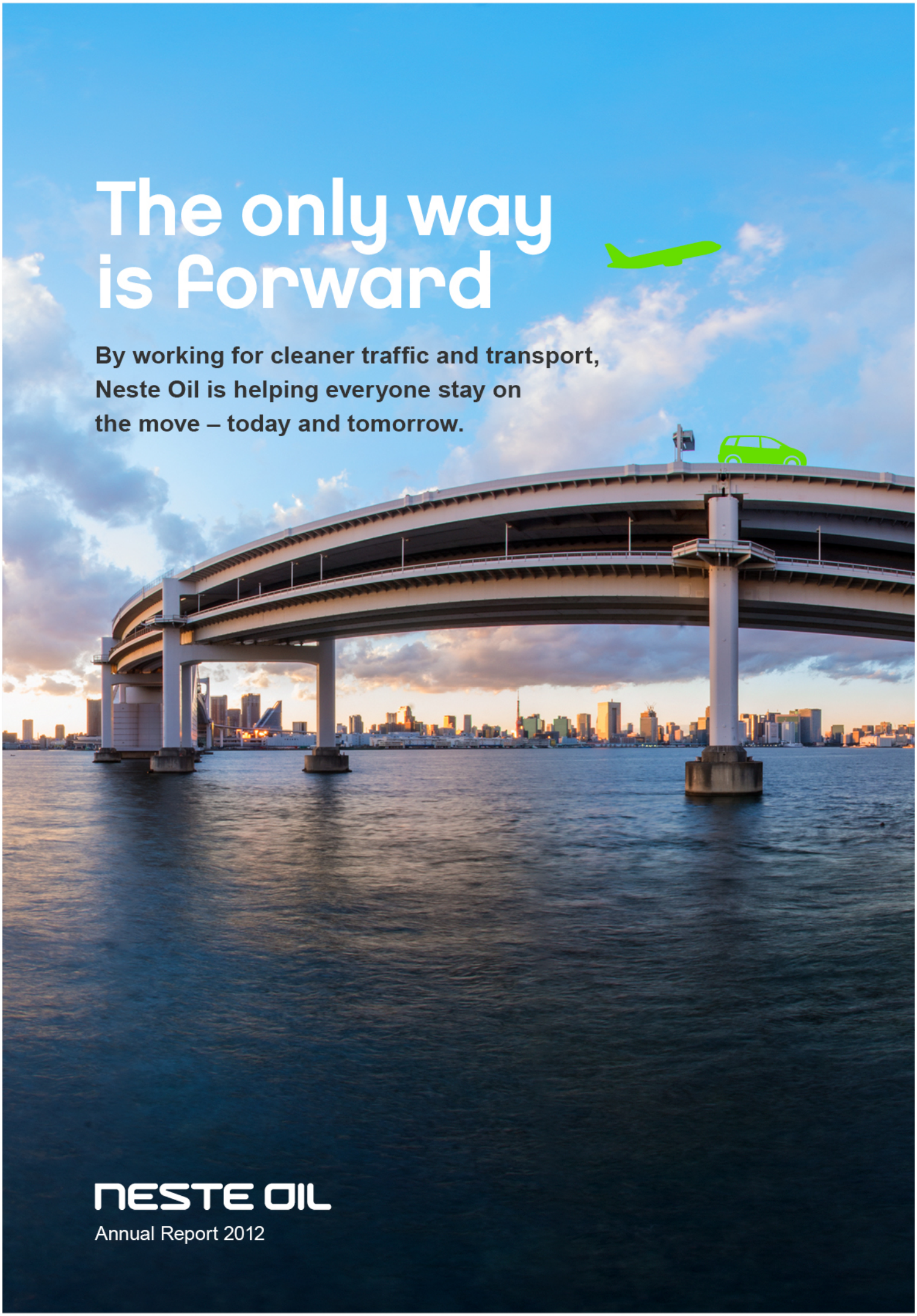
The only way is forward

By working for cleaner traffic and transport, Neste Oil is helping everyone stay on the move – today and tomorrow.



NESTE OIL

Annual Report 2012

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Neste Oil

Neste Oil in brief

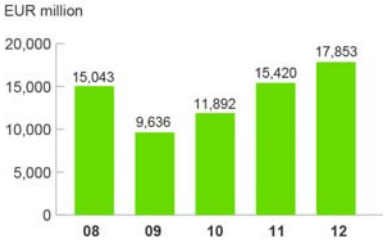
Neste Oil is a refining and marketing company, with a production focus on premium-quality, lower-emission traffic fuels. The company has operations in 15 countries. Neste Oil produces a comprehensive range of major petroleum products and is the world's leading supplier of renewable diesel. The company's customers include oil companies and other businesses in Finland and worldwide, as well as retail customers in Finland, the Baltic countries, and St. Petersburg region in Russia. Neste Oil's share is listed on NASDAQ OMX Helsinki.

Sustainability represents a central part of Neste Oil's cleaner traffic strategy

By developing and producing premium-quality fuels that have a lower level of impact on the environment, Neste Oil can help meet the growing energy needs of traffic and transport, and make its own contribution to combating climate change. Neste Oil has received international recognition for its sustainable operations, and has been included in the Dow Jones Sustainability Index and the Global 100 list of the world's most sustainable companies for many years in succession.

Revenue

EUR million



The only way is forward

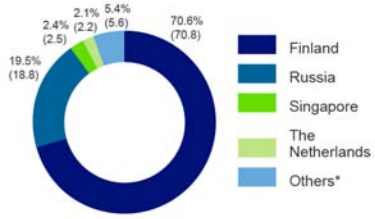
A vision of traffic in 2030

"I would like to see driverless cars that could substantially cut down on braking, traffic congestion, and accidents."

Man, age of 23-35, USA

Read more

Personnel by country 31.12.2012 (%)



*Bahrain, Belgium, Canada, Estonia, Latvia, Lithuania, Poland, Sweden, Switzerland, and the US.

Business areas in brief

Business area	Oil Products and Renewables		Oil Retail
Reporting segment	Oil Products	Renewable Fuels	Oil Retail
Business	• Sales of petroleum products to wholesale customers	• Sales of NExBTL renewable diesel, NExBTL renewable aviation fuel and NExBTL renewable naphtha to B-to-B and wholesale customers	• Sales of petroleum and renewable products to end-users and distributors
Revenue	• EUR 13,764 million	• EUR 2,163 million	• EUR 4,895 million
Comparable operating profit	• EUR 396 million	• EUR -56 million	• EUR 58 million
Share of Neste Oil's revenue	• 62%	• 11%	• 27%
Personnel	• 2,062	• 258	• 1,339
Main market areas	• Europe and North America	• Europe and North America	• Finland and the Baltic Rim
Customers	• Oil companies and businesses marketing petroleum products	• Oil companies and other wholesale customers	• Consumers, as well as industrial and agricultural customers
Capacity	• 15 million t/a	• 2 million t/a	• 803 outlets in Finland • 333 outlets in Northwest Russia, the Baltic countries, and Poland*
Strategic role	• To maximize the cash flow provided by the sales of the products Neste Oil refines • To generate profitable growth on the expanding market for premium-quality base oil	• Generate profitable growth on the expanding market for premium-quality renewable fuels	• To act as a marketing channel for Neste Oil's products • To maximize cash flow generated by product sales • To leverage market potential in the countries around the Baltic
Strengths	• Premium-quality products • Ability to refine a range of crude inputs, such as Russian Export Blend (REB)	• NExBTL technology based on Neste Oil's proprietary research and product development • Premium-quality product • Production on an industrial scale (2 million t/a)	• Premium-quality products • Strong brand • Extensive station network • Competitive unit costs

Business area	Oil Products and Renewables		Oil Retail
Reporting segment	Oil Products	Renewable Fuels	Oil Retail
	• High level of refining and technological expertise • One of the Europe's most advanced refineries at Porvoo	• Ability to use an extensive range of sustainably produced raw materials	• Value-added customer solutions (e.g. card-free fueling and fuel consumption monitoring)
Market position	• Oil Products: 1st in Neste Oil's home market around the Baltic • Base oils: 2nd in Europe, 3rd globally	• 1st globally	• 1st in Finland • 2nd in the St. Petersburg region in Russia • 2nd in Estonia • 2nd in Latvia • 2nd in Lithuania • 7th in Poland*
Most significant competitors	• Other advanced refiners in Russia, Northwest Europe, and the Middle East	• Dynamic Fuels, USA • Producers of conventional biodiesel	• In Finland: ABC, St1 and Lukoil (operates in Finland as Teboil) • In the Baltic countries and Northwest Russia: Statoil and Lukoil

* Neste Oil announced in December 2012 that it had decided to sell its station network in Poland to Shell. The sale is expected to be closed during the first half of 2013 and will mark the end of Neste Oil's retail operations in Poland. Neste Oil has 106 outlets in Poland.

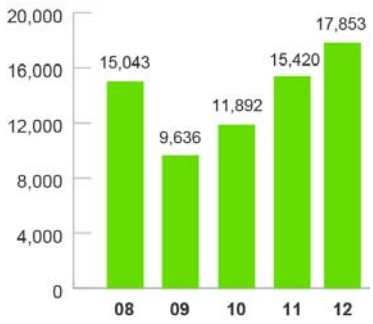
Key figures

	2012	2011	Change %
Income statement, EUR million			
Revenue	**17,853**	15,420	15.78%
Operating profit	**321**	273	17.58%
Comparable operating profit	**352**	178	97.75%
Profit before income tax	**233**	206	13.11%
Profitability, %			
Return on equity (ROE)	**6.3**	6.6	-4.55%
Return on capital employed, pre-tax (ROCE)	**6.5**	5.9	10.17%
Return on average capital employed, after tax (ROACE)	**4.9**	2.6	88.46%
Financing and financial position			
Total equity, EUR million	**2,578**	2,467	4.50%
Interest-bearing net debt, EUR million	**1,935**	2,080	-6.97%
Capital employed, EUR million	**4,923**	4,850	1.51%
Equity-to-assets ratio, %	**35.0**	34.0	2.94%
Leverage ratio, %	**42.9**	45.7	-6.13%
Net cash from operating activities, EUR million	**468**	197	137.56%
Share-related indicators			
Earnings per share (EPS), EUR	**0.61**	0.62	-1.61%
Dividend per share, EUR	**0.38**[1)]	0.35	8.57%
Dividend payout ratio, %	**62.1**[1)]	56.5	9.91%
Share price at the end of the year, EUR	**9.77**	7.81	25.10%
Average share price, EUR	**9.08**	10.22	-11.15%
Highest share price, EUR	**11.11**	14.7	-24.42%
Lowest share price, EUR	**7.28**	6.19	17.61%
Market capitalization at the end of the year, EUR million	**2,505**	2,003	25.06%
Other indicators			
Equity per share, EUR	**10.01**	9.58	4.49%
Investments, EUR million	**292**	364	-19.78%
Average number of personnel	**5,031**	4,926	2.13%
R&D expenditure, EUR million	**42**	42	0.00%
Refining margin, USD/bbl	**10.17**	8.76	16.10%
Total Recordable Injury Frequency per million hours worked (TRIF)	**3.6**	2.7	-33.33%

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

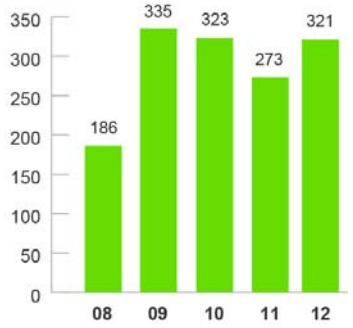
Revenue

EUR million

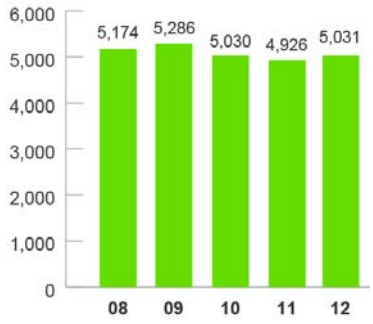


Operating profit

EUR million

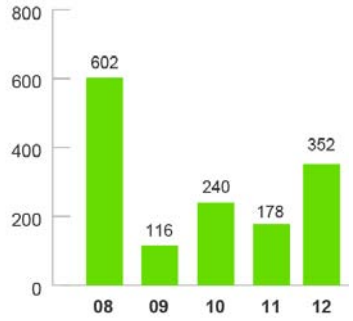


Personnel (average)

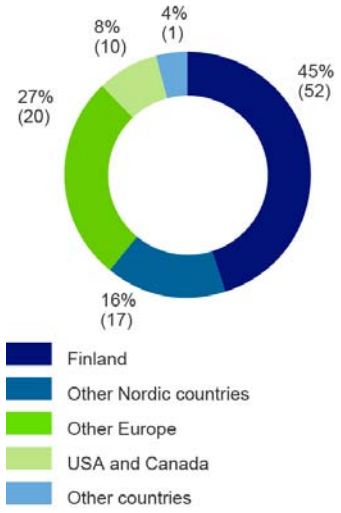


Comparable operating profit

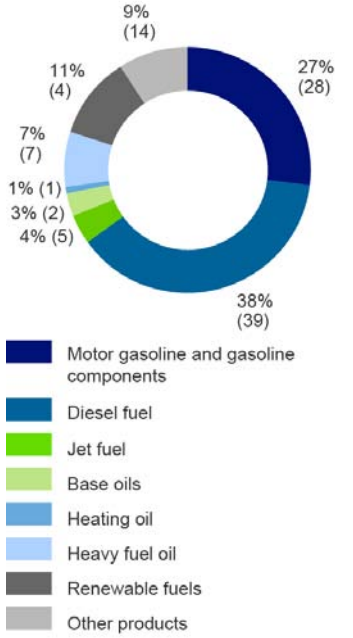
EUR million



Sales by region from in-house production (%)



Sales by product from in-house production (%)



CEO's review of 2012

The economic crisis affecting the European Union had a powerful impact on 2012 and resulted in continuing tough times on Neste Oil's main markets. Total demand for petroleum products declined across the EU, for the sixth year in succession, and the competition between oil refiners in the EU has steadily intensified. Although one major refiner, Petroplus, went bankrupt in 2012, the bulk of its refining capacity is still in operation. A number of new refining units have also come on stream in Europe, and productivity improvements have increased the capacity of various existing units.

The European refining industry is in a difficult situation today. The good levels of profitability seen in earlier years have disappeared and the upcoming investments called for by environmental and other legislation at EU and national level are putting new pressures on the sector. A number of governments across Europe have policy programs in place aimed at reducing oil usage or even eventually eliminating it altogether. The industry is faced with so many challenges that even the European Commission has started to look at ways of resolving them.

The global energy balance is also changing, and is affecting not only the oil industry but other industries that use large amounts of energy as well.

The growth of gas production in the US has reduced the price of energy there, which is attracting heavy industry to direct new investments to locations where cheaper energy is available. Liquefied natural gas, for its part, is a very mobile source of energy and represents a challenge for more traditional forms and sources of energy worldwide. The Russian energy sector is also developing and increasing its offering in both the East and the West. All of these various factors will impact European industry and its competitiveness over the coming years and have a major impact on Neste Oil's operating environment.

Neste Oil believes that its future success will depend on well-maintained, efficient refineries. In the fossil fuel area, we have focused on specializing as a producer of diesel and premium-quality base oil, because we believe that these products will be in demand over the long term. Our capacity in renewable products – diesel, aviation fuel, and naphtha – further strengthens our overall capabilities.

Better operations thanks to our Value Creation programs

In a difficult marketplace, the focus needs to be on improving one's own performance. The five Value Creation programs that we launched in mid-2011 reached full momentum in 2012. As reported elsewhere here, we achieved many of the central targets related to our operations and strategy in 2012 with the help of these programs. I have been particularly pleased with the fruits of our leadership and management development work. As well as being reflected in our day-to-day operations, these

improvements have also made themselves felt in the results of our regular employee survey.

Without the determined efforts linked to our Value Creation programs and the stricter cost discipline that we have implemented in recent years, Neste Oil would be in a significantly weaker position than it is today. Although 2012 was better for us in terms of financial performance than for some time, we have not achieved our target ROACE level for some years. As a result, we will continue to concentrate on developing higher value-added solutions for our customers and keeping our costs closely in check, and remain ready to implement structural changes in our business if they are called for. An example of the latter was our decision to sell our service station business in Poland to Shell at the end of 2012 and our announcement at the beginning of 2013 of a project aimed at improving the cost structure and competitiveness of our fleet.

Entering new markets

One of the key goals of our renewable fuels business has been to identify and develop new customers and markets, and we have made important progress in both areas. We increased the size of our renewable fuels customer base very significantly in 2012 and, just as importantly, succeeded in opening up new geographical markets for our renewable products, not least the US. We also entered new markets in southern Europe. We were very disappointed, however, to see that there is still a long way to go in creating a common internal market within the EU, despite this being one of the Community's central principles, and this has seen our NExBTL renewable diesel continuing to be discriminated against in some EU countries. The difficult economic situation appears to have strengthened protectionism. Ensuring market access is one of the main aims of our advocacy-related efforts, which we strengthened significantly in 2012.

Sustainability is essential

Many stakeholders, and NGOs in particular, expect companies to operate sustainably. Sustainability has also become a central feature of legislation regulating the business world in recent years.

The most important catalyst for increased sustainability comes from companies themselves; everyone wants to work for a company that is committed to working for a better world and is profitable, and everyone wants to arrive home safely and in good health after their day at work.

Neste Oil fell short of its safety targets in 2012. The number of accidents recorded at our locations increased, as did the number of process safety incidents. The extensive attention that we have given to safety means that we will be well-placed to achieve better performance in this area in 2013, I believe.

Emissions into the soil, waterways, and the atmosphere at our plants remained well within permitted limits during 2012. The oil leak that took place at the rock cavern storage facility that we operate in Kajaani in the spring was an important lesson, even though the scale of its impact was significantly smaller than initially feared.

Renewable raw materials continue to be the single largest subject of debate related to Neste Oil's sustainability. We follow very strict criteria to ensure that all our renewable inputs are produced sustainably. 77% of our renewable inputs in 2012 were certified and 91% of our palm oil, the subject of the most criticism. Certification work on our plants progressed. We were also encouraged by the continued recognition that our sustainability-related work has received, and we were ranked the world's fourth most sustainable company in The Global 100 list for 2013.

Continued R&D on products and feedstocks

Neste Oil is well-known for its product development work. We have launched a number of new products in recent years, many of them based on our industry-leading renewable fuel technology. These included the launch of Neste Pro Diesel in Finland in 2012, the world's first diesel to comply with the WWFC4 standard. Neste Pro Diesel has been well-received by our customers, who have appreciated the higher engine output, lower emissions, and reduced fuel consumption that it offers.

While we always emphasize safety in our operational activities, we aim to be both considered and bold, where appropriate, in our business decisions. Neste Pro Diesel is just one example of the bold solutions that Neste Oil is committed to.

We revamped our brand in 2012 to underline our belief that traffic and transport will continue to be essential into the future. Given the fact that the world's resources cannot sustain current forms of traffic and transport long term, Neste Oil's role as a pioneering traffic fuel producer is to look for more sustainable ways of keeping everyone on the move. This is a major task and one in which we need to be bold, but it is a challenge that we are ready for – as the only way is forward.

R&D is integral to the work we do to search out new solutions. We commissioned Europe's first microbial oil pilot plant at Porvoo in 2012 and further extended the range of renewable inputs that we use. We are committed to continuing this work and also to increasing our use of waste- and residue-based materials. The amount of renewable diesel that we produced from these materials was equivalent to the annual fuel consumption of some 740,000 cars in 2012 (based on average European mileage and fuel consumption figures) – clearly more than anyone else anywhere!

Better performance

Neste Oil achieved a clear improvement in its financial performance in 2012, booking a comparable operating profit of EUR 352 million and cash flow of EUR 468 million, and reducing the Group's leverage ratio. I believe that we can further improve on this performance. We have made doing so our target for 2013 and announced this both internally and externally – and we are committed to this. While our quarterly results are an important yardstick for measuring the improvements that we make, our prime focus is on our long-term profitability, as this is what will secure our competitiveness and our capacity to make the investments we need to.

In conclusion

In conclusion, I would like to thank Neste Oil's shareholders, customers, partners, and personnel for their contribution to our performance in 2012. Neste Oil needs you on its journey in the years to come, a journey in which the way is most definitely forward.

Matti Lievonen

President & CEO

Strategy

Traffic and transport are an integral and essential part of life and modern society. Neste Oil believes that developing this sector is of critical importance. Cleaner solutions are needed to provide the growing amount of energy needed to keep society on the move as sustainably as possible, both today and – even more importantly – in the future.

The premium-quality fuels developed by Neste Oil, with their smaller environmental footprint, open up excellent potential for cleaner traffic and transport and for helping global efforts aimed at combating climate change. Neste Oil's R&D on renewable raw materials and refining technologies for these materials also makes a valuable contribution to reducing the world's dependence on crude oil.

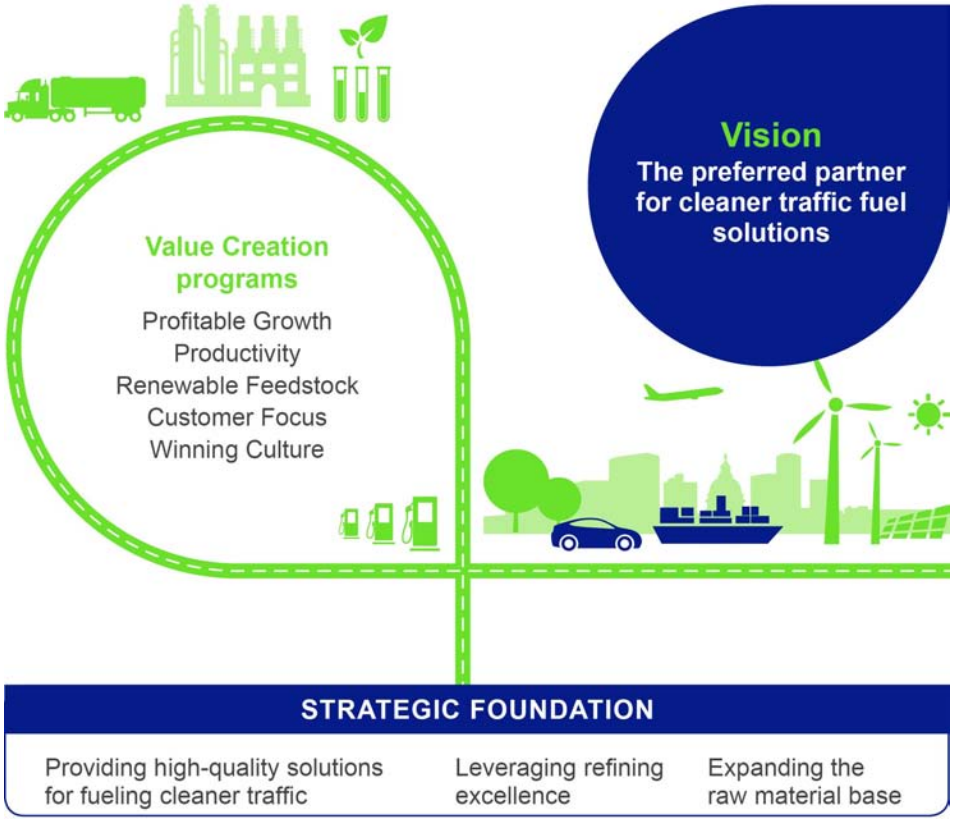
Cleaner traffic strategy

Neste Oil's vision is to be the preferred partner in cleaner traffic fuel solutions.

Neste Oil's long experience in developing cleaner fuels, together with its unique refining and technological expertise and sustainable business model, provide a small company in international oil industry terms with a solid foundation for implementing its strategy.

Neste Oil is implementing its cleaner traffic strategy through its five Value Creation programs.

Neste Oil's strategy



Strategic roles

Neste Oil's two business areas – Oil Products & Renewables and Oil Retail – support the implementation of the company's strategy, together with its efficient Production and Logistics function.

The strategic role of Oil Products and Renewables is to maximize the cash flow provided by the products Neste Oil refines and generate profitable growth on the growing market for premium-quality base oil and renewable fuels.

The strategic role of Oil Retail is to act as a marketing channel for Neste Oil's products and maximize the cash flow generated by product sales and leverage market potential in the countries around the Baltic.

The strategic role of Production and Logistics is to ensure reliable and flexible production, and continuously improve efficiency.

Strategy implementation in 2012

Neste Oil continued implementing its cleaner traffic strategy during 2012 through its five Value Creation programs. Launched in 2011, these programs will be the company's main focal areas over the next few years, and the progress made towards the targets they contain is monitored on a regular basis.

Value Creation program	Targets	Achievements in 2012	Case
Profitable Growth	▪ Ensure that Neste Oil achieves its business targets in its selected growth areas: NExBTL renewable diesel, other renewable applications, and Oil Retail	▪ Sales volumes of NExBTL renewable diesel increased by 165% (133%) and totaled 1.7 million tons (628,000 tons) ▪ Sales of NExBTL diesel were extended to a number of new markets, including the US ▪ NExBTL renewable naphtha, which can be used for producing bioplastics, was added to the renewable fuels product portfolio ▪ Base oil sales increased and new customers were secured in Asia and North America, as well as Europe ▪ Neste Oil opened new outlets in Finland, the Baltic countries, and Northwest Russia, and increased its market share in Finland and its share of retail gasoline (+1.4%) and diesel (+0.9%) sales	**First deliveries of NExBTL renewable diesel to the US**s 
Productivity	▪ Improve production efficiency at all of Neste Oil's refineries ▪ Enhance the efficiency of the overall production chain	▪ Operations at the new refineries in Singapore and Rotterdam achieved normal operational status following their ramp-up. The refineries achieved an average capacity utilization of 85% ▪ Capacity utilization at the Porvoo refinery improved slightly and was 87% (86%) ▪ Operating practices covering diesel line 4 at Porvoo were developed, extending the duration of incident-free operations on the line	**Supply chain efficiency improved through better logistics profitability and enhanced sales and procurement management practice**s 

Value Creation program	Targets	Achievements in 2012	Case
Renewable Feedstock	• Improve the availability and acceptability of the renewable raw materials used by Neste Oil • Identify new, sustainably produced feedstocks for producing renewable fuels that are both technically suitable and generally acceptable	• Usage of waste- and residues-based raw materials increased by over 400,000 tons • Waste fat from the fish processing industry was added to Neste Oil's renewable feedstock base • Europe's first microbial oil pilot plant was commissioned at Porvoo	**Usage of waste-based feedstock increased by hundreds of thousands of tons in 2012** 
Customer Focus	• Strengthen Neste Oil's customer-focused mindset • Develop expertise, processes, and tools that match customers' needs	• Customer segmentation was further developed and development of the customer relationship process started • A new premium-quality fuel, Neste Pro Diesel, was launched in Finland • Truck customers in Finland now have the opportunity for card-free fueling, which reduces the risk of misuse, makes reporting more reliable, and simplifies the day-to-day life of drivers and their employers	**Offering heavy traffic customers the option of card-free fueling at Neste Oil's Truck stations** 
Winning Culture	• Create a company where it is safe to work and where people can constantly develop their capabilities • Create a strong culture of success, responsibility, and target-based operations	• The latest personnel survey showed improvements in areas such as commitment and leadership • Neste Oil's internal ideas system generated over 1,500 new ideas, the most promising of which will be followed-up and implemented	**Commitment to improving leadership skills is producing results** 

First deliveries of NExBTL renewable diesel for the US

Achieving profitable growth in the NExBTL renewable diesel area is one of Neste Oil's most important short-term strategic targets. A major milestone in moving towards this target was reached in 2012 when Neste Oil supplied the first batches of NExBTL diesel to the US. The biofuel market in the US is governed by the Renewable Fuel Standard (RFS 2) and represents an important one for premium-quality biofuels.

Opening up the US market to NExBTL and delivering the first shipments of the fuel there called for a lot of preparatory work and gaining a thorough understanding of the US legislative environment.

"We spent a lot of time getting to grips with the requirements of local legislation and their implications in terms of our renewable fuels business," says Heli Salmenpohja, who is responsible for the NExBTL project aimed at growing Neste Oil's presence in the US. "To comply with the RFS 2 standard, we developed a separate inventory monitoring system specifically for the local market, for example."

The first batch of NExBTL renewable diesel delivered to the US was produced at Neste Oil's Porvoo refinery from waste fat sourced from the food industry. Following this first batch, delivered in April 2012, Porvoo has supplied additional volumes of the fuel to the US. Neste Oil's refinery in Singapore supplied its first batch of NExBTL renewable diesel to the US towards the end of 2012 after the Environmental Protection Agency (EPA) had granted the site RIN generator (Renewable Identification Number) approval.

"Given the large demand in the US, and the benefits offered in terms of logistics optimization, the start of shipments from Singapore was an important step," continues Heli Salmenpohja.

In addition to entering the US market, Neste Oil also expanded its NExBTL renewable diesel customer base in Europe during 2012. Going forward, the aim is to improve the profitability of Renewable Fuels by leveraging the optimization opportunities that exist between different markets around the world. The long-term goal is to open up new markets for NExBTL renewable diesel outside Europe and North America.

Supply chain efficiency improved through better logistics profitability and enhanced sales and procurement management practices

Neste Oil's Productivity Value Creation program is aimed at securing the company's efficiency and competitiveness as it moves forward. In addition to work focused on improving refinery availability and energy efficiency, the program is also addressing Neste Oil's supply chain as a way of enhancing overall productivity. The significance of the supply chain has increased as Neste Oil's activities have become more international, and the goal is to ensure that Neste Oil's various supply chains support the Group's business targets effectively, as well as the needs of its customers.

Neste Oil is prioritizing factors contributing to improved financial profitability in development work on improving supply chain efficiency. Supply chain development work in 2012 focused on improving the profitability of the Renewable Fuels business, as well as that of terminals and the Neste Oil fleet.

"We paid particular attention to the cost structure of our logistics operations during 2012 and optimizing things like bunker fuel consumption and terminal usage. We also reviewed and developed logistics management practices across the entire Group," says Minna Haapala, who is responsible for steering Oil Products and Renewables' supply chain. In addition to logistics development, Neste Oil also launched a project to integrate supply chain planning and optimization tools in 2012 and this will continue in 2013.

Management practices covering sales and procurement were also developed in 2012, as a result of the strong growth that has been seen in the Base Oil and Renewable Fuels businesses.

"Volumes at Renewable Fuels nearly trebled in 2012, and those at Base Oil grew by around 80%," continues Minna Haapala. "Given this strong growth and the changes that have taken place in both businesses, it was important to ensure that management practices were updated to reflect the new situation and ensure supply chain efficiency."

The goal in 2013 will be to further enhance supply chain efficiency by improving personnel's potential for taking a greater role in plant optimization at the Porvoo refinery, for example.

"Our aim is to make more market data available to production personnel and increase people's understanding of what efficient plant operations involve for the site as a whole, not just in terms of individual units there. By involving personnel more actively in this way, we want to create a more dynamic and more market-driven way of running the site," says Minna Haapala.

Usage of waste-based feedstock increased by hundreds of thousands of tons in 2012

Increasing the usage of waste and residues in producing renewable fuels is one of Neste Oil's most important targets. Purchases of these materials increased by hundreds of thousands of tons in 2012, more than double the figure for 2011.

"We progressed steadily towards our targets in 2012 and took a number of major steps in terms of feedstock sourcing," says Jeffrey Glanz, who is responsible for the procurement of Neste Oil's renewable feedstocks. "We succeeded in significantly increasing our purchases of waste fat from slaughterhouses, for example, and Neste Oil is now one of the world's largest users of waste fat. We also added a completely new waste stream to our range of raw materials, in the shape of waste fat sourced from the fish processing industry."

Neste Oil's proprietary NExBTL technology is capable of producing renewable diesel from virtually any vegetable oil or waste fat. Unlike vegetable oil, however, waste materials vary significantly in terms of their composition. To ensure that they can be used effectively, Neste Oil made various enhancements to the pretreatment process used at its plants in 2012. Pretreatment represents an important part of the overall production chain, as it removes impurities from feedstocks before they are fed into the NExBTL process.

"The improvements that we've made to our pretreatment process have given us additional flexibility in terms of feedstock sourcing, as we can now make use of waste streams containing higher concentrations of impurities," explains Raimo Linnaila, who is responsible for the development of NExBTL technology. "We also developed our analytical tools during 2012 and can now identify the impurities and contaminants found in feedstock in much greater detail than before."

Used cooking oil is one of the potential waste-based inputs that could also be used in Neste Oil's renewable diesel production in the future, together with waste- and residues-based microbial oil in the longer term. Neste Oil commissioned Europe's first pilot plant dedicated to producing microbial oil from agricultural and forestry residues in 2012.

Increasing the use of waste in producing renewable fuels is important, as waste-based materials do not compete with food production in terms of land use and the greenhouse gas emissions of the end-products refined from them are significantly smaller than those of fossil fuels. Encouraging the increased use of waste as a raw material input is also part of the proposed changes planned for EU legislation on biofuels.

Offering fleet customers the option of card-free fueling

Neste Oil's Truck stations were the first in Finland to introduce the Truck+ card-free fueling service in May 2012. Development work on the new service was closely linked to Oil Retail's commitment to offering its customers value-added solutions as well as premium-quality fuels.

"The popularity of the new service, and the feedback that we've received on it, have shown that we've succeeded in launching a service that meets a real customer need," says Development Manager Mikko Laiterä of Oil Retail, who was responsible for commercializing the Truck+ service. "Card-free fueling for fleet drivers reduces the risk of misuse, makes reporting more reliable, and simplifies the day-to-day life of drivers and their employers."

Card-free fueling was launched at selected Neste Oil Truck stations in May and extended during the summer. By September, the Truck+ service was available at over 100 stations. Vehicles covered by the Truck+ service are automatically identified by a chip installed in the vehicle and a sensor fitted to the throat of their fuel tanks, which is registered by a reader in the nozzle of the fuel pump when it is inserted. Owners can also fit a separate smart unit to their vehicles for automatically monitoring mileage and the number of hours a vehicle spends on the road as an add-on option.

"Neste Oil has traditionally had a strong position in B-to-B sales in Finland, and staying ahead of the field calls for continuous innovation in terms of our product and service offering. Learning from our customers is central to our ability to provide more efficiency, safety and information. This is what Truck+ is all about," says Mikko Laiterä.

Commitment to improving leadership skills is producing results

Neste Oil has made strengthening its winning culture as one of the company's strategic focal areas. The aim of the Winning Culture Value Creation program is to promote a strong mindset across the organization focused on success, sustainability, and goal-driven operations. The work being done in this area has been reflected in an increased focus on enhancing Neste Oil's management skills.

This focus on improving leadership skills proved successful in 2012, as the results of the latest personnel survey indicate that the leadership capabilities of Neste Oil's managers are seen as one of the company's key strengths. Personnel see their managers as responding enthusiastically to the ideas and initiatives brought up by their teams and as offering people a good level of support and the opportunity to work independently.

Neste Oil provides training for both new and existing managers as a means of improving their skill-sets. Unlike many other companies, the management training provided by Neste Oil is not tied to specific levels of the Group's organization; managers at different levels and in different parts of the Group regularly take part in the same training programs.

"The different backgrounds of the managers that take part in our programs encourage people to share their experience with each other in a broader way than would otherwise happen," says Sanna Kauppi, who is responsible for Neste Oil's Human resources development. "The range of different perspectives on our operations and the way we manage our activities that this brings also translates into greater transparency and mutual respect."

Management training during 2012 concentrated on promoting coaching-based management in particular.

"We want to empower our people and highlight the trust that we put in them. This is why we have been helping managers to encourage the members of their teams to come up with their own solutions and improve their perception of the value that their contribution represents."

Management development work in 2012 also focused on improving managers' understanding of Neste Oil's strategy. "It's important that managers understand the environment in which Neste Oil operates and how this can impact the way they manage and the choices that they make," says Martina Breitenstein-Toivonen.

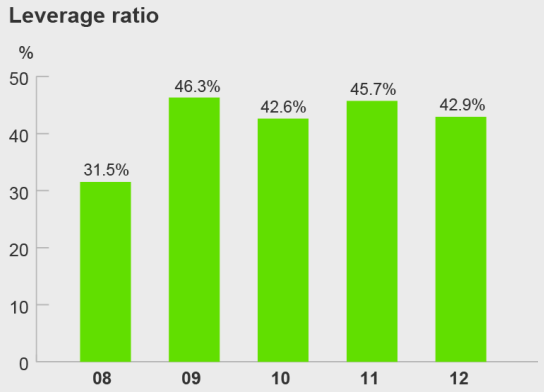
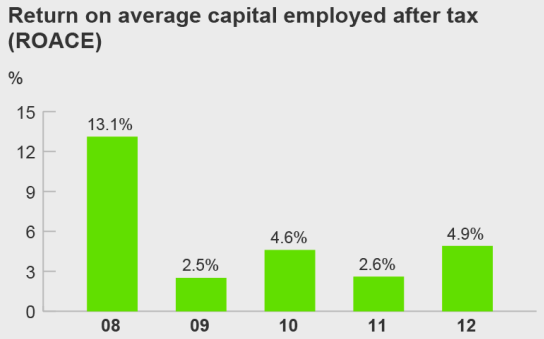
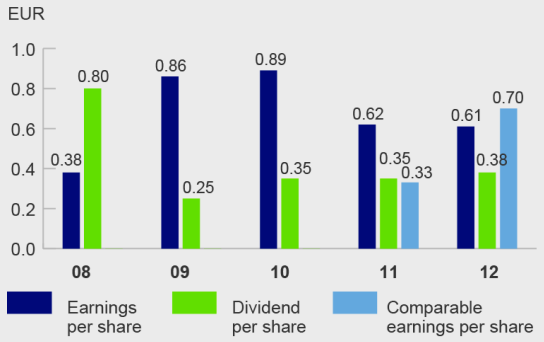
In addition to management training, Neste Oil has also paid increasing attention to how it recruits and promotes its managers in recent years. "It's important that someone really wants to be a manager, which is why we now thoroughly test candidates' suitability for managerial responsibilities during the selection process," says Sanna Kauppi.

Financial targets

Neste Oil's key financial targets are to achieve:

- A leverage ratio of 25-50%
- A return on average capital employed after tax (ROACE) of at least 15% annually over the long term.

In line with its dividend policy, Neste Oil aims to pay a dividend equivalent to at least a third of the company's comparable net profit.

Target	Performance in 2012	Chart
Leverage ratio of 25-50%	Leverage ratio of 42.9% (45.7%)	
Return on average capital employed after tax (ROACE) of at least 15% annually over the long term	ROACE was 4.9% (2.6%)	
At least a third of its comparable net profit paid as a dividend	The Board of Directors will propose a dividend of EUR 0.38 per share (EUR 0.35) for the 2012 financial year at the Annual General Meeting held in 2013.	

* Proposal by the Board of Directors to the Annual General Meeting.

