

Neste Oil in 2014



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is forward

**Remuneration
Statement**

NESTE OIL

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Neste Oil Remuneration Statement 2014

Letter from the Chair of the Personnel and Remuneration Committee

Dear Shareholder,

The last year was one of transition and renewal at Neste Oil. Major changes to our organisational structure, announced by the President & CEO in June 2014, required a number of revisions to the management responsibilities of our Neste Executive Board (NEB) members during the year. We were also pleased to welcome two new additions to the NEB; Kaisa Hietala, in June 2014, and Antti Tiitola, who joined in October 2014.

The main focus of the reorganisation was the streamlining of the Oil Products and Renewable Products business areas. Both these businesses took direct control of their respective production operations and the Oil Products business area additionally absorbed logistics. The Production & Logistics function, which had previously existed as an autonomous unit, was subsequently dissolved.

In recognition of her efforts in transforming the profitability of the Renewable Products business area, Kaisa Hietala, was appointed as its new Executive Vice President (EVP) in June. Matti Lehmus, who previously represented both the Oil and Renewable Products business areas on the NEB, remained as the EVP of Oil Products with additional responsibility for the logistics and production operations.

As a result of the reorganisation, Ilkka Poranen, who had served on the NEB for five years as the Senior Vice President in charge of the Production & Logistics business area, took on new responsibilities at Neste Jacobs as EVP, Delivery and member of the Executive Board. We would like to thank him for his notable contribution over the years and wish him success in his new important role.

After seven years' dedicated service on the Neste Executive Board as EVP of Oil Retail, Sakari Toivola retired. We are very thankful for his significant contribution and welcome his successor, Antti Tiitola.

We believe that these operational and personnel changes will help us to build on our recent successes. Our organisational structure is now more streamlined and better aligned with our future strategic direction and will enable us to concentrate our efforts on meeting our customers' needs.

Continuing with the theme of reorganisation, the Personnel and Remuneration Committee has recently undertaken a fundamental review of its approach to remuneration reporting. This is mainly in response to proposals from the European Commission to introduce standardised remuneration reporting and binding shareholder votes on directors' remuneration policy within the next years.

Our remuneration disclosures have traditionally followed the guidelines contained in the 2010 Corporate Governance Code for Finnish listed companies; as well as the recommendations

of the Ownership Steering Department of the Prime Minister's Office for the remuneration of executive management in Finnish state-owned companies (August 2012).

In keeping with our aim to set the standards for transparent and clear disclosure, our report demonstrates how our executive remuneration outcomes are strongly tied to the performance of the Company. We also describe how our remuneration programs are designed to incentivise our senior management to meet our strategic goals, and to align their interests with those of our owners, customers and Neste Oil's wider stakeholders.

Neste Executive Board (NEB) and Board of Directors' remuneration is presented separately as before. However, we have further divided our NEB remuneration disclosures into sections on policy and outcomes. The report is split into the following four sections:

1. Letter from the Chair of the Personnel and Remuneration Committee. This section highlights the key activities and decisions undertaken by the Personnel and Remuneration Committee during the year.

2. Neste Oil Executive Remuneration Policy Report. This section explains how the executive remuneration policy, including performance criteria, will be used to determine the remuneration of the President & CEO, and members of the Neste Executive Board over future financial years. It also discusses the remuneration principles which apply to our senior managers.

3. Neste Oil Executive Annual Remuneration Report. This section presents a comprehensive explanation of the remuneration outcomes for Neste Oil's President & CEO and the rest of the Executive Board, in light of the Company's financial and operating performance over the last reporting year.

4. Neste Oil Board Remuneration Review. This section discloses the remuneration paid to Neste Oil's Board of Directors during the last financial period. The Shareholders' Nomination Board is responsible for presenting its proposals for the remuneration of Neste Oil's Board of Directors to the Annual General Meeting for approval. Whilst the Chair of Neste Oil's Board of Directors is a member of the Shareholders' Nomination Board, he does not participate in either proposing or deciding his own remuneration, nor does he participate in the Nomination Board's proposal of a Chair of the Board for the AGM.

We hope that you will find our new report format to be helpful and we welcome your comments and feedback (corpcomviestinta@nesteoil.com) so that we may continue to improve our standards of reporting in future.

