

# Neste Oil in 2014



**Review by the  
Board of Directors**

**NESTE OIL**

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## Review by the board of directors 2014

Neste Oil's comparable operating profit totaled EUR 583 million compared to EUR 596 million in 2013. Oil Products' reference refining margin started low, but improved during the second half of the year, and averaged almost at 2013 level. European demand for petroleum products continued soft and additional refining capacity was brought on-line in the Middle East and Asia. Crude oil price declined significantly during the second half of the year, which caused inventory losses and impacted our cash flow. In Renewable Products business the sales volumes of NEXBTL renewable diesel were record high, but the market conditions were clearly less favorable than in 2013. Reintroduction of the US Blender's Tax Credit (BTC) for 2014 impacted the result positively.

Utilization rates of the renewable diesel production capacity averaged 102% in 2014 despite of a major eight-week turnaround in Singapore in the fall. In 2014 the use of waste- and residue-based feedstock was further increased to over 60% of the total renewable inputs. Oil Retail's performance declined compared to the previous year, mainly due to lower unit margins in Finland and Northwest Russia. The Board of Directors will propose a dividend of EUR 0.65 per share (0.65) for 2014, totaling EUR 166 million (167 million).

Figures in parentheses refer to the full-year financial statements for 2013, unless otherwise noted.

## The Group's results for 2014

Neste Oil's revenue in 2014 totaled EUR 15,011 million (17,238 million). This decline year-on-year mainly resulted from lower overall market prices, which had an impact of EUR 1.2 billion, lower trading activity, and lower sales volume in Oil Products. The Group's comparable operating profit for the year was EUR 583 million, only slightly below the 596 million reported in 2013. Oil Products' full-year comparable operating profit was 4% higher than in 2013. The Renewable Products' result was strong, but it could not reach the record levels of 2013. Oil Retail's result was also somewhat lower than in 2013 due to lower margins. The Others segment improved significantly compared to 2013, but remained negative. The Group's fixed costs came in at EUR 654 million (693 million), a decrease that was mainly caused by the disposal of Shipping, and internal performance improvement actions.

Oil Products' full-year comparable operating profit was EUR 285 million (275 million), Renewable Products' EUR 239 million (273 million), and Oil Retail's EUR 68 million (77 million). The comparable operating profit of the Others segment totaled EUR -7 million (-31 million), of which Nynas accounted for EUR 11 million (-10 million).

The Group's full-year IFRS operating profit was EUR 150 million (632 million), which was impacted by inventory losses totaling EUR 492 million (19 million), changes in the fair value of open oil derivatives totaling EUR 74 million (4 million), and non-recurring items totaling EUR -16 million (51 million) mainly related to restructuring charges. Pre-tax profit was EUR 78 million (561 million), and profit for the period EUR 60 million (524 million). Comparable earnings per share were EUR 1.60 (1.89), and earnings per share EUR 0.22 (2.04). The Group's effective tax rate was 23.2% (6.6%).

**Group key figures, MEUR**

	2014	2013
COMPARABLE OPERATING PROFIT	583	596
– inventory gains/losses	–492	–19
– changes in the fair value of open oil derivatives	74	4
– non-recurring items	–16	51
– capital gains/losses	–2	43
– insurance and other compensations	0	13
– others	–14	–5
IFRS OPERATING PROFIT	150	632

**Revenue**

	2014	2013
Oil Products	11,285	13,041
Renewable Products	2,269	2,493
Oil Retail	4,294	4,532
Others	238	206
Eliminations	–3,075	–3,034
Total	15,011	17,238

**Comparable operating profit**

	2014	2013
Oil Products	285	275
Renewable Products	239	273
Oil Retail	68	77
Others	–7	–31
Eliminations	–3	2
Total	583	596

**IFRS operating profit**

	2014	2013
Oil Products	–110	286
Renewable Products	207	252
Oil Retail	68	120
Others	–13	–26
Eliminations	–3	0
Total	150	632

**Financial targets**

Return on average capital employed after tax (ROACE) and leverage ratio are Neste Oil'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%.

