elected for a further term of office. The Shareholders' Nomination Board further proposes that the Board should have eight members and that Ms. Martina Flöel (PhD, Chemistry), Ms. Heike van de Kerkhof (BSc, Mechanical Engineering, and MBA) and Mr. Matti Kähkönen (M.Sc. Eng) should be elected as new members. The Nomination Board further proposes that Mr. Kähkönen should be elected as the Vice Chair of the Board.

Potential risks

There have been no significant changes in Neste's short-term risks or uncertainties since the end of 2015.

Key market risks affecting Neste's financial results for the next 12 months include rapid changes in global oil markets, unexpected changes in the product and feedstock prices of Oil Products and/or Renewable Products, weakening of USD against EUR, and adverse changes in the current biofuel legislation in our main markets. Any scheduled or unexpected shutdowns at Neste's refineries would have a negative effect on Neste's financial 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 2016.

Outlook For 2017

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.

Crude oil supply and demand are expected to become more balanced, leading to a stronger crude market. Global oil demand growth estimates for 2017 by recognized experts currently vary between 1.2 and 1.6 million bbl/d. In light of the expected refining capacity growth the global product supply and demand look relatively balanced.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Market volatility in feedstock prices is expected to continue, which will have an impact on the Renewable Products segment's profitability.

Neste expects Oil Products' reference refining margin to be quite similar to that in 2016 on average. Our Porvoo refinery is expected to run at a high utilization rate and to have normal planned unit maintenance. A major two month turnaround at the Naantali unit is scheduled for the third quarter. We are targeting at least USD 5.5/bbl additional margin after mid-2017 as the ongoing strategic investments in the Porvoo Solvent Deasphalting (SDA) unit and the Naantali configuration change are completed.

Renewable Products' reference margin is expected to be at approximately the average level of the year 2016. Neste continues to optimize sales allocation based on the total margin, and we have new attractive markets in Europe. For example, Norway has set a biofuel target in traffic growing from 7.5% in 2017 to 20% in 2020. California continues to be an important market for Neste. Sales volumes of the renewable diesel delivered as 100% to end-users are expected to continue growing and be close to 25% of the total sales volumes in 2017. The vegetable oil market is expected to

remain volatile, and we aim to expand the use of lower quality waste and residue feedstock further. The completed acquisition of the new feedstock pretreatment and storage facility in the Netherlands will support this goal. A new nameplate capacity of 2.6 million tons is effective 1 January, 2017, and utilization rates of our renewable diesel facilities are expected to be high. Our production costs have been reduced and we lower our variable production cost guidance from USD 130 to USD 110/ton.

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

Neste will continue to implement its global renewables growth strategy. The global demand for renewable products is expected to continue growing globally. Neste's renewables capacity increase program will include both debottlenecking of the existing production capacity to 3 million tons by 2020, and building of new capacity. We are currently evaluating the feasibility of options to invest in new production capacity. The options under review include locations in the US and Singapore.

Our strategy implementation is proceeding well, we continue to focus on our customers and growth initiatives, and will be completing the already announced strategic investments in 2017. Therefore, we are confident that the year 2017 will be another successful one for Neste.

Dividend distribution proposal

Neste's dividend policy is to distribute at least 40% of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2016 amounted to EUR 1,670 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 1.30 per share (1.00) for 2016, totaling EUR 332 million (256 million) based on the number of outstanding shares.

The proposed dividend represents a yield of 3.6% (at year-end 2016 share price of EUR 36.50) and 42% of the comparable net profit in 2016.

Key Figures

		2016	2015	2014
Income statement				
Revenue	MEUR	11,689	11,131	15,011
Operating profit	MEUR	1,155	699	150
- of revenue	%	9.9	6.3	1.0
Comparable operating profit	MEUR	983	925	583
Profit before income taxes	MEUR	1,075	634	78
- of revenue	%	9.2	5.7	0.5
EBITDA	MEUR	1,521	1,057	480
Comparable EBITDA	MEUR	1,349	1,284	913
Comparable net profit	MEUR	793	726	408
Profitability				
Return on equity (ROE)	%	28.1	19.7	2.1
Return on capital employed, pre-tax (ROCE)	%	22.6	14.7	3.3
Return on average capital employed, after tax (ROACE)	%	16.9	16.3	10.1
Financing and financial position				
Interest-bearing net debt	MEUR	683	1,291	1,621
Leverage ratio	%	15.4	29.4	37.9
Gearing	%	18.2	41.6	60.9
Equity-to-assets ratio	%	50.6	46.1	41.0
Other indicators				
Capital employed	MEUR	5,226	4,991	4,526
Capital expenditure and investments in shares	MEUR	422	536	418
- of revenue	%	3.6	4.8	2.8
Research and development expenditure	MEUR	41	41	40
- of revenue	%	0.4	0.4	0.3
Average number of personnel		5,013	4,906	4,989