Jorma Eloranta

Chair of the Personnel and Remuneration Committee

Neste Oil Executive Remuneration Policy Report

Principles guide our performance

We review the Company's remuneration principles as necessary, around every two years. During the year, the Board reaffirmed, on the basis of the Committee's recommendations, the guiding principles for performance and reward which were introduced at the beginning of 2014. These underpin remuneration programs across the Group and are founded on the two platforms of "fairness" and "pay for performance."

We aim to recognise and reward high performance and responsible behaviour in support of the attainment of the Group's strategic targets and the long-term sustainability of the business.

Underpinning our Group remuneration philosophy are the following four guiding principles:

- 1. Ensure the execution of our strategy** – We aim to chart a clear path forward by executing our corporate strategy and sharing our business objectives.
- 2. Drive performance and value based behaviour** – We aim to drive individual, team and business results by rewarding excellence, development and value based behaviours.
- 3. Encourage individual and team accountability** – We promote clear targets and a focus on continuous performance improvement. We make this possible by maintaining an ongoing dialogue with our personnel and welcoming their feedback.
- 4. Be fair and transparent** – We run performance and total rewards processes ethically and with integrity, and support this with clear communication.

Remuneration principles for the Neste Executive Board and senior management

Based on the preparations of Personnel and Remuneration Committee, the Board takes into account the following objectives in determining the remuneration for the Executive Board and senior managers:

- Remuneration should be sufficient to attract and retain senior management with the requisite skills and experience to ensure that we meet our strategic goals, but at the same time make financial sense from the Company's point of view so as not to jeopardize its competitive cost structure.
- To operate effectively in a global context, remuneration should be fair and competitive within the international markets the Company operates. Salaries and other components of pay should be based on local market conditions and be sufficient to attract key management talent.
- Remuneration should maintain appropriate proportions of fixed and performance-related pay, to help to drive performance over the short and longer term, to maintain a flexible cost base, and to avoid creating incentives for excessive risk-taking.
- Remuneration should also to guide and encourage for the achievement of challenging strategic, operational and financial targets.
- Senior management interests should align with those of the Company and its broad base of domestic and international stakeholders.

- The senior management remuneration policy should be consistent with the global remuneration applied to Neste Oil employees worldwide.
- Neste Oil will always endeavour to treat senior managers and personnel equally and impartially, regardless of their gender, national origin, age, religion, political opinion, or other similar factors.

Remuneration is set according to the "grandfather principle" whereby the pay of any individual is subject to the approval of a manager's manager. No individual may decide matters relating to their own remuneration.

External advisers

In the design of our 2013 long-term incentive plan (LTI) the Committee received advice from remuneration consultants PCA and Mercer. Mercer also provided assistance with the re-design of the 2014 short-term incentive plan (STI) for group employees and senior managers, excluding Neste Executive Board (NEB) members.

Summary of Remuneration Policy for the Neste Executive Board

The Neste Executive Board's remuneration policy consists of the following key elements:

Remuneration element	Description and operation
Base salary	Fixed salary which includes taxable fringe benefits (car and phone). CEO's salary EUR 55 039 month as of 1.1.2013.
Insurances	The members have private accident, life and disability insurance, business travel, directors' and officers' liability insurance. The NEB members may participate in the sickness fund (in Finland).
Additional Pension	CEO: Defined benefit (DB) plan approved in 2008, based on a retirement age of 60 years and 60% of retirement salary. NEB members: DB plan based on a retirement age of 60 or 62 (up to 60% of retirement salary) or, for those who have started after 1.1.2009, additional defined contribution (DC) pension scheme (based on retirement age of 62 or 63). (Retirement salary for DB schemes is calculated on the basis of the average monthly salary and related statutory pension insurance contributions over the ten years prior to retirement. New DB plans are no longer made.)
Short-term incentives (STI)	Based on the attainment of annual financial and non-financial measures. Maximum award value of 40% of salary delivered in cash in March after the end of the performance year. CEO: For 2014, 85% based on group financial targets – EBIT comparable, Return on Average Capital Employed (ROACE%), 15% based on group safety target – Total Recordable Injury Frequency (TRIF). NEB members with business or common function responsibility: 50% group, 40% business unit or function, 10% team/personal targets.
Long-term share-based incentives (LTI)*	Based on the attainment of three year financial and share price performance targets for Neste Oil. Awards will vest in one tranche after three years, partly in shares and partly in cash. The cash element will cover taxes and other tax related costs. 2015–2017 plan* earnings criteria: 75% Group cumulative comparable free cash flow and 25% of total return of Neste Oil shares relative to a peer group of 10 oil industry companies. Award for CEO will be vary between 0–100% of annual salary (target 40%), for NEB members between 0–80% of salary (target 40%). Should the amount of total incentive awarded to executives exceed 120% of annual salary, the excess amount of STI and LTI shares vesting in any one year will be cut to maintain this limit.
Shareholding restriction	CEO and NEB members are not permitted to sell or transfer their shares for a three year period after vesting. During the 'lock up' period, shares may be subject to forfeiture on termination, at the discretion of the Board of Directors.
Claw back	Claw back provisions apply to LTI and STI plan awards in exceptional circumstances such as misconduct or misstatement of financial results.
Share ownership guidelines	CEO and NEB members must accumulate and maintain a shareholding which is equivalent to their annual fixed salary. Until this threshold is met, participants must retain 100% of vested incentive shares (~50% for 2010 LTI plan). Once shareholding requirement is reached, the shareholding restriction period may be cut from three years to one year.
Service contracts and loss of office payments	Notice period for both the company and the CEO and NEB members: 6 months. In the event of termination by the Company the CEO is entitled to Severance payment equivalent to 18 months' salary. NEB members are entitled for 6 months' severance payments. Change of control terms are same as for termination.

*2013–2015 plan earnings criteria: 75% Group cumulative comparable free cash flow (cash flow after maintenance investments, tax, interest, asset sale proceeds, and net gains/losses on inventory) and 25% comparable operating profit of Renewable Products business area.

2014–2016 plan earnings criteria: 75% Group cumulative comparable free cash flow and 25% total return of Neste Oil shares relative to a peer group of 10 oil industry peers.

Supplementary information

Benchmarking approach: The Personnel and Remuneration Committee reviews market benchmark data from Finnish and where necessary, international industrial companies of a similar size and complexity to Neste Oil when setting total remuneration packages for the CEO and the members of the NEB. This is used more as a guide than a direct determinant of pay levels. Other factors considered include an individual's role and experience, as well as company and personal performance.

Shareholder alignment: The Company's largest shareholder, the Finnish State, issued guidelines for the remuneration of executives within state-owned listed companies in August 2012. Neste Oil's Board of Directors has deemed it as only correct to take these guidelines into consideration, along with the interests of its wider shareholder base, when determining the remuneration policy for its senior executives.

Neste Oil Executive Annual Remuneration Report

The year in review

We measure the success of our Executive Board by how well Neste Oil achieves its strategic and financial targets. Building on the strong performance of our Renewable Products business in 2013, the business continued to perform well across most functions in 2014.

We consider that the interests of our Executive Board members should be aligned with the Company and its shareholders. Our financial result and other achievements during 2014 will mean that incentives of short term and long-term incentive programs in 2015 are higher than in many previous years.

Short-term incentives (STI)

In 2013, EBIT comparable grew by 70% year-on-year as a result of the significant turnaround in the profitability of the Renewable Product business, a strong performance in Oil Product business area, and a record year for the Oil Retail business area.

This meant that the Group far exceeded the element of the 2013 STI plan determined by financial measures (based on EBIT comparable and ROACE%). Further taking into account performance against business area, unit and personal goals, the Board of Directors awarded above target level payments for the President & CEO and NEB members for the 2013 performance year, though awards still remained well within the maximum allowable STI limit of 40% of salary.

Long-term incentives (LTI)

Neste Oil's 2010 long-term incentive program ran in three year plans from 2010 to 2012, 2011 to 2013 and 2012 to 2014. Awards were granted based 50% on the attainment of Renewable Product's sales volumes and 50% on the TSR performance of Neste Oil shares relative to the Dow Jones Nordic Return Index.