Strategic challenges

Neste Oil assesses the impact that changes in its business environment are likely to have on the implementation of its strategy as part of its annual strategy review. The key potential variables over the next few years identified in the scenario work carried out in 2012 were: increasing competition, changes in environmental legislation, declining fuel consumption, and alternative solutions for meeting mandated biocontent requirements.

Read more about the megatrends affecting Neste Oil's operations

Read more about Neste Oil's operating environment

Potential long- and short-term risks

- The oil market has been, and is expected to continue, 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 petroleum products.
- Uncertainty continues to be focused on the development of the world economy, and is likely to impact 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 a short-term 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 Neste Oil's IFRS operating profit and net cash from operations.
- The implementation of biofuel legislation in the EU and other key market areas may influence the speed at which the demand for these fuels develops. Risks also include any problems or delays in capturing the anticipated benefits from Neste Oil's renewable diesel investments. Over the longer term, any failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing fuel technologies or hybrid and electric engines may have a negative impact on Neste Oil's result. The margins on renewable fuels can fluctuate between different markets as a result of rapid changes in the prices of raw materials and products and thereby affect the profitability of the Renewables Fuels business area.
- 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 Neste Oil's result.
- 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, and the price differentials between different types of vegetable oil.

More information on the risks and uncertainties recognized by Neste Oil can be found in the Risk Management section of the Annual Report.

Megatrends underpinning Neste Oil's cleaner traffic strategy

A number of global developments, or megatrends presented below, are expected to shape the future business environment in which oil refining and marketing companies operate. Many of these trends are already beginning to offer Neste Oil new opportunities. Through its cleaner traffic strategy, Neste Oil can make its own contribution to developments and help build a future that has less impact on the environment.

Some of the megatrends shaping the energy and oil refining sectors

Energy security

Our society is heavily dependent on energy; we travel, produce, and consume more than ever before. Increasing energy consumption is placing growing pressure on energy resources, and countries worldwide are looking for new ways to secure their future access to sufficient supplies of energy. As a result, the proportion of all forms of renewable energy that society uses is likely to grow. Biofuels offer a number of solutions for improving energy security in this respect.

Increased demand for energy

Population growth and higher standards of living are contributing to a higher demand for energy in developing countries. Millions of people are leaving rural areas for the cities, where their new lifestyles use more energy. The ageing population of the developed world is also posing new types of challenges for society and service providers, and leading to changes in the type of mobility and services that people need.

Unsustainable demand for natural resources and climate change

Society consumes one and half times as many natural resources as the world produces today – and means that we need to be able to use existing resources as efficiently as possible and develop new types of energy with a smaller environmental footprint. New biofuel technologies enable a broader range of raw materials that is increasingly based on the use of waste and residues.

Technological developments

Technology will play a key role in enabling new energy sources and production technologies to be exploited. New oil discoveries will extend the world's energy supply, while new process technologies will open up a broader range of feedstocks for producing renewable fuels. New engine technology, for its part, will make vehicles more energy-efficient and new ICT technology will enhance control systems and services. Although new innovations are needed, the development potential of existing technology should not be underestimated.

Growing environmental awareness among Western consumers

Climate change is forcing consumers and producers to become more critical of what they consume and become more environmentally aware. A growing number of consumers in the Western world want products to be produced both ethically and sustainably. People who enjoy a high standard of living have the opportunity to choose products that have a smaller environmental footprint, even when these products cost more. Questions related to the sustainability of the raw materials used in producing biofuels, for example, are attracting more and more interest from consumers.

Industry overview in 2012

The world economy experienced a downturn in 2012 and global GDP growth fell to 2.3% (2011: 4%). This had an inevitable impact on the growth of the traffic and transport sector and industrial demand, which in turn impacted fuel demand and the business environment in which Neste Oil operates. Demand for energy and oil in industrialized countries declined, while that in the world's developing economies continued to grow.

Key drivers for Neste Oil's business:

Oil Products

- Economic growth
- Growing demand for energy
- Growing demand for petroleum products

Renewable Fuels

- Climate change and emissions reduction
- Mandated use of renewable energy, especially in Europe and the US
- Energy security and reducing society's dependence on crude oil

Base Oil

- Tougher lubricant requirements and the shift to premium-quality base oil
- Developments in engine technology

Oil Retail

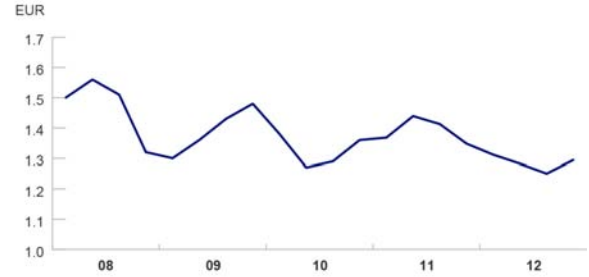
- Growth in traffic and transport
- Motorists' growing service-related expectations
- Growing number of cars on the road
- Developments in engine technology
- New cars and fuels (e.g. biofuels and electric cars)

Read more about megatrends affecting Neste Oil's operating environment

Economic downturn results in reduced demand for petroleum products

The economic downturn in 2012 reduced the growth in demand for petroleum products worldwide and slowed the increase in crude prices. Refining margins remained higher throughout the year compared to 2011, thanks to the reduced supply of petroleum products resulting from the closing of a number of refineries. Low inventory levels and a longer-than-expected maintenance turnaround season saw margins reach their highest level since 2008 during the second half of the year. The economic situation in Europe pushed the Euro down against the US dollar and had a positive impact on refining margins in Euro terms. Geopolitical instability in the Middle East impacted crude supplies and prices throughout the year.

USD/EUR exchange rate



A weak dollar in comparison to the euro decreases the company's revenue, as Neste Oil reports its figures in euros.

The US took a number of measures to revitalize its economy during 2012, and signs of a slow return to growth began to be seen towards the end of the year. This is expected to be translated into a slight recovery of demand for petroleum products in the US. Recent years have seen demand for these products grow the fastest in Asia, in line with the faster economic growth there. Asian economies continued growing in 2012, although at a more modest rate than in recent years.

The mandated usage levels set for biofuels play a central role in promoting growth in the demand for renewable fuels. Global economic developments and the growth in the demand for petroleum products also play a part in shaping demand, as mandated usage levels are based on the overall consumption of road traffic fuels in many countries. The uncertain economic situation in 2012 was also reflected in fluctuating vegetable oil prices and weak biodiesel margins.

Read more about market developments in 2012 in the business reviews:

Developments in Oil Products' market

Developments in Renewable Fuels' market

Developments in Oil Retail's market

Challenging economic situation expected to continue

The economic situation is expected to remain challenging in 2013, particularly in Eurozone countries. Demand for oil is expected to grow at a modest 1% in 2013, with the majority of growth coming from Asia and other developing markets. The global demand for petroleum products is projected to grow modestly from 2012, while the growth in oil supply is expected to take place mainly in non-OPEC countries. Asian countries will probably meet demand with imports from Iraq and other countries in the Middle East if Iranian oil remains embargoed. Tensions between Syria and Iran could affect both crude supply and crude prices.

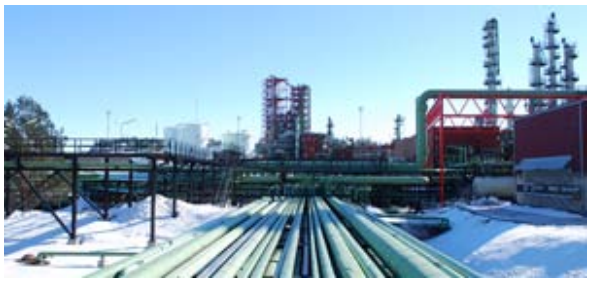
Growth in shale oil production likely to impact future oil supply

Technological advances are set to open up a number of new opportunities for the oil industry to discover and exploit new energy resources in the future to meet the growing demand for energy. Shale oil and shale gas were the subject of a lot of interest around the world in 2012. The potential reserves of these hydrocarbons could be significant, and bringing them into production will probably impact overall oil supply in the future.

The majority of shale oil and shale gas discoveries to date have been made in North America. Shale oil production offers a competitive advantage to US-based refiners, as it allows them to source their feedstocks from the domestic market and reduce their dependence on imports.

Business

Neste Oil has two business areas and four reporting segments. The business areas are: Oil Products & Renewables and Oil Retail. The reporting segments are: Oil Products, Renewable Fuels, Oil Retail, and Others.



Oil Products

Neste Oil is the leading wholesale supplier of lower-emissions fuels and petroleum products around the Baltic, and one of the world's leading suppliers of Group III base oil.

Renewable Fuels

Neste Oil is a global pioneer in the field of premium-quality renewable fuels. The company produces and sells NExBTL renewable diesel, NExBTL renewable aviation fuel, and NExBTL renewable naphtha produced using its proprietary technology. The main markets for NExBTL renewable diesel are Europe and North America.

The only way is forward

A vision of traffic in 2030
"The energy for transportation needs will be produced mostly out of waste."
Man age of 36-55, Finland.
Read more

Oil Retail

Oil Retail has a network of 1,136 stations around the Baltic and serves as a key marketing channel for Neste Oil's premium-quality, lower-emission products.

Production & Logistics and Research, technology & engineering

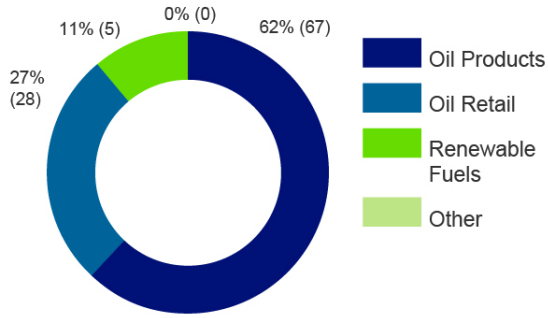
Neste Oil's business areas are supported by reliable production and logistics, and cutting-edge research and technology.

Renewable Fuels' revenue more than doubled to

2.2

billion euros.

Revenue by reporting segment (%)



Oil Products and Renewables

Oil Products and Renewables provides flexible and cost-effective cleaner traffic fuels and solutions for customers worldwide. It is also responsible for procuring the feedstocks used by Neste Oil's refineries and for managing the company's operational management processes. The business area is divided into two reporting segments: Oil Products and Renewable Fuels.

Oil Products and Renewables is looking to grow in premium-quality base oil and renewable fuels, and is concentrating on strengthening its market position around the Baltic and further developing the efficiency of refining operations.

Neste Oil's premium-quality base oils are marketed under the NEXBASE® brand.

Oil Products

Neste Oil produces and sells an extensive range of petroleum products to a global customer base, with a particular focus on premium-quality traffic fuels and other high value-added products. Oil Products' goal is to develop its product-related services, expand its base oil offering, and increase the proportion of middle distillates, such as diesel, in its product mix.

Key figures

	2012	2011
Revenue, EUR million	**13,764**	12,644
Operating profit, EUR million	**491**	373
Comparable operating profit, EUR million	**396**	271
Net assets, EUR million	**2,252**	2,228
Comparable return on net assets (RONA), %	**16.6**	11.4
Capital expenditure, EUR million	**180**	131

What were our targets?	Actions and achievements in 2012	What next?
• Maintain Neste Oil's leading position in markets around the Baltic	• Neste Oil retained its strong position around the Baltic, which accounted for approx. 71% of petroleum product sales	• Maintain Neste Oil's leading position in markets around the Baltic
• Strengthen the company's margins by improving productivity, by increasing plant capacity utilization levels and the proportion of middle distillates in product output, for example	• A systematic program aimed at strengthening processes and expertise was launched to improve productivity	• Strengthen the company's margins by increasing refinery capacity utilization and enhancing supply chain efficiency

What were our targets?	Actions and achievements in 2012	What next?
▪ Leverage growth in the base oil market by increasing sales of VHVI base oil, developing new customer solutions, and expanding into new areas	▪ Work progressed on creating a global supply chain and increasing sales of base oil on the European, Asian, and North American markets	▪ Further develop the base oil plant in Bahrain and its product offering ▪ Expand operations to markets outside Europe
▪ Offer customers flexible and efficient solutions for meeting their biomandate requirement	▪ Neste Oil sold customers around the Baltic a number of all-in-one solutions making Neste Oil responsible for meeting customers' biomandate requirement	▪ Develop new solutions to address the growing regulatory requirements faced by customers today

Developments in Oil Products' markets

The most important external factors affecting the result of the Oil Products reporting segment are the price differential between petroleum products and crude oil, the price differential between Brent crude from the North Sea and Russian Export Blend (REB), and the USD/EUR exchange rate.

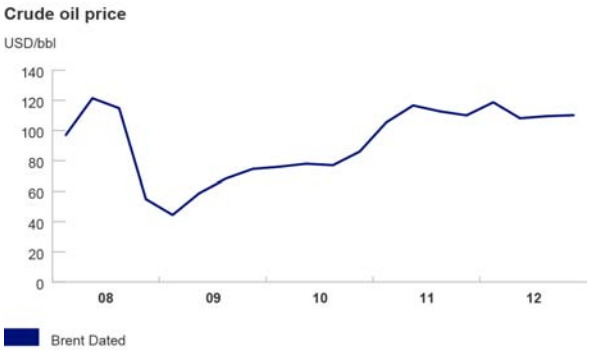
Demand for petroleum products remained good

Global demand for petroleum products increased during 2012, despite economic uncertainty, but was very modest, at around 1%. Gasoline demand growth was focused on developing countries. Demand for diesel in Europe softened, as a result of the weak economic situation and lower industrial demand, although the number of diesel vehicles on the road continued to increase. Low capacity utilization rates at refineries led to shortages, particularly during the second half of the year, which increased refining margins. Unexpected maintenance turnarounds at refineries during the fall and low inventory levels, resulting from efforts taken to minimize inventories due to price factors, served to reduce supplies. Refining margins fell back when refineries came back on stream and the supply situation recovered from the earlier problems linked to various fires and hurricanes.

Geopolitical uncertainty impacted crude prices

Geopolitical uncertainty and the global economic situation affected crude prices throughout the year. The price of North Sea Brent rose during the first quarter on the back of concern about developments in Iran and the impact these could have on crude output. The price differential between Brent and Russian Urals narrowed as a result, as Iranian crude is very similar in terms of its composition to Russian crude.

Crude prices fell slightly during the second quarter as tension in Iran reduced and economic prospects continued to remain weak. The arrival of the fall refinery maintenance turnaround season in Europe saw the price differential between Brent Dated and Russian crude grow again in the early fall, but this proved only temporary, as the differential narrowed again as a result of uncertainty in Iran and remained narrow until the end of 2012.



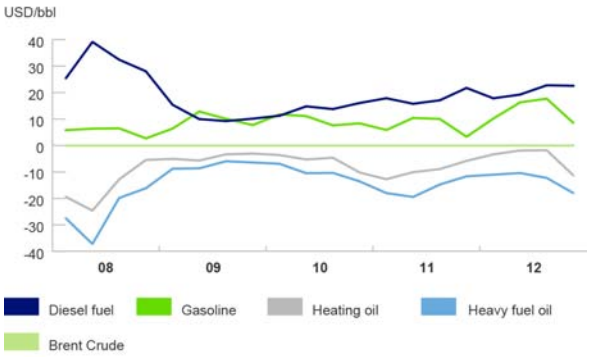
Price differential between Urals and Brent crude

Neste Oil is able to benefit from this differential, as it can process a large amount of Russian crude.

Gasoline and diesel prices remained good

The prices of major petroleum products followed crude prices. Gasoline prices were impacted by the normal seasonal variations and were at their highest during the summer. Prices remained good into the fall, primarily because of low refinery output. The diesel market returned to the strong level seen during 2011 before the drop that took place towards the end of 2011. Steady diesel demand supported strong prices throughout the year.

Product price differences compared to Brent Dated



A challenging base oil market

The supply of premium-quality Group III base oil increased during 2012 following the commissioning of a number of new plants. The slowdown in the growth of the world economy affected demand for base oil and eroded the strong market typical of the first part of the year during the second half. Any recovery in demand will depend on general economic developments and could vary from region to region. Over the long term, the switch to high-quality base oil under way in all markets will support increased demand for Group III base oil.

Changes in the competitive environment

Neste Oil is a small oil company by international standards, and has focused on premium-quality fuels and extending its middle distillates capacity, particularly diesel. The Porvoo refinery is one of the most advanced in Europe and Neste Oil has a leading position on its home markets around the Baltic.

Neste Oil's main competitors comprise other advanced refiners in Northwest Europe and global export refiners. The latter include Russian refiners focusing on improving the quality of their output, together with refiners in the Middle East and Asia that have invested in modern capacity in recent years.

Restructuring of the refining sector in Europe will favor advanced refiners such as Neste Oil that can respond to new legislative requirements and react flexibly to changing market conditions.

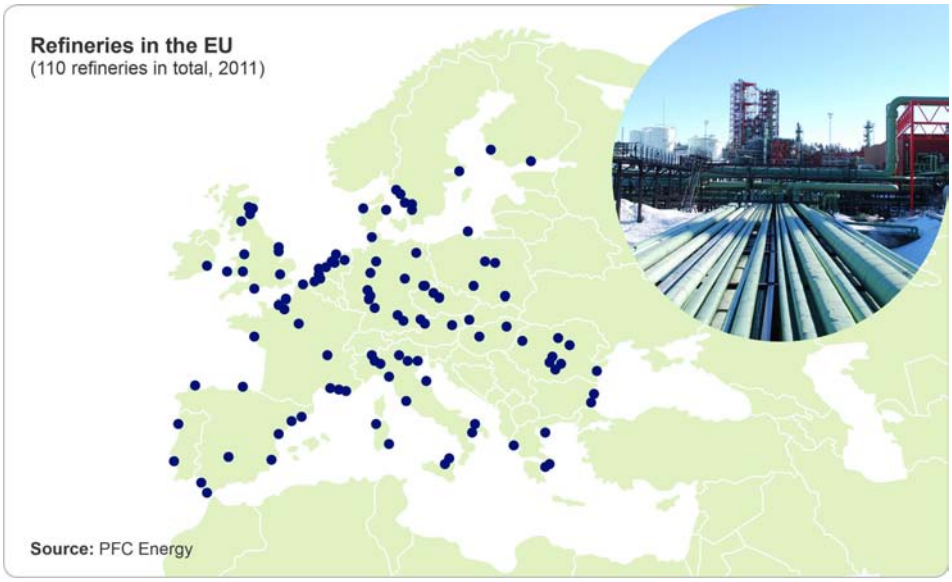
Russia is continuing to modernize its refining capacity, encouraged by a new tax structure introduced in Russia in 2011 aimed at increasing investments in crude production and improving the country's refining base.

Average capacity utilization rates at European refineries during 2012 were below 80% and resulted from slow demand growth. Uncompetitive refineries in Europe and along the US East Coast will probably continue to be shuttered as a result of the worldwide growth in refining capacity. Tougher environmental legislation in Europe will also affect the restructuring of the refining sector. This restructuring will favor advanced refiners such as Neste Oil that can respond to new legislative requirements and react flexibly to changing market conditions.

Neste Oil is one of the world's leading suppliers of base oil. Producers in Asia and the Middle East that have recently increased their production capacity are key competitors for Neste Oil, as is Shell, which brought a premium-quality base oil plant on stream in Qatar at the end of 2011.

Neste Oil's competitive advantages:

- Premium-quality products and reliable supplies to customers
- Ability to provide customers with flexible and reliable traffic fuel solutions
- Strong position in the wholesale market around the Baltic
- One of Europe's most advanced refineries at Porvoo
- Flexible logistics at Porvoo

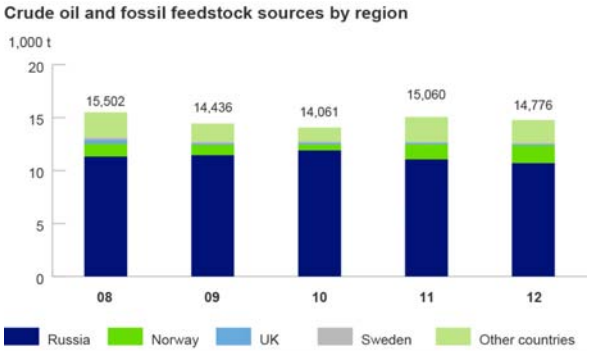


Crude oil and fossil feedstock procurement

Neste Oil has systematically increased its use of Russian crude as a feedstock for its fossil fuel refineries in recent years. Russian crude is generally cheaper than Brent crude from the North Sea and can be shipped highly efficiently to Neste Oil's refineries at Porvoo and Naantali, primarily from the Primorsk terminal on the Gulf of Finland.

The proportion of Russian crude purchased during 2012 dropped compared to 2011 and stood at 82% (85%) for the year as a whole. 72% (73%) of all the fossil feedstocks used at Neste Oil's refineries in 2012 were sourced from Russia.

Read more about the carbon footprint of fossil feedstocks



Oil Products' customers and solutions

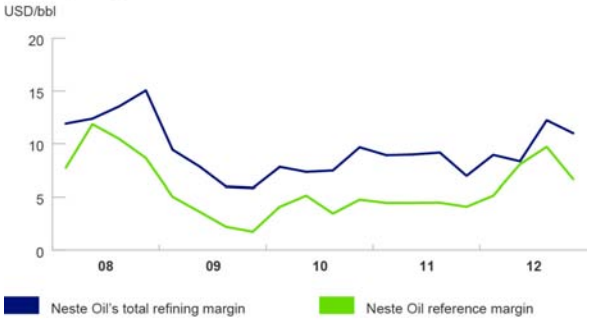
Neste Oil is the leading wholesale supplier of cleaner fuels and petroleum products around the Baltic, and one of the world's leading suppliers of Group III base oil. Neste Oil is also active on the international oil market and sells its petroleum products on the wider European and North American markets.

Neste Oil's extensive product range includes gasoline, diesel fuel, aviation fuel, bunker fuel, heating oil, heavy fuel oil, base oil, gasoline components, specialty fuels, solvents, liquefied petroleum gas (LPG), and bitumen. Oil Products' aim is to further develop this offering in selected growth areas, such as diesel and premium-quality base oil.

Improved refining margins

Neste Oil's total refining margin improved compared to 2011 and stood at USD 10.17/bbl (USD 8.76/bbl). Diesel margins were relatively strong throughout the year while gasoline margins were strong for only part of the year. To strengthen its margins, Neste Oil is aiming to increase its productivity and concentrate on higher value-added products and focus on its home markets around the Baltic.

Refining margin



The refining margin reflects the difference between the revenue received from products and the price paid for raw materials and production.

Continued strong position around the Baltic

Neste Oil offers its customers around the Baltic a wide range of customized products and fuel blends, together with various flexible solutions for helping them meet their biomandate needs. Customers in the region benefit from a fast and flexible service that can supply multiple products in a single shipment even at short notice. Neste Oil succeeded in retaining its strong position around the Baltic during 2012, and around 71% (75%) of petroleum product sales were accounted for by customers in the region.

Diesel accounted for an increased proportion of sales

Neste Oil supplied a total of 7.1 million tons (7.9 million) of petroleum products to customers in Finland in 2012, and had a 92% (93%) share of the Finnish wholesale petroleum product market. Sales outside Finland totaled 8.6 million tons (7.4 million), of which gasoline accounted for 2.6 million tons (2.5 million) and diesel 3.9 million tons (2.7 million), including 1.5 million tons of renewable diesel (0.5 million). The US, Sweden, and Canada were the company's most important export markets for gasoline and took 55% of gasoline exports. Sweden, Germany, and Spain were Neste Oil's largest export markets for diesel and accounted for 63% of total diesel exports. The proportion of sales accounted for by diesel increased in 2012 and was 48% (43%), including renewable diesel.

Base oil for the global market

Base oil is one of Neste Oil's growth areas. Neste Oil strengthened its position as one of the world's leading producers and suppliers of Group III base oil in 2012 when it began sales of output from a new joint-venture base oil plant commissioned in Bahrain in 2011. Owned by Neste Oil, Bahrain Petroleum Company (Bapco), and nogaholding, the plant produces top-tier Group III VHVI (Very High Viscosity Index) base oil used in manufacturing premium-quality lubricants. Thanks to the additional capacity provided by the new plant, Neste Oil has been able to support its customers' growth and extend its own customer base in North America and Asia. A challenging market situation resulted in a slow-down in sales growth during the second half of the year.

Renewable Fuels

Neste Oil is a global pioneer in premium-quality renewable fuels, and sells NExBTL renewable diesel, NExBTL renewable aviation fuel, and NExBTL renewable naphtha produced using its proprietary technology. Neste Oil has succeeded in creating a renewable products business generating revenue of over EUR 2 billion in just five years. With 2 million t/a of production capacity in place today, Neste Oil is the world's largest producer of renewable diesel.

Key figures

	2012	2011
Revenue, EUR million	**2,163**	1,026
Operating profit, EUR million	**-183**	-170
Comparable operating profit, EUR million	**-56**	-163
Net assets, EUR million	**1,860**	1,963
Comparable return on net assets (RONA), %	**-2.8**	-8.7
Capital expenditure, EUR million	**51**	190

What were our targets?	Actions and achievements in 2012	What next?
• Extend Neste Oil's global customer base and open up new markets	• Neste Oil extended its renewable fuels customer base and supplied NExBTL renewable diesel to tens of customers in more than 10 countries	• Extend Neste Oil's customer base and strengthen the company's position on markets where a product like NExBTL renewable diesel can offer maximum added value for the customer
• Make the business profitable by increasing sales, improving plant capacity utilization rates, and	• Sales volumes increased by 165% (133%) and totaled 1.7 million tons (628,000 tons)	• Continue improving the profitability of the business by margin optimization, supply chain

What were our targets?	Actions and achievements in 2012	What next?
optimizing renewable diesel margins	▪ A high capacity utilization rate was achieved at the new renewable fuel refineries in Rotterdam and Singapore	efficiency improvements, and continued customer base expansion
▪ Develop new product applications	▪ Neste Oil extended its product range with renewable naphtha suitable for use in producing bioplastics	▪ Continue developing new product applications for the needs of customers such as airlines and the petrochemical industry
▪ Extend the raw material base and ensure the sustainability and acceptability of the company's raw materials	▪ Neste Oil added waste fat from the fish processing industry to its raw material base and increased its use of waste- and residues-based raw materials by over 400,000 tons	▪ Continue extending the raw material base and increasing the use of waste- and residues-based raw materials

Developments in Renewable Fuels' markets

The most important external factors affecting the result of the Renewable Fuels reporting segment are the price differential between different types of vegetable oil, the margins commanded by conventional biodiesel, the absolute prices of raw materials, and the quality premium held by renewable diesel compared to conventional biodiesel.

Neste Oil's NExBTL renewable diesel differs from conventional biodiesel significantly in terms of quality; demand for the fuel, however, is shaped by general developments affecting the biodiesel market.

Read more about NExBTL renewable diesel at www.nesteoil.com

Fluctuating margins for conventional biodiesel

The margins for conventional biodiesel were very volatile in 2012. European margins were positive at the beginning and the end of the year, but were very weak during the summer because of overcapacity and imports. This resulted in numerous plants being closed in Europe during the year.

Imports of cheap biodiesel from Argentina and Indonesia, together with an increase in the use of raw materials given double weighting in calculating compliance with biomandated content requirements, put pressure on the market. Waste and residues, such as used cooking oil and animal fat, used to produce fatty acid methyl esters (FAME), come into this category of raw material. Biofuels imported from Argentina and Indonesia, together with other lower-cost biofuels, cannot be used during the winter in Northern Europe, however, because of their poor cold weather performance, which is why biodiesel margins improved towards the end of the year with the start of the winter season.

Demand for renewable fuels has grown steadily in recent years as a result of rising biomandated content levels and growing demand for fossil diesel. Global biodiesel demand in 2012 totaled 21.8 million tons (21 million tons). Biodiesel margins are expected to remain variable during 2013. Increased demand will support the further development of the biodiesel market and margins are expected to be at their strongest during the winter, in line with normal seasonal variations.

Progress in biofuel legislation

Legislation aimed at encouraging the use of renewable energy sources and biofuels has been developed and introduced around the world for a number of years. The mandated use of renewable fuels is expected to continue growing in Europe in 2013, in line with the growth targets of the EU's Renewable Energy Directive (RED).

The European Commission proposed a major change to the EU's biofuel legislation in the fall of 2012. This outlined splitting the existing 10% mandated biofuel content established for 2020 into two components, with biofuels produced from food crops limited to 5% of total traffic fuel consumption in 2020, and the remainder to be met by biofuels produced from waste, residues, and completely new types of raw materials.

In the US, the biomass-based diesel mandate will rise 28%, from 1,000 million gallons to 1,280 million gallons, as of the beginning of 2013.

Read more about biofuels legislation

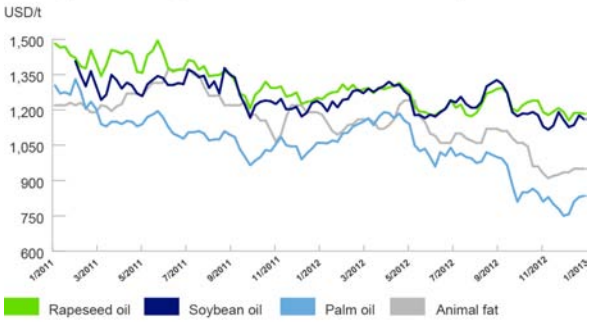
Major fluctuations in renewable raw material prices

The price of renewable raw materials continued to fluctuate strongly in 2012. Palm oil prices rose early in the year, when a poor soybean harvest in South America increased demand for palm oil. This saw the price differential between rapeseed oil and palm oil, important for Neste Oil, narrow to below its long-term average. The differential widened during the second half of the year, however, as palm oil output rose and demand tapered off as a result of the slow-down affecting global economic growth. The growth in palm oil production seen towards the end of the year exceeded expectations, leading to higher inventories and a decline in palm oil prices.

The price of animal fat generally follows that of palm oil, but can vary widely between different regions.

The price of renewable raw materials is expected to continue fluctuating during 2013. The soybean harvest in South America, the growth of palm oil production in Southeast Asia, and developments in the global economy and demand levels will all affect prices in particular.

Weekly prices for vegetable oils and animal fat in Europe 2011–2012



Source: Oil World

Increased demand and competition expected

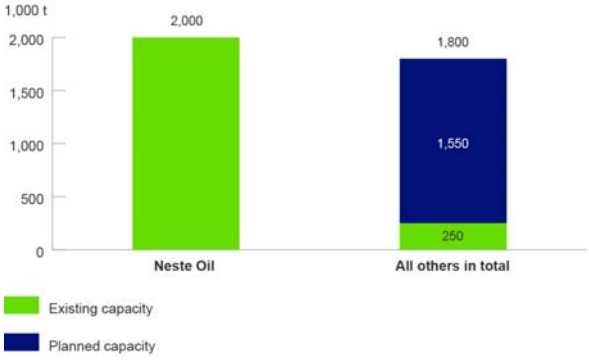
With 2 million t/a of production capacity, Neste Oil is the world's largest producer of renewable diesel today. NExBTL renewable diesel, produced using Neste Oil's proprietary technology, offers a clear quality advantage over conventional biodiesel. The only other company producing a comparable product on an industrial scale is US-based Dynamic Fuels, which has a much smaller production capacity than Neste Oil. There is a surplus of conventional biodiesel capacity, and number of poorly performing small plants have been closed as a result in recent years.

Competition is expected to increase significantly over the next few years, as the marketplace prefers premium-quality biofuels of the type represented by Neste Oil's NExBTL renewable diesel. High-quality 'drop-in' biofuels do not require modifications to existing vehicle engines or existing distribution and logistics systems. Premium-quality renewable diesel is also not limited by the 7% blending limit imposed on conventional biodiesel. Over 1.5 million t/a of new premium-quality renewable diesel capacity is projected as likely to come on stream by 2015.

This increased competition represents an opportunity for Neste Oil, as it will reinforce the benefits offered by premium-quality renewable diesel in the eyes of both customers and legislators.

The marketplace prefers premium-quality biofuels of the type represented by Neste Oil's NExBTL renewable diesel, as high-quality 'drop-in' biofuels do not require modifications to existing vehicle engines or existing distribution and logistics systems.

Production capacity of high-quality renewable diesel



Neste Oil's competitive advantages:

- Flexible solutions for customers to meet their biomandate requirements at optimized cost
- Premium-quality products that do not require changes in infrastructure
- Reliable production technology allowing feedstock flexibility and use of wide range of sustainably produced raw materials
- Global customer base and supply chain

Renewable feedstock procurement

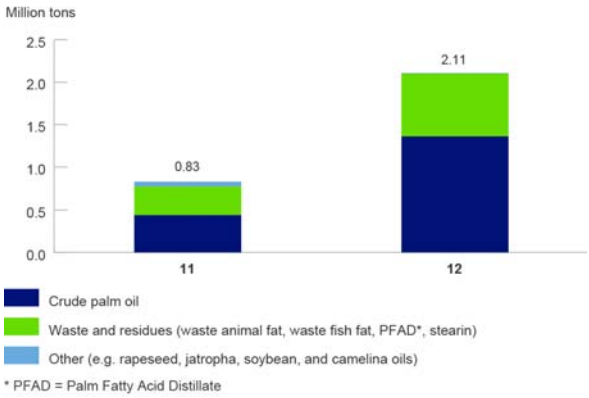
Neste Oil's NExBTL technology can be used to produce renewable fuel from virtually any vegetable oil or waste fat. This flexibility gives Neste Oil a valuable advantage, as it enables the special needs of different markets and customers to be met with ease. By optimizing its use of different raw material streams, Neste Oil can also leverage the varying price differentials between different inputs.

The volume of renewable raw materials used by Neste Oil increased significantly in 2012 as a result of the company's increased refining capacity, and totaled 2.1 million tons (0.83 million).

Read more about renewable raw materials and the sustainability of raw material procurement

Read more about research on renewable raw materials

Use of renewable raw materials in 2012



Renewable Fuels' customers and solutions

NExBTL renewable diesel is sold as a premium-quality biocomponent to corporate customers, primarily in Europe and North America. Thanks to its high quality, customers can use it very flexibly and optimize their logistics chain and produce their own quality products. NExBTL renewable diesel ready-blended with fossil diesel is also sold to fuel distributors.

Neste Oil has sold diesel containing a minimum of 10% NExBTL renewable diesel to consumers at its own stations in Finland since 2008. Neste Pro Diesel containing a minimum of 15% NExBTL renewable diesel was launched in Finland in 2012 and has replaced this earlier product.

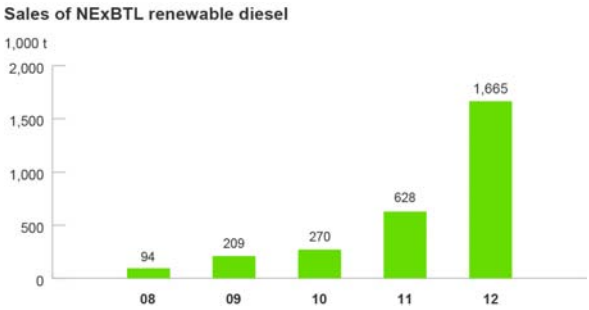
Read more about the properties of NExBTL renewable diesel and Neste Pro Diesel

New customers and new markets

Neste Oil extended its NExBTL renewable fuels customer base in 2012 and sold NExBTL products into a number of new markets. The first batch of product was sold to the US, a major market for premium-quality biofuels, for example. Progress was also made in Europe, and NExBTL renewable diesel was sold to tens of customers in over 10 countries across Europe in 2012.

The addition of these new customers and new markets saw the sales volumes of NExBTL renewable diesel increase by 165% (133%) compared to 2011, to total 1.7 million tons (628,000 tons). Looking ahead, Neste Oil's goal is to strengthen its position in markets where a premium-quality product like NExBTL renewable diesel can generate the maximum added value for the customer.

New customers and new markets saw sales volumes of NExBTL renewable diesel increase by 165% compared to 2011, to 1.7 million tons (628,000 tons).



A growing product range

Neste Oil's renewable diesel refineries can also produce NExBTL renewable aviation fuel, the first batch of which was supplied to Lufthansa in 2011. Neste Oil extended its NExBTL product range in 2012 by starting the commercial production of NExBTL renewable naphtha for corporate customers. NExBTL renewable naphtha can be used as a raw material for producing bioplastic, for example, and as a biocomponent for gasoline. NExBTL renewable naphtha is produced as a by-product of NExBTL renewable diesel production at all the company's NExBTL units in Finland, the Netherlands, and Singapore. Feasibility work on the potential for commercializing renewable solvents has also been started.

Read more about Neste Oil's cleaner products

Oil Retail

Oil Retail has a network of 1,136 stations around the Baltic region, and acts as a key marketing channel for Neste Oil's premium-quality, low-emission products. Oil Retail's goal is to maximize the cash flow generated from product sales and leverage market opportunities to grow its business and increase sales of Neste Oil's distribution channels.

Oil Retail's comparable return on net assets was

17.3%

Key figures

	2012	2011
Revenue, EUR million	**4,895**	4,298
Operating profit, EUR million	**58**	58
Comparable operating profit, EUR million	**58**	57
Net assets, EUR million	**345**	326
Comparable return on net assets* (RONA), %	**17.3**	17.6
Capital expenditure, EUR million	**36**	34
Total sales**, 1,000 m^3	**4,160**	3,982

* rolling 12 months

** includes both station and terminal sales

Neste Oil opened new stations in Finland, the Baltic countries, and the St. Petersburg region in Russia

Neste Pro Diesel - the world's best-quality diesel

Neste Oil launched a new premium-quality Neste Pro Diesel in Finland in 2012. In addition to improving vehicles' overall performance, Neste Pro Diesel also reduces fuel consumption and emissions.

What were our targets?	Actions and achievements in 2012	What next?
▪ Strengthen Neste Oil's position as a leading oil retail brand by developing the company's product range and station network	▪ Neste Oil launched a new premium-quality fuel on the Finnish market: Neste Pro Diesel	▪ Continue launching premium-quality products such as Neste Pro Diesel
▪ Improve Neste Oil's market position and leverage growth potential, particularly in Northwest Russia	▪ Neste Oil increased its market share in Finland, in retail sales of both gasoline and diesel fuel ▪ New stations were opened in Finland, the Baltic countries, and the St. Petersburg region in Russia	▪ Improve bottom-line performance and cash flow and increase sales of Neste Oil's distribution channels
▪ Develop a pricing structure capable of yielding the best possible return	▪ A new pricing system was introduced at service stations in the Baltic countries and St. Petersburg	▪ Continue developing Oil Retail's pricing structure to yield the best possible return
▪ Reduce unit costs by developing IT systems and online ordering tools	▪ The comprehensive revamp of Oil Retail's IT systems reached the rollout phase ▪ Electronic orders now account for a significant proportion of total order intake ▪ Neste Oil's new Extranet was introduced in the Baltic countries; usage is already well-established in Finland	▪ Continue reducing unit costs

Developments in Oil Retail's markets

The most important external factors affecting the result of the Oil Retail reporting segment are the general state of the economy and overall fuel consumption.