	31 Dec 2014	31 Dec 2013
Return on average capital employed after tax (ROACE)*, %	10.1	11.7
Leverage (net debt to capital), %	37.9	30.0

\* Last 12 months

## Cash flow, investments, and financing

Neste Oil Group's net cash from operating activities totaled EUR 248 million (839 million) in 2014. The year-on-year difference was mainly attributable to the effect of declining oil price to the IFRS operating profit and cash flow. The inventory valuation loss amounted to EUR 492 million, and a cash flow decrease of EUR 133 million resulted from changes in year-end working capital levels. Cash flow before financing activities and taxes was EUR –59 million (759 million). Cash flow was impacted by higher capital expenditures in 2014 compared to 2013. Group's net working capital in days outstanding was 13.2 days (11.5 days) on a rolling 12-month basis at the end of 2014.

Cash-out investments totaled EUR 272 million (214 million) in 2014. Maintenance investments accounted for EUR 201 million (169 million) and productivity and strategic investments for EUR 71 million (45 million). Oil Products' investments totaled EUR 209 million (146 million), with the largest single project being the isomerization unit under construction at Porvoo. Renewable Products' investments totaled EUR 29 million (17 million). Oil Retail's investments totaled EUR 18 million (31 million) and were mainly related to the station network. Investments in the Others segment totaled EUR 16 million (20 million) and were related to IT and business infrastructure.

Interest-bearing net debt was EUR 1,621 million as of the end of December 2014, compared to EUR 1,252 million at the end of 2013. Net financial expenses for the year were EUR 72 million (71 million). The average interest rate of borrowing at the end of December was 3.6% and the average maturity 2.7 years. The interest-bearing net debt/comparable EBITDA ratio was 1.8 (1.4) over the previous 12 months at the end of the year.

The Group's balance sheet is strong. The equity-to-assets ratio was 41.0% (31 Dec. 2013: 41.6%), the leverage ratio 37.9% (31 Dec. 2013: 30.0%), and the gearing ratio 60.9% (31 Dec. 2013: 42.8%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 1,849 million as of the end of December (31 Dec. 2013: 2,156 million). There are no financial covenants in the Group's current loan agreements.

In accordance with its hedging policy, Neste Oil has hedged the majority 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.

### US dollar exchange rates

	2014	2013
USD/EUR, market rate	1.33	1.33
USD/EUR, hedged	1.34	1.30

## Segment reviews

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

### Oil Products

#### Key financials

	2014	2013
Revenue, MEUR	11,285	13,041
Comparable EBITDA, MEUR	478	460
Comparable operating profit, MEUR	285	275
IFRS operating profit, MEUR	–110	286
Net assets, MEUR	2,160	2,163
Comparable return on net assets, %	12.4	11.6

#### Key drivers

	2014	2013
Reference refining margin, USD/bbl	4.73	4.80
Additional margin, USD/bbl	5.10	4.80
Total refining margin, USD/bbl	9.83	9.60
Urals-Brent price differential	–1.71	–1.02
Urals' share of total refinery input, %	56	63

Crude oil prices were trading in a narrow range around USD 110/bbl over the first half of the year. They came under significant pressure during the second half of 2014 as faster than expected growth in the US oil production together with the OPEC countries' decision not to cut production drove global oil markets to excess supply. Also the weak demand growth prospects had a negative impact on crude oil price. In 2014 the Brent price averaged approx. USD 100/bbl, but closed the year just above USD 50/bbl – the lowest figure since 2009.

The price differential between Brent and Russian Export Blend (REB) crude averaged USD –1.7/bbl in 2014 and USD –1.5/bbl during the fourth quarter. High crude supply levels and low utilization rates at European refineries contributed to this reasonably wide differential during the year.