In 2014, the 2011 to 2013 LTI plan vested at 64.6% of the maximum, due to the continued success of the Renewable Product's strategy and the relative performance of Neste Oil shares. The criteria for the last period (2012–2014) of the original LTI 2010 program, were fully met: The sales volume targets were exceeded and the share price continued to improve relative to the index. As a result, a total reward corresponds to 414,509 Company shares, of which 95,992 shares are awarded in 2015 to President & CEO and current NEB members. The number of shares delivered to President & CEO and NEB members after taxes is 46,142 (shown in table share incentive rewards).

The 2013 long-term incentive program operates three plans starting in 2013, 2014 and 2015 and performance targets for these plans are shown in the policy table. If the targets set for the cycles are met, the aggregate value of shares to be paid out will likely be EUR 3.5 million. If the targets are exceeded, the maximum value of share awards will be EUR 7 million per plan.

Remuneration paid to the President & CEO and NEB Members as of 31 December 2014

EUR	President & CEO		NEB Members (in aggregate)	
	2014	2013	2014	2013
Annual remuneration				
Base salary	666,867	674,567	1,741,154	1,691,265
Taxable benefits ⁽¹⁾	25,500	25,500	119,293	119,339
Annual incentive (STI plan)	228,962	143,652	648,225	323,931
Total annual remuneration	921,329	843,719	2,508,772	2,134,535
Vested longterm remuneration				
LTI 2010: 2011–2013 Plan ⁽²⁾	803,897	249,357	1,625,696	499,439
Additional pension (insurance contributions)	618,700	525,143	620,110	523,799
Total remuneration	2,343,926	1,618,219	4,754,578	3,157,773

⁽¹⁾ Members of the NEB receive taxable car and mobile phone benefits as part of their fixed salary. For the President & CEO, the value of benefits include: EUR 25,020 for a car and EUR 480 for phone.

⁽²⁾ [Specification, 30 March 2015] To build commitment, share-based incentive programs are multi-year systems. It is possible that an award is paid several years after the beginning of the earning period. On the payment date, the rules that were accepted when the plan was set up and which complied with the Government's shareholder control guidelines that were valid at the time (but may differ from the Cabinet Finance Committee's position valid on the payment date) will be followed. In 2014, share-based incentive awards were delivered on the basis of the plan set up in 2009. The table presents the taxable total value of the award (including transfer tax) earned over three years earning period (2011–2013). The long term awards do not, for any earning year, exceed the annual fixed salary of the year in question.

Remuneration of personnel

Group short-term incentives. Neste Oil wants to ensure that its employees have the opportunity to share in the company's success and excellent performance of its personnel. Group STI scheme is in place in all countries and incentives will be paid on the basis of the set goals.

For the 2013 performance year, Neste Oil was able to fund a pay out of EUR 24.3 million (19.6 million) in performance-based incentives for our managers and employees in the spring of 2014 (including pension and social insurance contributions).

The company's short-term incentive system for the personnel was changed at the beginning of 2014. The personnel's target incentive is determined according to the job grade and posting country, being 4–20% of the basic salary at an annual level. The final incentive is determined by the company's result multiplier which, depending on the company's comparable operating profit, ranges between 0 and 1.5 if the threshold value has been exceeded. As a result, the incentive is determined according to the company's financial situation.

Personnel Fund. Neste Oil offers to permanent and fixed term employees based in Finland an entitlement to a profit share award through its' Personnel Fund after six months continuous service. The profit share earnings paid into the Fund are distributed equally between members. Whilst the scheme is intended to build up participation over the long-term, part of the award can be withdrawn each year as Neste Oil shares or cash. Note that person who participate in the group's LTI plans, will not be entitled to profit share award, during the plans' earning periods.

The Board of Directors sets the earnings criteria for the profit share award annually. For 2013 and 2014, this was tied to Neste Oil's comparable operating profit. As a result of our strong results in 2013, Neste Oil increased its contributions to the Personnel Fund to EUR 4.4 million a 55% increase on the award for 2012 of EUR 2.9 million.