		2016	2015	2014
Share-related indicators				
Earnings per share (EPS)	EUR	3.67	2.18	0.22
Comparable earnings per share	EUR	3.10	2.84	1.60
Equity per share	EUR	14.60	12.06	10.34
Cash flow per share	EUR	4.67	2.91	0.97
Price/earnings ratio (P/E)		9.94	12.66	89.62
Dividend per share	EUR	1.30 ¹⁾	1.00	0.65
Dividend payout ratio	%	35.4 ¹⁾	45.8	290.4
Dividend yield	%	3.6 ¹⁾	3.6	3.2
Share prices				
At the end of the period	EUR	36.50	27.63	20.06
Average share price	EUR	32.25	23.54	15.77
Lowest share price	EUR	25.42	19.91	13.24
Highest share price	EUR	40.78	27.70	20.32
Market capitalization at the end of the period	MEUR	9,359	7,084	5,143
Trading volumes				
Number of shares traded	1,000	200,351	213,855	233,793
In relation to weighted average number of shares	%	78	84	91
Average number of shares		255,696,935	255,568,717	255,532,039
Outstanding number of shares at the end of the period		255,717,112	255,605,219	255,403,686

¹⁾ Board of Directors' proposal to the Annual General Meeting

Reconciliation of key figures to IFRS Financial Statements

Reconciliation between comparable operating profit and operating profit (IFRS) is presented in Note 4, Segment information.

Reconciliation between comparable operating profit and comparable net profit

MEUR	2016	2015
Comparable operating profit	983	925
Total financial income and expenses	-79	-65
Income tax expense	-133	-74
Non-controlling interests	-4	-3
Tax on items affecting comparability	26	-58
Comparable net profit	793	726

Reconciliation of return on average capital employed, after tax (ROACE), %

MEUR	2016	2015
Comparable operating profit, last 12 months	983	925
Financial income	4	2
Exchange rate and fair value gains and losses	-17	16
Income tax expense	-133	-74
Tax on other items affecting ROACE	16	-74
Comparable net profit, net of tax	853	796
Capital employed average	5,047	4,883
Return on capital employed, after tax (ROACE), %	16,9	16,3

Reconciliation of equity-to-assets ratio, %

MEUR	2016	2015
Total equity	3,755	3,104
Total assets	7,443	6,793
Advances received	18	56
Equity-to-assets ratio, %	50.6	46.1

Calculation of key figures

Calculation of key figures

EBITDA	=	Operating profit + depreciation, amortization and impairments
Comparable EBITDA	=	Comparable operating profit + depreciation, amortization and impairments
Comparable operating profit ¹⁾	=	Operating profit +/- inventory gains/losses +/- changes in the fair value of open commodity and currency derivatives +/- capital gains/losses - insurance and other compensations +/- other adjustments
Items affecting comparability	=	Inventory gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations and other adjustments
Comparable net profit	=	Comparable operating profit - total financial income and expense - income tax expense - non-controlling interests - tax on items affecting comparability
Return on equity (ROE), %	=	$100 \times \frac{\text{Profit before income taxes - income tax expense, last 12 months}}{\text{Total equity average, 5 quarters end values}}$
Return on capital employed, pre-tax (ROCE), %	=	$100 \times \frac{\text{Profit before income taxes + financial expenses, last 12 months}}{\text{Capital employed average, 5 quarters end values}^{2)}$
Return on average capital employed, after-tax (ROACE), %	=	$100 \times \frac{\text{Comparable operating profit + financial income + exchange rate and fair value gains and losses - income tax expense - tax on other items affecting ROACE, last 12 months}}{\text{Capital employed average, 5 quarters end values}}$
Capital employed	=	Total equity + interest bearing liabilities
Interest-bearing net debt	=	Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	=	$100 \times \frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt + total equity}}$
Gearing, %	=	$100 \times \frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	=	$100 \times \frac{\text{Total equity}}{\text{Total assets - advances received}}$
Return on net assets, %	=	$100 \times \frac{\text{Segment operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$
Comparable return on net assets, %	=	$100 \times \frac{\text{Segment comparable operating profit, last 12 months}}{\text{Average segment net assets, 5 quarters end values}}$
Segment net assets	=	Property, plant and equipment + intangible assets + investments in joint ventures + inventories + interest-free receivables and liabilities - provisions - pension liabilities allocated to the business segment.
Research and development expenditure	=	Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.