The reference refining margin started low in early 2014 as a result of growing product imports from the US and the Middle East to Europe. Towards the summer the seasonal pick up in gasoline market and the refinery maintenance period had a positive impact on margins. During the second half of the year the reference

margin got support from falling crude oil prices, weak physical oil market, wide Urals-Brent price differential, and strong gasoline margins due to seasonably high demand and production outages in the US. Diesel export volumes from the US to Europe fell short of expectations, which also improved the margin. On average, middle distillates remained the strongest part of the barrel both during the fourth quarter and the whole year. Neste Oil's reference margin averaged USD 4.7/bbl in 2014 and USD 5.6/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 285 million (275 million). The average reference refining margin during 2014 was roughly at the previous year's level. Neste Oil's additional margin increased by USD 0.3/bbl and had a EUR 10 million impact on the comparable operating profit. Sales volumes were 3% lower compared to the year 2013, which reduced the operating profit by EUR 13 million. The segment's fixed costs were EUR 10 million lower than in 2013. Base oils business and the insurance compensation for the Porvoo hydrogen unit damage contributed positively to the operating profit.

## Production

	2014	2013
Porvoo refinery production, 1,000 ton	11,274	12,016
Porvoo refinery utilization rate, %	84	87
Naantali refinery production, 1,000 ton	1,959	2,147
Naantali refinery utilization rate, %	71	78
Refinery production costs, USD/bbl	4.9	4.8
Bahrain base oil plant production (Neste Oil's share), 1,000 ton	143	151

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

	2014	%	2013	%
Middle distillates*	6,204	46	6,729	48
Light distillates**	4,575	34	4,550	32
Heavy fuel oil	1,091	8	1,253	9
Base oils	469	3	436	3
Other products	1,201	9	1,121	8
Total	13,540	100	14,088	100

\* Diesel, jet fuel, heating oil

\*\* Motor gasoline, gasoline components, LPG

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

	2014	%	2013	%
Baltic Sea area*	8,872	65	9,035	64
Other Europe	3,060	23	3,933	28
North America	847	6	843	6
Other areas	761	6	276	2

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

## Renewable Products

### Key financials

	2014	2013
Revenue, MEUR	2,269	2,493
Comparable EBITDA, MEUR	335	371
Comparable operating profit, MEUR	239	273
IFRS operating profit, MEUR	207	252
Net assets, MEUR	1,923	1,768
Comparable return on net assets, %	13.3	15.2

### Key drivers

	2014	2013
FAME - Palm oil price differential*, USD/ton	231	356
SME - Soybean oil price differential**, USD/ton	199	389
Reference margin, USD/ton	221	371
Additional margin***, USD/ton	227	127
Biomass-based diesel (D4) RIN, USD/gal	0.53	0.65
Palm oil price****, USD/ton	733	768
Crude palm oil's share of total feedstock, %	38	48

\* FAME 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 full impact of US BTC (Blender's Tax Credit) in 10–12/14 and 2014

\*\*\*\* CPO BMD 3rd

Crude palm oil (CPO) prices declined 5% versus 2013, but the decline was smaller than in mineral oil prices. Abnormal weather conditions in the CPO producing areas such as droughts during first half of 2014 and exceptional flooding in December reduced the competitiveness of CPO in comparison with soybean oil (SBO). SBO prices dropped almost 20% due to a historically high soybean crop in Latin America and in the US. As a result SBO/CPO price difference narrowed significantly from USD 240/ton level to below USD 80/ton. Rapeseed oil (RSO) prices also showed a large decline of 16% versus 2013 as favorable weather conditions allowed Europe to have a very good rapeseed crop.

Due to relatively stable European biodiesel mandates and weaker mineral oil prices, European Fatty Acid Methyl Ester prices (FAME) declined 14% year-on-year. In the US, soy methyl ester (SME) price declined 28% versus 2013 primarily due to the

uncertainty regarding the US 2014 biofuels mandate. The US Environmental Protection Agency (EPA) announced in November that the mandate decision had been delayed and would be officially released during the course of 2015. As the price spread between SME and SBO was reduced by almost half, the US SME producers' margins turned negative on average.

Renewable Products' full-year comparable operating profit was EUR 239 million (273 million). The significantly lower reference margin during 2014 had a negative impact of EUR 217 million on the segment's operating profit year-on-year. This was partly compensated for by higher additional margin, which had a positive impact of EUR 145 million on the operating profit, and higher sales volume, which had a positive impact of EUR 37 million. The reintroduction of the US Blender's Tax Credit for 2014 contributed EUR 89 million to the additional margin.