Uncertainty in the world economy affected truck and bus diesel demand

The uncertainty typical of the world economy in 2012 also affected the retail market in Finland, and demand among fleet customers and in industry was weak. Consumer diesel demand continued to grow, reflecting the growing number of diesel cars on the road, but the decline in demand among fleet customers saw total diesel consumption in Finland fall by 1.0%. Gasoline consumption in Finland fell by 3.2%.

Demand for heating oil also continued to decline, in line with the growing preference for other types of heating in new buildings.

The declining demand for heating oil could be compensated for in the future by an increased use of middle distillates by ships when stricter sulfur limits come into force at the beginning of 2015. These new emission limits will encourage ships operating in the Baltic to switch from high-sulfur heavy fuel oil to lighter products, such as diesel.

Increase in overall sales in the Baltic countries and the St. Petersburg region

Demand for gasoline declined, while demand for diesel grew in the Baltic countries. The lack of diesel imported from Belarus during the second half of 2012 helped improve Neste Oil's competitive position in Latvia.

The St. Petersburg region in Northwest Russia is one of Russia's growth centers, and the demand for gasoline and diesel there is continuing to grow.

Neste Oil ends retail operations in Poland

Neste Oil announced in December 2012 that it had decided to sell its station network in Poland to Shell. The sale, which will require the approval of the Polish competition authorities, is expected to be closed during the first half of 2013 and will mark the end of Neste Oil's retail operations in Poland. The divestment was prompted by the smaller-than-planned market share achieved and the financial performance of the business.

Competition still tough around the Baltic

Neste Oil's goal is to be one of the top two station networks in all its selected markets. Although competition around the Baltic remained tough in 2012, Neste Oil succeeded in retaining its position in all its main markets and in growing its business in Finland, where its market share of retail gasoline sales reached 28.5% (27.1%) and its share of retail diesel sales rose to 40.0% (39.1%).

Neste Oil's most significant competitors in Finland are ABC and St1, both of which are Finnish-owned, and Teboil, which is owned by Russian-based Lukoil. The latter has strengthened its position around the Baltic in recent years. Neste Oil's most significant competitor in the Baltic countries is the Statoil network, which transferred to Canadian ownership in 2012 and has focused on developing the shops at its outlets.

The growth potential of the St. Petersburg region has attracted investments from both international and Russian oil companies. The competitive environment in Russia shifted in 2012 following Rosneft's acquisition of BP's holding in TNK-BP. Russia joined the World Trade Organization (WTO) in 2012, which is expected to improve the operating environment there.

Despite the challenging market situation, Neste Oil succeeded maintaining its position on all its main markets and growing in Finland.

Neste Oil's competitive advantages

- Premium-quality products
- A strong brand
- An extensive station network
- Competitive unit costs
- Value-added customer solutions (e.g. card-free fueling and fuel consumption monitoring)

Oil Retail's customers and solutions

Oil Retail is a major marketer and supplier of petroleum products in Finland, with a product range that includes gasoline, diesel, heating oil, heavy fuel oil, lubricants, liquefied petroleum gas, and aviation fuel. Products are sold to consumers and directly to industrial and agricultural customers. Outside Finland, Neste Oil sells traffic fuels to retail customers in Northwest Russia, Estonia, Latvia, Lithuania, and Poland.

Increase in sales volumes of traffic fuels

Neste Oil's sales volumes of traffic fuels increased by 6.4% (0.3%) in 2012, and total sales stood at 3.3 million m^3 (3.1 million). Growth was largely driven by increased demand for diesel. Neste Oil's diesel sales rose by 9.4% (3.4%), and gasoline sales by 2.1% (3.3%) compared to 2011.

Direct sales remained at the same level as in previous years, despite the challenging economic situation

Neste Oil's direct sales during 2012 remained at the same level as in previous years, despite the challenging economic situation. The only area of growth was in deliveries to the mining industry and the aviation sector, which was not adversely affected by strikes or exceptional circumstances, such as ash clouds, during 2012. The year proved a strong one for lubricants, and export prospects, particular in Russia and Ukraine, appear positive.

New premium-quality diesel launched in Finland

Oil Retail continued developing its offering of cleaner traffic fuels in 2012 and launched a new premium-quality diesel – Neste Pro Diesel – on the Finnish market in September. Neste Pro Diesel is the world's first fuel to comply with the toughest diesel specification drawn up as part of the Worldwide Fuel Charter (WWFC).

Neste Pro Diesel contains a minimum 15% of Neste Oil's NExBTL renewable diesel. Thanks to its renewable content, using Neste Pro Diesel can reduce a vehicle's greenhouse gas emissions by as much as 20%, as well as result in lower emissions of NO_x, particulates, and hydrocarbons.

Using Neste Pro Diesel can reduce fuel consumption by up to 5%, depending on the vehicle, driving style, and driving conditions. It also improves overall performance and reduces greenhouse gas and tailpipe emissions.

Neste Pro Diesel replaced conventional diesel at Neste Oil's service stations in Finland, and Neste Green diesel, which contained a minimum of 10% renewable content, was withdrawn. Conventional diesel remains available at Neste Oil's Express and Truck stations.

Oil Retail's customers responded positively to the new product. Over the long term, Neste Oil is considering exporting Neste Pro Diesel to other markets around the Baltic.

Card-free fueling and new mobile app

Neste Oil continued developing value-added services for its customers in 2012, and the company's Truck stations were the first in Finland to switch to card-free fueling. The new Truck+ service is both cost-effective and safe, as it reduces the risks typically incurred if drivers lose their cards and trims administrative costs as well.

Read more about the new service

Neste Oil also extended its electronic services offering in 2012 with the launch of a new mobile app. This enables drivers to search for information on Neste Oil stations and products using their mobile devices. The app covers stations in Finland, as well as those in Estonia, Latvia, Lithuania, Northwest Russia, and Poland.

Distribution of small-engine gasoline extended to three new stations

Neste Oil extended pump-based sales of its small-engine gasoline to three new stations in Southern Finland in 2012. The fuel keeps small engines clean and has a lower level of impact on the environment. Small-engine gasoline is now sold at five stations in the south of the country.

Station network

Neste Oil has a network of 1,136 stations: 803 in Finland and 333 in Northwest Russia, Estonia, Latvia, Lithuania, and Poland. Neste Oil's retail operations in Poland will come to an end during the first half of 2013 when the sale of the station network to Shell is concluded. A total of 16 new stations were opened in Finland, the Baltic countries, and Northwest Russia in 2012, strengthening the company's overall market position.

Neste Oil's station network around the Baltic

Neste Oil's stations:

Finland 803

St. Petersburg 64

Estonia 48

Latvia 56

Lithuania 59

Poland 106*

* Neste Oil announced on 13 December, 2012 that the company will sell its retail stations in Poland to Shell.

Market position

Station revamp project continued in Estonia, Latvia, and Russia

Neste Oil continued the revamp of its station network in Estonia, Latvia, and the St. Petersburg region in 2012, upgrading a total of 112 stations. All stations in Estonia and Latvia have now been revamped, and the Russian stations incorporated into the Neste Oil chain in 2011 have also been rebranded. Stations in Lithuania were revamped already in 2011. In addition to modernizing the appearance of stations, the project has focused on improving the customer experience and safety. In Russia, the project also covers a revamp of the station shop concept, designed to focus on offering premium-quality products to quality-conscious customers, and station forecourts.

Ongoing marketing partnership with Kesko in Finland

Neste Oil continued its marketing partnership with Kesko launched in 2010. The joint marketing of Neste Oil's K-market stations yielded clear marketing benefits and helped improve the network's quality image. Cooperation in lubricants with K-maatalous, Kesko's business serving the farming sector, launched in 2010, also continued.

New pricing system now in place around the Baltic

Neste Oil completed the rollout of a new pricing system at its stations in the Baltic countries and Russia in 2012. The new system enables market analysis and fast reaction to market changes. The system has been in use in Finland since 2010.

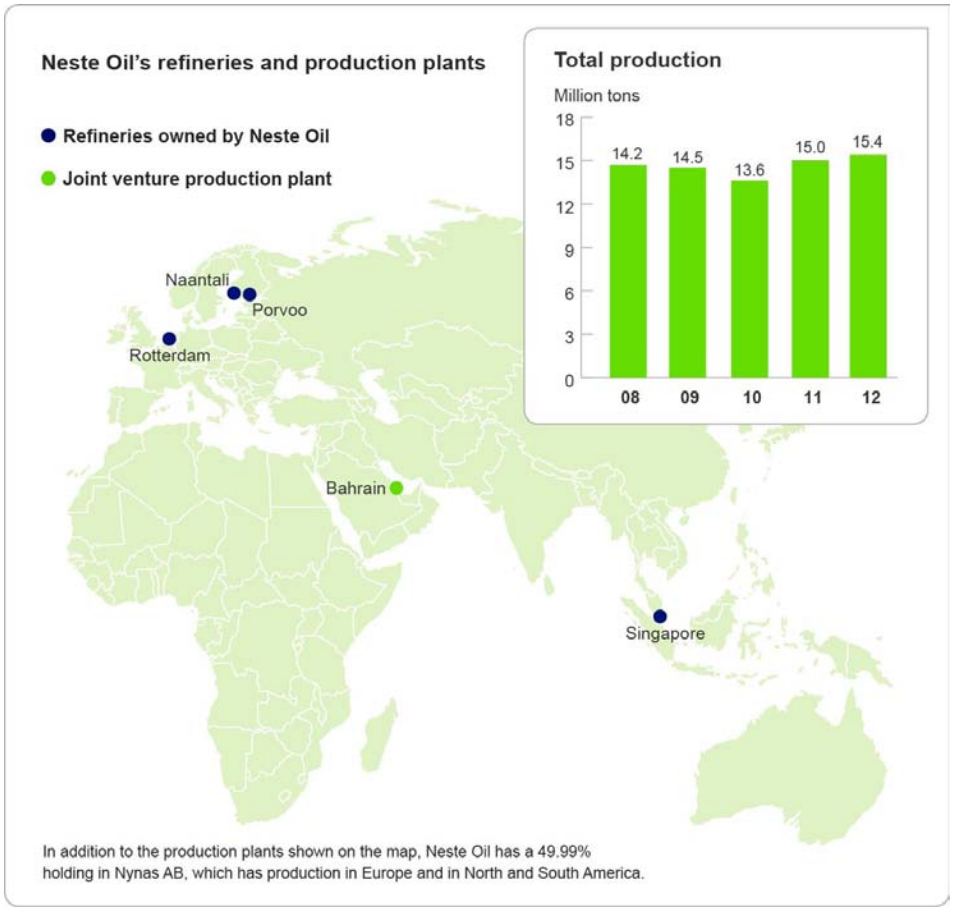
The comprehensive revamp of IT systems started in Oil Retail in 2010 was not completed as planned in 2012. However, the project reached the rollout phase in Estonia, and is expected to be completed in 2013. The new system will integrate Oil Retail's processes, improve customer relationship management and customer service, as well as enhance cost efficiency.

Production & Logistics

Neste Oil's Production & Logistics function is responsible for ensuring that Neste Oil's premium-quality products are produced and supplied to customers as reliably and cost-effectively as possible. Neste Oil's refineries and plants in five countries produce a comprehensive range of major petroleum products, together with premium-quality NExBTL renewable diesel.

Combined output in 2012 totaled 15.4 million tons (15.0 million), of which 1.8 million tons (0.7 million) comprised NExBTL diesel. Neste Oil's fleet of 24 vessels and 13 distribution terminals ensure a flexible flow of feedstocks and product shipments.

What were our targets?	Actions and achievements in 2012	What next?
▪ Improve the cost and energy efficiency of all Neste Oil's production facilities, terminals, and ships	▪ The energy efficiency improvement program progressed well and improved the cost-efficiency of the Porvoo and Naantali refineries	▪ Secure cost-efficient production by improving energy usage, preventive maintenance, and operational reliability
▪ Improve safety on a continuous basis	▪ Work on improving safety continued, but performance was somewhat below that in 2011. Total Recordable Injury Frequency (TRIF) per million hours worked was 3.6 (2.7)	▪ Continue reducing Total Recordable Injury Frequency (TRIF <2.2) and improve process safety at Neste Oil's refineries
▪ Secure increased operational reliability in terms of refinery availability	▪ The new refineries in Singapore and Rotterdam achieved normal operational status following their ramp-up and both achieved an average 85% utilization rate ▪ The base oil plant in Bahrain performed well and reliably ▪ The utilization rate at the Porvoo refinery increased slightly and was 87% (86%). The utilization rate at the Naantali refinery was 67% (85%) ▪ Operating practices covering Diesel Line 4 at Porvoo were developed, which extended the duration of incident-free operations on the line and helped achieve record output	▪ Improve operational reliability at all plants
▪ Achieve better flexibility in production and services by developing raw material and product logistics	▪ Waste fat from the fish processing industry was added to the feedstock base used at the renewable fuel refinery in Singapore ▪ Improved logistics flexibility was achieved by acquiring terminal capacity at various strategic locations	▪ Continue extending the skill set of personnel at production facilities



Refineries

Neste Oil has two fossil fuel refineries, in Porvoo and Naantali in Finland, and two renewable diesel refineries, in Singapore and Rotterdam in the Netherlands. Additional renewable diesel capacity is based at the Porvoo refinery.

The success of Neste Oil's refineries is based on a high level of refining expertise, a commitment to introducing advanced new technologies, and the ability to refine a range of different feedstocks.

The environmental impact and safety performance of Neste Oil's refineries is covered in more detail in the Sustainability section of the Annual Report.

Porvoo refinery

Neste Oil's Porvoo refinery is one of Europe's most advanced and versatile refineries and is capable of producing a comprehensive range of major petroleum products, as well as NExBTL renewable diesel. The refinery has a crude refining capacity of approx. 12 million t/a (206,000 bbl/d).

The refinery's average capacity utilization rate in 2012 was 87% (86%) and output totaled 11.5 million tons (11.8 million). Russian Export Blend accounted for 58% (61%) of input in 2012.

Work on improving the productivity of Diesel Line 4 continued, and the line achieved a new production record. The line had to be shut down in June because of an unexpected problem, and the outage was used to carry out maintenance work originally scheduled for the fall. This was completed ahead of time and the line was restarted in July.

Modification work was carried out on one of the NExBTL renewable diesel units at Porvoo in the fall to enable renewable aviation fuel to be produced there more flexibly.

Naantali refinery

Neste Oil's Naantali refinery concentrates on specialty products, such as solvents and bitumen, and has a capacity of approx. 3 million t/a (58,000 bbl/d).

The refinery's average utilization rate in 2012 was 67% (85%) and output totaled 1.9 million tons (2.3 million). Output was lower as a result of a six-week maintenance turnaround, during which the entire refinery was shut down. Russian Export Blend accounted for 95% (91%) of the refinery's total feedstock input in 2012.

A total of around 2,000 pieces of equipment were overhauled as part of the maintenance turnaround between April and June, and a number of process furnaces and other equipment were modernized or upgraded. The cost of the maintenance turnaround was approx. EUR 60 million, including the investments made during the turnaround. Around 1,000 people were on-site during the turnaround, of which 700 were employed by outside contractors. The turnaround will help secure good performance at the refinery for the next four to six years.

The refinery achieved a record three-year period without any inflammable material incidents in 2012. Modernization work on Pier 2 at the refinery's harbor started in 2011 was completed, and the upgraded pier commissioned on-schedule. The upgrade will improve overall safety, environmental performance, and the cost-efficiency of harbor operations.

Renewable diesel refineries in Singapore and Rotterdam

Neste Oil has invested heavily in renewable diesel production capacity based on its proprietary NExBTL technology – and started up the world's largest renewable diesel refineries in 2010 and 2011, in Singapore and the Netherlands respectively. Both have a production capacity of 800,000 t/a of NExBTL renewable diesel. Neste Oil also produces renewable diesel at Porvoo, where two NExBTL units were commissioned in 2007 and 2009. Neste Oil now has a total of 2 million t/a of renewable diesel capacity, making it the world's largest producer in the field. All of the company's plants are also capable of producing NExBTL renewable aviation fuel in addition to NExBTL renewable diesel.

In 2012, the new renewable diesel refineries in Singapore and Rotterdam achieved normal operational status following their ramp-up and recorded an average capacity utilization of 85%. NExBTL renewable diesel output more than doubled, reaching 1.8 million tons (0.7 million). The refineries continued to run at a limited utilization rate, however, because of the market situation.

In 2012, the new renewable diesel refineries in Singapore and Rotterdam achieved normal operational status following their ramp-up.

Neste Oil also produces bionaphtha and biopropane as part of the NExBTL renewable diesel refining process. The Singapore refinery produced its first commercial batch of NExBTL renewable naphtha, suitable for use as a feedstock for producing bioplastics or as a gasoline component, in 2012. A feasibility study was started at the Rotterdam refinery on the potential for producing NExBTL renewable propane there.

Other production plants

In addition to its own refineries, Neste Oil has a 45% stake in a joint venture production plant in Bahrain. The plant which was commissioned in 2011, produces premium-quality Group III VHVI (Very High Viscosity Index) base oil used in high-quality lubricants. The other owners of the plant are Bahrain Petroleum Company (Bapco) and nogaholding. The plant has a nameplate capacity of 400,000 t/a, and Neste Oil is responsible for marketing and selling its output. The plant performed excellently in terms of operational reliability during its first full year of operations in 2012. Neste Oil's share of output during 2012 was 128,000 tons (45,000 tons).

Neste Oil has also a 49.99% holding in Nynas AB, which produces naphthenic oil and bitumen. Nynas AB has production in Europe as well as in North and South America. Further information on Nynas AB can be found online at www.nynas.com.

Fleet and terminals

Neste Oil's tanker fleet and terminals handle the company's feedstock supplies and provide customers with quality, safe, and cost-efficient product deliveries.

89% of the feedstocks used at Neste Oil's refineries were supplied by sea in 2012 (91%), 9% (7%) by rail, and the rest by road. 70% of products for domestic customers were transported by road (70%), 20% (19%) by sea, and the rest by rail and pipeline. 92% (91%) of products sold to customers outside Finland were shipped by sea and the rest in tanks.

The 24 ships in the Neste Oil fleet transported over 27 million tons of crude and petroleum products in 2012 (28 million). Despite a weak freight market resulting from overcapacity, the fleet's utilization rate remained high, at 94% (95%).

Neste Shipping started an efficiency improvement program aimed at improving its profitability and securing the continuity of the company's operations into the future in January 2013. As part of the efficiency program, the company started statutory employer-employee negotiations that could result a maximum of 130 people being made redundant. The goal of the efficiency improvement program is to make the business profitable by increasing revenue and reducing costs by a total of around EUR 15 million annually.

Neste Oil continued its use of the Northeast Passage in 2012, and its vessels carried a number of cargoes along the route during the year. Only a couple of other tankers sailed this route between Murmansk and the Pacific during 2012. Neste Oil's extensive shipping expertise and decades of experience in navigating in ice-bound waters, together with one of the world's largest fleets of ice-strengthened vessels, give the company a valuable advantage along this route.

Neste Oil's tanker fleet operated along the Northeast Passage continuously in the late summer of 2012.

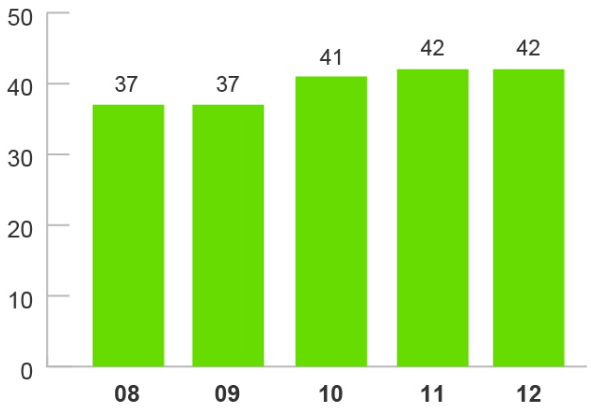
In addition to terminals at the Porvoo and Naantali refineries, Neste Oil has 10 coastal terminals in Finland, together with terminals in Estonia, Latvia, and St. Petersburg in Russia. The excellent logistics of these terminals reduce the distances that customers' tanker trucks have to travel and benefits the environment in terms of lower emissions. Neste Oil improved the flexibility of its logistics in 2012 by acquiring additional terminal capacity at strategically important locations.

Research, technology, and engineering

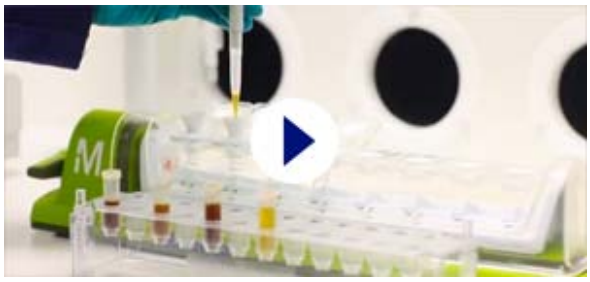
Expertise in research and technology represents one of Neste Oil's key success factors and plays a major role in the company's cleaner traffic strategy. Research concentrates on supporting the company's current businesses and strengthening its potential for developing new businesses in the future. Extending the company's raw material base is one of the main goals of Neste Oil's R&D work. Around 70% of R&D expenditure is spent on research into renewable raw materials.

R&D expenditure

EUR million



Europe's first microbial oil pilot plant in Porvoo



Neste Oil commissioned the first pilot plant in Europe capable of producing microbial oil from waste and residues.

What were our targets?	Actions and achievements in 2012	What next?
• Increase productivity by improving the performance of Diesel Line 4 at the Porvoo refinery and further developing NExBTL technology	• A new production record was set by Diesel Line 4 at Porvoo • A good utilization rate was achieved at the new NExBTL refineries in Singapore and Rotterdam	• Continue improving the operational performance of Diesel Line 4 at Porvoo and extend the range of feedstocks used in NExBTL production
• Extend the raw material base used in producing renewable fuels to provide greater flexibility	• Waste fat from the fish processing industry was introduced • Use of waste-based feedstock nearly tripled • A new microbial oil pilot plant was commissioned	• Increase the use of waste- and residue-based inputs and develop lignocellulose- and algae-based feedstocks in producing NExBTL renewable diesel

What were our targets?	Actions and achievements in 2012	What next?
▪ Develop new technologies and protect IPR effectively	▪ Neste Oil launched Neste Pro Diesel in Finland, the world's first diesel fuel to comply with the toughest Worldwide Fuel Charter standard ▪ Bionaphtha suitable for use as a bioplastic feedstock was added to the NExBTL product range ▪ Neste Oil filed two patent infringement actions in the US	▪ Continue developing new technologies and protecting and defending Neste Oil's IPR effectively
▪ Develop strategic partnerships	▪ Partnerships with numerous Finnish and international research bodies were developed ▪ Research partnerships focused on new, long-term raw materials and enhancing production efficiency	▪ Continue developing Neste Oil's network of partners, particularly in the area of new raw materials

Research on renewable raw materials

Neste Oil is currently the world's only biofuel producer that can produce renewable diesel from nearly 10 different types of feedstock. Research work has enabled extending this range of raw materials, as starting use of a new raw material calls for extensive studies and testing before procurement can begin. Research personnel were also closely involved in 2012 when Neste Oil extended its feedstock base with waste fat sourced from the fish processing industry and nearly tripled its use of waste-based inputs in renewable diesel production. Research work also confirmed that Neste Oil's NExBTL process can produce renewable diesel from technical corn oil, which the company is planning to start using in early 2013.

Read more about the range of renewable raw materials currently used by Neste Oil

Read more about the sustainability of Neste Oil's supply chain for renewable fuels

Neste Oil believes that waste from vegetable oil processing (such as sludge palm oil and spent bleaching earth oil), waste from manufacturing ethanol in the shape of technical corn oil, and used cooking oil will be the most interesting new alternative inputs in the near future. Over the longer term, Neste Oil's raw material research is focusing on using microbial oil produced from agricultural and forest industry residues (lignocellulose) and algae oil as feedstocks for producing renewable fuels. Both of these materials have already been used to produce laboratory-scale batches of NExBTL renewable diesel.

Neste Oil works closely with a number of leading research institutes and companies in the renewable raw material research field. The company's R&D network in this area includes a total of around 25 universities and research bodies in Finland and elsewhere.

Research on renewable raw materials

Microbial oil pilot plant commissioned at Porvoo

Neste Oil's microbial oil research reached a new milestone in 2012 with the commissioning of a pilot production plant at the company's Technology Center at Porvoo. This is the first pilot plant in Europe capable of producing microbial oil from waste and residues for use in producing renewable diesel.

Microbial oil is extracted from microbial biomass produced at the pilot plant.

The plant cost approx. EUR 8 million and part of the cost was covered with a loan received from Tekes, the Finnish Funding Agency for Technology and Innovation. The aim of the project is to scale up the technology to enable microbial oil to be produced as an input for producing NExBTL renewable diesel on an industrial scale. If the technology proves commercially viable and the production concept logistically viable, microbial oil could be in commercial production after 2015.

Neste Oil and Stora Enso ended their joint biodiesel project

Neste Oil and Stora decided in fall 2012 not to go ahead and build a biodiesel plant to produce biowax from wood-based biomass for use as a renewable diesel feedstock. The two companies trialed biowax production at a pilot plant in Varkaus between 2009 and 2011 and successfully tested the entire production chain, from biomass all the way to biowax.

The decision not to go ahead with the investment was taken because calculations showed that it would not have been sufficiently cost-effective. The partners were also not among the recipients of NER 300 funding, which they had applied for from the European Union. Neste Oil and Stora Enso aim to continue the cooperation in the future in the area of other bio-based products.

Product and technology development

Neste Oil's R&D has concentrated on developing products and technologies with a smaller environmental footprint for decades.

Launch of Neste Pro Diesel and NExBTL renewable naphtha

Neste Oil launched Neste Pro Diesel in Finland in 2012. The result of in-house R&D, this is the world's first and so far only diesel fuel to meet the toughest WWFC (Worldwide Fuel Charter) standard developed by automotive manufacturers. Testing work on the new fuel was carried out at Neste Oil's own engine laboratory and at VTT, Technical Research Centre of Finland, and the Tampere University of Applied Sciences.

Research also enabled the NExBTL product range to be extended with the addition of bionaphtha suitable for producing bioplastics in 2012. Neste Oil has used its proprietary NExBTL technology for producing renewable diesel since 2007, and for producing NExBTL renewable aviation fuel since 2011.

Product expertise contributes to sales, customer support, and standards-related work

Neste Oil's product experts provided extensive sales and customer support on issues related to NExBTL renewable diesel during 2012, and also took part in international work on new fuel standards through the European Committee for Standardisation (CEN) and ASTM (previously known as the American Society for Testing and Materials).

As a long-time developer of cleaner traffic fuels, Neste Oil believes that environmental properties are central to its products. Particular emphasis during 2012 was given to developing improved methods for calculating the life cycle greenhouse gas emissions of NExBTL renewable diesel produced from various types of inputs. This focused on further developing computational tools, auditing results, and analyzing international regulations.

Neste Oil is committed to defending its innovations and patents

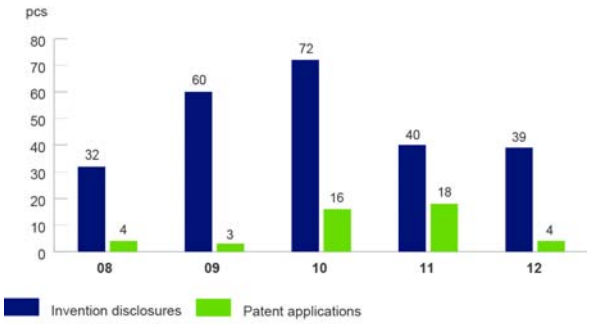
Neste Oil uses patents to protect its key technologies and innovations, and actively defends its patents and trademarks to safeguard the business value that they represent. Technology related to the raw materials used in producing renewable fuels and for pretreating these materials is particularly central here.

Neste Oil filed two patent infringement actions against Dynamic Fuels, LLC, Syntroleum Corporation, and Tyson Foods, Inc. in the US in 2012. Neste Oil believes that its NExBTL renewable diesel product and production process patents are being infringed by the companies concerned in the production of renewable diesel at Dynamic Fuels' plant in Geismar, Louisiana.

Neste Oil's trademark protection was reviewed in 2012 as part of an overall review of the Neste Oil brand, and additional protection was put in place worldwide where needed. Work continued on developing IT systems for managing Neste Oil's intellectual property (IP) and training on patenting issues was arranged for personnel.

The number of patents applied for in 2012 declined compared to the record number recorded in 2011, while the number of invention disclosures remained largely unchanged. The number of patent applications varies from year to year, depending on the stage at which Neste Oil's research projects are, and a number of critical resources were devoted to the new microbial oil pilot plant commissioned in 2012. The patent applications lodged during 2012 covered both existing technologies and new areas of technological expertise.

Invention disclosures and new patent applications



Quality control

Neste Oil's laboratories provide extensive support for the company's R&D work and play a central role in analyzing product batches and quality control.

A new network linking Neste Oil's various laboratories, known as GlobaLab, was established in 2012 and has been tasked with harmonizing operations and developing and introducing best practices, as well as creating dedicated networks covering areas such as problem-solving. The new network generated a number of positive results during the first six months of its existence and operations are due to be extended over the next two years.

Laboratory work was also enhanced with the introduction of a more advanced communications network linking measurement and analysis equipment, and aimed at ensuring more reliable and more automated quality control procedures.

The number of quality deviations identified at the Quality Assurance Laboratory at Porvoo fell by some 30% in 2012, a major improvement and a direct result of various measures taken to guarantee the quality of test results and evaluate their accuracy.

Technology and engineering company Neste Jacobs

Neste Oil's 60%-owned technology and engineering company, Neste Jacobs, continued to grow profitably in its selected business during 2012, and recorded net sales of EUR 100 million (79 million).

Growth in the Middle East, Russia, and Sweden

Neste Jacobs consolidated its bridgehead in the Middle East and now has preselected contractor status there, which enabled it to add the oil refiner, Takreer, and the petrochemical company, Borouge, in Abu Dhabi to its client list. A bridgehead was also established with Russia's largest oil and gas companies. Engineering work on shale oil-based energy continued in the Baltic market and Neste Jacobs doubled its engineering capacity in Sweden.

Ongoing partnership with GE Healthcare

Neste Jacobs continued its focus on biotechnology, an area in which it signed a major agreement with GE Healthcare in 2011 covering the marketing, sales, and execution of blood plasma fractionation plants. The two companies worked together on assessing the potential for building a number of new plants of this type, mainly in South America and Asia. Neste Jacobs also took part in numerous operational enhancement projects at existing fractionation plants.

In January 2013, Neste Jacobs and South African plasma fractionation company National Bioproducts Institute signed a service agreement covering production consulting, engineering, and executing of services related to plasma fractionation processes.

Providing support for Neste Oil's R&D projects

Neste Jacobs plays an important role in helping drive Neste Oil's strategy in the technology area. Neste Jacob's approx. 1,000 engineering professionals and subcontractors – together with its long experience in oil, gas, petrochemicals, and biotechnology – make a key contribution to scaling up Neste Oil's R&D initiatives, in investment projects, and in supporting plant operations. During 2012 for example, Neste Jacobs was closely involved in developing and implementing Neste Oil's new microbial oil pilot plant.

Read more about Neste Jacobs at www.nestejacobs.com

Sustainability at Neste Oil

Neste Oil is a refining and marketing company concentrating on low-emission, high-quality traffic fuels, and the world's leading supplier of renewable diesel. Oil exploration and drilling do not form part of Neste Oil's activities, and the company has no plans to take part in any oil exploration projects. Neste Oil's approach to sustainability is based on taking account of the environment, people, and communities in its activities and protecting them, and striving for operational excellence and good corporate governance. Neste Oil's goal is to achieve a leading position in the industry in terms of sustainability.

Sustainability focus areas

Neste Oil defined a new set of focus areas for its sustainability-related work and for managing sustainability in fall 2012. These areas provide the foundation for this Sustainability Report.

Neste Oil ranked the world's fourth most sustainable company

Neste Oil was selected for the seventh time for inclusion in The Global 100 list of the world's most sustainable companies after the reporting period in 2012, Neste Oil achieved its best-ever ranking in the list, reaching fourth place, an improvement of 15 places on its performance.

Climate change initiative launched

Neste Oil launched an initiative towards the end of 2012 to develop a climate program that will create a road map for the company as it moves towards a low-carbon future.

The only way is forward

A vision of traffic in 2030
"Emission free fuels for all vehicles." Man, age of 23–35, Germany.
Read more

60%

of the respondents to Neste Oil's stakeholder survey believe that Neste Oil's sustainability performance has improved.

Neste Oil's sustainability in a nutshell

- Neste Oil is committed to continuously developing its operations in line with the principles of sustainable development, and expects the same of its partners and suppliers
- Sustainability forms an integral part of the way Neste Oil operates and is one of Neste Oil's four values
- Sustainability represents a central part of Neste Oil's cleaner fuel strategy aimed at developing, producing, and marketing cleaner traffic fuels with a lower level of impact on the environment
- By producing and promoting the use of cleaner fuels, Neste Oil can help meet the growing energy needs of traffic and transport and make its own contribution to combating climate change and reducing emissions from traffic and transport.
- A thorough understanding of the impact that Neste Oil's products have over their entire lifecycle represents a central aspect of Neste Oil's approach to sustainability.

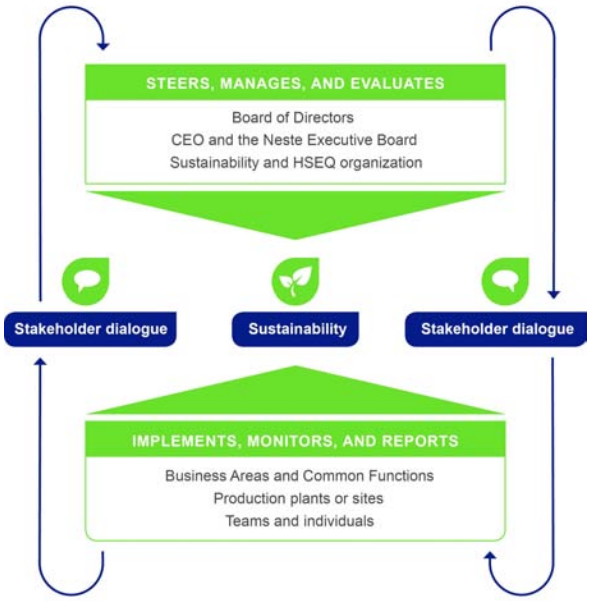
Managing sustainability

Sustainability is one of Neste Oil's four values, and the company's sustainability policy, together with its sustainability principles and instructions, represent an integral and important part of the company's management system. No significant changes took place in the management responsibilities or guidelines underpinning sustainability in 2012 compared to previous years.

Neste Oil's approach to sustainability is based on the company's sustainability policy and is an essential part of Neste Oil's business operations. Ultimate responsibility for approving Neste Oil's sustainability policy lies with the Board of Directors, while the President & CEO and senior management are responsible for outlining the company's strategic approach to sustainability and monitoring how Neste Oil performs in terms of sustainability. Sustainability-related work is steered by the Senior Vice President, Sustainability and HSEQ, who is a member of the Neste Executive Board.

Find out more about Neste Oil's sustainability policy and the principles underpinning its approach to sustainability at www.nesteoil.com.

Managing sustainability in Neste Oil



The sustainability and HSEQ organization coordinates the implementation, monitoring, and reporting of sustainability work in

collaboration with business units and production sites and is responsible at Group level for occupational safety, process and product safety and environmental protection. Neste Oil's CFO is in charge of the Group's financial responsibility, while social responsibility matters are managed by units within the Group. Personnel-related matters, for example, are the responsibility of the HR organization and the Senior Vice President, HR. Local work at production sites is the responsibility of refinery management and local experts.

Everyone at Neste Oil takes part in sustainability efforts through things such as continuous safety work.

Everybody has a role to play in promoting sustainability

Safety, environment, and other sustainability-related matters are reviewed regularly by Neste Oil's Board of Directors, the Neste Executive Board, the HSEQ (Health, Safety, Environment, Quality) Management Team, and business area and site management teams. Every member of Neste Oil's personnel engages in sustainability-related work through continuous safety work, for example.

When assessing progress in sustainability, Neste Oil monitors indicators in the fields of HSEQ management, financial, and HR management. Progress is also reviewed through regular ESG audits and stakeholder questionnaires.

Feedback from stakeholders is taken into account when developing sustainability, and is collected through surveys and ongoing, close interaction with a range of different stakeholder groups. Read more about Neste Oil's stakeholder survey in 2012.

Sustainability focus areas

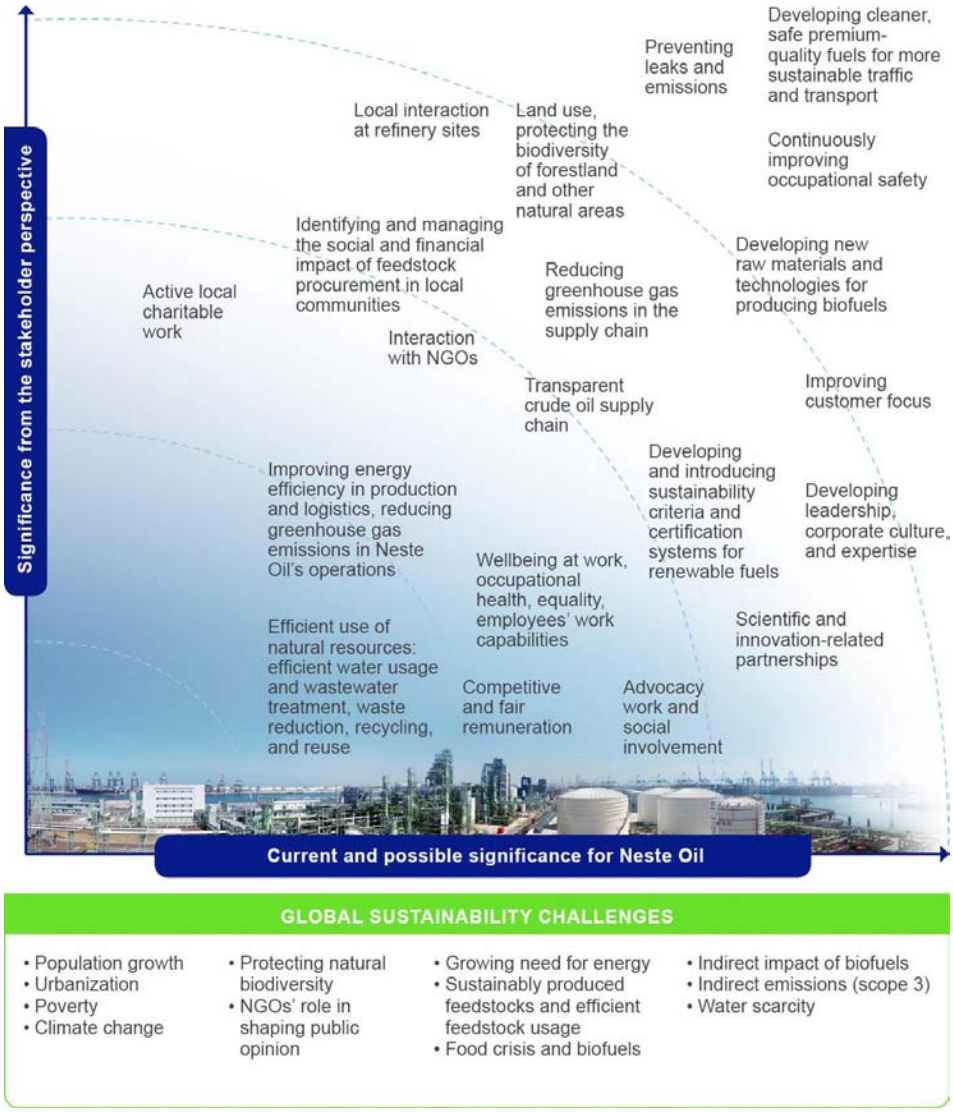
A new set of focus areas for Neste Oil's sustainability work and the way sustainability is managed was introduced in fall 2012. These focus areas have been established because of the need to further outline the scope of sustainability work within the company and to support systematical management, reporting, and communication of sustainability-related matters.