Calculation of share-related indicators

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$
Comparable earnings per share	=	$\frac{\text{Comparable net profit for the period attributable to the owners of the parent}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the owners of the parent}}{\text{Adjusted average number of shares at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization at the end of the period	=	Number of shares at the end of the period x share price at the end of the period

Calculation of key drivers

Oil Products reference margin (USD/bbl)	=	Product value - feed cost - standard refining variable cost - sales freights
Oil Products total refining margin (USD/bbl)	=	$\frac{\text{Comparable sales margin} \times \text{average EUR/USD exchange rate for the period} \times \text{standard refinery yield}}{\text{Refined sales volume} \times \text{standard barrels per ton}}$
Oil Products additional margin (USD/bbl)	=	Oil Products total refining margin - Oil Products reference margin
Renewable Products reference margin (USD/ton)	=	Share of sales volumes Europe x (FAME - CPO) + share of sales North America x (SME - SBO) ³⁾
Renewable Products comparable sales margin (USD/ton)	=	$\frac{\text{Comparable sales margin}}{\text{Total sales volume}}$
Renewable Products additional margin (USD/ton)	=	Comparable sales margin - (reference margin - standard variable production cost)

¹⁾ In the business environment where Neste operates, commodity prices and foreign exchange rates are volatile and can cause significant fluctuations in inventory values and IFRS operating profit. Comparable operating profit eliminates both the inventory gains/losses generated by the volatility in raw material prices and changes in open derivatives, and better reflects the company's underlying operational performance. Also, it reflects Neste's operational cash flow, where the change in IFRS operating profit caused by inventory valuation is mostly compensated by changing working capital. Items affecting comparability are linked to unpredictability events of a significant nature that do not form part of normal day-to-day business. They include among others impairment losses and reversals, gains and losses associated with the combination or termination of businesses, restructuring costs, and gains and losses on the sales of assets. Only items having an impact of more than EUR 1 million on Neste's result will be classified as items affecting comparability.

²⁾ Total equity average and capital employed average are calculated using last 5 quarters' end values from Q2 2016 interim report onwards, previously calculated using the yearly opening balance and each quarter end values.

³⁾ FAME = Fatty Acid Methyl Ester (biodiesel), CPO = Crude Palm Oil, SME = Soy Methyl Ester (biodiesel), SBO = Soybean Oil

Quarterly segment information

Revenue

MEUR	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015	7-9/2015	4-6/2015	1-3/2015
Oil Products	2,159	1,961	1,916	1,359	1,756	2,060	1,675	1,976
Renewable Products	870	640	596	584	711	582	583	496
Oil Retail	964	925	886	776	898	991	976	882
Others	77	73	75	70	71	60	74	62
Eliminations	-649	-564	-546	-482	-678	-670	-704	-672
Total	3,421	3,034	2,927	2,306	2,759	3,023	2,605	2,744

Operating profit

MEUR	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015	7-9/2015	4-6/2015	1-3/2015
Oil Products	126	125	218	95	2	119	42	226
Renewable Products	158	162	48	150	218	12	11	-7
Oil Retail	19	25	23	22	13	27	22	17
Others	2	6	-8	-11	15	-1	-14	0
Eliminations	-3	0	-1	-2	-3	1	3	-3
Total	302	319	280	254	245	158	63	233

Comparable operating profit

MEUR	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015	7-9/2015	4-6/2015	1-3/2015
Oil Products	98	120	149	86	91	178	14	156
Renewable Products	146	124	119	80	231	75	54	42
Oil Retail	19	25	23	22	17	27	22	17
Others	2	-6	-8	-11	15	-1	-14	3
Eliminations	-3	0	-1	-2	-3	1	3	-3
Total	262	264	282	175	352	281	78	215