### Production

	2014	2013
NEXBTL, 1,000 ton	2,111	1,896
Other products, 1,000 ton	144	132
Utilization rate, %	102	91

### Sales

	2014	2013
NEXBTL, 1,000 ton	2,104	1,938
Share of sales volumes to Europe and APAC, %	73	56
Share of sales volumes to North America, %	27	44

## Oil Retail

### Key financials

	2014	2013
Revenue, MEUR	4,294	4,532
Comparable EBITDA, MEUR	94	105
Comparable operating profit, MEUR	68	77
IFRS operating profit, MEUR	68	120
Net assets, MEUR	201	255
Comparable return on net assets, %	27.6	26.4

Oil Retail's markets remain competitive. Traffic fuel demand is seasonally higher during the summer period and declines towards winter. Demand for both gasoline and diesel is on a downward trend in Finland, while the markets in the Baltic countries and Northwest Russia are gradually growing.

Oil Retail's full-year comparable operating profit was EUR 68 million (77 million). Lower unit margins weakened the result by

EUR 9 million year-on-year mostly in Northwest Russia and Finland. The weaker ruble had a negative impact of EUR 3 million on the result in Northwest Russia compared to the previous year. Higher sales volumes and lower fixed costs improved the segment's comparable operating profit by EUR 5 million from the year 2013. Net assets declined year-on-year due to lower ruble and working capital.

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

	2014	2013
Gasoline station sales	1,134	1,151
Diesel station sales	1,526	1,491
Heating oil	600	635

### Net sales by market area, MEUR

	2014	2013
Finland	3,022	3,239
Northwest Russia	335	361
Baltic countries	929	900

## Others

### Key financials

	2014	2013
Comparable operating profit, MEUR	-7	-31
IFRS operating profit, MEUR	-13	-26

The Others segment consists of the engineering and technology solutions company Neste Jacobs, 60/40-owned by Neste Oil and Jacobs Engineering; Nynas, a joint venture 50/50-owned by Neste Oil and Petróleos de Venezuela; and common corporate costs.

The full-year comparable operating profit for the Others segment totaled EUR -7 million (-31 million); of which Nynas accounted for EUR 11 million (-10 million).



## Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ Helsinki Ltd. The share price closed the year 2014 at EUR 20.06, up by 39.6% compared to the end of 2013. The total shareholder return (TSR) was 44.1% (51.0%) in 2014. At its highest during 2014, the share price reached EUR 20.32, while at its lowest the price stood at EUR 13.24. Market capitalization was EUR 5.1 billion as of 31 December 2014. An average of 0.9 million shares were traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of 31 December 2014 totaled EUR 40 million, and the total number of shares outstanding was 256,403,686. As resolved by

the AGM held on 3 April 2014, the Board of Directors was authorized to purchase and/or take as security a maximum of 2,000,000 company shares using the company's unrestricted equity. At the end of December 2014, Neste Oil held 1,000,000 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 2013) of outstanding shares, foreign institutions 25.1% (17.2%), Finnish institutions 12.5% (17.8%), and Finnish households 12.3% (14.9%).

### Largest shareholders as of 31 December 2014

Shareholder	Shares	% of shares
Prime Minister's Office of Finland	128,458,247	50.10%
Ilmarinen Mutual Pension Insurance Company	3,652,849	1.42%
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	2,090,000	0.82%
The City of Kurikka	1,550,875	0.60%
Elo Pension Company	1,483,107	0.58%
Neste Oil Oyj	1,000,000	0.39%
OP-Delta Fund	875,000	0.34%
Schweizer Nationalbank	754,390	0.29%
OP-Focus Non-UCITS Fund	731,362	0.29%
OP-Finland Value Fund	457,475	0.18%
Nordea Life Assurance Finland Oy	425,495	0.17%
Sigrid Jusélius Foundation	423,000	0.16%
Nordea Fennia Fund	350,000	0.14%
Alhopuro Eero Sakari	348,400	0.14%
The Finnish Cultural Foundation	301,366	0.12%
Oy H. Kuningas & Co Ab	300,000	0.12%
Wipunen varainhallinta oy	300,000	0.12%
Fennia Life Insurance Company Ltd	294,012	0.11%
20 largest owners total	149,534,516	58.32%
Nominee registrations	63,064,590	24.60%
Others	43,804,580	17.08%
Number of shares, total	256,403,686	100.00%