Focus area	Neste Oil's sustainability policy
Customers	We provide our customers with products that help tackle sustainability issues, such as global climate change and improving local air quality.
Safety	All our actions are safe for us, our neighbors, contractors, customers, and the environment.
Personnel	We act responsibly in society and respect human rights wherever we operate.
Society	We are committed to engaging with our stakeholders and participating in multi-stakeholder initiatives to help develop more sustainable solutions.
Climate and Resource efficiency	We are socially responsible, environmentally sound, and economically viable.
Supply chain	We use natural resources responsibly and are actively working towards a more sustainable supply chain.

The focus areas were defined by a group of experts headed by the Senior Vice President, Sustainability and HSEQ and have been approved by the Neste Executive Board and the Board of Directors. Neste Oil reviewed the actions and measures that are currently being taken in each focus area at the end of 2012 and the beginning of 2013. In 2013, the aim will be to integrate the sustainability focus areas into Group-wide strategic operations planning and establish targets for each focus area. These focus areas also provide the main structure for Neste Oil's 2012 Sustainability Report.

Neste Oil material aspects of sustainability

The sustainability focus areas described above set out the core approach that Neste Oil's sustainability work is committed to. A materiality assessment of Neste Oil's sustainability carried out towards the end of 2012 helped provide an understanding of the key themes that Neste Oil will need to focus on within the framework of sustainability focus areas.



GLOBAL SUSTAINABILITY CHALLENGES

- Population growth
- Urbanization
- Poverty
- Climate change

- Protecting natural biodiversity
- NGOs' role in shaping public opinion

- Growing need for energy
- Sustainably produced feedstocks and efficient feedstock usage
- Food crisis and biofuels

- Indirect impact of biofuels
- Indirect emissions (scope 3)
- Water scarcity

The materiality matrix combines the key themes of sustainability from the perspective of Neste Oil's business and stakeholders. Key themes were defined in a workshop held with the Neste Executive Board and Neste Oil sustainability experts in various areas in the late fall of 2012. The workshop reviewed the results of an analysis of trends in the sustainability field drawn up in fall 2012 and of a stakeholder survey on sustainability issues carried out in November 2012**.** The results -were then compared to Neste Oil's own views on what will be the key sustainability issues over the next few years. The materiality matrix has been approved by the Neste Executive Board and the Board of Directors.

The materiality assessment helped Neste Oil identify new issues of interest to the company's stakeholders that could prove more significant to Neste Oil's business in the future.

Sustainability reporting for 2012 reflects the sustainability issues analysed in the materiality matrix the most material in terms of Neste Oil's business and stakeholders. The materiality of sustainability issues will be reviewed regularly in the future and the matrix will be updated when needed as part of annual reporting.

Sustainability-related stakeholder survey results

Neste Oil conducted a survey on sustainability issues in October 2012. 60% of respondents said they believe that Neste Oil's sustainability performance has improved. Respondents gave the company an average score of 7.87 for its sustainability-related work. A total of 288 people in Finland and abroad replied to the survey.

Respondents identified the following areas as central to sustainability at Neste Oil:

- R&D on new raw materials suitable for use as biofuel feedstocks
- Continuous efforts aimed at improving safety, and
- Development work on cleaner, premium-quality fuels that can help combat climate change.

All respondents linked sustainability at Neste Oil to renewable fuels, although safety was also seen as a particularly important area as well.

Stakeholders identified the launch of Neste Pro Diesel, improved fuel quality, and the work being done to reduce the usage of raw materials that can also be used as food as particular successes of our sustainability-related efforts. Improved stakeholder dialogue and the way Neste Oil has managed and handled communications on oil spills were also highlighted as additional positive developments.

Stakeholders' views on how well Neste Oil manages its sustainability communications generally varied. Investors and the company's owners appear to be more satisfied than personnel, who tend to believe that the positive work Neste Oil is doing is not perceived outside the company as well as it could be.

Respondents listed the continued use of raw materials that can be used for food purposes, employee wellbeing, and anticipating upcoming legislation as areas that could be improved. Other areas in this category included competition with the ABC retail chain, the profitability of the renewable diesel business, and safety.

The replies received from stakeholders will help Neste Oil understand the expectations that its stakeholders have in the sustainability area and develop sustainability-related initiatives in the line with their feedback.

Key sustainability-related targets and achievements

	What were our targets?	Actions and achievements in 2012	What next?
Managing sustainability 	Link sustainability issues more closely to business area management.	We defined new key sustainability areas for Neste Oil.	Make use of the key sustainability areas in operational planning.
	Certify the operating systems at the Singapore and Rotterdam refineries to ISO standards.	Continued progress was made in developing Neste Oil's ISO certification status; we received ISCC-EU certification for all our NExBTL refineries for the European market and EPA approval for the US market. Multi-site certification will take place in 2013.	Certify production plant operating systems to ISO standards.
Customers 	Launch a new cleaner diesel, Neste Pro Diesel, in Finland.	We began sales of Neste Pro Diesel in September 2012.	Continue launching premium-quality products such as Neste Pro Diesel.
	Extend the NExBTL product family.	We began sales of NExBTL renewable naphtha to corporate customers.	Continue developing new product applications for the needs of customers such as airlines and the petrochemical industry.
Safety 	Reduce the number of process safety incidents.	We did not meet our target. PSE* (Process Safety Events) = 5.9 (4.8).	PSE<4
	Reduce the number of accidents requiring medical care. TRIF target = 2.2*	We did not meet out target.TRIF* (Total Recordable Injury Frequency) = 3.6 (2.7).	TRIF=2.2
	Carry out 25,000 safety observation tours annually.	We carried out 27,643 (25,743) safety observation tours.	Give greater priority to preventive measures and carry out 28,000 safety observation tours.

	What were our targets?	Actions and achievements in 2012	What next?
Personnel 	Support a coaching-focused leadership culture that involves people and promote performance management that delivers results.	We promoted engagement-driven leadership culture through a strategy dialogue, strategy workshops, by training innovation facilitators, through the Neste Oil ideas system, by involving employees in reviewing the results of the personnel survey, and management training.	Build a winning culture, support improved customer focus, and further develop our expertise.
	Focus on developing wellbeing at work.	We integrated a wellbeing at work model into management training.	Continue promoting an engagement-driven leadership culture.
Society 	Raise ROACE (Return on Average Capital Employed, After Tax) to at least 15% over the long term.	ROACE = 4.9% (2.6%).	Continue working to achieve our long-term ROACE target.
	Retain a leverage ratio of 25–50%.	Leverage ratio = 42.9% (45.7%).	Continue reducing our leverage ratio.
	Support the implementation of biofuel legislation in EU countries and promote a neutral approach to technology and raw material questions.	We worked with seven key EU member states and provided them with expert information on renewable diesel related to the drafting and implementation of the EU's Renewable Energy and Fuel Quality Directives.	Continue work aimed at securing fair and equitable national regulations and promote regulations and agreements aimed a preventing further loss of forestland through things such as extending traceability and sustainability requirements to cover all industries using bio-based raw materials.
	Continue systematic greater interaction with all key stakeholders, as planned.	We met stakeholders at tens of different events and actively updated them on developments at Neste Oil.	Engage stakeholders and work closely with them. Extend collaboration with selected stakeholders.

	What were our targets?	Actions and achievements in 2012	What next?
Climate and resource efficiency 	Reduce greenhouse gas emissions in our operations cost-effectively to help prevent climate change.	We optimized energy generation and usage at the Naantali and Porvoo refineries. An extensive energy efficiency survey was carried out at Porvoo. Work done during the maintenance turnaround at Naantali has improved the refinery's operational reliability and energy efficiency.	Draw up plans for energy efficiency investments during 2013.
	Continue efforts aimed at saving 660 GWh of energy by 2016.	We achieved approx. 59% (53%) of the targets contained in the energy savings program set for 2016 between 2009 and 2012.	Continue measures aimed at achieving our 660 GWh energy saving target at our refineries and terminals.
	Remain within environmental permit limits at all times.	Virtually all operations took place within permitted limits. Some wastewater limits were exceeded at the Porvoo and Singapore refineries and one airborne emission limit was exceeded at Rotterdam. Some shortcomings in wastewater monitoring were identified at the Naantali refinery. None of these cases resulted in damage to the environment.	Review the impact of stricter environmental permitting practice resulting from revised EU environmental legislation. Comply with stricter permit requirements where needed
	Extend the range of bio-based inputs we use.	We added waste fat from the fish processing industry to our feedstock base. We commissioned a microbial oil pilot plant at Porvoo.	Aim to further increase our use of waste- and residues-based inputs significantly.
	Increase the amount of waste- and residues-based inputs used in refining by hundreds of thousands of tons a year compared to 2011.	We more than doubled our use of waste- and residues-based materials.	Review the feasibility of starting industrial-scale production based on non-food inputs, such as microbial and algae oil.
Supply chain 	Increase our use of certified renewable raw materials by at least 10%-points compared to 2011.	All renewable feedstocks used in refining were 100% treacable back to their origin. 77% (49%) of renewable inputs were certified in 2012.	We ensure that all renewable feedstocks continue being 100% traceable back to their origin. We continue to increase the proportion of certified renewable feedstocks in refining. Our aim is that 100% of the palm oil used by Neste Oil will be certified by the end of 2015.

* Accounting principles were changed in 2012. Figures for 2011 (including target) have been recalculated in order to have comparable figures.

Sustainability policies and principles

Neste Oil's sustainability policy acts as the foundation for the company's sustainability, and underpins its Sustainability and HSEQ (Health, Safety, Environment, Quality) Management Principles, which act as key tools for steering sustainability-related work. These principles define the central responsibilities, practices, and overall guidelines to be followed in environmental and safety management. They also set minimum requirements for sustainability, health, safety, the environment, and product safety.

Based on these principles, production sites draw up their own detailed instructions and incorporate them into their management systems. Other Neste Oil locations, such as offices, follow the principles when applicaple to their activities. HSEQ training is offered to every employee to help ensure that these principles are implemented in practice.

- Neste Oil's sustainability principles covering sustainable raw material procurement and biofuel production have been collated into a single set of principles.
- Sustainability principles covering personnel are included in the company's Human Resources Policy.
- Neste Oil's Code of Conduct, approved by the Board of Directors, also guides work in the sustainability field.

New and updated guidelines for managing sustainability

No major changes in Neste Oil's key sustainability management tools took place during 2012 compared to 2011. The Group's management system was supplemented, however, with the following sustainable development- and HSEQ-related principles and guidelines.

New guidelines:

- Minimum sustainability requirements for renewable fuels
- Procedure for dealing with bullying
- Safety key elements

Updated guidelines:

- Sustainability Principles for Biofuels
- Renewable Feedstock Supplier Selection Criteria
- Corporate Risk Management Principles
- Corporate Risk Management Policy
- Gender Equality Principles
- Sustainability and HSEQ Management Principles
- REACH Compliance in Neste OIl
- Neste Oil's Minimum Marine Safety Requirements for Vessels, Barges and Management Companies

Certified operating systems

In addition to the Group's management system, Neste Oil's operations are also guided by plant-, business area-, and function-specific certified systems. These management systems meet the requirements of the ISO 9001 (quality), ISO 14001 (environment), and OHSAS 18001 (occupational health and safety) standards.

Internal and external audits are used to assess the effectiveness of systems. Internal quality and HSEQ audits ensure that the Group's operations comply with the requirements of the law, regulations, and Neste Oil's own guidelines. Neste Oil's certified management systems are audited by an external independent third party. A total of 97 (105) internal audits were carried out in 2012 based on an internal auditing plan. Additionally, 33 (22) external audits were carried out. The increase compared to 2011 resulted from the large number of International Sustainability and Carbon Certification (ISCC) audits covering NExBTL renewable fuel production. One (3) accreditation audits was carried out. Accreditation audits follow the requirements set of SFS-EN ISO/IEC 17025 standard.

Oil Retail's operations in Finland, Estonia, Latvia, Lithuania, and Russia have been granted a multisite certificate. Neste Oil's terminals in Hamina, Kokkola, Kemi, Pietarsaari, and Tornio in Finland have been certified and combined with the Porvoo and Naantali certificates under a multisite certificate. Certification

covers the requirements of the quality, environment, and occupational health and safety standards referred to above.

The plan is to ISO-certify the NExBTL renewable diesel refineries in Rotterdam and Singapore during 2013. These refineries, together with the NExBTL units at Porvoo, are already ISCC- (International Sustainability and Carbon Certification) and RSPO-certified (Round Table on Sustainable Palm Oil) and they hold an EPA (Environmental Protection Agency) approval. Read more about certifications in the Supply Chain section.

In addition to the ISO certificates detailed above, Neste Oil also has various other certificates, such as an International Security Certificate for Ships and Port Facilities (ISPS), a Factory Production Control Certificate for Bitumen and Bituminous Binders covering the Porvoo and Naantali refineries, and International Safety Management System of Ships (ISM) certificates related to the company's fleet.

Details on Neste Oil's certified plants, business areas, and operations can be found at the company's Web site.

Sustainability-related risks and opportunities

A number of sustainability-related risks are associated with Neste Oil's operations. Risk management aims to identify these threats and focus on preventive measures to counter them. As Neste Oil does not have any oil exploration or drilling activities, this reduces the company's exposure to direct environmental risks significantly.

Neste Oil's most significant sustainability-related risks have remained essentially unchanged in recent years, and during 2012 were linked to:

- procurement of feedstocks used in production
- occupational and process safety at refineries
- the environmental impact of refining and logistics, and
- product liability.

As in previous years, other risks identified included changes in environmental legislation and legislation on biofuels and the slow progress being made in implementing this type of legislation at EU level, EU member state level, and in the US. Neste Oil continued supporting legislation work related to renewable fuels. Read more on Neste Oil's work to support legislation.

The company's growth business, Renewable Fuels, continues to face a reputation-related risk linked to Neste Oil's use of palm oil. Neste Oil continued working to reduce risk with proactive and open communication, extensive reporting and active stakeholder dialogue that takes place widely in Europe, the US, and South-East Asia. No serious sustainability-related issues, such as infringements of legal or regulatory requirements, took place in the use or procurement of palm oil or other raw materials used by Neste Oil. Read more on sustainable feedstock procurement.

One of the above risks, product storage risk, was realized in 2012 when light fuel oil leaked from a rock cavern storage facility in Kajaani operated by Neste Oil for the National Emergency Supply Agency. Read more about the case in the section on Climate and the Environment. Neste Oil's occupational and process safety performance also failed to improve as hoped for in 2012, although there were no serious accidents. Read more in the section on Safety.

More information on the financial risks associated with business operations can be found in the Risk Management section.

Sustainability related opportunities

Neste Oil's key opportunities in terms of sustainability are linked to developing and producing lower environmental impact products, and increasing the use of these products among the company's customers. More details on Neste Oil's lower-emission products can be found in the Customers section.

In addition to fuel development work, Neste Oil has refined its sustainability-related expertise in supply chain management into a voluntary sustainability verification scheme within the framework of the EU's Renewable Energy Directive. Development of the scheme could open up new business opportunities for Neste Oil after it receives EU approval. Read more about the voluntary sustainability verification scheme.

Sustainability indices and ratings

Neste Oil measures the progress it makes in the area of sustainability through external ESG (Environmental, Social, Governance) reviews, regular stakeholder questionnaires, and personnel surveys. The results of these assessments showed that Neste Oil's sustainability-related performance improved during 2012.

Neste Oil decided to concentrate on the following sustainability reviews in 2012:

- Dow Jones Sustainability Index
- Global 100
- Forest Footprint Disclosure, and
- Carbon Disclosure Project.

The reviews produced by these bodies provide Neste Oil with objective, specialist analyses of its sustainability performance and reporting and offer feedback on how operations can be developed. Neste Oil monitors developments in the ESG review field and aims to focus on reviews by independent specialist bodies in developing its sustainability performance. Neste Oil aims to facilitate the work of these specialists by providing more comprehensive and clearer online reporting.

Sustainability review results in 2012

Dow Jones Sustainability Index World

Neste Oil was selected for inclusion in the Dow Jones Sustainability Index (DJSI World) for the sixth year in succession in September 2012, as one of 340 companies from 30 countries. DJSI World features companies from a wide range of fields, all of which are expected to demonstrate a high level of commitment to sustainable development in the areas of financial, social, and environmental responsibility and be committed to continuous development. Read more on Neste Oil's web site.

Global 100

Neste Oil was selected for inclusion in The Global 100 list of the world's most sustainable companies, for the sixth successive year (2007–2012), in January 2012. Neste Oil was ranked 19th, compared to 20th in 2011. The Global 100 list is based on expert analyses of 4,000 listed companies in a wide range of fields around the world. Companies included are considered among the most capable as measured against a variety of different sustainability indicators. After the reporting period, in January 2013, Neste Oil was again selected for inclusion in The Global 100 list for the seventh successive year, and placed 4th, improving its ranking by 15 places from 2012. Read more on Neste Oil's web site.

Forest Footprint Disclosure

Neste Oil was again recognized in the international Forest Footprint Disclosure (FFD) report in February 2012 for the thorough reporting of its forest footprint. FFD ranked Neste Oil the second-best performer in the Oil & Gas sector; this compares to the number-one ranking given in 2011 and 2010. The FFD project is an international initiative designed to evaluate how aware companies are of their forest footprint and the methods they use to reduce the size of their footprint. The assessment is made by a jury of procurement and forest conservation experts. After the reporting period, in February 2013, Neste Oil's high standard of performance was again recognized by the FFD project and ranked second in the Oil & Gas sector. Read more on Neste Oil's web site.

Carbon Disclosure Project

Neste Oil monitors and measures greenhouse gas emissions across all its operations, and reported on them for the sixth year in succession as part of the Carbon Disclosure Project (CDP) in 2012. In a review published in fall 2012, Neste Oil scored 79 (58) points based on 2011 data, a clear improvement on previous performance. The review based on 2012 data will be published in fall 2013. Read more about Neste Oil's CO_2 emissions and the CDP review results in the section on Environmental management.

Other reviews in 2012

In addition, Neste Oil was also selected for inclusion in the following:

- STOXX® Global ESG Leaders Index, which features around 300 of the world's leading companies, based on a review of their environmental and social responsibility and governance. Neste Oil was also selected for inclusion in the STOXX Global ESG Social Leaders and STOXX Global ESG Governance Leaders indexes.
- Storebrand Tripple Smart and SPP Global Top 100 Fund, which is the first fund of its kind in the Nordic region. The review highlighted future prospects and company's its commitment to building a sustainable world.

Neste Oil is also still included in the Ethibel EXCELLENCE Investment Register, which reviews companies' financial performance, social responsibility, and environmental values.

Neste Oil's sustainability-related surveys in 2012

A sustainability survey carried out among Neste Oil's stakeholders in October-November 2012 gave the company a score of 7.87 (on a scale of 4-10). 60% of respondents said they

believed that Neste Oil's sustainability had improved recently. Read more about the results of the survey.

A personnel survey carried out in August-September indicated that Neste Oil's work in sustainability is one of the areas has seen the most positive development. 92% of respondents said that sustainability has progressed either positively or very positively,

The input provided by these reviews has been taken into account in defining Neste Oil's sustainability focus areas and materiality matrix.

Cleaner products for customers

In line with its cleaner traffic strategy, Neste Oil has concentrated on developing and refining premium-quality fuels that promote cleaner traffic and transport.

The amount of NExBTL renewable diesel sold in 2012 corresponds to the annual fuel consumption of

2,1 million cars**

Lower emission solutions

The greenhouse gas emissions of Neste Oil's NExBTL renewable diesel, as measured over the product's entire lifecycle, are up to 40-90% lower than those of fossil diesel.

Neste Pro Diesel - The best Diesel quality in the world

Cleaner traffic startegy

Read more about Neste Oil's cleaner traffic strategy and its implementation during 2012 in the Strategy section.

What were our targets?	Actions and achievements 2012	What next?
• Launch a new cleaner fuel, Neste Pro Diesel, in Finland.	• Neste Pro Diesel introduced in September 2012.	• Continue launching premium-quality products such as Neste Pro Diesel
• Extend the NExBTL product family.	• Sales of NExBTL naphtha to corporate customers started in October.	• Continue developing new product applications for the needs of customers such as airlines and the petrochemical industry.

*Average greenhouse gas emission reduction values calculated by Neste Oil for the entire life cycle of the fuel produced at the Porvoo refinery and shipped to European markets. The calculation method complies with the requirements of the EU's Renewable Energy Directive and has been verified by SGS. A reference figure of 83.8 g of CO2eq/MJ has been used when calculating emission reductions. The proportions of greenhouse gas emissions accounted for by the various stages of fossil diesel production are based on CONCAWE estimates. Emission reductions are affected by raw material production methods, the mode of transport used, refining, fuel transportation, and end-use.

** In 2012 Neste Oil produced 1,7 million tonnes of renewable diesel. The amount corresponds to the consumption of 2,1 million cars, assuming that average driving is 18 000 km annually with the consumption of 5,7l/100km and 100% NExBTL is used.

Premium-quality, low-emission products

Neste Oil has developed premium-quality, lower-emission fuels for corporate customers and consumers for decades. By using Neste Oil's products, all customers can reduce their greenhouse gas and other environmental emissions. Neste Oil's NExBTL renewable diesel helps customers, particularly oil companies, comply with their mandated bio-content requirements in respect of traffic fuels.

Neste Oil's R&D has concentrated on developing products and technologies with a smaller environmental footprint for decades. Products and technologies based on this work – such as NExBTL, NxETHERS, and NExOCTANE – are of particularly high quality and reflect Neste Oil's extensive environmental know-how. NExBTL renewable diesel, for example, is one of the fruits of Neste Oil's in-house research and is the world's cleanest diesel produced from renewable inputs.

Read more about Neste Oil's research, technology, and engineering here.

NExBTL renewable diesel – the world's most advanced diesel fuel

Neste Oil's NExBTL renewable diesel, produced from 100% renewable inputs, is a higher-quality fuel than both conventional biodiesel and fossil diesel. Its performance at low temperatures and the fact that it can be stored for long periods offer a clear advantage over conventional biofuels in particular.

Compared to fossil diesel, NExBTL renewable diesel produced from all the feedstocks currently used has been shown to reduce greenhouse gas emissions by 40-90% over the product's entire life cycle. The specific reductions in greenhouse gas emissions offered by NExBTL renewable diesel varies, depending on the raw materials used to produce it.

Based on numerous laboratory tests and field trials*, using NExBTL renewable diesel has been shown to reduce tailpipe emissions as follows:

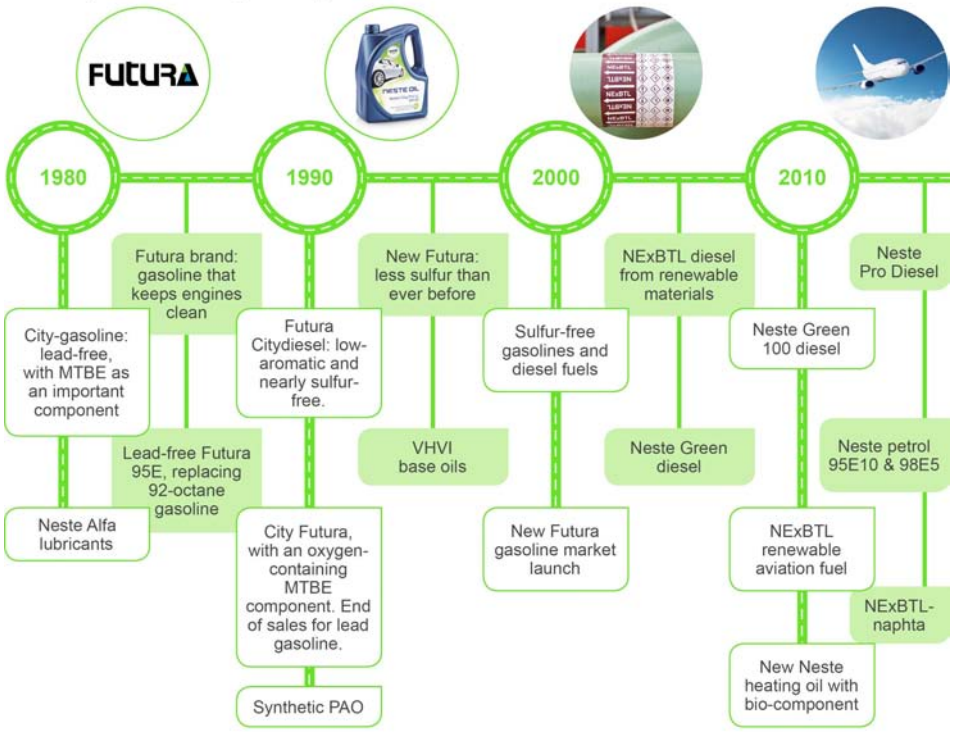
- Nitrogen oxides (NOx), -9%
- Particulates (PM), -33%
- Carbon monoxide (CO), -24%
- Hydrocarbons (HC), -30%.

* These average emission reductions are based on findings published in over 40 scientific publications on NExBTL renewable diesel and HVO fuels related to tests using 100% NExBTL diesel.

Ambient emissions are determined by a variety of factors, such as vehicle type, driving patterns, temperature, and other parameters. The proportion of bio-content used as fuels also has an impact. The majority of biofuels and renewable fuels produced today are used as for blending purposes (Neste Pro Diesel, for example, contains a minimum of 15% NExBTL diesel by volume); 100% biofuels are largely used only for test purposes.

Read more about NExBTL renewable diesel

Cleaner products along the way



Meeting mandated bio-content requirements using NExBTL diesel

Nationally mandated bio-content requirements have been introduced around the world to promote the use of renewable energy, and distributors of traffic fuels are responsible for complying with these in the markets affected. The EU's Renewable Energy Directive, for example, requires that 10% of the energy content of traffic fuels must come from renewable sources by 2020. Finland has set a target of 20% and the US a target of 22%.

With its NExBTL renewable diesel and the significant reduction in greenhouse gas and tailpipe emissions that it provides, Neste Oil offers corporate customers a highly effective way of complying with nationally mandated bio-content requirements. In addition to NExBTL diesel, Neste Oil offers its corporate customers a turnkey solution for meeting their mandated bio-content needs. Customers can sell this ready-blended mix of fossil fuel and biofuel on to their service stations and gain savings in logistics costs.

NExBTL renewable aviation fuel

Neste Oil's NExBTL renewable aviation fuel meets the very high quality standards of the aviation industry, and refining capacity is in place to produce it in industrial volumes. NExBTL renewable aviation fuel was used on a total of 1,187 flights flown between Frankfurt and Hamburg as part of a recent six-month biofuel trial and on an intercontinental flight from Frankfurt to Washington D.C. NExBTL renewable aviation fuel performed excellently in commercial use, and Lufthansa reported that usage of the fuel in Germany during the trial reduced CO_2 emissions by over 1,500 tons, while the intercontinental flight cut emissions by as much as 38 tons, the equivalent of six flights between Frankfurt and Berlin. Thanks to its higher energy content, fuel consumption was reduced by over 1%.

Read more about NExBTL renewable aviation fuel.

New additions to the NExBTL product family

Neste Oil extended its product offering for corporate customers in October 2012 with the launch of NExBTL renewable naphtha, which can be used for producing bioplastics. NExBTL renewable naphtha is produced during NExBTL diesel refining at Neste Oil's plants in Finland, the Netherlands, and Singapore.

The mechanical and physical properties of bioplastics produced from NExBTL renewable naphtha are fully comparable with those of plastics produced from fossil naphtha; and the carbon footprint of these plastics is smaller than that of conventional fossil-based plastics. Bioplastic products produced from NExBTL renewable naphtha can be recycled with conventional fossil-based plastic products, and can be used as a fuel for generating energy following recycling.

In addition to renewable naphtha, the NExBTL renewable diesel refining process also produces renewable propane, which can be used as a traffic fuel or in the home. Neste Oil recently started a study on the feasibility of commercializing NExBTL propane.

Read more about NExBTL renewable naphtha.

Neste Pro Diesel

Developed and produced in Finland by Neste Oil, Neste Pro Diesel is the world's first diesel fuel to comply with the toughest specifications drawn up by the Worldwide Fuel Charter (WWFC). Sales of the new fuel – which has been tested at VTT Technical Research Centre of Finland, the Tampere University of Applied Sciences, and Neste Oil's Engine Laboratory – began at Neste Oil's manned service stations in Finland in September 2012.

Tests show that Neste Pro Diesel:

- Reduces fuel consumption by up to 5%, depending on vehicle, driving style, and driving conditions
- Increases engine power and torque by up to 4% compared to conventional diesel fuel
- Extends the life of motor oil
- Improves engine performance, particularly in cold weather, and reduces engine noise, and
- Enhances engine reliability during the winter, thanks to its excellent cold weather properties.

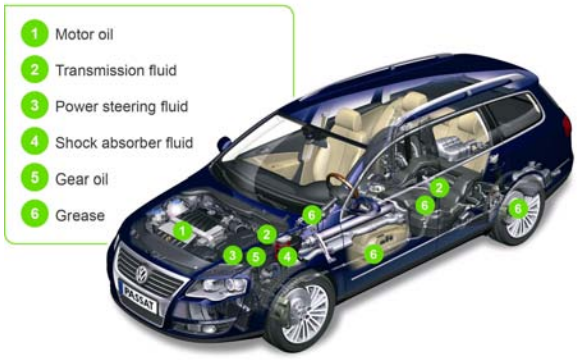
Neste Pro Diesel contains a minimum of 15% of Neste Oil's renewable diesel. Thanks to this renewable content, vehicles using Neste Pro Diesel release 10-20% less greenhouse gas emissions, as well as lower NOx, particulate, and hydrocarbon emissions.

Base oil

Neste Oil produces top-tier base oil containing very low amounts of sulfur and aromatics from fossil feedstocks. These products help reduce traffic- and transport-related emissions and promote the uptake of the latest engine technology offering enhanced fuel consumption and lower emissions.

Read more about base oil.

Use of top-tier base oil in a modern car



Safe products

Product safety for Neste Oil means being responsible for the safety of all the products that the company sells. The goal of Neste Oil's product safety work is to ensure that products are handled safely throughout their lifecycle, beginning from product development and production and extending all the way to end-use and recycling.

Neste Oil always ensures that customers have the information they need to use products safely and that its products comply with all relevant national and international statutory requirements.

Safe products for customers

The majority of the products sold by Neste Oil are classified as hazardous, which places a number of special requirements on how they must be classified, labeled, and transported, and on how information on them must be communicated to customers. Neste Oil complies with International Chamber of Commerce (ICC) guidelines in the marketing of its products and with country-specific legislation covering the advertising and marketing of hazardous substances. The product safety principles followed by Neste Oil are defined in the Group's management system and are monitored as part of its auditing process, both internally and through audits carried out by impartial third-party inspectors. Any issues associated with product safety are reported through the company's incident reporting system.

Labeling, safety data sheets, and technical product information give customers the product safety-related information they need. Neste Oil works proactively with its customers and the authorities, other companies, universities, and research institutions to enhance the information that it provides on product safety.

Read more about REACH in the Chemical safety -section.

Safety

Neste Oil's business is exposed to a number of safety-related risks, the largest of which are associated with working practices, processing raw materials and products, logistics, and storage. Neste Oil is committed to the safety of its personnel, partners, customers, neighbors, and the environment. By focusing on preventive safety work, Neste Oil aims to prevent accidents and injuries from happening.

Neste Oil's safety goals

Neste Oil's medium-term goal is to achieve a level of safety comparable with the performance of the best European oil companies, and its long-term goal is to prevent all accidents and injuries occurring.

Neste Oil's safety work is based on the following safety principles:

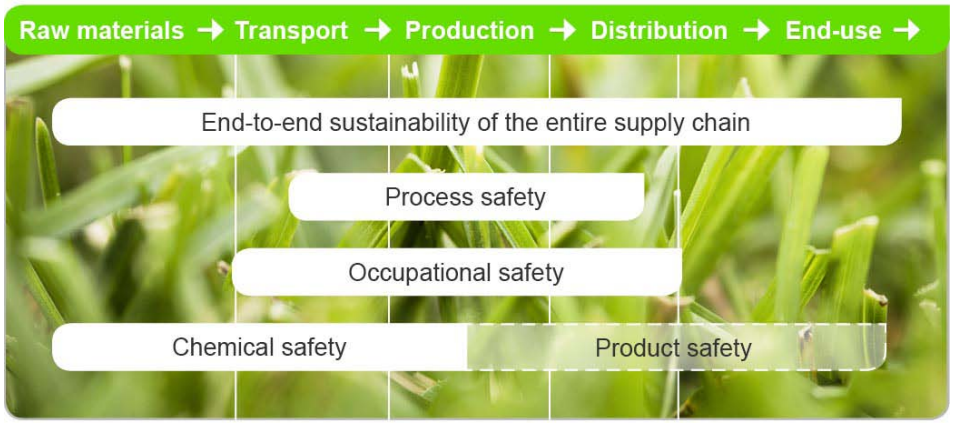
- All accidents and injuries can be prevented.
- We are all responsible for our own safety and that of others.
- Safety regulations and guidelines must always be observed.
- Safety is essential for business success.

Neste Oil invested

25.6 million euro

in safety in 2012.

How are sustainability and safety inter-related at Neste Oil?



What were our targets?	Actions and achievements 2012	What next?
• Reduce the number of process safety incidents.	• We did not meet our target. PSE* (Process Safety Events) = 5.9 (4.8).	• PSE<4
• Reduce the number of accidents requiring medical care. TRIF target = 2.2*	• We did not meet our target. TRIF (Total Recordable Injury Frequency) = 3.6* (2.7*).	• TRIF=2.2
• Achieve zero lost workday injuries. LWIF target= 0	• We did not meet our target. LWIF (Lost Workday Injury Frequency) = 1.5* (1.9).	• LWIF=0
• Carry out 25,000 safety observation tours a year.	• We carried out 27,643 (25,743) safety observation tours.	• Give greater priority to preventive measures and carry out 28,000 safety observation tours.
• Avoid all injuries or any damage to the environment at Naantali during the shutdown of the refinery prior to its maintenance turnaround, during the turnaround, and when the refinery is brought back on stream.	• The maintenance turnaround at Naantali was the safest in Neste Oil's history.	• Prepare for the next maintenance turnaround taking place in Porvoo 2015.

* Accounting principles were changed in 2012. Figures for 2011 (including target) have been recalculated in order to have comparable figures.

Safety management

Continuously improving safety performance is seen as an important component of Neste Oil's strategic Value Creation programs. Improving safety is driven by an ethical imperative and societal requirements and is essential for business success.

Safety is part of Neste Oil's strategic Winning Culture Value Creation program. The goal of the Safety Project launched in 2011 is to improve safety management and process and occupational safety, improve people's understanding of safe working practices, and develop a more safety-oriented mindset. To facilitate safety work, Neste Oil has developed a set of 12 Safety Key Elements. These elements are an integral part of Neste Oil's safety management system.

A safety management system integrated into Neste Oil's general management system is used to monitor and develop safety-related areas of operation. This system covers all the company's business areas and corporate functions and is used to ensure that the latter employ harmonized procedures, monitor the implementation of targets, and promote continuous development in the safety field.

Safety management in Neste Oil's business areas and functions is always the responsibility of the relevant line organization. Line management is supported and assisted by a network of safety specialists across the company. Statutory occupational health and safety activities are organized on a site-by-site basis. Local statutory safety requirements are taken into account in sites' own management systems and safety practices. CONCAWE principles are followed in calculating safety-related injury frequency figures.

Safety responsibilities

Who?	How?	What?
Corporate Management	Quarterly Management Meeting	• overview of Group performance • strategic direction, policy decisions • resource management
Business Area	Monthly Management Meeting	• Business Area performance and trends • decision on development needs • preventive and corrective actions
Site/Unit	Periodical Review Meetings	• site performance follow-up and improvement • preventive and corrective actions • operational actions
Teams, Individuals	Continuous Safety Work	• observing and enforcing safe behaviour • task risk assessments • safety discussions

Safety reporting

The following safety indicators are reported monthly within the Neste Oil organization:

- Total Recordable Injury Frequency (TRIF) per million hours worked
- Lost Workday Injury Frequency (LWIF) per million hours worked
- Leaks
- Sick leave
- Safety observations
- HSEQ inspections
- Safety discussions.

These safety indicators are used to measure the progress made in preventive work and the number of incidents that occur. Results are reported and communicated internally every month. Business units regularly discuss safety themes and safety work, in line with their management systems. Topical safety issues are also communicated regularly. Annual safety targets are integrated into every site action plan.

The aim is to further develop these safety indicators during 2013 to ensure that they provide better support for preventive safety work.

Reporting and handling incidents

Neste Oil reports incidents systematically using non-conformance reporting systems, which represent the most important tools in the company's safety management system. These reporting systems are also used to monitor the progress made on preventive measures, such as safety observation tours and safety discussions.