Vested LTI plan share awards

Share incentive awards for the Neste Executive Board

Name	Position	NEB member since	Distributed shares of LTI Plans	
			2013 ⁽¹⁾ (shares delivered in 2014)	2014 ⁽²⁾ (shares delivered in 2015)
Matti Lievonen	President & CEO	2008	25,064	14,823
Matti Lehmus	EVP, Oil Products	2009	8,164	5,466
Kaisa Hietala ⁽³⁾	EVP, Renewable Products	2014	–	3,168
Sakari Toivola ⁽⁴⁾	Former EVP, Oil Retail	2007	7,298	4,206
Antti Tiitola ⁽⁵⁾	EVP, Oil Retail	2014	–	–
Simo Honkanen	SVP, Sustainability & Public Affairs	2009	5,834	3,376
Tuomas Hyyryläinen	SVP, Strategy & New Ventures	2012	–	3,878
Hannele Jakosuo-Jansson	SVP, Human Resources & Safety	2006	6,786	3,928
Osmo Kammonen	SVP, Communications & Brand Marketing	2004	6,751	3,876
Lars Peter Lindfors	SVP, Technology	2009	7,521	4,397
Jyrki Mäki-Kala	CFO	2013	–	3,230
Ilkka Poranen ⁽⁶⁾	Former SVP, Production & Logistics	2009	6,639	3,599

⁽¹⁾ 2013 column refers to shares awarded in respect of the 2011–2013 plan and paid in spring 2014. Table shows the net number of shares distributed after taxes.

⁽²⁾ 2014 column refers to shares awarded in respect of the 2012–2014 LTI plan and paid in 2015. Table shows the net number of shares after taxes and other statutory payments. The maximum incentive payable for any earning period under the terms of the plan cannot exceed a participant's annual fixed gross salary in any given year. Shares are covered by a restriction period and a share ownership requirement (see remuneration policy table for details).

⁽³⁾ Appointed to NEB 16 June 2014.

⁽⁴⁾ Left NEB on 7 October 2014 to retire later.

⁽⁵⁾ Appointed to NEB, in place of Sakari Toivola, on 8 October 2014.

⁽⁶⁾ Left NEB on 16 June 2014, following dissolution of the Production & Logistics function.

Executive share ownership

A major principle of our executive remuneration policy is to ensure that there is strong alignment between the interests of Neste Oil executives and those of its shareholders.

Our executive share ownership policy requires that the President & CEO, and the members of the NEB, build up and maintain shareholdings which are equivalent to their annual salary. Until this threshold is met, participants must retain 100% of vested incentive shares, net of tax (~50% for 2010 LTI plan).

The President & CEO, and NEB members, are not permitted to sell or transfer any vested LTI plan shares for a three year period after vesting. Once the share ownership requirements have been met, the additional share holding period may be reduced from three years to one year.

The following table shows shareholdings of the current members of the Neste Executive Board.

Shareholdings of the Neste Executive Board as of 31 December 2014				Shareholdings ⁽⁴⁾	
Name	Position	NEB member since	2014	2013	
Matti Lievonen	President & CEO	2008	35,976	27,912	
Matti Lehmus ⁽¹⁾	EVP, Oil Products	2009	17,819	9,655	
Kaisa Hietala ⁽²⁾	EVP, Renewable Products	2014	14,224	–	
Antti Tiitola ⁽³⁾	EVP, Oil Retail	2014	5,000	–	
Simo Honkanen	SVP, Sustainability & Public Affairs	2009	11,760	5,962	
Tuomas Hyyryläinen	SVP, Strategy & New Ventures	2012	–	–	
Hannele Jakosuo-Jansson	SVP, Human Resources & Safety	2006	13,330	6,544	
Osmo Kammonen	SVP, Communications & Marketing	2004	18,566	11,815	
Lars Peter Lindfors	SVP, Technology	2009	11,831	4,310	
Jyrki Mäki-Kala	CFO	2013	7,500	7,500	

⁽¹⁾ Following the restructuring effective 16 June 2014, Matti Lehmus was appointed EVP, Oil Products. He was previously responsible for Oil Products & Renewables.

⁽²⁾ Following the restructuring effective 16 June 2014, Kaisa Hietala was appointed to the Neste Executive Board as EVP, Renewable Products.

⁽³⁾ Antti Tiitola was appointed as Executive Vice President, Oil Retail on 8 October 2014.