## Breakdown of share ownership as of 31 December 2014

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	Total no. of shares	% of shares
1 – 100	26,630	36.5%	1,498,280	0.6%
101 – 500	31,364	43.0%	7,955,031	3.1%
501 – 1,000	8,122	11.1%	6,272,233	2.4%
1,001 – 5,000	5,984	8.2%	12,293,525	4.8%
5,001 – 10,000	513	0.7%	3,764,304	1.5%
10,001 – 50,000	291	0.4%	5,833,715	2.3%
50,001 – 100,000	34	0.0%	2,455,735	1.0%
100,001 – 500,000	35	0.0%	7,553,757	2.9%
500,001 –	16	0.0%	208,777,106	81.4%
<b>Total</b>	<b>72,989</b>	<b>100.0%</b>	<b>256,403,686</b>	<b>100.0%</b>
of which nominee registrations	10		63,064,590	

## By shareholder category

	% of shares
State of Finland	50.1%
Non-Finnish shareholders	25.1%
Households	12.3%
General government	6.0%
Financial and insurance companies	2.2%
Corporations	2.3%
Non-profit organizations	2.1%
<b>Total</b>	<b>100.0%</b>

## Corporate governance

The control and management of Neste Oil 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 Oil'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 Oil's Annual General Meeting (AGM) was held in Helsinki on 3 April 2014. The AGM adopted the company's financial statements and consolidated financial statements for 2013 and discharged the Board of Directors and the President & CEO from liability for 2013. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2013. A dividend of EUR 0.65 per share was paid on 15 April 2014.

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, Mr. Per-Arne Blomquist, Ms. Laura Raitio, Mr. Willem Schoeber, and Ms. Kirsi Sormunen. Mr.

Jean-Baptiste Renard was elected as a new Board member. Mr. Eloranta was re-elected as Chair and Ms. Friman as Vice Chair. The AGM decided to keep the remuneration paid to Board members unchanged.

Convening after the Annual General Meeting, the Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Maija-Liisa Friman and Ms. Laura Raitio as members of the Personnel and Remuneration Committee. Per-Arne Blomquist was elected Chair and Jean-Baptiste Renard, 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 principle responsible auditor, 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 Company's Articles of Association were amended as follows:

- a. Remove the requirement contained in Article 4 that a person who has reached the age of 68 cannot be elected to the Board of Directors and keep Article 4 otherwise unchanged.
- b. Amend Article 10 to read as follows:

#### “10 § Notice of a General Meeting of Shareholders

Notices convening a General Meeting of Shareholders are issued by the Board of Directors. Notices shall be delivered by publishing them on the Company's Web site no earlier than two (2) months and no later than three (3) weeks prior to a meeting and at least nine (9) days prior to the record date set for the meeting. In addition, the Company shall publish details on the date and location of the meeting, together with the address of the Company's Web site, in one or more newspapers within the same period of time.

To participate in a General Meeting of Shareholders, a shareholder must register with the Company by the date specified in the notice, which date shall not be earlier than ten (10) days before the General Meeting of Shareholders. Since the Company's shares are included in the book-entry system, the provisions of the Finnish Companies Act concerning the right to participate in General Meetings of Shareholders shall also be taken into account.

The General Meetings of Shareholders shall be held in Espoo, Helsinki, or Vantaa.”

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 authorization, the Board shall be authorized to decide the purchase of and/or take as security a maximum of 2,000,000 Company shares using the Company's unrestricted equity. The number of shares shall be equivalent to approximately 0.78% 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 2017.