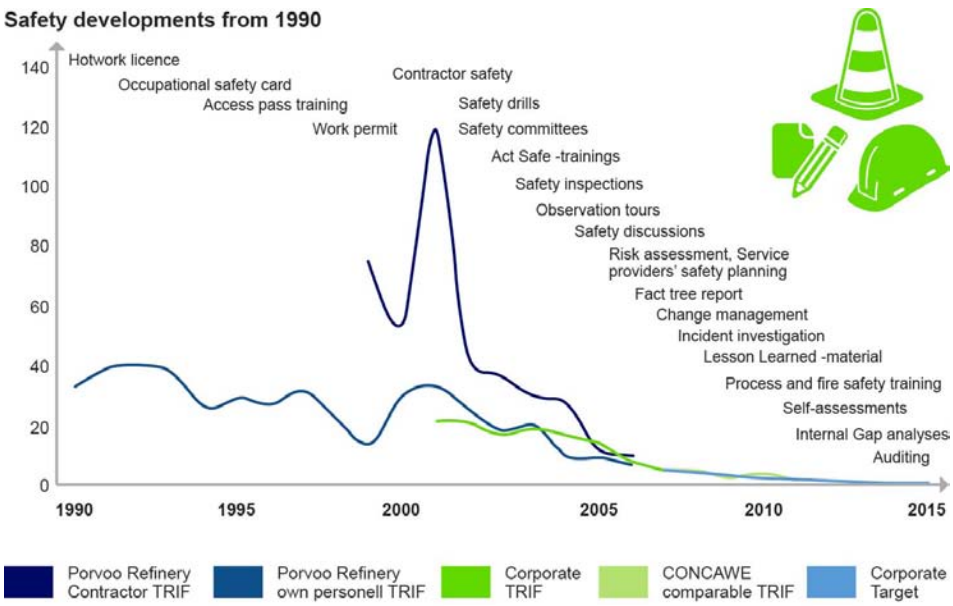
As part of corporate safety practice, a package of 'Lessons Learned' material is produced quarterly on the basis of safety feedback received. 'Lessons Learned' material covers both successes and unscheduled incidents that take place across the company, and has proved useful in the safety discussions that managers and supervisors have with their teams.

Neste Oil keeps people living close to its production sites in Finland and companies based in these areas up-to-date on the operations of its refineries and any possible incidents. This is done through tools such as a toll-free info line, the Neste Oil Web site, and various events. As Neste Oil's refineries in Rotterdam and Singapore are located in industrial zones with no residential areas close by, the emphasis there is on keeping local companies up-to-date on possible incidents.

Read more about local community involvement at production sites.

Other safety achievements in Neste Oil

To help achieve Neste Oil's overall safety goals, the Porvoo and Naantali refineries take part in the Finnish 'Zero Accidents Forum'. Neste Oil is also a participant in the Turmitta project coordinated by VTT Technical Research Centre of Finland, an initiative aimed at developing a method for defining the value of safety in business. The project helps participating companies focus their operations and investments in an optimal way from both a business and overall safety standpoint.



12 safety key elements

Neste Oil's 12 safety key elements form a framework for Group-wide operating practices. The 12 safety key elements are used to help promote Neste Oils' overall safety performance and form an important part of the company's safety management system. Corporate wide implementation of 12 safety key elements was started in 2012 through trainings and self assessments.

The 12 key elements of safety are designed to provide recommended procedures and help sites, management teams, business areas, and common functions draw up plans for ensuring of safety in their operations high standards. Neste Oil's 12 Key Elements of Safety cover process, personal, and chemical safety and are designed to promote overall safety across the Group and are an important part of the company's safety management system.

The 12 Key Safety Elements

Safety self-assessments were carried out for the first time at Neste Oil in 2012 as part of development work on the 12 safety key elements. These focused on evaluating the safety-related strengths of sites and areas that need to be improved. One of the focal areas of safety development work will be change management, in areas such as technical modifications. The results of self-assessments carried out in 2012 will form the basis for planning activities in 2013. Self-assessments will become a permanent part of Neste Oil's safety development work in the future, and they will be audited internally during 2013. Pilot work on these audits was carried out at the Naantali refinery during 2012.

Process safety

The key goals of process safety management at Neste Oil are to prevent personnel from being injured or exposed to danger, to protect the environment and the company's property and other assets, and to prevent or minimize collateral financial losses. Process safety thinking is based on identifying operational risks and dealing with them using various technical and operational tools, and minimizing any impact should a risk develop into a concrete problem.

Neste Oil's process safety management approach covers the entire refining chain, and all process safety-related areas are taken into account when assessing risks. Engineering, technology selection, changes and modifications made to systems, operations and maintenance work, know-how, and practices all play a very important role in process safety.

Process safety management at Neste Oil plants has been improved in recent years to reduce the number of unscheduled leaks and operational incidents.

Improving process safety

Neste Oil measures its process safety using CONCAWE-defined PSEs or Process Safety Events. These define process safety levels and measure the number of incidents, such as leaks that do not harm the environment, that take place in processes.

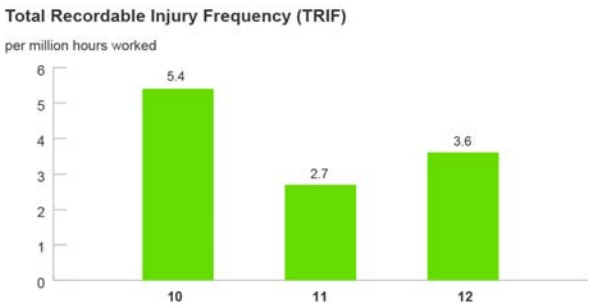
Neste Oil uses different PSEs to measure the degree of seriousness of process safety-related incidents, based on the hazards associated with the materials involved and any possible consequences resulting from an incident. The number of the PSE indicator refers to the seriousness of the incident, with a PSE 1 event serious and PSE 2 quite serious. A total of 2.0 PSE1 incidents (0.8) and 3.9 PSE2 incidents (4.0) per million hours worked were reported in 2012. Safety events totaled 32 in 2012 (24). Neste Oil's goal is to reach CONCAWE's top quartile in the process safety area in the near future.

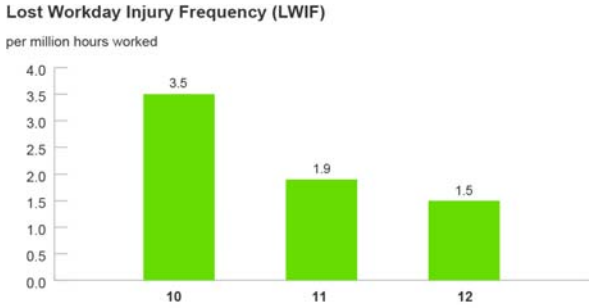
Neste Oil intends monitoring its process safety performance, including minor incidents, in even greater detail in the future. PS3 and PS4 indicators will be introduced in 2013, for example, to measure areas such as near miss incidents.

Occupational safety

The systematic development of safety culture that has taken place within Neste Oil in recent years has been heavily concentrated on promoting a safer mindset among the company's employees and the company's service providers and contractors. Neste Oil is committed to ensuring the safety of all aspects of its operations and using responsible practices. Each and every Neste Oil employee is responsible for acting safely, as are the company's partners.

Despite the company's extensive safety work, Neste Oil's employee safety performance declined in 2012 compared to 2011. A Total Recordable Injury Frequency (TRIF) per million hours worked of 3.6 (2.7) was recorded, compared to the target of 2.2. The Lost Workday Injury Frequency (LWIF) per million hours worked was 1.5 (1.9), compared to the target of 0. No accidents resulting in a fatality took place at Neste Oil in 2012.





* Accounting principles were changed in 2012. Figures for 2011 and 2010 have been recalculated in order to have comparable figures.

* Accounting principles were changed in 2012. Figures for 2011 and 2010 have been recalculated in order to have comparable figures.

Safety reporting for 2012 covers all the refineries owned by Neste Oil in Finland and overseas in which the company has a greater than 50% holding. Reporting on safety matters also covers service providers and key contractors, as well as the road and marine transportation of Neste Oil's products and feedstocks. Personal safety reporting also covers Neste Oil's terminals, offices, and Oil Retail's country companies.

Although the number of serious accidents fell in 2012, the number of smaller accidents requiring minor medical attention increased, which affected overall safety performance compared to 2011. Systematic work is carried out to identify efficient corrective measures. Particular priority was given to the safety of personnel working high off the ground and providing training in this area in 2012. Safety indicators will also be monitored more systematically at site level from now on.

Group-level targets were met in the area of preventive indicators (safety observation tours, safety discussions, and HSEQ inspections). A total of 27,643 (25,743) safety observation tours – focusing on the safety of working practice and providing constructive input where shortcomings are identified – were carried out at Neste Oil during 2012. 2,925 (2,563) safety discussions were held during the year, as well as 1,480 (521) HSEQ inspections. Preventive measures covered a total of 65,791 Neste Oil employees, service providers, and contractors in 2012.

Chemical safety

Chemical safety forms part of Neste Oil's product stewardship work. The goal of chemical safety work is to ensure that products are handled safely throughout their lifecycle, beginning from product development and production and extending all the way to end-use and recycling.

Neste Oil ensures that the occupational hygiene of its personnel and workplace conditions meet the requirements of legislation by carrying out regular workplace reviews and taking occupational hygiene measurements. Appropriate measures are taken to protect personnel and sites against chemical hazards. Safety data sheets on the chemicals Neste Oil uses can be consulted via a centralized list of safety data sheets. Chemical data cards on key chemicals, summarizing the safety properties of widely used chemicals, are distributed at company locations. Chemical procurement is covered by comprehensive guidelines and every site has appointed a member of staff responsible for chemical-related issues.

REACH

The EU's REACH framework places extensive requirements on the manufacturers, importers, and users of chemical substances in terms of registration, permitting, and the use of chemical substances – and is designed to ensure the safe use of these substances across the EU.

Neste Oil registered all the chemical subtances that it produces and imports in accordance with the official REACH timetable. REACH requirements have been taken into account in procurement and sales contracts, R&D, and risk management practices at Neste Oil's refineries. Compliance with REACH calls for constant vigilance and close cooperation between Neste Oil and the authorities, other companies, and all those in the company's supply chain. REACH registration documents were supplemented with new research data in 2012 and Neste Oil's safety data sheets were revised in line with REACH requirements. Similar registrations have been made for NExBTL renewable diesel in numerous countries outside the EU.

Safety of new raw materials

Neste Oil uses a comprehensive three-stage model for evaluating new raw materials, covering:

1. the technical suitability of a raw material for producing NExBTL fuel
2. the suitability of a raw material for use at Neste Oil's refineries and units producing NExBTL-diesel and
3. the health, safety, and environmental aspects of a raw material (such as safety issues associated with a material's usage, transportation, and storage) and whether it is capable of meeting legislative sustainability criteria (greenhouse gas emissions, traceability, production only allowed in permitted areas, etc.).

Studies were carried out on a variety of new raw materials in 2012 such as technical corn oil and used cooking oil to be used in renewable NExBTL-diesel production. These concluded that the materials in question comply with both Neste Oil's own requirements and legislative requirements in terms of safety and sustainability, and listed the various factors that need to be taken into account before using them.

Read more about Product safety.

Transport safety

Neste Oil transported 3.89 million tons (3.77 million) of fuel and gas by road in 2012 and 27.4 million tons (28.6 million) of feedstocks, chemicals, and refined petroleum products by sea. A total of 1.2 million tons of refinery feedstocks, chemicals, and petroleum products were transported by rail in 2012.

Road shipments

A total of five (6) major traffic accidents involving Neste Oil tanker trucks resulting in either environmental impact or personal injury took place in Finland in 2012. These accidents were reviewed in accordance with the company's incident reporting process. There were no such accidents in other countries (0).

Road transport safety is covered by statutory and contractual requirements associated with the transport of hazardous materials that regulate things such as how long time drivers are allowed to drive for and the length of their breaks. In addition to these requirements, Neste Oil also organizes preventive driving course for all the drivers of the contract transport companies it uses in Finland.

The speed limiters on the tanker trucks used by Neste Oil's logistics partners have been set at a maximum of 82 km/h. Major oil companies have agreed their annual truck inspections, which are carried out by external service providers. The tanker trucks used by Neste Oil's logistics partners, including LPG tankers, are inspected annually. This procedure was introduced in Neste Oil's local company in Russia at the end of 2012; and inspections will be started in Neste Oil's local retail companies in the Baltic countries in 2013. Every tanker truck is fitted with a tachograph for monitoring speed, distance, and driver activity. All vehicles modernized or introduced since 2010 are fitted with an alcohol interlock device.

Marine shipments

All the vessels Neste Oil uses to ship its cargoes are ice-strengthened and double-hulled, and company-owned escort tugs are employed to ensure the safe passage of large tankers in and out of harbor. One of these escort tugs has an oil spill response capability and is equipped with booms and oil collection equipment. A dedicated barge fitted with similar equipment and owned by the Finnish Environment Institute (SYKE) is moored at Porvoo, and Neste Shipping is responsible for maintaining the vessel and transporting it to the site of an accident or spill should one occur. Neste Oil maintains its oil spill response capabilities through regular exercises with the rescue services.

Neste Oil's fleet consists of 24 vessels with an overall tonnage of around 750,000 tons, of which some are company-owned and some are time-chartered. Training and high standards of maintenance are used to minimize the risk of accidents. The average age of Neste Oil's tankers is approximately 6.8 years.

Neste Oil transports significant quantities of refinery feedstocks, chemicals, and refined petroleum products by sea every year. Neste Oil is aware of the risks associated with its marine shipments and aims to minimize them through such things as providing safety and navigation training for its seagoing personnel and maintaning ships regularly. Simulator training is also used, as this allows personnel to practice navigation in a wide range of different conditions.

Neste Oil ships have not been involved in any major accidents that might endanger the environment for decades. All 'near misses' and other hazardous situations are investigated and the lessons from them learnt as part of the company's active preventive safety program aimed at preventing the occurrence of serious accidents at sea or in port.

In addition to Neste Oil's internal indicators, the safety of the company's marine shipments are also monitored by the company's customers and the authorities in a number of ways, including Vetting and ship inspections carried out regularly on behalf of customers or port states.

Neste Oil committed itself in 2010 to the joint Tanker Safety program coordinated by the John Nurminen Foundation and aimed at improving transport and environmental safety in the Gulf of Finland. The program is specifically aimed achieving a significant reduction in the risk of a major accident involving an oil tanker occurring in the region. The ENSI-service developed as part of the project enables ships to send their planned routes to land-based centers, which helps anticipate possible risk situations and identify alternatives routes. Neste Oil's shipping personnel and vessels have been involved in developing this service, and an experienced ex-first officer was temporarily assigned to John Nurminen foundation to lead the implementation of the service.

Rail shipments

Neste Oil also transports large quantities of feedstocks to its refineries by rail. Total volumes are typically around 2 million tons a year. Neste Oil is Finland's largest rail-based shipper of hazardous substances. The Finnish Transport Safety Agency granted Neste Oil a safety permit in 2012 which is required by all owners of private rail lines. Neste Oil does not own any freight cars or locomotives, as a partner, the VR Group, operates its rail shipments.Neste Oil also pays particular attention to the safety of its rail shipments. Close cooperation with suppliers, the VR Group, helps ensure the safety of rail traffic. Safety has also been improved at the classification yards at Neste Oil's terminals, and a special emergency stop area has been built at Porvoo.

Read more about transport emissions.

Safety training

All Neste Oil employees are required to be appropriately trained and capable of carrying out their duties and responsibilities successfully and safely. Neste Oil offers all employees both basic and more advanced training in health, safety, and environmental matters at all levels of the organization. Health, safety, and environmental training is also a requirement for senior management.

The HSEQ (Health, Safety, Environment, Quality) performance of personnel working at the Neste Oil's refineries is reviewed annually by comparing performance with agreed targets as part of each employee's annual review. A safe work record is a pre-requisite for continued employment. An annual HSEQ training plan ensures that operational, site, and employee targets are linked to Neste Oil's overall HSEQ targets.

There are five categories of health, safety, and environmental training:

- General basic training (Group program)
- Operations training
- Job-specific training
- Statutory basic training
- Special training.

A total of 48,017 hours (35,000) were spent on safety training across Neste Oil in 2012, of which occupational safety training accounted for 26,404 hours (18,000), work-specific training 16,357 hours (12,000), and other types of safety training 5,256 hours (5,800).

Neste Oil continued developing procedures covering high-risk work and held training for work carried out at elevated heights for all employees at the Group's refineries.

Safety training courses in 2012

Occupational safety	Number of courses	Number of partici-pants	Course length/h	Hours
Access permit training	519	7,418	0.5-2	10,099
Act Safe for managers	15	267	3-7	1,214
Act Safe basic course	24	369	3-7	3,301
Work permit training	157	727	4-8	1,970
Occupational safety card / update	4	32	6	192
Occupational safety card / basic	13	619	3-8	2,560
Other	228	2,615	1-24	7,069
Occupational safety, total				**26,404**
Work-specific training				
Process and fire safety	25	3,984	1-7	4,051
Safety equipment for working at heights	48	1,756	0.5-3	2,940
Forklift and hoist training	5	14	8	112
Hot work card training	39	445	1.25-8	3,067
Other				6,187
Work-specific training, total				**16,357**
First aid				
EA1, EA2				220
Emergency first aid				2,518
First aid for electrical accidents				2,387
First aid, total				**5,125**
Other				**130.5**
Other, total				**130.5**
All training, total				**48,017**

Personnel

Neste Oil provided employment to an average of 5,031 (4,926) people in 14 (14) countries in 2012. The majority of employees, 95.3% (96.0%) are employed under permanent contracts. Somewhat two thirds of employees are men, 67.3% (67.7%), which is typical for the industry. Nearly half of employees have either a technical or natural sciences qualification. The average age of employees continues to remain around 40. No significant changes took place in Neste Oil's personnel structure during 2012 compared to recent years.

Surveys carried out by Universum in Finland in 2012 indicated that Neste Oil's image as an employer has improved.

The majority of employees, 70.6% (70.8%), worked in Finland, where 3,548 (3,418) were employed as of the end of 2012. Neste Oil is the second-largest employer in Porvoo and Naantali, where its Finnish refineries are located, immediately after the local municipal authorities.

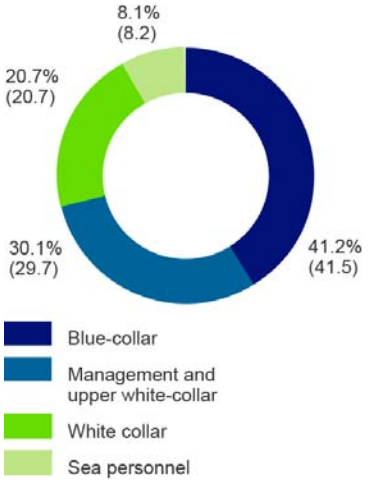
Russia remained the second-largest country in terms of Neste Oil personnel, thanks to the large number of people employed by the service station chain there which grew to 881 (795) employees in year end 2012 due to opening of new service stations. Service station personnel in Finland are not employed by Neste Oil. The number of personnel employed by Neste Oil in Singapore and Rotterdam totaled 225 (230) as of the end of 2012.

Personnel structure

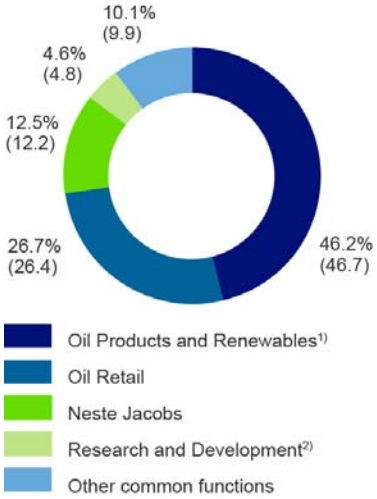
	2012		2011		2010	
Number of employees, average	**5,031**		4,926		5,030	
Number of employees at the end of the year	**5,022**		4,825		4,874	
Proportion of employees by country at the end of the year (%)	**Employees**	**(%)**	Employees	(%)	Employees	(%)
Finland	**3,548**	**70.6**	3,418	70.8	3,431	70.4
Bahrain	**2**	**0**	6	0.1	7	0.1
Belgium	**27**	**0.5**	26	0.5	65	1.3
Estonia	**42**	**0.8**	41	0.8	69	1.4
Canada	**3**	**0.1**	3	0.1	3	0.1
Latvia	**50**	**1**	60	1.2	61	1.3
Lithuania	**27**	**0.5**	25	0.5	26	0.5
Russia	**978**	**19.5**	909	18.8	874	17.9
Singapore	**121**	**2.4**	122	2.5	117	2.4
Sweden	**34**	**0.7**	22	0.5	27	0.6
Switzerland	**50**	**1**	48	1.0	40	0.8
Poland	**24**	**0.5**	25	0.5	26	0.5
US	**12**	**0.2**	12	0.2	12	0.2
The Netherlands	**104**	**2.1**	108	2.2	116	2.4
		2012		2011		2010
Type of employment contract at the end of year (%)						
Permanent		**95.3**		96.0		96.4
Temporary		**4.7**		4.0		3.6
Full-time[1)]		**97.9**		97.9		97.4 [1)]
Part-time[1)]		**2.1**		2.1		2.6 [1)]
Gender ratio at the end of the year (%)						
Men		**67.3**		67.7		69.5
Women		**32.7**		32.3		30.5

[1)] The figure for full-time and part-time personnel in 2010 only cover Finland.

Personnel by personnel group as of 31 December 2012 (%)

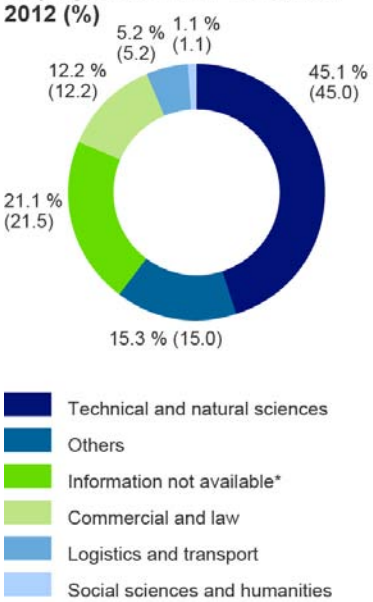


Personnel by segment as of 31 December 2012 (%)



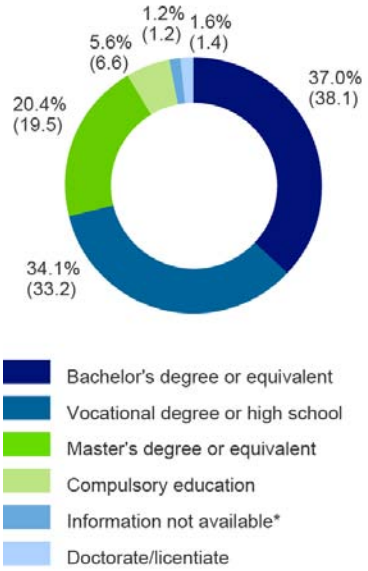
1) Oil Products and Renewables includes Production and Logistics.
1) Former Research and Technology

Educational background of employees as of 31 December 2012 (%)



* Information not available for personnel in Russia and some personnel in Finland.

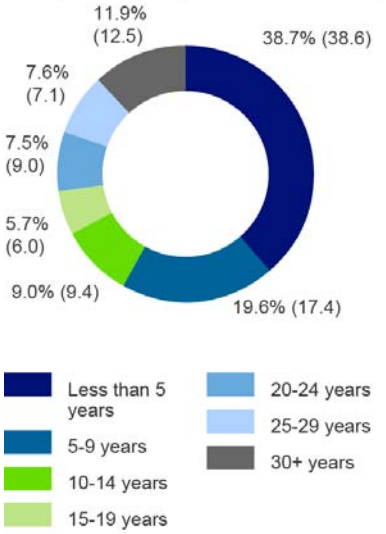
Educational level of employees as of 31 December 2012 (%)



* Information not available for some personnel in Finland.

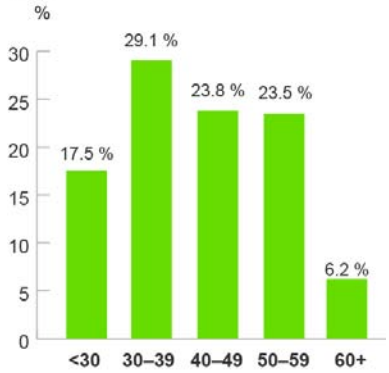
Length of employment of employees as of 31 December 2012 (%)

Average: 12.6 years (2011: 12.9; 2010: 13.1)



Breakdown by age as of 31 December 2012

Average 41.7 years (2011: 41.7; 2010: 41.5)



HR management

As in 2011, the focus during 2012 was on the systematic development of leadership, management, and wellbeing at work. The creation of a 'winning culture' – based on factors such as operational safety, engagement, performance, and being an attractive employer – is a long-term HR management goal.

What were our targets?	Actions and achievements 2012	What next?
▪ Support a coaching-based leadership culture that engages people and promote performance management. ▪ Focus on developing wellbeing at work. ▪ Continue strengthening Neste Oil's employer image.	▪ Coaching-based leadership, strategic thinking, and performance management were the underling themes of training programs during 2012. ▪ We supported increased efforts to engage people through strategy dialogue and strategy workshops, by training innovation facilitators and promoting Neste Oil's idea system, by involving people in the analysis of the company's personnel survey, and through management training. ▪ A wellbeing at work model was integrated into management training. ▪ We updated the concept behind our target employer image and improved our performance in various employer image surveys.	▪ Continue developing engagement driven leadership culture. ▪ Continue building Neste Oil's winning culture. ▪ Support Neste Oil's customer focus and develop our expertise. ▪ Create job descriptions for positions across the Group. ▪ Develop a new short-term incentives model. ▪ Move ahead with updating the company's HR IT system. ▪ Develop communications related to wellbeing at work.

The results of the strategic HR planning process are used to establish the focal areas of Neste Oil's HR strategy, which in turn are used to define annual development plans and targets. Neste Oil's annual strategic HR planning process in 2012 concentrated on analyzing the Group's personnel structure developing competencies and analyzing HR-related risks. Efforts were also focused on a new area, organizational efficiency, which will be

used to help review Neste Oil's organizational structure and clarify areas of responsibility across the Group.

A group of management and employee representatives is responsible for regularly reviewing and updating HR management guidelines. During 2012 e.g. Neste Oil's principles relating to employment equality and recruitment and guidelines on overseas assignments were updated. Recommended procedures for dealing with bullying and harassment in the workplace were extended to cover the entire Group.

Work was also done in 2012 in the area of HR communications through things such as a revamp of the Neste Oil Intranet. A newsletter for management has also established itself as an integral part of management communications.

Personnel turnover

Neste Oil's hiring rate in respect of permanent employees was 11.3% (9.8%) in 2012, and the leaving rate 9.6% (10.3%). 16% (10%) of people leaving the company during 2012 did so to retire, while the majority, around 84% (90%), left for other reasons.

Personnel turnover in respect of permanent employees was lower in Finland than on average across Neste Oil: the hiring rate was only 4.9% (3.4%) and the leaving rate 5.0% (5.8%). Overall personnel turnover rate was higher as a result of the high turnover of service station personnel in Russia, where the hiring rate for permanent employees was 32.5% (31.8%) and the leaving rate 24.9% (27.9%) in 2012.

The number of permanent employees leaving Neste Oil's refineries in Singapore and Rotterdam totaled 27 (15) people in 2012, equivalent to a leaving rate of under 13% (10%), which can be considered typical locally.

Preparing for increased retirement

No significant changes have taken place in the age structure of Neste Oil's personnel in recent years. Neste Oil estimates that an average of around 100 people annually will have the possibility to retire by the end of 2016. Neste Oil is preparing for this through a combination of strategic personnel planning, HR development, successor planning, and other measures.

Neste Oil aims to secure its continued access to the human resources it will need in the future by focusing on areas such as promoting wellbeing at work and developing its employer image. Neste Oil also offers internships to students and works actively with schools, colleges, and universities.

Job rotation promotes personal development and motivation

Internal job rotation is an important means for developing Neste Oil's personnel resources and committing people to the company. 8.0% (7.7%) of personnel switched to new positions internally during 2012, which is at the same level as in 2011. An ongoing target level of approximately 6–8% has been set for 2013.

Developing Neste Oil's leadership and corporate culture

Particular emphasis was given to developing strategic thinking at all levels of the Neste Oil organization during 2012 and to making use of engagement-based approaches and promoting a coaching-oriented mindset. Neste Oil also continued supporting management work by developing and implementing development programs for managers, supervisors, and senior executives.

Neste Oil continued promoting the development of coaching-oriented leadership and effective performance management during 2012 as part of the company's management development programs introduced in 2011. A training program organised for key people focused on developing coaching and engagement driven leadership skills, together with strategic thinking, was completed during the first quarter of 2012.

Engagement driven leadership

Neste Oil continued engaging personnel in the company's development and key processes during 2012. This is seen as an important way of improving people's commitment, performance, and job satisfaction.

Neste Oil's personnel took part in reviewing the results of the latest personnel survey in 2012. The results were reviewed in management teams and smaller groups at different levels across the organization. In addition to these discussions, training was also arranged for managers and supervisors, attended by 111 people.

Two training modules for innovation facilitators were implemented during 2012. The job of the 25 facilitators who have now been trained will be to activate personnel to come up with their own ideas and develop other people's ideas through the Neste Oil ideas system and various dedicated workshops.

Engaging people in the strategy process

Neste Oil's strategy process is a key example of Neste Oil's commitment to this type of management approach. As in 2011, the 2012 process was launched through a strategy dialogue among personnel, in which around 750 employees contributed a total of some 3,600 ideas to Neste Oil's strategy. A number of themes emerged during the strategy dialogue – such as regulation in the energy sector, renewable raw materials, and air quality in metropolitan areas – and were used in the review of Neste Oil's strategy. The dialogue also provided a number of concrete ideas on how the company's strategy can best be implemented and its operations developed. Feedback from the dialogue was used in operational planning and development throughout the year.

Neste Oil's updated strategy was presented to personnel at a series of strategy info sessions held across the organization by the Neste Oil Executive board. A total of eight sessions were held at the company's largest sites in Finland and in Singapore, Geneva, and Rotterdam. Hosted by the President & CEO and local management, these outlined the main aspects of Neste Oil's strategy and its strategic targets for the year ahead.

A series of 12 strategy workshops for managers, supervisors, and key specialist personnel, and led by a member of the Neste Executive Board, were also held during 2012 in Finland and major sites outside Finland. A total of 223 (268) people took part in these workshops in Finland and 95 (80) overseas.

Supporting managers in their work

Neste Oil continued organizing management training in 2012 for both new and more experienced managers aimed at supporting managers in their work. Over 200 managers and supervisors participated in this training.

A total of 205 (247) managers and supervisors from Finland and elsewhere took part in leadership development programs during 2012.

A total of 71 (37) people in 2012 took part in in-depth training designed for all managers. A revised in-depth manager training program was piloted in 2012. Feedback gave courses an average rating of 4.4 on a scale of 1 to 5. A management development program for new managers and supervisors, and managers and

supervisors who have recently joined the company, was expanded outside Finland in 2012 and involved a total of 87 (80) people. A new training package for specialist personnel was also launched. A total of 38 people took part in this training during 2012. The program was piloted internationally in fall 2012.

The results of the 2012 personnel survey showed that people rated company's leadership capabilities more positively than in 2011, and the Neste Oil's leadership index clearly outperformed the external benchmark level.

Developing people's skills and expertise

The specialist skills and expertise of Neste Oil's personnel are the foundation of the company's success. HR training and development are based on supporting the short- and long-term goals of Neste Oil's businesses.

Annual performance and development discussions play an important role in helping people achieve their goals and develop their careers. Performance discussions concentrate on setting targets and evaluating performance, while development discussions review issues related to employees' personal development. Performance and development discussions covered 82% (84%) of personnel in Finland and overseas in 2012, but not service station personnel in Russia.

Developing and harmonizing Neste Oil's approach to performance management was one of the focal areas of competence development work in 2012. A series of workshops on performance management were held at all four production sites, aimed at identifying Neste Oil's current position and where the company wants to be in the future.

The talent management program was further developed in 2012, with a particular focus on individuals' development and successor plans. Neste Oil's long-term target is to fill 80% of key positions that fall vacant through internal recruitment and keep job rotation at the current level of 6-8%.

The results of the 2012 personnel survey show that employees appreciate the opportunities their work offers them and that managers and supervisors support people in their personal development.

Yardsticks and indicators used in developing talent and competencies at Neste Oil include:

- Performance and development discussions held 2-4 times annually and development plans
- Job rotation and learning on the job
- Skill reviews
- Job and responsibility descriptions
- Project work
- Internal training
- Supporting employees' participation in external training
- Online self-study material
- Choosing the right people
- Induction and on-the-job training, and
- Personnel survey.

Training for personnel

An average of 2.5 (2.8) training days per employee were provided at Group level in 2012, and a total of EUR 3.6 million (4.2 million) was spent on training. Training was provided for all grades of employees.

Training provided in 2012 covered:

- Professional training
- Safety and first aid courses
- Language courses
- IT courses
- Leadership training
- Training for project managers, project owners, and steering group members, and
- Training for specialist personnel.

Neste Oil also offers employees a range of self-study materials and online modules covering areas such as information security, competition law, and work permits. Some of this training is provided as part of complying with Neste Oil's statutory commitments.

Remuneration and fringe benefits

Neste Oil's policy of providing equal and motivational remuneration is intended to encourage personnel to perform at their best and attract people with the right skills and talent to join and stay with the company.

Neste Oil applies and observes the requirements of local employment legislation and collective bargaining agreements wherever it operates, and these determine things such as minimum wages and supplements such as overtime pay. Managers are informed about local collective bargaining agreements and remuneration systems as part of their management training.

Neste Oil's senior executives do not come within the scope of collective bargaining agreements, and are covered instead by Neste Oil's senior management remuneration principles.

Elements of remuneration at Neste Oil:

- Basic salary
- Short-term incentives
- Comprehensive range of fringe benefits
- Long-term incentives
- Incentives for excellent performance, and
- Intangible benefits.

Remuneration principles

Neste Oil's Group-wide employee remuneration principles are based on people's job responsibilities and job complexity, their performance, and equality regardless of such factors as gender. These principles are applied wherever Neste Oil operates within the framework of local collective bargaining agreements, national labor markets, and the competitive environment.

All personnel are covered by Neste Oil's incentive systems, of which the main short-term incentive is the annual performance-based incentive system. The Personnel Fund represents Neste Oil's main long-term incentive and covers the Group's employees in Finland. Similar funds do not exist in other countries where Neste Oil operates. Neste Oil's long-term goal is to develop its salary structure in Finland and a short-term incentive system for the entire Group, and to develop IT-based remuneration tools for Group use.

Work continued on developing the incentive scheme used for senior management in 2012, and a new scheme will be introduced during 2013. Based on share-based rewards, the new scheme complies with the guidelines issued by the Ownership Steering Department of the Prime Minister's Office published on 13 August 2012 covering arrangements of this type.

A new pay agreement covering workers in the oil, gas, and petrochemical industry in Finland was approved by employers and employees in December 2012. The new agreement came into force at the beginning of 2013 and covers some 1,000 employees at the Porvoo and Naantali refineries.The aim of the new system is to encourage employees to extend their skill set, and a skills assessment will be one of the factors taken into account in determining people's salary. A tool for assessing people's skills will be trialed during 2013 and is due to be introduced at the beginning of 2014.

One of Neste Oil's long-terms goals is to increase employees' awareness of salaries and performance and enhance the transparency of salaries across the Group. Neste Oil took part in a study carried out by Aalto University in 2011 that investigated the company's awareness of remuneration. The results indicated that there is still room for improvements in raising awareness and in internal communication on basic salary systems, whereas employees seem well-aware of Neste Oil's short-term annual incentives. The results of this study will be used in planning HR work in 2013.

Read more about Remuneration and shareholdings of the President & CEO and the Neste Executive Board.

Read more about Investments in personnel.

Fringe benefits

In addition to salary, Neste Oil aims to offer its employees competitive fringe benefits in line with local market practices, such as quality health care, a personnel fund, and an insurance fund.

Pension cover

Statutory occupational pension cover is offered to employees in all the countries in which Neste Oil operates, together with possible additional pension benefits in accordance with local practice, mainly through pension insurance cover. The Ilmarinen Mutual Pension Insurance Company is responsible for managing Neste Oil's statutory occupational pensions in Finland and the associated pension portfolio.

The additional pension benefits provided to people who joined the company before 1994 are managed by OP Life Assurance Company Ltd. The most important benefit of this additional cover is the opportunity to retire earlier than the statutory minimum age of 63. The statutory occupational pensions of seamen are covered by the Seamen's Pension Fund, in accordance with the relevant legislation. No changes took place in employees' pension cover during 2012.

29.5% (29.3%) of the Group's personnel in Finland and overseas were entitled to a supplementary pension in 2012.

There are large country-specific differences between additional pension benefits. Neste Oil's aim is that new additional pension provision arrangements should be contributory in nature and that the company should not guarantee a specific level of pension payable when a person retires; instead, Neste Oil should pay an agreed proportion of people's salaries to a pension insurance company. Defined benefit-based arrangements are still in place in some countries and are statutory in Finland.

Equality and diversity

Neste Oil has worked systematically to promote equality in the workplace for many years, and equality is taken into account in Group-wide recruitment and remuneration principles, and in HR policy. In accordance with its HR Policy, Neste Oil treats all employees equally and fairly, regardless of their gender, nationality, age, religious beliefs, political convictions, and other factors. Neste Oil is committed to respecting human rights and treating all employees as individuals.

Neste Oil believes that a diverse personnel pool will give the company a competitive edge in the future, both in the marketplace and in the competition for the best possible talent. The company's goal is to make local personnel responsible for operations in all of the countries where Neste Oil operates; this is both cost-effective and a good way of leveraging the potential offered by the local job market. Treating employees equally and fairly helps promote job satisfaction, creates a positive atmosphere, motivates people, and encourages them to commit themselves to Neste Oil's goals. Neste Oil did not record any cases of discrimination in 2012.

All of Neste Oil's personnel have the right to organize among themselves and belong to associations. No threats to this right were identified in any area of operations during 2012. Not all countries are covered by collective bargaining agreements. 92.2% (90.4%) of personnel came within the scope of these types of agreements in 2012. Some of the employees at the Singapore refinery came within the scope of local collective bargaining agreements at the end of 2012.

Gender equality

Women accounted for 11.1% (11.1%) of the members of the Neste Executive Board in 2012, and for 32.9% (27.6%) of the members of the management teams of Neste Oil's business areas and common functions. Three of the members of the Board of Directors were women, equivalent to 42.9% (37.5%) of Board membership. 8.9 (8.3%) of all women and 16.8% (17.5%) of all men working for Neste Oil were in supervisory positions.

Neste Oil monitors gender distribution based on the composition of its employees, management, management groups, and the membership of the Board of Directors. The age distribution and educational level of employees are also monitored. Employees' ethnic origin or nationality are not monitored.

Neste Oil's equality principles cover the underlying principles and practical measures used to develop equality between men and women in the company in Finland and elsewhere. These principles are applied throughout Neste Oil. All the indicators required under Finland's equality legislation and Neste Oil's equality plan are monitored annually together with employee representatives. Outside Finland, company practice is required to comply with local legislation and requirements aimed at promoting greater equality between men and women.