⁽⁴⁾ Note that shareholdings includes vested LTI performance shares which are subject to lock up for three years. If employee leaves the company within this period, some shares may be subject to forfeiture at the discretion of the Committee. The amount includes also the shares bought by NEB member.

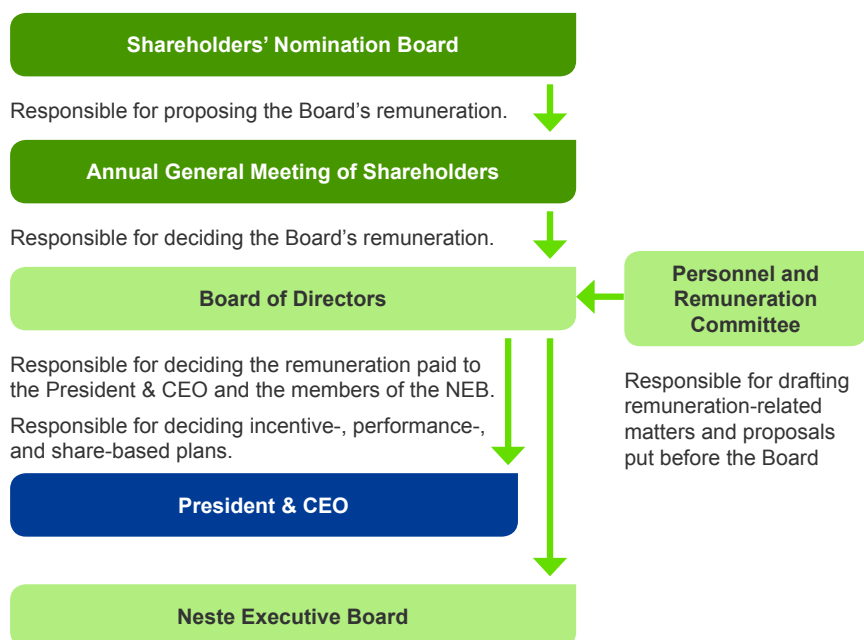
Neste Oil Board Remuneration Review

Remuneration governance

Remuneration-related discussion and decision-making at Neste Oil involves the Shareholders' Nomination Board, the Annual General Meeting of Shareholders, the Board of Directors, and the Board's Personnel and Remuneration Committee. The Shareholders' Nomination Board is responsible for presenting

a proposal covering the remuneration payable to the Board of Directors to the AGM; while the Board of Directors is responsible for making decisions on remuneration and incentive arrangements for senior management and key personnel based on proposals made by its Personnel and Remuneration Committee. The decision-making process, which is outlined in the chart below, guarantees that decisions are fair and unbiased.

The decision-making process in remuneration-related matters



Remuneration of the Board of Directors

The Annual General Meeting (AGM) is responsible for remuneration matters related to the Board of Directors. The AGM in 2014 decided to keep the fees payable to the Board unchanged as follows:

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

In addition, members participating in Board meetings and meetings convened by the Board's committees receive a payment of EUR 600 per meeting, together with their traveling costs, in accordance with the Company's travel policy. A payment of double this, EUR 1,200 per meeting, is made to Board members living outside Finland.

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

Remuneration paid to Members of the Board as of 31 December 2014

	Annual Board Fees (EUR)		Meeting attendance fees (EUR)	
	2014	2013	2014	2013
Jorma Eloranta	66,000	66,000	12,600	10,200
Majja-Liisa Friman	49,200	49,200	12,600	10,200
Per-Arne Blomquist	35,400	26,550	22,800	18,000
Michiel Boersma ⁽¹⁾	8,850	35,400	3,600	22,800
Laura Raitio	35,400	35,400	12,000	11,400
Jean-Baptiste Renard ⁽²⁾	26,550	–	19,200	–
Willem Schoeber	35,400	26,550	24,000	16,800
Kirsi Sormunen	35,400	26,550	11,400	9,000

⁽¹⁾ Michiel Boersma served for the agreed maximum time allowed and left the Board of Directors on 3 April 2014.

⁽²⁾ Annual Board fees paid to Members of the Board was EUR 35,400. Jean-Baptiste Renard joined the Board on 3 April 2014 and received remuneration for the period between 3 April and 31 December 2014. Meeting attendance fees include travel costs for attending meetings.