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

## Personnel

Neste Oil employed an average of 4,989 (5,097) employees in 2014, of which 1,512 (1,452) were based outside Finland. As of

the end of 2014, the company had 4,833 employees (5,049), of which 1,524 (1,477) were located outside Finland.

## Health, safety, and the environment

Neste Oil's safety performance developed positively in 2014. Improvement in safety performance was supported by a development program focused on safety leadership and increasing safety awareness among Neste Oil employees and contractors.

People safety performance improved clearly during 2014. The total recordable injury frequency (TRIF, number of incidents per million hours worked) was 2.7 (4.2). The figure includes both Neste Oil's own and contractors' personnel. The corporate target for 2014 was below 3.3. TRIF related to Neste Oil's own personnel improved from 3.4 (2013) to 1.4 as the contractor TRIF stayed at the same level compared to previous year. Process safety level

improved slightly. Process Safety Events Rate (PSER) remained at 3.0, but the severity of incidents was lower. The corporate PSER target for 2014 was 3.0.

Operational environmental emissions were in substantial compliance at all sites. Permitted levels were exceeded eight times, but all were of a minor nature. No serious environmental incidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2014.

European biofuels market is regulated by the European Renewable Energy Directive (RED). Neste Oil's internal

procedures are in compliance with the directive's requirements, and the company's sustainability verification scheme was approved by the European Commission in January 2014.

In April 2014, The Forest Trust (TFT), a non-profit organization focused on preventing deforestation, released its first report on verification of Neste Oil's No-deforestation guidelines among the palm oil suppliers. The verification covers risk assessment of supply chain and goes beyond Neste Oil's own operations to identify potential sustainability risks linked to the company's suppliers. According to the report, Neste Oil has done an excellent job in due diligence and supplier vetting; none of the mills selling

certified raw material to Neste Oil was identified as having a high risk for undesirable land use change.

The 100% palm oil certification rate reached in 2013 was continued in 2014. Neste Oil retained its position in a number of sustainability indexes during 2014, and was included in the Dow Jones Sustainability World Index (DJSI World) for the eighth year in succession and on The Global 100 list of the world's most sustainable companies for the ninth year in succession. For the first time, the company was also included in the more demanding Dow Jones Sustainability Europe Index. Neste Oil was also rated among the top performers in the oil & gas sector by CDP Forest, which reviews industries using forest risk commodities.

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## Research and development

Broadening both the renewable and fossil feedstock base has been a key research topic in 2014. In addition, exploring growth opportunities beyond the current product portfolio, even beyond traffic fuels, has been a new growing area of interest. In 2014 the new product launches comprised a low sulphur marine fuel and the high quality Futura branded fuels in the Baltic countries and Russia. Efficiency improvements at the company's oil refineries and renewable refineries continued as a key focus area of technology development. Neste Oil's R&D expenditure totaled EUR

40 million (40 million) in 2014. As in the previous years, majority of the R&D expenditure was devoted to feedstock research. In 2014 the waste and residue based feedstock increased by more than 30% to 1.6 (1.2) million tons and accounted already for 62% (52%) of the total NEXBTL feed. At the same time the overall NEXBTL production volume increased to 2.1 (1.9) million tons. Especially lower grade waste and residue feedstock e.g. used cooking oil and low quality animal fat quantities were increased.

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## Main events published during 2014

On 20 February, Neste Oil announced that it had agreed on a business transfer under which Neste Oil will transfer the ship management functions of Neste Shipping to Norwegian-based OSM Group AS. The outsourcing of ship management functions is part of Neste Oil's plan to exit the shipping business announced on 19 September 2013.

On 28 April, Neste Oil and AGA announced that they had signed a long-term hydrogen supply agreement covering Neste Oil's Porvoo refinery, under which AGA will invest in a new hydrogen production unit at the refinery.

On 29 April, Neste Oil announced that it had completed the arrangements to sell its key vessels to companies owned by Finland's National Emergency Supply Agency and Ilmarinen and outsource its ship management functions to OSM Ship Management Finland Oy.

On 30 April, Neste Oil announced that it had signed a new EUR 1.5 billion multi-currency revolving credit facility with a syndicate of 20 core relationship banks. The new facility refinances the Group's existing EUR 1.5 billion facility dating from December 2010, and will be used for general corporate purposes.