The results of the personnel survey indicate that employees' views on remuneration and equality have developed favorably.

Promoting equality and diversity in recruitment

The principles followed by Neste Oil in its recruitment form part of the company's management system, and are followed in all the countries where Neste Oil operates in accordance with local legislation. Neste Oil recruits personnel based on their experience, expertise, skills, and values; and is committed to guaranteeing all applicants equal opportunities and fair and equal treatment during the recruitment process. Recruitment is also used to promote diversity across the company.

Neste Oil has not encountered any particular challenges in recruiting new personnel in Finland up until now. This situation has begun to change, however, in respect of shipping operations, as a result of the high qualifications expected in the oil industry and the large numbers of retirees in the sector. Passenger shipping is also increasingly competing for students. Neste Oil is working with colleges in the field to ensure that it has continued access to suitable talent; on-board training positions often lead to permanent employment on the company's tankers. A total of

around 400 people work on Neste Oil's vessels today. Neste Oil's low profile outside Finland represents a bigger challenge in terms of recruitment.

Salary equality in practice

Neste Oil extended the statistics that it collects on equality to countries where this is not required by local legislation in 2012. Pay equality surveys are carried out annually in Finland in accordance with the company's equality plan. Country-specific equality plans are recommended for implementation in 2013.

Company statistics indicate that the ratio between the average basic salaries of women and men working full-time and belonging to upper white-collar, white-collar, and blue-collar employee categories in Finland varied between 93% and 114% in 2012 (91-121%), depending on the responsibilities of the people concerned and the category of employee. An analysis of salaries carried out by the Mercer consultancy company in 2012 showed that equality between women and men, as measured in terms of salary, is clearly better at Neste Oil in Finland than in the private sector on average.

Wellbeing at work and occupational health

Neste Oil believes that an individual's physical and mental health and other capabilities are fundamental to their wellbeing. Neste Oil's occupational health care service promotes a healthy work place, the health of employees throughout their careers, and the prevention of work-related illness and accidents.

Occupational health

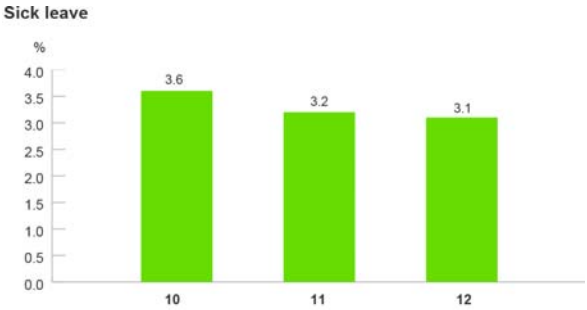
Neste Oil's occupational health care offers a comprehensive range of services aimed at promoting employees' health and their ability to work. Expert assistance in developing working conditions and wellbeing at work based on preventive initiatives is provided. This approach is developed in line with changes in the working life and through ongoing cooperation between employer and employee representatives.

Occupational health care services are provided at Neste Oil's main locations in Finland (Porvoo, Espoo, and Naantali) by the company's own occupational health care units, supplemented by a voluntary membership in the Enerkemi Insurance Fund and the Kilpilahti sickness fund. Occupational health care services at other locations are sourced from external service providers. Neste Oil uses various rehabilitation models to promote and support employees' work ability.

Medical care offered by Neste Oil's occupational health service focuses on preventing, caring for, and following up work-related illnesses. The number of cases of work-related illnesses and diseases remains low and no work-related illnesses were reported in 2012. A system for following up occupational diseases was created in 2012.

Neste Oil makes use of an alternative work procedure for personnel injured by accidents at work. Under this, employees and the occupational health physicians treating them, together with the company's job placement coordinator, investigate people's potential for working in alternative assignments during their recovery.

Neste Oil's goal is to reduce the amount of sick leave taken by personnel by developing working conditions and making use of various part-time solutions. Neste Oil's sick leave percentage calculated as a proportion of theoretical regular working hours per month was 3.1% (3.2%) at Group level in 2012. The goal was to reduce sick leave to below 3.2% in 2012.



Wellbeing at work

Work continued in 2012 on promoting employees' wellbeing at work and focused in particular on developing preventive measures in this area. Development work was carried out with the Management-Employee Group, employee representatives, labor protection delegates, the HR organization, and occupational health care personnel. A wellbeing at work plan extending to 2015 was drawn up for the entire Group in 2012.

The focus of wellbeing at work initiatives in 2012 was on management work and leadership. Wellbeing at work was given increased priority in management training, to enhance managers' understanding of how this can best be managed. The emphasis was on performance management and target-setting, and increasing open dialogue.

Neste Oil's leadership and wellbeing at work indices, together with people's self-assessments of their capabilities, all developed positively according to the results of the 2012 personnel survey.

Wellbeing and health in 2012 were promoted through:

- Integrated occupational health care, including check-ups, preventive health-related advice, and medical care
- Sickness and insurance funds
- Early rehabilitation and Neste Oil's rehabilitation courses
- Guidance on alcohol and drug abuse and access to the appropriate care if required
- Early support model
- Outplacement
- Employee club activities
- Leisure time activities supported by Neste Oil, and
- Encouraging personnel to adopt a health life style and various health promotion campaigns.

Measures taken to support people's work ability

- **Developing occupational health care check-ups** Employees now fill out a new background questionnaire before going for a health check-up. This is designed to encourage people to contact occupational health care personnel proactively. The new practice was tested with a group of 50 people in Finland during 2012 and will be extended to the entire Group in 2013.
- **Selecting and training a job placement coordinator** The role of the coordinator is to find new positions for people who cannot continue in their existing ones for health reasons. In addition to improving people's overall wellbeing at work, this initiative is also designed to prevent people from retiring on an early disability pension.
- **Employing an occupational psychologist in Finland** The appointment of a new occupational psychologist is intended to give greater emphasis to the psychological aspects of people's work and make use of a wider range of professional skills in solutions related to occupational health and wellbeing at work.
- **Organizing an anti-smoking campaign in Finland** Around 150 people took part in a campaign aimed at encouraging people to give up smoking with the help of Neste Oil's occupational health care service.

Society

Neste Oil strives to be a good corporate citizen in all the countries in which it operates and complies with all applicable national and international laws and regulations, international agreements, and generally accepted corporate governance practices.

Neste Oil generates financial added value for its various stakeholders.

Values

Neste Oil's values – **excellence**, **responsibility**, **innovation**, and **cooperation** – underpin Neste Oil's participation in society.

Neste Oil offers

around 300

summer internships in Finland annually

Neste Oil works closely with numerous companies, organizations, R&D institutions, and decision-makers; and engages in regular dialogue with its owners, investors, the media, and its partners.

Financial responsibility

Ensuring that Neste Oil is profitable and competitive, strives for profitable growth are all part of what financial responsibility means for Neste Oil. As a biggest company in the industy in Finland Neste Oil has a significant role to play in the society as a employer, tax payer and raw material and service purchaser.

Neste Oil had net sales of EUR 17.9 billion in 2012 and employs around 5,000 people. The company has operations in 15 countries. Company's Renewable Fuels' revenue more than doubled to 2.2 billion euros in 2012. Extending company's renewable fuels' business has enabled Neste Oil to offer customers new products with a smaller environmental footprint, create jobs, and contribute to the development of society through the taxes that it pays.

What were our targets?	Actions and achievements 2012	What next?
To increase our return on average capital employed after tax (ROACE) to at least 15% annually over the long term.	ROACE was 4.9% (2.6%).	We will continue working to achieve our long-term ROACE target.
To maintain a leverage ratio of 25-50%.	The leverage ratio in 2012 was 42.9% (45.7%).	We will continue to improve our leverage ratio.
To distribute at least a third of its comparable net profit as a dividend*.	The Board of Directors will propose a dividend of EUR 97 million (EUR 90 million), equivalent to 54% of comparable profit for the year and EUR 0.38 per share (EUR 0.35), for the 2012 financial year, at the Annual General Meeting held in 2013.	We will continue to focus on securing cash flow from our businesses and aim to distribute at least a third of its comparable net profit in the form of a dividend.

* Given the capital-intensive nature of its business, Neste Oil uses return on average capital employed after tax (ROACE) as its primary financial target. This is calculated on the basis of comparable operating profit.

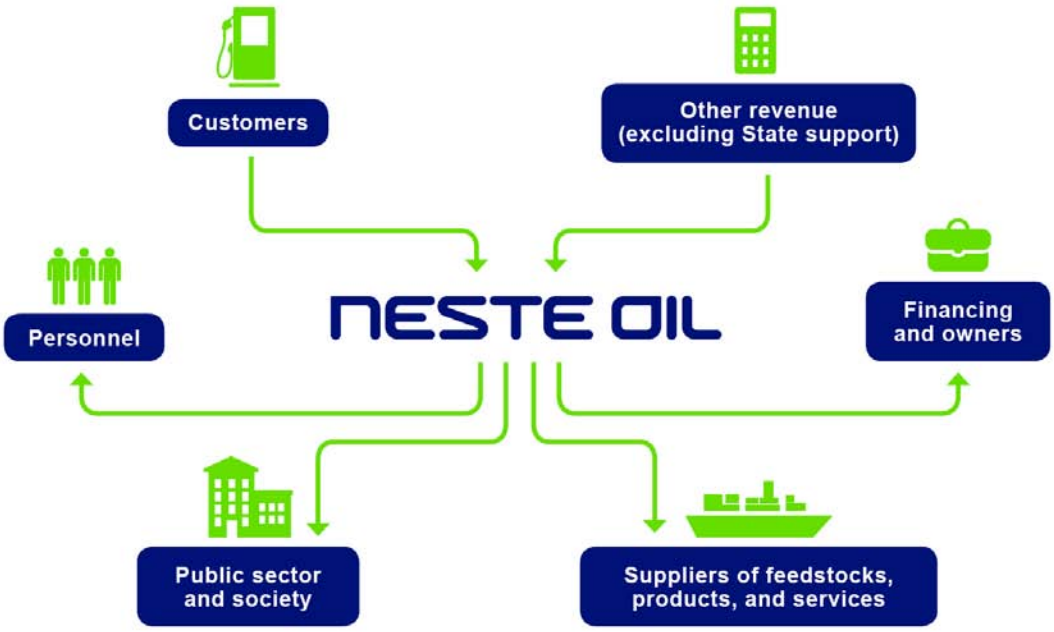
Financial focal areas

Neste Oil concentrated on improving its cash flow, the productivity of its refineries, and the profitability of its Renewable Fuels business in 2012. Sales of products from the company's renewable fuel plants and the new base oil plant in Bahrain increased. Although production and sales volumes of renewable fuels were raised successfully, improvements in the business' profitability fell short of the targets that had been set for the year.

Neste Oil also strives to secure its cash flow and manage its debt-to-equity ratio by hedging refining margins in accordance with the company's risk management principles. Read more about hedging policy in the Risk management section.

Creating financial added value for stakeholders

Neste Oil is committed to profitable growth and increasing shareholder value. Providing good working conditions and competitive pay for employees, developing employees competences, supplying customers with quality products and services, and good co-operation with suppliers of goods, services, and raw materials and its other partners are all essential to achieving this. The diagram below shows how Neste Oil generates financial added value for its various stakeholders.



Customers

Direct impact

Net sales, MEUR

2012	17,853
2011	15,420
2010	11,892

Net sales per employee, MEUR

2012	3.55
2011	3.13
2010	2.36

Indirect impact

- Neste Oil's products help meet society's growing need for energy.
- The premium-quality, competitive lower-emission traffic fuels supplied by Neste Oil enable people to travel and products and services to be transported with lower levels of fuel consumption, lower local emissions, and lower life cycle maintenance costs.
- Neste Oil's renewable fuels and related solutions enable corporate customers to achieve mandated emissions levels, benefiting their businesses in the process.
- Using NExBTL renewable diesel does not require any new investments by consumers, trucking or public transport companies, or oil companies, as it is compatible with all diesel engines and existing fuel logistics and distribution systems.

Other revenue (excluding State support)

Direct impact

MEUR

2012	87
2011	25
2010	70

Includes sales gains made on the shares of Neste Oil subsidiaries and material and immaterial goods, and rental income.

Financing and owners

Direct impact

Dividends, MEUR

2012	97*
2011	90
2010	90

* Proposal by the Board of Directors to the Annual General Meeting

Interest and financial expenses, MEUR

2012	84
2011	72
2010	34

Indirect impact

- Neste Oil is committed to growing the assets of its owners, by increasing the value of their holdings and through the dividends that it pays, for example.
- The dividends paid on State-owned shares contribute to the overall prosperity of society.

Suppliers of feedstocks, products, and services

Direct impact

Purchases of crude oil and other feedstocks, MEUR

2012	16,164
2011	14,199
2010	10,338

Other (incl. goods and services), MEUR

2012	790
2011	379
2010	676

Indirect impact

- Long-term cooperation between Neste Oil and its partners contributes to improved and more efficient operations and the sharing of expertise, and benefits partners through the added value they receive.
- Developing sustainability in cooperation with Neste Oil can open up new business opportunities for partners.

Public sector and society

Direct impact

State support given to Neste Oil*, MEUR

2012	11
2011	11
2010	11

* Neste Oil's renewable fuels production receives no financial support from the State or taxpayers.

Income tax, MEUR

2012	74
2011	46
2010	65

Excise tax (fuel tax and security of supply fees), MEUR

2012	2,258
2011	2,354
2010	2,250

Environmental taxes and fees, MEUR

2012	22
2011	24
2010	20

Charitable donations and sponsorship, MEUR

2012	1
2011	1
2010	1

Indirect impact

- Neste Oil supports social development and the services society provides through the taxes it pays and the employment it provides, either directly or indirectly through its partners, in all the countries in which it operates.
- Neste Oil employees pay income tax on the salaries and wages they earn, and shareholders pay capital gains tax on the dividends they receive.
- Neste Oil also promotes social prosperity through its active program of R&D and its investments.
- Neste Oil supports the economic development of local communities through its commitment to sustainability and by cooperating with local communities, organizations, and officials. This supports the economic competitiveness and prosperity of all the countries where Neste Oil operates.
- Neste Oil plays an important part in guaranteeing the security of Finland's energy supply.
- Neste Oil's renewable fuels reduce Finland's dependence on imported energy and fossil fuels, and help the country meet its bioenergy targets.

Personnel

Direct impact

Salaries and wages, MEUR

2012	253
2011	240
2010	246

Indirect employee costs, MEUR

2012	89
2011	76
2010	146

Investments in training*, MEUR (training days per employee)

2012	3.6 (2.5)
2011	4.2 (2.8)
2010	2.3 (2.2)

* Investments in training are included in indirect employee costs.

Indirect impact

- Neste Oil offers a wide range of career and learning-on-the-job opportunities, enhancing employees' job satisfaction.
- Neste Oil invests in training and developing its personnel and enhancing their intellectual capital and competitiveness on the job market.
- The salaries and wages paid by Neste Oil contribute to private consumption, while the taxes it pays contribute to promoting the overall prosperity of society.

Investments in efficiency, the environment, and safety

Neste Oil's investments in 2012 were mainly concentrated on productivity and maintenance projects, as the major program of capital investments devoted to new renewable fuel and base oil capacity was completed in 2011.

Neste Oil's most important productivity-related projects in 2012 were linked to developing internal ICT systems to secure efficient processes and operations.

The single most important maintenance project in 2012 – and the company's largest investment related to efficiency, the environment, and safety – was the major scheduled maintenance turnaround carried out at the Naantali refinery in the spring. This approximately six-week project cost around EUR 60 million, including the investments made at the time. Around 2,000 pieces of equipment were overhauled and process furnaces and other equipment were replaced or modernized during the turnaround. The turnaround was aimed at consolidating safety at the refinery and ensuring a high level of availability, good productivity, and compliance with statutory requirements. The work done during the turnaround will help ensure the refinery's performance for the next four to six years. A total of around 1,000 people were on-site during the turnaround, of whom over 700 were employed by contractors. A total of over 450,000 man-hours of work were put in during the turnaround, without any lost-time injuries or incidents involving flammable materials. Safety performance during the turnaround was the best-ever in the refinery's history.

Investments in renewable energy

Neste Oil completed nearly EUR 1.5 billion investment program in new renewable fuel capacity in 2011, Neste Oil concentrated on increasing the production, sales, and profitability of renewable fuels by opening up new markets and extending the company's customer base in 2012.

Read more about Neste Oil's renewable fuel production and sales.

Other environmental and safety-related investments

Neste Oil invested a total of approximately EUR 25.6 million in safety at the Porvoo and Naantali refineries in 2012. These investments helped improve process, fire, and employee safety and operational reliability, and included the upgrade of a number of automation and safety automation systems at both sites. Safety investments at the Porvoo refinery also included improvements to the site's fire water supply network and new, safer premises for personnel.

Construction of a new system to recover gases released during loading at the harbor at Porvoo progressed. The system is capable of recovering the majority of the volatile organic compound (VOC) emissions released into the atmosphere when loading fuels. This reduces the impact that operations have on the environment and ensuring a cleaner working environment for personnel working at the harbor. The system is expected to be ready to be tested in fall 2013. The project represents an investment of approximately EUR 24 million.

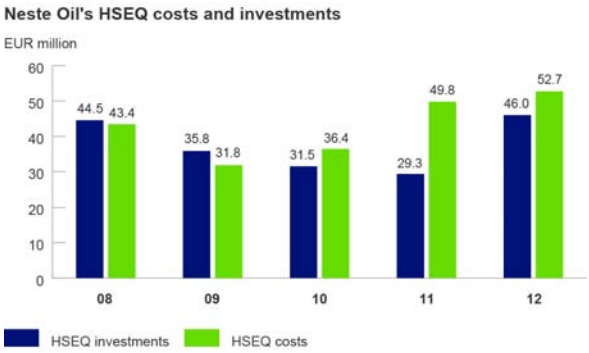
The certification of Neste Oil's NExBTL renewable diesel plants and supply chains also represents an important annual environmental and safety investment. All four NExBTL facilities are both ISCC-EU and RSPO-certified. Additionally, some facilities are also ISCC-DE-certified primarily for the German biofuel market. All NExBTL facilities also have EPA approval (Environmental Protection Agency) for the US biofuel market. These certification costs are nearly EUR 80,000. In addition, the certification process involve several Neste Oil's experts during each certification round. Certification is essential for ensuring sustainable production of NExBTL fuel as well as the viability of the company's renewable fuels on the global market.

The company's other certification (ISO, OHSAS, ISM, Bitumen FPC) costs totaled approximately EUR 92,000.

Neste Oil's safety investments, and particularly its environmental investments, are expected to grow in the future, as a result of tougher environmental legislation within the EU. Read more about legislative developments.

Environmental costs associated with an oil spill in Kajaani

A spill of light fuel oil took place on 29 April 2012 at a National Emergency Supply Agency storage facility operated by Neste Oil in Kajaani in Northern Finland. Neste Oil is committed to cleaning up the damage caused by the spill and making restitution to the local population. In 2012, the costs related to the oil spill were approximately EUR 400,000. Future costs are not expected to be significant. Read more on the oil spill in the case article.



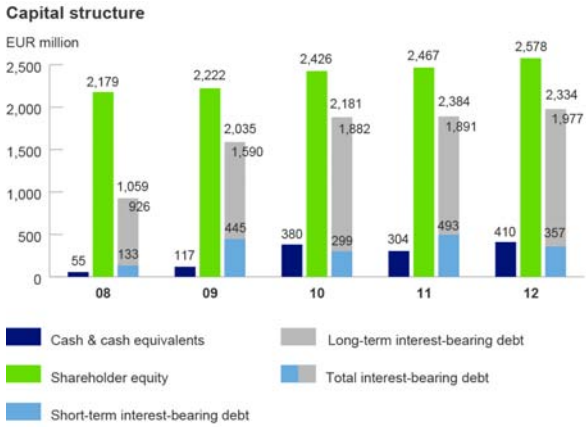
HSEQ = Health, Safety, Environment and Quality

Financing and owners

Neste Oil aims to represent an attractive investment for the financial community, spesifically for dept investors. Neste Oil is considered a trustworthy and solvent company.

Neste Oil issued a EUR 250 million bond in March and a EUR 400 million bond in September. The proceeds of the two offerings will be used for refinancing and general corporate purposes.

No significant changes took place in the company's ownership structure compared to 2011. Shareholders benefit from their investment in Neste Oil through the dividends they receive and possible increases in the value of the company's shares. Neste Oil's dividend policy has remained unchanged. Read more about shareholders.



Procurement of feedstock, goods, and services

Neste Oil provides a stable source of revenue for numerous suppliers of raw materials, products, and services, as well as other suppliers. Neste Oil prefers long-term contracts with its suppliers, and offers its partners a range of services and expertise to help them develop their own operations. This enhances the financial added value offered to both sides, and the stable flow of revenue offered enables Neste Oil's partners to provide permanent employment and buy products and services in their local communities.

Neste Oil procured goods, services, and feedstocks valued at a total of EUR 16, 954 million in 2012 (14,578 million), equivalent to 95% of renevue (95%). Payments related to the purchase of crude oil, vegetable oil, waste animal fat, and other feedstocks totaled EUR 16,164 (14,199 million) and accounted for the majority of procurement. The company's investements in trainigs totaled EUR 3.6 million (4.2).

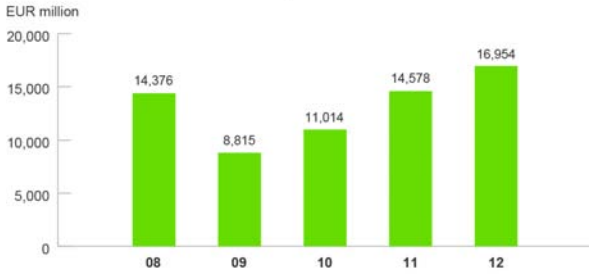
The proportion of Russian crude oil used in refining conventional petroleum products was lower than in 2011, at 82% (85%). The remaining crude oil mainly came from Norway and Kazakstan.

Read more about the development of fossil feedstock prices.

With the wider range of renewable raw materials now used, the direct and indirect financial impact of Neste Oil's purchasing activities now affects a larger geographical area than previously. Neste Oil procured renewable raw materials from a total of 31 (29) suppliers in 2012. Neste Oil procured palm oil-based materials and waste fat from fish processors from Southeast Asia, and other types of vegetable oil and waste animal fat from the food industry from Australasia, Europe, and North and South America. Waste animal fat continued to be sourced also from Finland during 2012.

Read more about the price development of renewable raw materials and the renewable raw materials used at Neste Oil's plants.

Products, materials, and services purchased



Investments in personnel

Neste Oil is a major local employer and source of salaries, wages, and social insurance contributions at many of its major locations, such as Porvoo, Espoo, Naantali, Singapore, and Rotterdam. Neste Oil is committed to providing good working conditions and a competitive level of remuneration matching the requirements of people's jobs for all of its employees everywhere it operates.

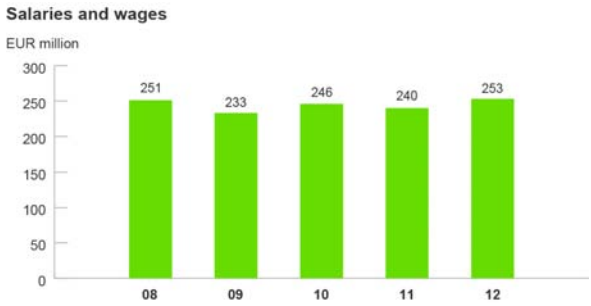
Neste Oil employed an average of 5,031 persons (4,926) in 14 countries (14) in 2012. Total salaries, wages, and remuneration – excluding other personnel expenses – amounted to EUR 253 million (240 million), equivalent to 1.42% (1.56%) of renevue. This figure includes performance-related pay, incentives, and vacation pay. Group employees received performance incentives totaling EUR 24.5 million in 2012 (20.5 million). All personnel come within the scope of the company's incentive programs.

Other personnel expenses totaled EUR 89 million (76 million) and included pension and social insurance and unemployment and disability insurance payments. In addition, the company's expenditure on trainig and employee development are included in other personnel expences. Salaries and wages, other remuneration, and indirect employment costs totaled EUR 342 million (316 million).

Comprehensive training is provided to all categories of personnel. Neste Oil's expenditure on training and employee development

was EUR 3.6 million (4.2 million). Salaries, compensations and indirect employer costs were 342 million (316).

Neste Oil also has a Personnel Fund, established in 2005, covering personnel employed in Finland. A total of EUR 0.8 million in profit-sharing bonuses was distributed in 2012 (0.7 million).



Taxes and other payments benefiting society

Neste Oil's operations benefit large areas of the local, regional, and national economy. The taxes and other payments that the company collects and pays represent an important source of income to the public sector in all the countries in which Neste Oil operates, particularly Finland. The taxes and tax-like payments paid by Neste Oil contribute to supporting society and providing services at local level in all of the company's operating countries, which also benefit from the income tax paid on employees' salaries and wages.

No major tax changes that would have caused significant risks for Neste Oil or opened up new opportunities for the company took place in 2012. Neste Oil's experts monitor tax-related developments closely.

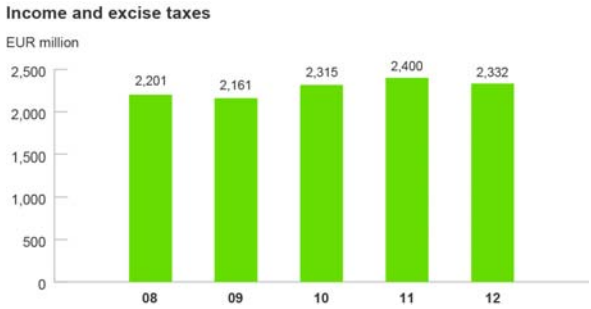
Neste Oil's excise taxes at group level amounted to EUR 2,258 million in 2012 (2,354), which Neste Oil remitted a total of EUR 2,205 million (2,038) in statutory fuel taxes and security of supply fees in Finland.

Energy taxation in Finland has been environmentally based since 2011, with tax levels determined on the basis of the energy content of fuels and the fuel-specific CO_2 emissions released during combustion. This approach is intended to promote energy conservation and improved energy efficiency.

Neste Oil's income taxes were 74 million (46) in 2012.

Environmental taxes and fees at Group level amounted to EUR 22 million (24), consisting mainly of oil pollution duties remitted in Finland. No similar taxes or fees of a similar size were remitted in other operating countries.

Neste Oil received EUR 11 million (11) in financial support from the public sector in 2012, mainly in the form of funding for shipping operations and R&D, in line with practice in previous years. Neste Oil's renewable fuel production receives no public-sector financial support.



Charitable donations and sponsorship

Neste Oil supports local communities and the wellbeing of its stakeholders through sponsorship and charity work in the countries in which it operates. The company sponsors carefully selected international, national, and local activities to strengthen Neste Oil's customer and community relations, build relationship with youth, communicate its values, and develop its image as a responsible corporate citizen.

Neste Oil spent a similar sum on sponsorship and charity work in 2012 to that spent in recent years, approximately EUR 1 million. At Group level, Neste Oil spent a total of EUR 802,000 on selected activities, the Porvoo refinery spent EUR 38,000, and the Naantali refinery EUR 33,000. A total of EUR 38,000 was donated to international charity work.

Neste Oil's sponsorship principles are listed in detail in the company's sponsorship policy, which forms part of the management system. Read more about the major recipients of sponsorship funding and the principles followed in selecting recipients.

Values and ethical principles

Neste Oil's values – excellence, responsibility, innovation, and cooperation – together with the management principles covering equality, procurement, safety, sustainable development, and HSEQ contained in the Group's management system in particular, underpin Neste Oil's participation in society. Communication and training are used to familiarize personnel with these key principles, which also set the target level for Neste Oil's efforts to continually improve its social performance.

Neste Oil's Code of Conduct covers subjects ranging from complying with the law and observing human rights, and preventing all forms of bribery and corruption, to ensuring operational transparency and open communications and recognizing Neste Oil's responsibilities in terms of sustainability.

The Code of Conduct is intended to help employees act ethically in their day-to-day work and outlines what constitutes appropriate behavior in terms of the law and Neste Oil's own values and principles. Neste Oil takes competition-related legislation particularly seriously, and has a competition law program in place in all its operating countries. As part of the program, training on competition law for personnel was arranged in 2012.

Neste Oil has a number of principles and guidelines designed to prevent various forms of misconduct and how this behavior should be handled if it occurs; compliance is monitored by Internal Audit. More details on Neste Oil's approach to misconduct can be found in the section on Governance.

Human rights and equality

Neste Oil promotes the principles contained in the central articles of the United Nations' Declaration of Human Rights and the central conventions of the International Labour Organization (ILO). These international agreements form the foundation for the principles and practices followed in respect of human and labor rights. The same respect for human and labor rights is expected of Neste Oil's raw material suppliers and forms part of the criteria used when sourcing renewable raw materials.

All forms of harassment, discrimination, child labor, forced labor, and other forms of exploitation are strictly forbidden in Neste Oil. Neste Oil offers its personnel a healthy and safe workplace in which to develop their skills and capabilities; and selects partners that are committed to the same principles. No risks associated with the use of child, forced, or prison labor were identified in Neste Oil's operations during 2012.

Read more about employees' freedom of association in the Human Resources section

Neste Oil treats all its employees, customers, suppliers, and other partners equally, regardless of gender, nationality, age, religious beliefs, political convictions, and other similar factors. As a company, Neste Oil does not participate in political or religious activity and provides no financial support for such activities.

Neste Oil is committed to respecting human rights in all aspects of its operations. The company recognizes the economic and cultural needs of native populations, and respects their traditional way of life, and their legal entitlement to their land. In particular, this covers those geographical areas from which Neste Oil sources the inputs used for renewable fuel production. Neste Oil continued to carry out due diligence reviews in respect of all its suppliers of renewable raw materials during 2012. As part of this, a thorough assessment was made of human rights issues, including questions such as the use of child and forced labor.

Read more about equality and diversity.

Read more about strict sustainability criteria applied to raw material suppliers.

Neste Oil continued to support the not-for-profit Borneo Child Aid organization during 2012, for the fifth year in succession. Neste Oil's donation in 2012 guaranteed comprehensive education for 265 children, whose parents worked at oil palm plantations in Sabah, Malaysia.

Stakeholder and community engagement

Neste Oil works closely with numerous companies, organizations, R&D institutions, and decision-makers; and engages in regular dialogue with its owners, investors, the media, and its partners. Interacting with people living near Neste Oil's production sites has been a priority for decades, and Neste Oil takes an active role in the local communities in which it operates. Enhancing Neste Oil's customer focus was a particular priority during 2012.

Stakeholder studies carried out in 2012 showed that Neste Oil is seen as a pioneer in its field and as a trustworthy company that takes its environmental responsibilities seriously, offers quality products, and employs skilled employees.

Cooperation with students

Proactive cooperation with students and other young people has been seen as important for many years, and Neste Oil has been involved in supporting ChemistryLab Gadolin for a number of years, for example.

Open and transparent site communications

All of Neste Oil's refineries are committed to open communications in respect of all key external and internal stakeholders should an incident occur at a site.

Managing stakeholder engagement

Neste Oil has numerous stakeholders, all of whom have their own expectations about the company. These can sometimes conflict with each other, which can be particularly challenging for Neste Oil. To resolve these and other challenges, Neste Oil engages in ongoing and active dialogue with all its key stakeholders to find an equitable balance between different sets of expectations.

Managing Neste Oil's stakeholder engagement work is split between a number of functions and units and is particularly concentrated in the hands of senior management in Communications, Marketing and Public Affairs, HR, HSEQ, and Oil Retail.

Stakeholder engagement is managed primarily on the basis of the needs of individual stakeholder groups or specific stakeholder engagement themes. Annual plans are drawn up for key areas of stakeholder engagement. Neste Oil also has an internal Stakeholder Tool database, which is used to manage and share information, particularly between those involved in working with

decision-makers and the authorities. In addition, a media communications-related database is also maintained.

Neste Oil continued involving personnel in its strategy and innovation processes during 2012, the work of the Value Creation program devoted to improving Neste Oil's customer focus, and engaging society across a broad range of areas to encourage the uptake of renewable fuels and promote greater sustainability in Europe and the US.

Measuring stakeholder engagement

The success of Neste Oil's stakeholder work is measured systematically through various studies and feedback questionnaires. Neste Oil's Market Research Team is responsible for implementing the majority of these surveys. The most important studies and questionnaires carried out regularly include:

- Brand study: investors, politicians, customers, partners, the media, organizations, and personnel (annually)
- Customer satisfaction surveys (annually)
- Personnel survey (annually)
- Stakeholder questionnaire on sustainability (every other year)
- Media monitoring (daily) and publicity analysis (quarterly)
- Local communities near Neste Oil sites (every other year)
- Supplier and service provider questionnaires (annually)
- Student studies (annually).

These and other studies have shown that Neste Oil is seen as a pioneer in its field and as a trustworthy company that takes its environmental responsibilities seriously, offers quality products, and employs skilled employees.

Neste Oil's key stakeholders

Stakeholder	Expectations	Actions in 2012
Customers	High-quality, reliable products and services; secure supplies; professionalism; responsible operations. Positive, trustworthy business relationships. Cleaner fuels. Reasonable prices and good availability.	Traffic services for motorists; customer events and seminars; trade fairs and other events; development of more efficient customer relationship management tools; acquiring and contracting new customers; strengthening ties with existing customers; arranging station dealer and regional meetings for station dealers; customer satisfaction surveys; brand campaign; launching and selling new products: Neste Pro Diesel, NExBTL renewable naphtha, NExBTL renewable aviation fuel. Opening up new markets for NExBTL renewable diesel in Europe and the US and securing chemical approval in Australia; ensuring product quality throughout the supply chain; sustainable operations everywhere that Neste Oil operates.
Personnel	Good management; fair and equal treatment; career development opportunities; openness and collaboration between different parts of the organization; trustworthiness; responsibility; a safe workplace; quality; customer care; competitive salaries; well-functioning teams; good employer image.	Management and leadership development; Value Creation programs; performance and development discussions; professional development; job rotation opportunities; quarterly Group performance updates; employee communications; innovation system; involving people in analyzing the results of Neste Oil's personnel survey;communicating updated vision and strategy; strategy dialogue and strategy presentations; manager events; developing wellbeing at work and occupational health.
Shareholders and investors	Dividends; increase in shareholder value; profitable growth; reliable information on Neste Oil and its future prospects; transparency; willingness and ability to act sustainability and be a pioneer.	Meetings with investors and analysts; AGM; press conferences; stock exchange and press releases; IR section of the Neste Oil Web site; teleconferences; webcasts; awards.

Stakeholder	Expectations	Actions in 2012
Decision-makers and the authorities	Compliance with legislation and statutory reporting; expertise on fuels and how they are produced and how they should be used; active approach to collaboration.	Collaboration with and reporting to the authorities at international, national, and local level; expert position papers and other involvement in public debate; public affairs and advocacy in Finland and internationally.
People living and working near Neste Oil plants	Honest, open, and up-to-date information on plant operations and incidents; constant monitoring of plants' environmental impact; incident-free operations. Acting as a good corporate citizen in the local community.	Open-day events; local company newsletters at refinery sites (Porvoo and Naantali); local environmental reporting at refinery sites (Porvoo and Naantali); updates on incidents; cooperation with service providers and local companies.
Partners	Reasonable prices; reliable source of revenue and business development opportunities; commitment; partnerships; good collaboration.	Systematic development of procurement processes and principles; support for developing operations (such as certification); meeting with service providers; visits and training service providers; trade fairs; Web site; Extranet; guidelines; joint crisis exercises (oil spill containment); auditing; cooperation with equipment suppliers.
Organizations	Active participation and commitment to common goals; high level of expertise.	Memberships; participation in work groups; board work; conferences and seminars; open and interactive development work.
Universities and research institutions	Careers; internship and thesis opportunities for students; opportunity to commercialize research results; research contracts and opportunity to take part in joint research.	Joint R&D projects; participation in research projects; internships and thesis opportunities.
Students and job applicants	Financial security; challenging jobs; international opportunities; dialogue with international customers and colleagues; good references for future career development.	Jobs and summer jobs; internships; thesis opportunities; visits to sites and colleges; trade fairs and other events; collaboration with ChemistryLab Gadolin and students at Aalto University; studies on Neste Oil's profile as an employer; donations and assistance to local voluntary-based work with young people; scholarship donations to schools; learning and personal development opportunities; work experience, flexible work.
Media	Reliable, sufficient, and up-to-date information on Neste Oil's operations. Management and key employees that are easily approachable and open about Neste Oil's operations.	Stock exchange and press releases; press conferences; events; background meetings; questionnaires; organized visits; interviews.

Public affairs and advocacy

Neste Oil's advocacy efforts are aimed at supporting the implementation of the company's strategy and ensuring that Neste Oil's operating environment develops in a way favorable to the company's interests.

Renewable fuels continued to play a significant role in Neste Oil's public affairs and advocacy during 2012. Neste Oil's aim is to take an active part in this debate, both in Finland and internationally, and Neste Oil supports legislators and other decision-makers in their work by making its specialist expertise and knowledge available on industry-related matters.

Neste Oil placed particular emphasis in its advocacy work on promoting renewable fuels and sustainability generally in Europe and North America. Work on monitoring and supporting the implementation of the EU's Renewable Energy Directive and Fuel Quality Directive in member states continued during 2012.

In Finland, Neste Oil took part in debate on reforming the country's environmental protection legislation, increasing National Oil Pollution Fund fees, and drafting work on sustainability legislation related to biofuels.

Neste Oil reorganized the internal coordination of its advocacy-related activities and strengthened its public affairs organization by establishing a permanent presence in Brussels, for example.

What were our targets?	Actions and achievements 2012	What next?
• Continue monitoring progress on the EU's Renewable Energy Directive (RED) and Fuel Quality Directive (FQD) in member states. • Meet and promote discussion with EU parliamentarians. • Act as a source of specialist expertise during the drafting of new legislation. • Support and provide expert advice on the drafting of Indirect land use change (ILUC)-related legislation.	• We informed the European Commission and the governments of Finland and other EU member states of issues related to the implementation of the Renewable Energy Directive. • We held discussions with a number of EU parliamentarians. • We provided expert assistance for drafting work related to the EU's Renewable Energy Directive and Industrial Emissions Directive. • We took an active part in debate on ILUC-related legislation together with other biofuel experts. • We supported the opening-up of new markets for NExBTL renewable diesel in the EU and North America.	• Continue working to help create an internal market for biofuels in cooperation with the European Commission and the governments of EU member states, and eliminate barriers related to entering markets outside Europe. • Make our views known during the legislative procedure related to the EU's Renewable Energy Directive and Fuel Quality Directive. • Take part in EU-level debate on developing a best available technology (BAT) reference document for oil refining. • Continue to promote ILUC-related legislation. Neste Oil's goal here is to see the creation of a common body of legislation covering all activities involving land use.

Public debate on the challenges facing the energy sector

Neste Oil discussed energy-related challenges with EU bodies, ministries involved in drafting legislation in the field, MEPs and MPs, parliamentary parties, local decision-makers, and key officials on a number of important areas for Neste Oil in 2012, including the following:

- **Indirect land use change (ILUC)** is not solely linked to the energy-related use of raw materials, and legislation intended to limit possible ILUC-related risks should, as a result, cover all raw material production. Significant uncertainties affect current ILUC models.
- **EU targets set for the use of renewable fuels should be extended beyond 2020.** Renewable fuels have a key role to play in reducing greenhouse gas emissions, and clear long-term perspectives are needed to promote investments and innovations.
- **The EU's internal market for renewable fuels remains fragmented.** The Commission needs to take a strong position in securing the full implementation of existing directives (RED and FQD) in member states.
- **Industrial Emissions Directive and best available technologies.** The nature of the refining industry calls for flexibility in the approach and timetable used to ensure that refiners invest in best available technologies, without compromising on environmental protection standards. The costs that are likely to be incurred by refiners are substantial.
- **Growing protectionism** is seen as aimed at encouraging the use of local raw materials at the expense of the free market. Climate change is a global problem and calls for global solutions. Imports from countries outside Europe are essential for meeting the needs of European renewable fuel producers (in the same way as they are for European oil refiners).
- **Emission reduction targets** should be set through legislative means. Ensuring that legislation is neutral in respect of both technology and raw material inputs will ensure that the best solutions can be adopted.

Advocacy in Finland, Europe, and North America

Advocacy in Finland

Neste Oil continued to engage society actively in Finland during 2012 and provided expert input on matters related to the development of Finnish biofuel legislation in particular. Neste Oil has closely monitored the implementation of the EU's Industrial Emissions Directive in Finnish national environmental legislation, and contributed to parliamentary debate on increases proposed to National Oil Pollution Fund fees.

Advocacy in Europe and North America

Advocacy related to the European Commission's legislation on biofuels continued in 2012. The proposed revision of the Renewable Energy Directive announced by the Commission in October 2012 largely supports Neste Oil's ongoing efforts to extend its feedstock base. Neste Oil considers the proposed ceiling on the use of food crop-based inputs an effective way of managing the risks associated with indirect land use change. Neste Oil will continue striving to clarify the Commission's position on residues-based raw materials; and continue to support drafting work on biofuels legislation by taking an active part in debate in 2013.

Particular emphasis in 2012 was given to opening up new markets for NExBTL renewable diesel and putting Neste Oil's case across in Europe and North America. Neste Oil took part in the Environmental Protection Agency's regulatory process related to life cycle emissions generated by renewable diesel produced from palm oil.

Neste Oil's voluntary sustainability verification scheme, based on the EU's Renewable Energy Directive, was further fine-tuned and resubmitted to the European Commission in 2012.Neste Oil's goal is to receive the Commission's approval for the scheme, after which it will be available for use by all companies and producers for verifying the sustainability of the production of HVO-type (Hydrotreated Vegetable Oil) renewable fuel produced from any type of raw material.

Legislation and recent legislative developments

Neste Oil always complies with the requirements of local legislation in its operating countries and actively monitors changes made to legislation, as well as other initiatives taken by the authorities. All company sites are required to have a system for reporting environmental data as stipulated under local legislation and environmental and other operating permits.

Key legislative developments related to Neste Oil's sustainability in 2012

Regulation	Stage	Impact	Company actions and position
EU Renewable Energy Directive (RED)	In force, national implementation under way. The EU Commission has published a proposal to include indirect land use change, and ordinary legislative procedure on the subject has started.	Sets an EU-level target for the proportion of renewable energy used in traffic. Creates a basis for national legislation and sets sustainability criteria.	Neste Oil participates actively in preparatory work in industrial associations; monitors implementation in member states. Neste Oil's position:The Commission's proposal to place a 5% ceiling on the use of food crops will prevent the emergence of indirect impact.
EU Fuel Quality Directive (FQD)	In force, national implementation under way. The EU Commission has published a proposal to include indirect land use change, and ordinary legislative procedure on the subject has started.	Defines fuel quality and requires fuel suppliers to reduce greenhouse gas emissions by a mandated 6%.	Neste Oil has prepared for implementation by conducting technical and economical analyses. Neste Oil's position:Biofuels will play an important role in achieving the 6% reduction in greenhouse gas emissions.
EU Industrial Emissions Directive (IED)	In force, national implementation under way.	Will impact environmental permits for production plants due to requirements set for the use of best available technology. The impact at Porvoo and Naantali will be significant, and less so at Rotterdam.	Neste Oil has participated in work related to the technical implementation of legislation. Neste Oil has optimized environmental investments. Neste Oil's position:It is important that legislation is flexible when taking the specifics of individual plants into account in permitting and preserving the environment in the vicinity of plants.
EU Energy Efficiency Directive (EED)	Co-decision procedure completed, national implementation to take place by summer 2014.	New methods for regulating energy efficiency.	Energy efficiency plans have been drawn up for Neste Oil's refineries, ships, and other operations. Neste Oil's position:The voluntary energy efficiency agreements already in use represent a good way of moving forward at national level.

Regulation	Stage	Impact	Company actions and position
EU Emissions Trading Scheme (ETS)	The updated directive has been implemented in member states. The new emissions trading period will begin in 2013. The Commission has proposed 'backloading' emission allowances to the end of the period covered by the scheme	The basis for calculating and reporting CO_2 emissions at the Porvoo and Naantali refineries will change.	Neste Oil has applied for emission allowances for the next trading period and prepared for the new requirements.
EU REACH chemical regulatory framework	In force.	Regulates in detail the use of chemicals and a information flow within the chemical supply chain.	Neste Oil carried out registration in 2010, updating and reviews took place in 2012.
EU Classification, Labelling and Packaging regulation (CLP)	In force, transition period under way.	Will require all chemical classifications and labeling to be updated.	Neste Oil has completed the process for substances, work under way for compounds. The transition period will last until 2015.
US Renewable Fuel Standard (RFS2)	The regulatory process covering how the greenhouse gas emissions of the production chain related to palm oil -based renewable diesel should be calculated was under way throughout 2012.	Approved production chains allow access to the market and to the Renewable Identification Number (RIN) system.	Neste Oil has supplied the Environmental Protection Agency (EPA) with information on renewable diesel technology, the use of its current plants, and greenhouse gas calculations for various raw material chains.
EU Marine Fuel Sulfur Directive	The original decision by the International Maritime Organization (IMO) is being implemented through a directive in the EU, which was approved in 2012. National implementation under way. As of the beginning of 2015, ships will be required to use low-sulfur fuel or scrubbers to treat their emissions.	Will impact Neste Oil as a producer of bunker fuel, ship-owner, and user of chartered tonnage.	Neste Oil projects that low-sulfur bunker fuel will be available. The company's fleet is preparing to comply with the requirements of the directive.

Participation in organizations and joint projects

Neste Oil took part in the development of the energy sector by working through the industry's key organizations, both in Finland and internationally, during 2012. Neste Oil took an active role in the boards or committees of the following organizations, amongst others:

- ASFE (Alliance for Synthetic Fuels in Europe)
- CONCAWE, the oil companies' European association for environment, health and safety in oil refining
- EBB, European Biofuels Board
- Europia (European Petroleum Industry Association)
- Chemical Industry Federation of Finland (Chairman)
- Roundtable on Sustainable Biofuels (RSB)
- Roundtable on Sustainable Palm Oil (RSPO)
- Finnish Petroleum Federation
- European Energy Forum (member from 1.1.2013 onwards).

In addition to initiatives promoted by the above organizations, Neste Oil has also committed itself to various other joint projects and statements aimed at promoting sustainable development, including:

- Responsible Care (since 1992)
- Responsible Care Global Charter (since 2007)
- Tanker Safety, a project aimed at improving marine and environmental safety in the Gulf of Finland
- European Aviation Biofuels Flightpath, an initiative aimed at increasing annual aviation biofuel usage to 2 million t/a by 2020
- A project aimed at improving work-related travel safety by building a cycle lane along Highway 170 (since 2012)
- Green Motorway project, aimed at promoting lower-emission traffic and transport (since 2008).

Interaction with non-governmental organizations

Neste Oil continued to interact actively and regularly with non-governmental organizations (NGOs) interested in the company and its operations in Finland and Europe during 2012. Close contacts were also maintained with NGOs in countries from which Neste Oil sources its renewable inputs. The focus in all aspects of this interaction was to improve the quality of dialogue and debate.

Neste Oil's Senior Vice President, Communications, Marketing and Public Affairs is responsible for the company's interaction with NGOs. The aim of this interaction is to acquire feedback on Neste Oil's work in the sustainability area and increase NGOs' understanding of the various aspects of Neste Oil's activities. A number of other experts in the sustainability area, together with the Senior Vice President, Sustainability and HSEQ, and Neste Oil's President & CEO, also took part in interaction with NGOs in 2012.

The key areas discussed during 2012 included:

- sustainability questions related to the raw materials Neste Oil uses, such as developing smallholder farming, methane recovery at palm oil pressing plants, preventing the destruction of forest land, sustainable landscaping, and educating children on oil palm plantations and in other remote areas
- Neste Oil's profitability
- the remuneration of Neste Oil's personnel, and that of senior management in particular
- the sustainability reporting requirements expected of State-owned companies in Finland
- certifications and standards for bioenergy
- transportation in the EU and the role of bioenergy, and
- indirect land use change and food crop -based biofuels in the EU's energy portfolio.

Interaction between Neste Oil and non-governmental organisations has improved all parties' ability to understand each other's goals and the fundamentals of their activities. Interaction has strengthened the conviction that waste and residues, together with completely new feedstocks, will play an increasingly important role in Neste Oil's procurement of renewable inputs in the future.

Interaction with NGO's should be further developed. During 2013, Neste Oil plans on further activating interaction with NGO's for example in the Netherlands.

More balanced discussion on palm oil

Although Neste Oil and some NGOs continue to disagree on the sustainability of Neste Oil's use of palm oil, the general perceptions surrounding palm oil have improved and become more balanced among decision-makers, organizations, and the business world. The positive impact that palm oil production has on the standard of living of small family farmers, for example, is something that has been highlighted.

The acceptability of palm oil use has also been increased by the improved availability of certified palm oil. This acceptability could grow further in 2013 following the decision by the European Commission to approve the Roundtable on Sustainable Palm Oil's RED system (RSPO RED) for verifying that biofuels comply with the sustainability criteria contained in EU directives.

Impact of indirect land use change highlighted in debate

Individual NGOs continued to voice their concerns in 2012 that the use of palm oil by companies producing biofuels could lead to an expansion of the cultivation of oil crops onto new land and that this could threaten rainforest or the cultivation of food crops, either directly or indirectly.

Read more about indirect land use change in Sustainability Report 2011.

Neste Oil has consistently stressed in its interaction with NGOs and its other communications that it only procures raw materials that comply with or exceed the requirements of legislation and certification programs when producing renewable fuel suitable for use in the EU and elsewhere in the world. Current legislation and existing certification programs forbid the procurement of raw materials that have been cultivated on land cleared since the beginning of 2008:

- from rainforest
- from conservation areas and game reserves, or
- from marshland that has been drained, burnt, or otherwise managed for the purposes of cultivation.

Read more about the sustainability criteria for renewable fuels in the section on Resource efficiency and Neste Oil's supply chain.

Current legislation does not yet define how biofuel producers should take account of indirect land use change (ILUC) related to renewable material production. In 2012, the European Commission published a proposed set of amendments to the EU's Renewable Energy Directive designed to manage ILUC-related risks. Neste Oil considers the 5% ceiling proposed for the use of food crops as an efficient and sufficient way of controlling the risks linked to indirect land use change associated with biofuel production. This proposed limit would ensure that the demand for food crops for biofuel production would not grow in the future but remain roughly at current levels. Read more about Neste Oil's position here.

Local community involvement at production sites

Neste Oil has a total of four refineries in Finland, Singapore, and Rotterdam. Refining results in occasionally elevated noise and odor levels or additional flaring in connection with maintenance work as part of normal operations or during incidents. Neste Oil collaborates actively with the various communities around its production sites to ensure that its operations have the lowest possible level of impact on these communities and that its activities and communications are open and transparent.

Neste Oil's refineries in Finland – at Porvoo and Naantali – are located in industrial zones close to residential areas and other companies. Both sites have worked closely with their neighbors and local companies for decades.

A local outreach group operates in the Kilpilahti industrial area at Porvoo. Founded in the 1990s, this is made up of contact personnel from companies based in the area and local residents, and meets regularly four times a year to discuss topical issues affecting the local community.

In addition, Neste Oil works with local fishing cooperatives based near its Finnish sites and took part in the Jokitalkkari (River Warden) project in 2012, aimed at reviving local trout stocks in Eastern Uusimaa. Neste Oil also works with local churches in Porvoo in areas related to things such as wellbeing at work and crisis training.

Although its sites outside Finland are located in industrial areas with no local residents living nearby, Neste Oil regularly collaborates with other locally based companies and service providers as part of its commitment to local community involvement.

Open and transparent site communications

All of Neste Oil's refineries are committed to open communications in respect of all key external and internal stakeholders should an incident occur at a site.

The following stakeholders are informed of incidents:

- The media
- Local residents
- The authorities
- Local companies, and
- Personnel.

Neste Oil produces a local newsletter in Finnish (Naapurisanomat), published three-four times a year, for people living near its sites at Porvoo and Naantali. A toll-free info line provides recorded messages in the event of an incident. The companies based in the Kilpilahti industrial area at Porvoo also have a Web site (Kilpilahti.fi), which is used to communicate information on any incidents that occur at their sites. The Naantali refinery also has its own Facebook page. The Rotterdam refinery produces a local newsletter that is distributed at the site every six weeks. Environmental impact-related issues at all sites are reported annually to local residents and companies.

Open-day events are organized at Neste Oil's Finnish refineries to give local people the opportunity to discuss areas of common interest with company managers. These events are held annually at the Porvoo refinery and every other year at Naantali. Open-day events typically attract an average of 200-250 participants at Porvoo and 300-400 at Naantali. Joint open days involving all the companies in the Kilpilahti industrial area at Porvoo are held roughly every five years. The most recent of these took place in 2010 and attracted around 3,000 visitors. Neste Oil's refineries are popular with visitors year-round, and thousands of people visit the company's sites annually.

Local cooperation with companies, the authorities, and decision-makers

All of Neste Oil's refineries cooperate actively with local companies, the authorities, and decision-makers. Much of this cooperation is focused on developing the operational safety of sites. An HSE (Health, Safety, Environment) seminar for service providers in the Kilpilahti area is organized at Porvoo twice a year, hosted by all the companies in the area that use these companies' services. Companies in the area also meet regularly four times a year at safety management group meetings.

Cooperation with the authorities is closest with the rescue services at all sites. The Porvoo and Naantali refineries have their own fire services, which exercise regularly with their municipal colleagues. The Singapore and Rotterdam refineries rely on local municipal fire services. Refineries also have their own fire protection and oil spill prevention equipment, and operator firemen are trained in dealing with fires. Crisis exercises are held regularly with local fire services, the army, the police, and border guard officials. Neste Oil also cooperates extensively with members of the local authorities responsible for environmental matters.

Neste Oil meets local decision-makers based close to its refineries through regular meetings, refinery visits, seminars, and by inviting them to various events. These meetings are used to discuss topical issues and matters of general concern, and to explain the challenges that affect Neste Oil's operations locally and nationally, such as national emergency energy security-related issues in Finland. A survey of the views of local decision-makers and the local media, as well as local residents, is carried out at Neste Oil's Finnish refineries every other year.

Sponsorship and charity work

Neste Oil supports the wellbeing of local communities and stakeholders in the countries where it operates through various sponsorship and charity work. A total of EUR 1 million (1 million) was spent in this area in 2012.

Neste Oil has a sponsorship policy covering the entire Group managed by the Marketing Unit, and carefully selects international, national, and local initiatives. Neste Oil does not sponsor political parties or party political projects, religious movements, or projects linked to such movements, or company clubs.

Neste Oil's sponsorship principles are based on a long-term vision, experience-based engagement, accessibility, and involvement. The key factors influencing the choice of partners are compatibility with Neste Oil's values, the opportunity to make use of events in stakeholder activities, and the potential media visibility offered.

Neste Oil sponsored the following activities and charities at Group level in 2012:

- Neste Oil Rally

- Blues ice hockey team
- Kärpät ice hockey team
- Nuorten hyväksi (Let's Help Young People) campaign, aimed at preventing young people from being sidelined by society
- Millennium Technology Prize, the world's biggest technology prize
- Neste Oil Photo Trophy
- Superpesis, the top division of Finland's national sport, pesäpallo, a game similar to baseball
- Borneo Child Aid (Humana Child Aid Society Sabah), which provides educational opportunities to children living on plantations in Borneo
- ChemistryLab Gadolin, an action-based learning environment for schoolchildren and students studying chemistry
- CMI–Crisis Management Initiative
- Auta miestä mäessä (Help the Man on the Hill) campaign, aimed at securing the future of the Finnish national ski jump team, 2012-2013
- Christmas donations in 2012: WWF Baltic, Help the Young campaign, Helsinki Children's Hospital
- Lastenklinikoiden kummit, an organization dedicated to helping the patients of children's clinics at Finland's university hospitals
- Operaatio lentävä pyörätuoli (Operation Flying Wheelchair), an initiative designed to provide activities for physically disabled and other disabled young people
- Cleantech Finland, a network of top Finnish cleantech companies
- City of Tampere in Finland, University of Applied Sciences.

Read more about sponsorship and charity work in the Financial responsibility section.

Activities sponsored at local level included:

- Avanti! Summer Festival in Porvoo
- Naantali Music Festival
- Various support for the arts, sport, environmental activities, and community projects
- Employees at the Rotterdam refinery donated 860 hours of work to remodeling the local Idahoeve at Tiengemeten care home
- Employees at the Geneva office donated 180 hours of work to the Saturday of Partage event organized by Partage, an association devoted to helping local poor people.

Time, money, and actions on behalf of the young

Neste Oil is one of the corporate partners of the 'Nuorten hyväksi' (Let's Help Young People) campaign organized under the patronage of the President of the Republic of Finland, Sauli Niinistö. Backed by the Tukikummit Foundation and the MTV3 television channel, the aim of the three-year campaign is to prevent young people from being sidelined by society.

The campaign involves sports people, public figures, artists, and companies. As one of the campaign's main sponsors, Neste Oil has contributed EUR 100,000, which will be channeled through a fund administered by the Evangelical Lutheran Church of Finland and will go to activities and recipients that do not currently receive any other form of support. Support will be provided in the form of equipment or services.

In addition to its financial contribution, Neste Oil will also be supporting the campaign by organizing a series of bold initiatives designed to promote young people's wellbeing.

"Young people are critical for everybody's future, and they need both courage and support to become the pioneers that society needs," says Neste Oil's President & CEO, Matti Lievonen. "We at Neste Oil want to do our bit through this campaign to help build the Finland of the future and a society in which young people are encouraged to believe in themselves and get the type of backing they need to live up to their potential."

An active approach to the job market

Neste Oil works closely with educational institutions and students to secure its access to new talent. This involves working with students in a number of areas and organizing student visits to Neste Oil's sites, giving presentations at schools, and supporting various student events and activities.

Proactive cooperation with students and other young people has been seen as important for many years, and Neste Oil has been involved in supporting ChemistryLab Gadolin for a number of years, for example. ChemistryLab Gadolin offers an empirical learning environment for a wide range of ages, from young children to college students. The number of people visiting the laboratory has grown significantly in recent years and the initiative has received positive publicity in Finland and overseas. Over 11,000 children and young people, teachers, journalists, company experts, parents, and people from overseas have visited the facility since 2008.

Summer internships and traineeships

Neste Oil offers hundreds of students and young people the opportunity to take up summer internships and traineeships, and carry out thesis work as part of studies. Although many of these positions are in Finland, some are also offered elsewhere in line with local needs.

Neste Oil offered around 300 summer internships (290) in Finland in 2012 and also took part in the national 'Responsible Summer Jobs' campaign, committing itself to the campaign's principles of offering challenging jobs, reasonable pay, appropriate induction and guidance, fairness and equality, written contracts of employment and testimonials, and written acceptances of applications.

Building Neste Oil's image as an employer over the long term

Neste Oil has concertedly developed its employer image in Finland for many years. A new 'The Only Way is Forward' brand campaign and a 'Summer President' recruitment campaign played a particular part in this work during 2012.

Surveys carried out by Universum in Finland in 2012 indicated that Neste Oil's image as an employer has improved. A survey of university students ranked Neste Oil in 10th place (15th) among technical and natural science students and 49th (50th) among business studies students. Technical and natural science students in the 'Professionals' study ranked Neste Oil 16th (8th); while 'Young Professionals' ranked the company 19th (7th). Neste Oil was ranked 38th (60th) by business professionals in the Professionals survey, and 34th (57th) by young professionals.

Summer interns' views of working at Neste Oil in Finland are also surveyed annually. The 2012 survey gave the company a similar rating to that received in 2011, 4.2/5 (4.2), and as many as 96% (97%) of respondents said that they would be interested in working for Neste Oil and Neste Jacobs in the future.

81% of respondents to the 2012 personnel survey said that they would recommend Neste Oil as an employer.

Mikko Laine, a student at Aalto University's School of Chemical Technology, was chosen as Neste Oil's 'Summer President' for 2012.

New type of recruitment campaign proved a success

Neste Oil organized a unique 'Summer President' recruitment campaign in Finland in 2012. The summer intern selected for the position was given the chance to contribute his ideas to the company's future development after experiencing different aspects of Neste Oil's operations.

Over 60 people applied, six of who were selected through interviews to campaign for the post, using any approach they wished. Two candidates with the most public online votes went through to an election panel discussion with Neste Oil employees selected from various parts of the Group prior to the final selection.

The Summer President came up with a number of new and innovative ideas and had the chance to get to know how Neste Oil operates and communicate his thoughts via various social media.

The success of the campaign was highlighted in the fact that a total of 24,000 votes were cast for the candidates, and over 30,000 people visited the campaign's Web site.

Climate and resource efficiency

Climate and environmental protection play a major role in Neste Oil's operations. Neste Oil has a long tradition of work in this area and has systematically monitored the environmental impact of its operations since the end of the 1960s and continuously prioritized reducing the impact that its operations have on the environment. Efficient resource usage for Neste Oil is primarily related to the responsible and optimized use of energy and natural resources, such as feedstocks and water. Well-managed practices and procedures can reduce or avoid waste being generated. By managing its resource usage efficiently, Neste Oil helps protect the world's natural resources and improve its productivity, reduce its costs, and enhance its competitiveness.

Work has started on drawing up a climate program

Neste Oil started work on drawing up a climate program in the end of 2012. A clear roadmap and targets will be set.The program will bring together all the initiatives and measures used by Neste Oil in the climate protection area.

Cleaner products have a key role to play

Climate and environmental protection are closely tied to Neste Oil's cleaner traffic strategy. By offering cleaner products, Neste Oil makes a more valuable contribution to improving the quality of the environment than it could simply by improving the efficiency of its own refining and transportation operations.

We will improve energy efficiency and aim for a saving of

660 GWh

by 2016.

The broadest range of inputs used anywahere in the biofuel industry

A very wide range of vegetable oil, waste, and residues can be used to produce NExBTL renewable fuels. The current feedstock base comprises around 10 different inputs.

Environmental management

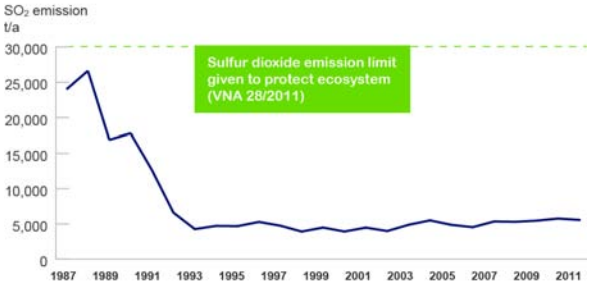
Managing environmental performance is an integral part of Neste Oil's management system, together with other areas of sustainability. Work in this area is guided by Neste Oil's sustainability policy and related HSEQ (Health, Safety, Environment and Quality) principles and guidelines.

What were our targets?	Actions and achievements in 2012	What next?
Remain within environmental permit limits at all times.	Virtually all operations took place within permitted limits. Some wastewater limits were exceeded at the Porvoo and Singapore refineries and one airborne emission limit was exceeded at Rotterdam. Some shortcomings in wastewater monitoring were identified at the Naantali refinery. None of these cases resulted in damage to the environment.	Review the impact of stricter environmental permitting practice resulting from revised EU environmental legislation. Comply with stricter permit requirements where needed.
Reduce greenhouse gas emissions in our operations cost-effectively to help prevent climate change.	Further progress was made in optimizing energy generation and use. A project for indentifying energy optimization opportunities was continued at Porvoo. Work carried out during the major maintenance turnaround at Naantali has improved the refinery's operational reliability and energy efficiency.	Plans for energy efficiency investments will be prepared during 2013.

Environmental impacts

Neste Oil's impact on the environment has declined significantly in recent decades, in line with steady improvements in environmental protection measures, resulting in the current good level of performance. Neste Oil's direct environmental impact today, when plants operate are running without unscheduled incidents, is essentially minor. Amongst others, Neste Oil's SO2 emissions in Porvoo have remained on a low level for two decades.

SO_2 emissions at the Porvoo refinery 1987–2011



Read more about protecting waterways and soil and protecting biodiversity and natural world

Environmental permits and leaks

Neste Oil is committed to keeping all its emissions within the limits set out in its environmental permits and to preventing leaks or emissions into the soil, waterways, and the atmosphere occurring during accidents or incidents. In line with the terms of the environmental permits covering its refineries, Neste Oil monitors the amount of emissions that it releases into the atmosphere and the volume of wastewater it releases, and the amount of waste and noise that it generates.

Virtually all operations took place within permitted limits. The nitrogen content of wastewater exceeded the monthly permitted maximum at Naantali in June and at Porvoo in October. The maximum amount of total nitrogen in wastewater discharged into the sea at outfalls at the Porvoo refinery exceeded permitted levels in October 2012. Some shortcomings in wastewater monitoring were identified at the Naantali refinery and biological oxygen demand exceeded permitted levels in April. One airborne emission limit was exceeded at Rotterdam. At the Singapore refinery a shortcoming of wastewater treatment was identified. Measures are taken to overcome the shortcomings. None of these cases resulted in damage to the environment.

Neste Oil constantly monitors internally all incidents that occur at its production sites, terminals, and during transportation, and any leaks that result. During 2012, there were 42 (30) leaks, involving more than 100 kg of material, which resulted some emissions being released into the environment. The only serious leak during 2012 took place at a National Energy Security Agency oil storage facility operated by Neste Oil in Kajaani, where oil-contaminated water leaked into nearby soil in April. Read more about the oil leak in Kajaani.

Read more about process safety.

Climate

Climate and environmental protection are closely tied to Neste Oil's cleaner traffic strategy. Neste Oil's renewable fuels and the base oil that it produces for use in lubricants help customers reduce their vehicles' tailpipe and particulate emissions significantly. Neste Oil produces carbon footprint calculations for its products covering their entire life cycle; strives to continuously improve its overall performance in terms of its climate footprint, and is committed to further improving its energy efficiency.

Climate program under development

Work started on drawing up a climate program towards the end of 2012. This will bring together all the initiatives and measures used by Neste Oil in the climate protection area and for mitigating climate change and will establish a clear roadmap and targets. The aim is to complete the program in early 2013, and progress on the program will be reported in the 2013 Sustainability Report.

Greenhouse gas emissions during product life cycles

In line with the company's cleaner traffic strategy, the focus has been on developing and refining premium-quality fuels that reduce the environmental impact associated with keeping people and goods on the move. By offering lower-emission products, Neste Oil makes a more valuable contribution to improving the quality of the environment than it could simply by improving the efficiency of its own refining and transportation operations.

Neste Oil produces carbon footprint calculations for its products covering their entire life cycle. The following diagram illustrates the various stages of the supply chain related to the fuels that Neste Oil produces, the greenhouse gas emissions emitted during each stage, and the sustainability verification methods used in respect of renewable fuels.

Read more about Greenhouse gas emissions and sustainability verification throughout supply chain.

Emissions to air

Neste Oil measures greenhouse gas emissions across all its operations. In practice, virtually all of the company's greenhouse gas emissions take the form of carbon dioxide (CO_2), and the majority, around 90%, are refining-related. The largest sources of CO_2 emissions are the Porvoo and Naantali refineries and the Neste Oil fleet.

No significant changes took place in CO_2 emissions during 2012 compared to 2011. Neste Oil's direct CO_2 emissions totaled 3,47 million tons (3,7 million tons), approximately 6%-points less than in 2011. Nearly 80% of these emissions were generated at the Porvoo refinery. The biggest factor contributing to lower emissions in this area was the major maintenance turnaround carried out at the Naantali refinery.

Indirect CO_2 emissions related to bought-in electricity totaled 229,800 tons (162,600 tons) in 2012. The increase in indirect CO_2 emissions was the result of optimization of the use of the energy plant at Porvoo refinery.

Neste Oil reported on its greenhouse gas emissions as part of the Carbon Disclosure Project (CDP) for the sixth year in succession in 2012. In the CDP review published in fall 2012, Neste Oil was ranked C on an A-D scale and scored 79 points (58) out of a possible 100. This represents a significant improvement on previous performance and was based on data from 2011. The review based on 2012 figures will be published in fall 2013 and will be available at http://www-cdproject.net.

CO_2 recovery ongoing at Porvoo

Neste Oil has recovered CO_2 at the Porvoo refinery for a number of years and sells the gas to a company located in the area. There are no similar CO_2 recovery systems at Neste Oil's other refineries. The CO_2 recovery plant at Porvoo is the largest in Europe.

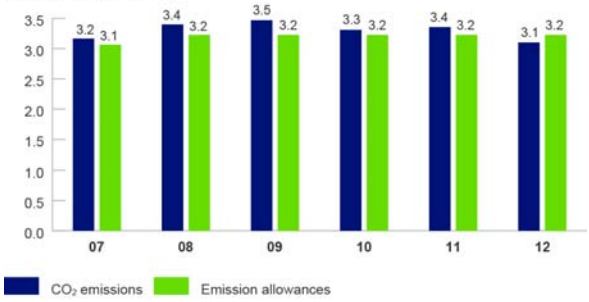
Nearly 156,000 tons (150,000 tons) of CO_2 generated at the Porvoo refinery were recovered at the site's hydrogen plant in 2012. Under a decision issued by the Finnish Energy Market Authority, 2% of the CO_2 recovered in this way can be used in CO_2 emission calculations to reduce the Porvoo refinery's total CO_2 emissions, which were approximately 2.83 million tons (2.95 million tons) in 2012. During the emissions allowance trading period beginning in 2013, this 2% reduction will be eliminated as a result of new regulation covering the monitoring and reporting of emissions trading.

Emission allowances

Neste Oil received emission allowances for 3.2 million tons of CO_2 emissions annually between 2008 and 2012. The European Commission will confirm the emission allowances for Neste Oil's refineries for the next emissions trading period, 2013–2020, in February 2013.

Neste Oil's refineries' CO_2 emissions and emission allowances

Million tons of CO_2 annually



Emissions from the Porvoo and Naantali refineries included.

Neste Oil invested EUR 5 million in GreenStream's Climate Opportunity Fund in 2011, giving the company access to additional emissions allowances under the EU emissions trading scheme for the 2013-2020 trading period. Neste Oil will have to acquire further new emissions allowances to cover the deficit affecting the 2013-2020 emissions trading period.

Only Neste Oil's refineries at Porvoo and Naantali come within the scope of the EU's emission trading scheme. The Rotterdam and Singapore refineries are not directly covered.

Other airborne emissions resulting from refining

Major airborne emissions related to normal refining operations remained at the low level typical of recent years during 2012. The following refining emissions were measured and reported to the environmental authorities:

- Carbon dioxide (CO_2)
- Nitrogen oxides (NO_x)
- Sulfur dioxide (SO_2)
- Volatile organic compounds (VOC)
- Particulates
- Nickel and nickel compounds, and
- Vanadium.

NOx and SO_2 emissions are monitored on a continuous basis at numerous locations around the Porvoo and Naantali refineries. In addition, air quality in the area around the company's largest site, at Porvoo, is also monitored for ambient concentrations of total reduce sulfur (TRS) and ozone.

The sulfur recovery unit at the Porvoo refinery continued to operate well during 2012 following the overhaul carried out in

2010. Some signs of fouling and wear were observed at the unit towards the end of the year, however, which could result in higher SO_2 emissions being released in the future.

In general, airborne SO_2 emissions from Neste Oil's refinery operations continued to decline in 2012. The Porvoo and Naantali refineries are Neste Oil's only major sources of emissions of this type. Neste Oil uses only gas in its refinery furnaces at Porvoo, and gas is also the main fuel at the site's power plant – all of which significantly reduces the release of SO_2 emissions.

Nitrogen oxide emissions (NOx) were 8,600 tons (10,100) and volatile organic compound (VOC) emissions were 5,200 tons (4,700). Compounds contributing to ozone depletion were eliminated from production and firefighting systems in the 1990s. Construction of a new system to recover gases released during loading at the harbor at Porvoo progressed. The system is capable of recovering the majority of the volatile organic compound (VOC) emissions released into the atmosphere when loading fuels.

Read more about airborne emissions in the Material and Energy Balance table.

Levels of particulates, SO2, and hydrocarbons in the Porvoo refinery area were measured and studied by a team led by Professor Markku Kulmala, a world-renowned expert in the field at the University of Helsinki's Department of Physics, in summer 2012 as part of research work on global climate change.

Logistics-related emissions

Neste Oil transported nearly 32.5 million tons (32.4 million tons) of refinery feedstocks, refined products, and other chemicals by sea, road and rail in 2012. However, the slightly larger transport volumes have not affected the fuel consumption because the emission levels have decreased compared to previous year. Emissions per ton of product carried by sea are lower than those of road-based logistics. Rail transport also releases small amounts of emissions and is energy-efficient compared to other modes of transport.

Road and rail shipments

The road-based deliveries of Neste Oil's fuel and gas products are handled by tanker trucks operated by outside contractors. Neste Oil transported nearly 3.9 million tons (3.7 million tons) of refinery feedstocks, refined products, and other chemicals by road. The amount of products transported by road rose slightly compared to 2011, by 3,4%. 2.8 million tons (2.8 million tons) were carried by road in Finland in 2012 and 1.1 million tons (1 million tons) in the Baltic countries, Poland, Russia, and Sweden. This has not resulted in increased fuel consumption in this area of operations, however; fuel consumption decreased by 1.3% in 2012 compared to 2011.

The areas served by tanker trucks and the cargoes they carry are planned as efficiently as possible to keep fuel consumption down and reduce tailpipe emissions. Fuel vapor released while filling up storage tanks at service stations is recovered by trucks and returned for recycling at Neste Oil's terminals.

A total of 1.2 million tons of refinery feedstocks, chemicals, and petroleum products were transported by rail in 2012. The proportion of volumes carried by rail fell compared to previous years.

Marine shipments

Neste Oil transports tens of millions of tons of crude oil and other refinery feedstocks, petroleum products, and chemicals by sea annually. The volumes carried by sea decreased by 4.3% during 2012. Bunker fuel consumption fell by 9.6%. Bunker fuel consumption and CO_2 emissions have fallen in recent years following the introduction of a basic tanker speed of 13.5 knots in 2007 and the introduction of more detailed bunkering instructions.

The maximum sulfur emissions from ships in the Baltic, the North Sea, and the English Channel will be reduced from 1% to 0.1% by 2015 as a result of stricter bunker fuel specifications issued by the International Maritime Organization (IMO).

Read more about transport safety.

Energy efficiency

Neste Oil monitors its energy efficiency performance and aims to continually improve its performance. The goal is to reduce energy usage in refining and logistics in particular. Energy efficiency projects are promoted as part of strategic Value Creation programs. Cost efficiency and promoting low-emission refining are key drivers for improving energy efficiences.

What were our targets?	Actions and achievements in 2012	What next?
Improve energy efficiency and aim for a 660 GWh saving by 2016.	We achieved approx. 59% (53%) of the energy-saving targets defined in the energy efficiency program for 2016 during 2009-2012.	Continue measures aimed at achieving our 660 GWh savings target at our refineries and terminals.
Improve energy efficiency and hydrogen usage at Neste Oil's refineries over the long term.	Further progress was made in optimizing energy generation and use. A project for indentifying energy optimization opportunities continued at Porvoo. Energy efficiency enhancements implemented as part of the Naantali refinery's 2012 maintenance turnaround will achieve an annual saving of 40 GWh, equivalent to approx. 2% of energy usage in 2011.	Implement efficiency-enhancement investments and develop refinery operations over the long term.
Implement plans and measures for improving energy efficiency and monitor their progress in line with the principles of continuous improvement.	Energy efficiency principles were drawn up for all of Neste Oil's refineries and are designed to promote active identification of new ways of improving energy efficiency.	Continue developing Neste Oil's energy efficiency plans in 2013 and implement improvement measures over the longer term wherever financially feasible.

Continuous efforts to improve energy efficiency

As one of Finland's largest energy users, Neste Oil is committed to the national action program developed for energy-intensive industry. Launched in 2009, this program is designed to help combat climate change in line with Finland's national climate and energy strategy, and covers Neste Oil's most energy-intensive sites in Finland: the Porvoo and Naantali refineries and its terminals. As part of the program, Neste Oil has set an energy-saving target of 660 GWh covering the above areas of operations in Finland to be achieved by 2016. This is equivalent to 5% of the energy used at the Porvoo and Naantali refineries and the company's terminals in Finland in 2007. Land-based transportation of Neste Oil's products is not covered by the program, as this is handled by outside contractors and Neste Oil does not use any of its own energy in this area.

Neste Oil's energy efficiency has improved steadily over recent years and remained at the level achieved in 2011 during 2012. As of the end of the year, Neste Oil had reached approx. 59% (53%) of the energy-saving target set for 2016. Achieving the remaining improvements needed will be challenging, as the investments and operational changes required will be larger than earlier.

Energy efficiency at the Porvoo and Naantali refineries in Finland

Solomon Associates' Energy Intensity Index (EII), published every other year and based on a comparative study of different sites, is used as the yardstick for measuring energy efficiency at Neste Oil's fossil fuel refineries at Porvoo and Naantali. The Porvoo refinery was given an index value of 84 in the 2010 review and ranked in the top quartile of European sites in terms of energy efficiency. Porvoo's performance has remained at a similar level since then, and the next set of EII rankings, for 2012, will be published in the fall of 2013.