On 12 May, Neste Oil announced that Diesel Production Line 4 at the Porvoo refinery would be shut down for maintenance because of an unexpected mechanical failure in one of the line's process units.

On 29 August, Neste Oil announced that it expected repair work on the damaged hydrogen unit at Porvoo would take until the end of October and that the incident was likely to have an impact totaling approximately EUR 60 million on the company's comparable operating profit. The improved oil products market was expected to contribute some EUR 30 million by way of

compensating for this impact. Neste Oil revised its guidance, stating that it expected its comparable operating profit for 2014 to come in at under EUR 400 million.

On 8 September, Neste Oil 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); Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; Reima Rytsölä, Chief Investment Officer of Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste Oil's Board of Directors.

On 10 September, Neste Oil announced that it is to build a biopropane unit at its refinery in Rotterdam. The project started immediately and the plan is to begin sales of biopropane at the end of 2016. The total value of the investment is approximately EUR 60 million.

On 11 September, Neste Oil held a Capital Markets Day in London and highlighted the company's goal of being the Baltic Sea downstream champion and growing in global renewable feedstock-based markets. Neste Oil is targeting a strong cash flow to facilitate investments in improving productivity and growth, reduce its debt, and ensure stable dividends. Investors were also updated about plans to extend the NEXBTL product family into completely new applications outside traffic fuels. New NEXBTL applications are expected to develop into a significant business by the end of the decade. Neste Oil's financial targets and dividend policy remain unchanged.

On 7 October, Neste Oil announced that it is to make major investments in Finland, integrate the operations of its Finnish refineries, and reduce personnel. Neste Oil is planning to initiate

a major development program to rationalize its operations. Investments totaling approx. EUR 500 million are to be made in growth and optimizing production at the Porvoo and Naantali refineries in Finland. The plan is to closely integrate refinery operations at Porvoo and Naantali to achieve better operational and cost efficiency. The impact of these changes, together with changes already implemented, are expected to reduce Neste Oil's labor requirement by approx. 250 employees, primarily in Finland. Neste Oil issued an invitation to personnel to take part in statutory employer-employee negotiations covering these changes. Neste Oil was also investigating the future of the electricity distribution system at the Porvoo refinery. The project to modernize energy generation at the Porvoo refinery has been modified and the plan now is to implement the power plant investment, valued at more than EUR 250 million, through a joint venture with Veolia and Borealis.

On 26 November, Neste Oil announced that it had completed the statutory employer-employee negotiations commenced on 7 October, 2014. As the result of the negotiations, Neste Oil's

personnel will be reduced by 203 employees in Finland by the end of 2016.

On 18 December; Neste Oil announced that it had agreed to sell all shares of Kilpilahden Sähkösiirto Oy to InfraVia European Fund II, an infrastructure fund managed by InfraVia. The sale will produce a capital gain of approximately EUR 80 million for Neste Oil. The transaction was expected to be completed during the first quarter of 2015. The Neste Oil's decision to investigate the future of the electricity distribution network at the Porvoo refinery was first announced on 7 October 2014.

On 20 December, Neste Oil announced that the company had revised its guidance and now expected the Group's full-year comparable operating profit to be above EUR 550 million in 2014. Previously the company expected it to be above EUR 400 million. The revised guidance was a result of better than expected business performance during the fourth quarter, as well as an insurance compensation for the Porvoo refinery hydrogen unit damage, and reintroduction of the Blender's Tax Credit (BTC) in the US.

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## Events after the reporting period

On 20 January, Neste Oil announced that the Shareholders' Nomination Board, established by Neste Oil Corporation's Annual General Meeting (AGM), will propose to the AGM to be held on 1 April 2015 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, and Ms. Kirsi Sormunen should be re-elected for a further term of office. The Shareholders' Nomination Board's candidate to serve as a new Board member is Marco Wirén.

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## Potential risks

The oil market has been and is expected to continue to be very volatile. Oil refiners are exposed to a variety of political and economic trends and events, as well as natural phenomena that affect the short- and long-term supply of and demand for the products that they produce and sell. The political crisis in Ukraine has increased general uncertainty in the European energy market, but has not materially impacted oil and gas supply.

Uncertainty continues to be focused on the development of the world economy, which is likely to have a material impact on the demand for petroleum products generally and diesel fuel in particular.

Sudden and unplanned outages at Neste Oil's production units or facilities continue to represent an inherent operational risk.

Rapid and large changes in feedstock and product prices may lead to significant inventory gains or losses, or changes in working capital, and may have a material impact on the company's IFRS operating profit and net cash from operations.

The implementation of biofuel legislation in the EU, North America, and other key market areas may influence the speed at which the

demand for these fuels develops. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing technologies may have a negative impact on the company's results. Margins in the Renewable Products business can be volatile in various markets due to rapidly changing feedstock and product prices, and affect the profitability of the business as a result.

Over the longer term, access to funding and rising capital costs, as well as challenges in procuring and developing new competitive and reasonably priced raw materials, may impact the company's results.

The key market drivers for Neste Oil's financial performance are refining margins, the price differential between Russian Export Blend (REB) and Brent crude, the USD/EUR exchange rate, the price differentials between different vegetable oils and between vegetable and mineral oils, and biodiesel margins.

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

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## Risk management

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Neste Oil uses risk management in order to enhance opportunities and reduce threats, thus gaining competitive advantage. Risk management is a central part of Neste Oil's management system, and its importance has only grown as the oil market has been and is expected to continue very volatile. Neste Oil aims to manage the impact of risks on its operations through a range of risk management strategies. The Corporate Risk Management Policy and Principles approved by the Board of Directors define the principles to be used for managing the risks associated with the strategic and operational targets of the Group as a whole and its business areas and common functions.

Business areas and common functions have additional principles, instructions, and procedures related to risk management, approved by the President & CEO.

Risk management in the area of strategic and operational management aims at recognizing risks on a rolling basis, assessing and prioritizing them on a consistent basis, and managing them proactively.

For more detailed information on Neste Oil'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 2014.

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## Outlook

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.

Global oil demand is anticipated to continue increasing, but growth estimates are generally slightly below 1 million bbl/d for 2015. The forward reference refining margin is currently reasonably strong. However, the refining capacity growth of more than 1 million bbl/d in Asia and Middle East is expected to create some pressure on global product supply demand balance particularly during the second half of the year. Transatlantic supply demand balance is also dependent on the planned and unplanned refinery shutdowns. Gasoline margins are currently supported by contango buying, and the coming driving season typically supports gasoline market in the spring. Middle distillate imports from Russia, the Middle East, and the US are expected to remain on a high level also in 2015.

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. Feedstock prices have been on a downward trend, but vegetable oil price differentials have remained narrower than the historical average. Market volatility in feedstock and oil prices is expected to continue, which will have an impact on the Renewable Products segment's profitability.

In 2015, the Group's investments are expected to total approx. EUR 450 million, including some EUR 100 million for a major turnaround at the Porvoo refinery. The Porvoo turnaround is scheduled to start in April 2015 and is expected to last for approx. 8 weeks. Product inventory of approx. EUR 200 million is planned to be built in anticipation of the turnaround. The turnaround is expected to have an approx. EUR 70 million negative impact on Oil Products segment's comparable operating profit.

Crude oil price changes, supply and demand balances, together with uncertainties related to political decision-making on biofuel mandates, the US Blender's Tax Credit and other incentives will be reflected in the oil and renewable fuel markets.

Based on the above, Neste Oil expects the Group's full-year 2015 comparable operating profit to be robust, although probably lower than that reached in 2014.

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## Dividend distribution proposal

Neste Oil'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 2014 amounted to EUR 1,123 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 Oil Corporation pays a cash dividend of EUR 0.65 per share (0.65) for 2014, totaling EUR 166 million (167 million) based on the number of outstanding shares.

The proposed dividend represents a yield of 3.2% (at year-end 2014 share price of EUR 20.06) and 41% of the comparable net profit in 2014.