Measures taken at the Porvoo refinery as part of the site's energy efficiency plan during 2012 included the conclusion in the spring of an energy optimization project covering the entire site. Launched in 2011, this systematically reviewed the optimization potential of all the site's process units in terms of both their configuration and operations. The various investments and operating changes recommended as part of the project were further reviewed or trialed during the summer and fall. The energy savings they will offer are expected to be realized between 2013 and 2015.

Energy efficiency enhancement projects and measures continued at Naantali during 2012, and included the modernization of two

process furnaces and the installation of more energy-efficient equipment during the site's maintenance turnaround and various changes to operating procedures. These enabled the refinery to reduce its energy consumption by approx. 2% compared to 2011. Energy efficiency at Naantali is due to improve further during 2013 when the benefits of the refinery's new, more energy-efficient furnaces are fully realized. Modernizing these furnaces was Neste Oil's largest single energy efficiency-related investment in 2012. Naantali was given an index value of 96 in the 2010 EII review and ranked in the second quartile of comparable European sites.

Energy efficiency at Neste Oil's new refineries in Rotterdam and Singapore

Neste Oil's new NExBTL refineries in Rotterdam and Singapore feature modern technology throughout and are, by definition, energy-efficient sites. Neste Oil is, nevertheless, committed to further enhancing their energy efficiency over the long term.

Various energy efficiency enhancement measures were launched at both sites in 2012. The Rotterdam refinery joined a voluntary energy efficiency agreement aimed at reporting energy usage, drawing up a plan for improving the efficiency of energy usage, and implementing this plan wherever financially feasible. Rotterdam drew up its first energy efficiency plan at the end of 2012.

No specific, energy efficiency-related measures were implemented at the Singapore refinery in 2012. An energy efficiency plan will be drawn up for the site in 2013.

As the Solomon Associates' method is not suitable for calculating the energy efficiency of renewable fuel refining processes, Neste Oil uses a different approach for its NExBTL refineries. Set by Neste Oil itself in 2012 and reflecting the EII index, this focuses on kWh/ton of product output. This indicator will be monitored from 2013 onwards, when the 2014 targets for the company's NExBTL refineries will be set; it will also be included in the Sustainability Report in 2014.

Raw materials and material efficiency

Neste Oil uses crude oil to produce its conventional petroleum products and close to 10 different renewable inputs to produce its renewable fuels. Although crude oil continues to account for 89% of Neste Oil's feedstock usage, the increased renewable fuel capacity that has been brought on stream over the last couple of years has increased the use of renewable feedstocks.

Material efficiency

Neste Oil strives to use all of its inputs as efficiently as possibly and to make use of the sidestreams and waste that are generated during refining. Virtually all the distillates produced during crude oil refining are used and little or no waste is produced.

Neste Oil also aims to make maximum usage of the inputs it uses to produce renewable fuels.

1. For exable production and sales of NExBTL renewable naphtha to be used for example in the chemical industry were started in October 2012. Neste Oil started NExBTL renewable naphtha can be used as a raw material for producing bioplastics, for example, and as a gasoline component.
2. In addition to bionaphtha, Neste Oil is also planning to commercialize the biopropane that is also produced during the NExBTL process.

Leveraging synergies is integral part of to sustainable operations

Although Neste Oil's refineries are major users of energy and natural resources, the Porvoo site also generates electricity, steam, and heat at the combined cycle power plant located there. Fired on natural gas and fuel oil, this plant supplies most of the energy used by all the companies in the surrounding Kilpilahti industrial area.

Neste Oil also works to make better use of natural resources at its other refineries. The location of its new refineries in Singapore and Rotterdam offers numerous opportunities for leveraging synergies with neighboring plants. Neste Oil refineries procure the gases, electricity, water, and steam they need from nearby chemical and energy generation plants; and can also make use of sidestreams and process waste from nearby companies in their own production processes.

Neste Oil procures all its feedstocks from carefully selected suppliers that comply with the company's strict criteria covering sustainability other areas.

Fossil feedstocks

Neste Oil used a total of 14.2 million tons (14.8) of crude oil and other feedstocks in producing its conventional petroleum products in 2012, primarily sourced from Russia, with the remaining part coming mainly from Norway and Kazakhstan. Fossil refinery intermediates were also procured to be used, both as feedstocks and blending components. Neste Oil also sourced natural gas from Russia, primarily for energy generation and hydrogen production purposes.

Neste Oil does not engage in oil exploration or drilling and has no plans to enter this field of operations. As a result, its potential to influence on crude oil production. Neste Oil sources its crude from major international commodity trading centers. The majority of crude procured in 2012 was bought directly from production companies. Batches are generally identified only by a description of their product properties, the name of the producer, and the country of origin, as crude produced by different fields is exported through the same pipelines. Neste Oil has more detailed information on the specificbatches it is produced, however.

Carbon footprint of crude oil

The CO_2 emissions released during crude production represent the key current sustainability issue related to the fossil feedstocks used CO_2. Neste Oil actively monitored research on methods and procedures that can be used for determining the carbon footprint of crude oil during 2012, focusing on reports and studies on the CO_2 emissions associated with Russian crude in particular. It also took part in debate on the carbon footprint of crude oil related to the development of EU directives, through oil & gas industry organizations and networks, and through projects coordinated by a variety of research organizations. As relatively few reports have been available on the carbon footprint of the oil & gas industry in Russia, Neste Oil will continue investigating this area during 2013.

Neste Oil completed preliminary carbon footprint calculations for its petroleum products in 2012. These calculations, which cover products' entire life cycle, make use of literature-based data from outside sources and world average figures in respect of Russian crude oil production because of the lack of more detailed data. Neste Oil's aim is to report the carbon footprint of its fossil fuels in 2013, and was continuing to collect related to its crude oil supply chain.

More information about feedstocks in Annual Report.

Ethanol

Neste Oil procures ethanol for blending into 95 E10 and 98 E5 gasoline for sale on the Finnish market. Ethanol is not used as a raw material in fuel production, but is blended together with fossil fuels as such. In addition of other biofuels, the ethanol used in this way helps Finland comply with EU-mandated bio-content requirements. 95 E10 gasoline, which contains 10% ethanol, reduces fuel-related greenhouse gas emissions by 4-6% compared to conventional gasoline.

Ethanol is produced around the world from a variety of different renewable raw materials, such as sugar cane, sugar beet, and corn in South and North America, as well as in the EU. Where Neste Oil sources its ethanol from, and what it is produced from, depends on the market situation and cost efficiency-related issues.

Neste Oil procured 112,000 tons of ethanol for blending in 2012, primarily from North-America and the EU.

Ethanol supplied to Europe is required to meet the sustainability criteria of the EU's Renewable Energy Directive in the same way as other biofuels. Neste Oil requires all its ethanol suppliers to provide documentary proof of their compliance with sustainability criteria, and be able to show a verifiable reduction in greenhouse gas emissions and use only land permitted for cultivation purposes, for example.

Neste Oil's ethanol trading operations in Geneva were audited as part of ISCC certification during 2012.

Renewable feedstocks

Neste Oil's NExBTL refining technology enables a wide range of renewable raw materials to be used in producing renewable fuels without compromising the quality of the end-product. Extending Neste Oil's feedstock base has been one of the company's strategic goals for many years. Neste Oil is the only biofuel producer today capable of producing renewable diesel on a commercial scale from nearly 10 different types of inputs.

What were our targets?	Actions and achievements in 2012	What next?
▪ Increase the volume of waste- and residue -based feedstocks used in refining by hundreds of thousands of tons compared to 2011.	▪ Neste Oil doubled its use of waste- and residue-based materials, increasing their use by over 400,000 tons. These materials accounted for 35% of Neste Oil's renewable feedstocks in 2012.	▪ We continue work to increase the proportion of waste- and residue-based materials significantly.
▪ Extend Neste Oil's renewable feedstock base with raw materials not previously used.	▪ Neste Oil started using of waste fat from the fish processing industry. When used to produce NExBTL renewable diesel, this reduces the fuel's greenhouse gas emissions by 88%. ▪ A new microbial oil pilot plant was commissioned at Porvoo.	▪ Review the feasibility of starting industrial-scale production based on non-food inputs, such as microbial and algae oil.

Raw material range used in refining

Neste Oil more than doubled its use of waste- and residue-based materials in refining operations in 2012, added waste fat from fish processors to its renewable feedstocks inputs, and increased the proportion of certified raw materials that it uses to 77% (49%). Already 91% (83%) of the palm oil used in 2012 was certified.

Neste Oil's use of renewable raw materials in 2012

Raw material	Proportion used in refining in 2012 (million metric tons used)	Proportion used in refining in 2011**** (million metric tons used)	Source	Greenhouse gas emission reduction*
Crude palm oil**	**64.5% (1.36)**	53.0% (0.44)	Malaysia, Indonesia	47%
Waste and residues (waste animal fat, waste fish processing fat, PFAD, stearin)	**35.1% (0.74)**	40.3% (0.33)	Australasia, South America, Europe, Southeast Asia	88-91%***
Other vegetable oil (rapeseed, soy and camelina oil)	**0.3% (0.007)**	6.7% (0.055)	South and North America, Europe	45-49%
	100% (2.11)	100% (0.83)		

* Average greenhouse gas emission reductions over the entire life cycle of renewable fuel produced at Porvoo and shipped to customers in Europe. The method used to calculate this figure complies with the requirements of the EU's Renewable Energy Directive and has been verified by SGS. The level of emission reduction achieved varies based on the raw materials used, the mode of transport, refining operations, logistics, and end-use.

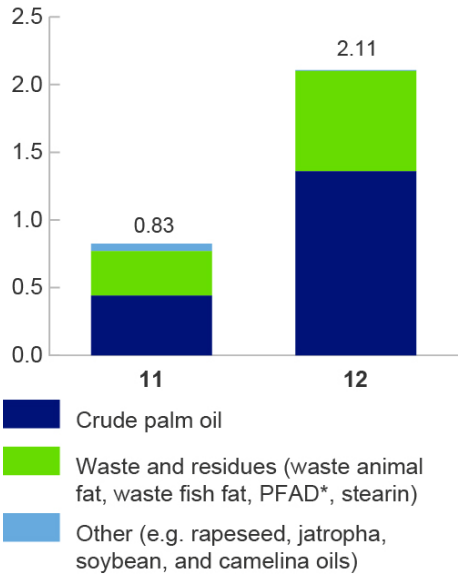
** Includes RBD (Refined, Bleached, Deodorized) palm oil.

*** Supplied to European markets where the raw material in question in classified as waste or residue.

**** Figures from 2011 have been updated.

Use of renewable raw materials in 2012

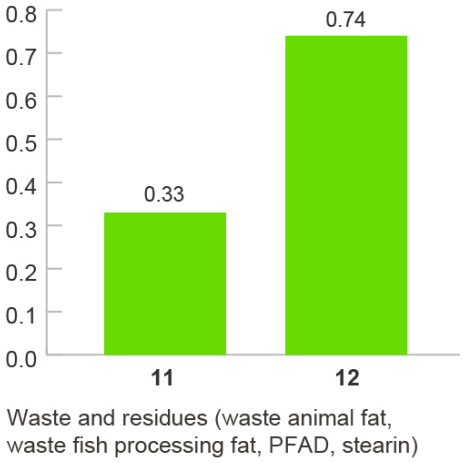
Million tons



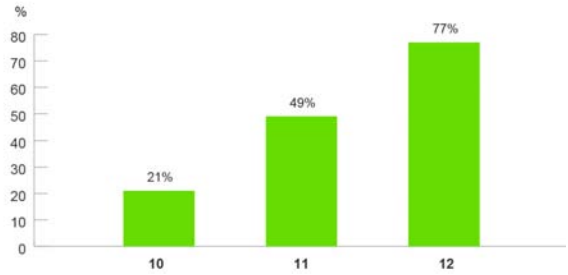
* PFAD = Palm Fatty Acid Distillate

Use of waste and residues in refining

million tons



Use of certified raw materials in refining



Depending on the feedstock used, Neste Oil's NExBTL renewable diesel provides a 40-90% reduction in greenhouse gas emissions compared to fossil diesel.

Use of waste and residues more than doubled in 2012

Neste Oil more than doubled its use of waste and residue-based raw materials in producing renewable fuel in 2012, and waste fat from the fish processing industry was also added to the inputs used. Neste Oil's target in the area of raw material usage in 2012 was to increase its use of waste and residues by hundreds of thousands of tons compared to 2011. This target was achieved, and Neste Oil's usage of waste and residues increased by over 400,000 tons in 2012, bringing total usage of these materials to 742,000 tons (333,000) or approx. 35% (40) of total renewable feedstock inputs. The goal is to further increase the usage of waste and residues significantly in 2013.

Increased use of certified raw materials

Under both European and US legislation on renewable fuels, the raw materials used to produce renewable fuels must be fully traceable back to where they were grown or produced. All of the renewable inputs used by Neste Oil in 2012 complied fully with this requirement.

77% (49%) of the renewable raw materials used by Neste Oil in 2012 was certified. A significant proportion of this increase was the result of increased use of certified crude palm oil, and 91% (83%) was certified either or both by the system specially developed for palm oil by the RSPO (Roundtable on Sustainable Palm Oil) or under the EU-approved raw material independent ISCC (International Sustainability and Carbon Certification) system covering all renewable inputs. The goal is to ensure that 100% of the palm oil Neste Oil procures is certified by the end of 2015. Neste Oil was again the world's largest buyer of fully traced, RSPO-certified palm oil in 2012. Many other major users of palm oil do not require full traceability back to the plantation and simply buy RSPO certificates for the quantities they procure.

No certification systems exist for waste- and residues-based materials or for some types of vegetable oil. In cases where a raw material-specific certification system does not exist, Neste Oil normally verifies the sustainability of raw material production and compliance with the EU's Renewable Energy Directive by making

use of a European Commission-approved sustainability verification scheme, such as ISCC, or by using a method compatible with local legislation in the country to which the fuel is to be delivered.

Read more about renewable fuels certifications.

Sustainably produced palm oil represents significant raw material for Neste Oil

Sustainably produced palm oil is currently the single largest input used by Neste Oil for producing renewable diesel, based on its availability, price, and certifiability.The proportion of crude palm oil used by Neste Oil to produce renewable diesel rose to 64.5% in 2012, compared to 53% in 2011. The proportion of crude palm oil decreased while the proportion of RBD -palm oil (Refined, Bleached, Deodorized) increased signifigantly. The primary reason for the increase in palm oil usage was the growth of Neste Oil's total renewable feedstock use compared to 2011, as all four of the company's NExBTL plants were fully operational throughout the year. The most significant growth in renewable inputs, however, was seen in waste- and residues-based materials, and the use of these in 2012 more than doubled compared to 2011.

World production of palm oil (including residues such as stearin and palm fatty acid distillate) was 50 million tons in 2011. Neste Oil's use continued to account for a fraction of this total, 1.4%. 77% of the world's palm oil in 2011 was used by food manufacturers, 10% by the biofuel industry, 8% by the chemical industry, and the remainder in areas such as energy generation (Source: Oil World, 2012).

Read more about Sustainability of the renewable fuels supply chain.

Future renewable raw materials

Neste Oil's long-term goal is to continuously extend the range of renewable feedstocks that it uses for refining. Extending the feedstock base will improve Neste Oil's security of supply in terms of renewable inputs and will balance out the impact that fluctuations in feedstock prices have on the company's business.

Current biofuel production around the world relies on raw materials that are available in commercial quantities and include food-grade and non-food vegetable oil and various types of waste fats. In respect of vegetable oil, Neste Oil has aimed at promoting improved yields per hectare as one way of reducing the pressure to bring more land into cultivation for producing oil. Neste Oil continued working with Boreal Plant Breeding Oy and Raisioagro Oy during 2012, for example, on a project aimed at developing

spring oilseed rape varieties capable of yielding higher oil and protein levels and suitable for Finnish growing conditions. The goal is to increase the yields of oilseed rape and similar crops by 40% by 2020.

As part of long-term efforts to reduce the proportion of food-grade vegetable oil in its renewable feedstock base, Neste Oil has increased its use of waste- and residues-based inputs significantly. Use of waste fat from the fish processing industry was started in 2012, and a study was carried out on the potential for making use of non-food technical corn oil, used cooking oil, pine oil- and palm oil-based residue streams. Neste Oil's goal is to enable the use of these materials to start in 2013.

Neste Oil committed itself in 2012 to a EU project designed to produce renewable aviation fuel from oil produced from the European camelina plant, which is grown for rotational cropping purposes and largely used as animal feed. Camelina oil is produced as a feed by-product. Neste Oil is also working with partners planning to start production of non-food jatropha oil to help ensure that cultivation follows sustainable principles. The goal of these companies is to grow jatropha on marginal land of little value for other purposes.

In addition to increasing its already extensive use of waste and residues, Neste Oil has continued to prioritize the development of new types of raw materials to ensure that these can be used as inputs for producing biofuels as soon as possible. New non-food raw materials, such as algae and microbial oil, are still not available for use on a commercial, and are only expected to be produced in industrial volumes in 5-10 years' time at the earliest.

Neste Oil commissioned a pilot plant for producing waste-based microbial oil at Porvoo in 2012 and continued international collaboration in the algae oil area.

Neste Oil and Stora Enso announced in August 2012 that they had decided not to go ahead with their plans for a commercial-scale NExBTL plant based on biowax produced from forest harvesting waste because of the high capital costs involved. The two companies will continue to cooperate on other bio-based products, however.When planning to use a new renewable raw material, Neste Oil evaluates:

- technical suitability for Neste Oil's refining process
- availability and security of supply in industrial scale
- price
- acceptability on different fuel markets
- overall sustainability of how it is produced and the benefits it offers in areas such as reducing greenhouse gas emissions (carbon footprint) when refined into a fuel, its water footprint, and its impact on land use.

Material and Energy Balance table

Neste Oil's feedstock use, production, and emissions

	2012	2011[1)]	2010
Feedstocks			
Crude oil (t/a)	**11,540,000**	11,840,000	10,500,000[2)]
Other feedstocks (t/a)	**4,860,000**	3,700,000	3,920,000[2)]
Energy consumption			
Electricity (GWh/a)	**1,400**	1,432	1,333[2)]
Steam	**2,875**	3,170	
Oil (t/a)	**51,100**	89,120	97,250[2)]
Natural gas (billion Nm^3/a)	**0.5**	0.5	0.5
Water			
Water withdrawal[3)] (m^3/a)	**7,430,000**	7,628,000	8,410,000
Wastewater (m^3)	**9,904,000**	9,100,000	8,151,000[2)]
Waste[5)]			
Ordinary waste (t/a)	**6,100**	4,270	8,620[2)]

Recycled waste (t/a)	**57,600**	61,010	42,008[2)4)]
Hazardous waste (t/a)	**22,000**	24,400	13,800[2)]
Emissions to air			
Direct CO_2 (carbon dioxide), (t/a)	**3,471,000**	3,696,000	3,789,000[2)]
Indirect CO_2 (carbon dioxide), (t/a)	**229,800**	162,600	25,400[2)6)]
VOC (volatile organic compounds), (t/a)	**5,200**	4,700	6,000
NO_X (nitrogen oxides), (t/a)	**8,600**	10,100	11,900
SO_2 (sulfur dioxide), (t/a)	**8,200**	9,300	10,500
Particles	**542**	505	
Emissions to water			
Oil (t/a)	**3.6**	1.4[1)]	2.1
COD (chemical oxygen demand), (t/a)	**306**	317	390
Nitrogen	**49**	45	
Phosphorus	**2.5**	2.6	
Products			
LPG (liquefied petroleum gas), (t/a)	**317,800**	457,300	298,300
Gasoline (t/a)	**4,305,500**	4,265,500	3,988,500
Diesel fuel and heating oil (t/a)	**9,019,200**	8,491,800	7,448,800
Heavy fuel oil (t/a)	**1,286,600**	1,066,184	970,300[2)]
Bitumen (t/a)	**192,500**	490,100	492,900[2)]
Sulfur (t/a)	**134,900**	133,300	121,700
Solvents (t/a)	**200,900**	267,400	251,300
Other products	**258,100**	231,200	168,700
Services			
Marine shipments (t/a)	**27,415,518**	28,640,000	30,700,000
Marine shipments (km/a)	**1,892,818**	2,196,400	2,422,000
Fuel usage (t/a)	**94,000**	104,000	136,000
Road shipments (t/a)	**3,894,000**	3,767,000	3,700,000
Road shipments (km/a)	**28,800,000**	29,300,000	29,200,000[2)]
Fuel usage (t/a)	**9,732**	9,865	10,013[2)]

[1)] Figures were updated on 25 April 2012. The information presented in the table above has been updated since the publication of the Annual Report 2011. In respect of wastewater and emissions to water, the figures from 2012 have been used for the Porvoo refinery because the final calculated figures were not available at the time of reporting.not available at the time of reporting.

[2)] Figure has been updated from 2010 report.

[3)] Does not include cooling water.

[4)] The storage of waste at the Porvoo refinery's recycling area was reduced in 2010, which explains the higher figure.

[5)] Does not include contaminated soil.

[6)] Proportion of purchased electricity. CO_2-free electricity was used at the Neste Oil's office buildings in Finland until the end of January 2011.

Water use and wastewater treatment

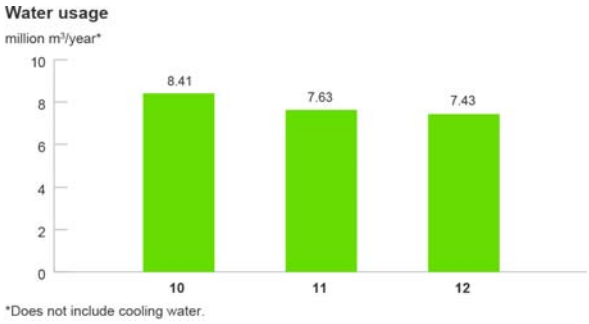
Water and steam are used extensively in Neste Oil's refining operations, and water usage is monitored constantly in terms of parameters such as water input, water usage efficiency, and cooling water and wastewater management. Fresh water is largely only used for process, firefighting, and cooling purposes. All Neste Oil refineries employ closed-cycle cooling systems.

Water used in refining process

The majority of Neste Oil's water usage, around 96%, is linked to the company's refineries and the rest is used in Neste Oil's terminals, shipping, and Neste Oil's stations network. Neste Oil's water usage and wastewater levels have increased as a result of increased production and as a result of company's two new renewable fuel refineries becoming fully operational. The primary reason for the increased palm oil use was the growth of Neste Oil's total renewable feedstock use compared to 2011, as all four of the company's NExBTL plants were fully operational throughout the year. As Porvoo is the largest and most versatile refining facility, the site is also company's biggest water user. Neste Oil's new NExBTL refineries in Rotterdam and Singapore have been designed from the ground up to be highly efficient in terms of water usage.

Water balance calculations have been produced for Neste Oil's Finnish refineries showing water inputs and outputs at these sites and the volumes of the most important water flows there. These figures do not include the seawater used at both sites for cooling purposes. In Rotterdam cooling is purchased from a third party.The cooling water used at the Porvoo, Naantali, and Singapore refineries is sourced from the sea. Seawater is used to cool the fresh water circulating in a closed circuit before being returned to the sea.

Read more about cooling water.



Water balance figures for Neste Oil's refineries are currently being updated. No targets have been set for water consumption. The water used in processes affects areas such as energy consumption, product quality, and process safety. Water also impacts the corrosion and service life of equipment. As a result, setting targets for specific water consumption is not the best way forward, instead the emphasis in target-setting should be on

evaluating the overall impact of water usage on the environment and safety.

Water inventories and water scarcity areas

Water-related matters are monitored and reported more extensively than previously. Work started on updating a water inventory for Neste Oil's Finnish refineries in 2011. Water inventory analyses for the company's product chains include a more detailed assessment of the impact of water usage than that contained in a simple water balance and provide further information for minimizing possible areas of negative impact.

There is still no commonly accepted standard, method, or set of guidelines for measuring water footprints based on extensive water inventories. Neste Oil is actively monitoring international research on new methods for measuring water footprints however. During 2012, the company focused on the work being done on the ISO 14046 water footprint standard and took part in this work together with VTT Technical Research Centre of Finland and the Chemical Industry Federation of Finland. Neste Oil experts also took part in commenting work related to the Policy Options for the Blueprint to Safeguard Europe's water - initiative.

Although there are a number of ways of defining water scarcity, there is no one generally accepted definition. An analysis using the WWF's Water Risk Filter tool, published in 2012, indicates that Neste Oil has no operations in areas of water scarcity. The original sources for the water Neste Oil sources are: the River Maas in Rotterdam, the River Mustijoki in Porvoo, and the River Kokemäenjoki in Naantali. The refinery in Singapore primarily uses recycled wastewater.

The European Commission published a Water Blueprint towards the end of 2012. Neste Oil commented the strategy paper prior to its publication.

Wastewater treatment

The amount of wastewater generated as a result of Neste Oil's operations in 2012 totaled 9,904,000 m^3 (9,099,000 m^3). This was higher than in 2011 as a result of higher production volumes. Before being discharged into waterways, all wastewater passes through highly efficient treatment plants featuring mechanical, physical- chemical, and biological processes.Treated wastewater is discharged to waterways in Porvoo, Naantali and in Rotterdam. Wastewater from the Singapore refinery goes to a local Public Utilities Board treatment plant, where some of it is treated for re-use. The majority of the process water used by Neste Oil at the refinery comprises this recycled water.

Waste water

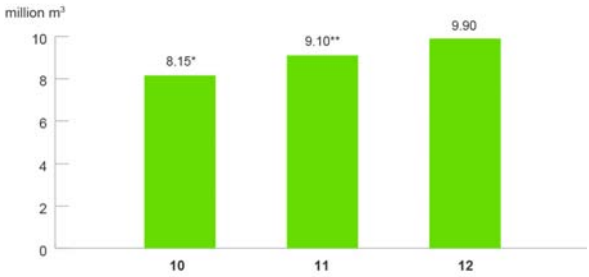
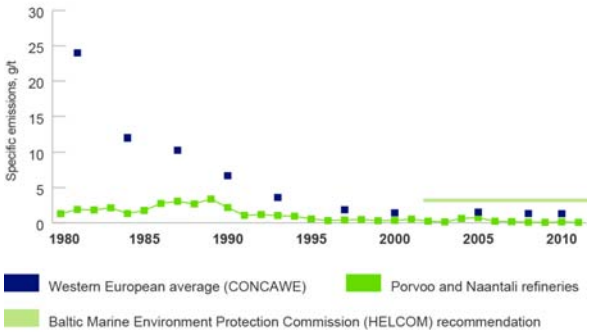


*Figure has been updated from 2010 report.
**Figure has been updated from 2011 report.

The oil content of waterborne emissions at Neste Oil's two largest refineries at Naantali and Porvoo was 0.12 grams (0.08 g) per ton of feedstock processed in 2012, which was less than 5% of the target level of 3 g/t set by the Baltic Marine Environmental Protection Commission.

Wastewater emissions at Neste Oil's refineries compared to other refineries in Western Europe

Oil emissions into the sea, 1980–2011, grams per ton of feedstock input



The HELCOM recommendation is 3 g/t, Recommendation 23/8 (6.3.2002)

Wastewater treatment at Neste Oil's refineries operated well during 2012, with the exception of two incidents in Porvoo Refinery and one incident at Naantali refinery when the limits set by the authorities for effluent discharges were exceeded. A decision to increase wastewater treatment buffer capacity at Naantali was made in 2011, and this increased capacity will be in place by 2014 at the latest.

Neste Oil has increased the efficiency of water usage and wastewater treatment at Porvoo over the last few years, partly as a result of the stricter environmental permit conditions covering the refinery's wastewater that came into force at the beginning of 2012.

Water issues in renewable feedstock procurement

Water issues are seen as fundamental, particularly when selecting which renewable inputs and which suppliers of these materials to use. Neste Oil always reviews water usage and wastewater treatment prior to the selection of any new raw materials or their suppliers. Pressing the palm oil used as one of the raw materials for NExBTL renewable diesel, for example,

generates quantities of wastewater; and Neste Oil expects potential palm oil suppliers to treat this effluent using responsible procedures and processes. Palm oil suppliers are also expected to provide regular water reports as part of Neste Oil's continuous sustainability monitoring process. Neste Oil's experts monitor research on the water consumption characteristics of different crops and cultivation areas producing renewable raw materials, as well as how much evapotranspiration occurs during cultivation.

Waste

Neste Oil's goal is to steadily reduce the amount of waste that its operations generate and promote greater waste recycling. The majority of Neste Oil's waste, over 90%, is generated at the company's refineries. The total amount of waste amounted to 85,700 tons (89,680 tons) in 2012.

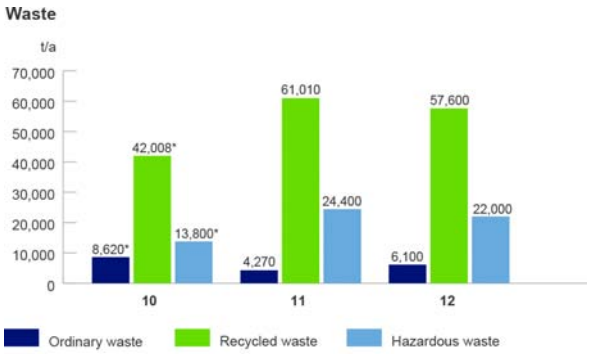


*Figure has been updated from 2010 report.

Neste Oil launched a program in 2011 to outsource waste management at its refineries to specialist professionals in the field as a means of improving overall waste management efficiency and achieving cost savings. The Porvoo refinery was the first site to see its waste management outsourced to a waste-management company, which now has a full-time site manager in the Kilpilahti area. The latter assists Neste Oil personnel in day-to-day waste management matters, guides and monitors the company's waste management partners, develops operations, and is responsible for waste reporting, monitoring legislative changes in the field, and informing Neste Oil of anything that may affect its operations.

Neste Oil's largest refinery at Porvoo concentrated on improving waste sorting, labeling waste skips, and establishing centralized waste collection points during 2012 to further reduce the volume of the site's mixed waste stream. Waste such as concrete and asphalt is shipped off-site directly to specialized treatment facilities.

The outsourcing program will continue in 2013 at other sites. The aim is to introduce the approach developed at Porvoo to the Naantali refinery, terminals, and sites outside Finland.

The majority of the waste generated at the Rotterdam refinery is organic in nature and is exported off-site for use as compost or in producing biogas. This use of the site's waste increases the overall value of the refining process and reduces its production-related greenhouse gas emissions. Other types of waste at the site are sorted to optimize recycling and cost efficiency. Paper waste generated in the refinery's offices is collected for recycling. Waste logistics and waste management have been outsourced to an outside provider, who is also responsible for ensuring that the site complies with statutory waste management legislation and regulations.

In addition to ordinary waste, the Singapore refinery generates other types of waste, most of which takes the form of bleaching clay, sludge, and oil-contaminated water, which is sent for treatment in line with local legislation to a specialist outside contractor. Some of the bleaching clay goes to a landfill. The refinery receives payment for waste that is recycled. Office waste – such as paper, ink and toner cassettes, and cans – is sorted and recycled.

Neste Oil's single largest office, Head Office in Espoo, has been involved in the WWF's Green Office program for some time. As part of its participation, Neste Oil targeted reducing mixed and secure ICT waste there by 5% during 2012. This reduction target was not met. Mixed waste increased by over 1,000 kg and ICT waste by over 6,000 kg. Mixed waste totaled 7,000 kg (5,600kg) and ICT waste 27,500 kg (21,000 kg). This increase was mainly the result of higher personnel numbers at the site. As a result, efforts will be made in 2013 to improve employees' awareness of recycling issues.

The majority of Neste Oil's products are never packed, but are transported and sold to customer directly from product tanks. Only a very small proportion of products intended for corporate customers and consumers (such as lubricants, antifreeze, window wash, and LPG in Finland) is packed for sales purposes.

More information on Neste Oil's material usage can be found in the Material and Energy Balance table.

Protecting the waterways and soil

Neste Oil protects the soil, groundwater, and waterways from being polluted by its operations and from other negative impact resulting from its refining and logistics activities everywhere it operates. Past damage is always systematically cleaned up.

Avoiding leaks and spills, and protecting soil and waterways generally, are particularly important areas of environmental protection work for Neste Oil, as the company's refineries are based at coastal locations and a significant proportion of feedstocks and product deliveries take place by sea.

Water-related questions are always highlighted as part of environmental impact assessments when planning the construction of new plants. The most recent of these was carried out in September 2011 for a biorefinery planned by NSE Biofuels Oy. No assessments of this type were carried out in 2012.

Protecting waterways

Neste Oil prioritizes the safety of its marine logistics and the importance of avoiding any accidents at sea. In line with previous years, no significant leaks into the sea took place as part of marine shipments in 2012, nor were there any other dangerous situations encountered that could have threatened sea areas, waterways, or other aspects of the environment. Neste Oil continued working with the Tanker Safety Project coordinated by the John Nurminen Foundation. Read more on transport safety.

Sea areas adjacent to Neste Oil's refineries in Finland, together with water quality, have been monitored for decades, and work in this area continued in 2012. Monitoring focuses on studying water quality, organisms that live on the seabed, pollutants, fish stocks, and fishing-related issues. No significant changes from the good level of the previous year were not found in them.The authorities are responsible for comparable monitoring at the Rotterdam refinery.

Water quality near the Porvoo refinery and the state of the sea bottom near the site do not differ from those typical of other areas along the coast in the eastern part of the Gulf of Finland. The levels of pollutants found in sediment, clams, and perch are low. Studies have shown that no significant changes have taken place in the stocks of fish that are commonly caught locally – such as pike perch, perch, and pike – over the last 20 years. Annual studies of the sea off the Naantali refinery are carried out in cooperation with other local organizations. The most recent report covering the Naantali site was published in 2011.

Cooling water and its impact on nearby waterways

Cooling water for Neste Oil's refinery in Rotterdam is sourced from a third party, while that for the Porvoo, Naantali, and Singapore refineries comes from the sea. Seawater is used to cool fresh water circulating in a closed circuit. Large quantities of water are needed, nearly 82,000 m^3 an hour at the Porvoo

refinery. The temperature of this water is around 10 °C higher when it is returned to the sea.

Because of its elevated temperature, this water adds a thermal load to the area affected. Based on a study conducted at the Porvoo refinery during three winters 2008-2010, the discharge of warmer water does not weaken ice cover or melt it during the winter, however. The study concluded that water flows into the area near the site rather than out to sea, which indicates that thinner ice cover could be caused by thermal energy stored in deeper water layers being released, rather than the refinery's cooling water. A three-year fisheries study in waters near the Porvoo refinery completed in 2011 showed that cooling water intakes used by the refinery do not have a significant impact on fish catches. The size of catches may be reduced by approximately 5%, but most of the fish trapped at intakes have been of no commercial value. Monitoring of fish stocks continued in 2012.

Groundwater protection

Statutory groundwater monitoring continued at the Porvoo and Naantali refineries, the Hamina terminal, and a number of service stations during 2012. Voluntary monitoring took place at the new base oil plant in Bahrain, which is partly owned by Neste Oil. A groundwater monitoring program has been in place at Naantali since 1995, at Porvoo since 1996, at the Hamina terminal since 1998, and at the Bahrain plant since 2010.

Internal groundwater monitoring at the Porvoo site during 2012 indicated some higher-than-normal levels of pollutants, and this is being investigated.

Under the EU's Industrial Emissions Directive ratified in 2011, a survey of the current state of the soil at Neste Oil's refineries will be required as part of the next environmental permit process for each refinery. Neste Oil has collected monitoring data on the soil and groundwater at its Finnish refineries on a voluntary basis since 1995; and the company's other refineries can also supply the soil data required by the Industrial Emissions Directive. Neste Oil's goal is to ensure that pollutants are never leached off the company's sites through groundwater.

Soil protection

A serious leak into the surrounding soil took place at the National Emergency Security Agency's oil storage facility in Kajaani operated by Neste Oil in 2012. Water contaminated with an estimated 20 cubic meters of light fuel oil leaked out of the facility in April. Read more about the case here.

Oil Retail continued work on its environmental risk management program in 2012 and carried out various measures to protect the soil and clean up polluted soil at several service stations across Finland. A total of approximately EUR 2.2 million (3.6 million) was spent on environmental protection-related pre-inspections, monitoring the impact stations have on local groundwater, soil contamination analyses, and soil clean-up measures. This figure does not include dealer-owned stations, where dealers are responsible for soil protection and possible clean-up work.

Following the closure of three stations that had operated for around 10 years, it was possible to study how effectively the structures built into new service station to protect the surrounding soil perform in 2012. The soil around the stations was shown to be free of contaminants. The Finnish Petroleum Federation came to a similar conclusion at sites operated by other companies and produced a report on the subject at the end of 2012. These findings will be used when developing methods for protecting the soil at stations located near groundwater areas in the future.

Protecting the biodiversity and the natural world

A number of factors threaten the world's forests and the biodiversity of the natural world, of which population growth, poverty, mining, construction, irresponsible forest land use, and the uncontrolled expansion of agriculture represent the most important. Neste Oil has invested in environmental protection work for decades, as part of its refining, logistics, and service station operations. Most recently, Neste Oil has concentrated on promoting environmental protection issues in its feedstock procurement operations.

In addition to continuously measuring and monitoring environmental impact, protecting the biodiversity of forests and the natural world generally calls for an efficient use of natural resources to secure the continued integrity of the world's ecosystems.

Good level of biodiversity-related management

Bioindicators have been monitored on a long-term basis since 1985, and monitoring continued during 2012. The latest report on this area of monitoring, dating from 2010, shows that forestland in the vicinity of the Porvoo and Naantali refineries is slowly recovering from the impact of previous pollution. Improvements in the local environment will help preserve the natural biodiversity of these areas. Monitoring will continue.

Neste Oil took part in the Natural Value Initiative assessment in 2011, focused on how oil companies operate in terms of biodiversity, ecosystem services, and water use management. The project rated Neste Oil's management of biodiversity as good and the company's performance as average for the industry and in line with Neste Oil's risk exposure. No similar projects took place in 2012. Neste Oil's practices and experiences in these areas were profiled at a major conference on biodiversity held in Germany in April 2012.

Recognition for Neste Oil's work in managing and reporting its forest footprint

Neste Oil was again recognized by the international Forest Footprint Disclosure (FFD) project for the thorough management and reporting of its forest footprint in 2012. The FFD project is an important forum for sharing information and expertise related to deforestation.

Natura areas close to the Porvoo and Naantali refineries

The Stormossen bog – a 75-hecatre domed bog – to the west of the Porvoo refinery has been a protected site since 1993 and is part of the European Natura 2000 network of nature conservation sites. Together with sites of significant cultural historical importance, the Stormossen bog was one of the nature conservation sites within a 20-kilometer radius of the Porvoo

refinery listed in the environmental impact assessment completed in 2011 on a possible biorefinery to be built by NSE Biofuels.

The Vanto area of deciduous woodland close to the Naantali refinery, owned by Neste Oil, was declared a protected area under Finnish nature conservation legislation at the end of 2008.

Neste Oil always takes areas such as these into account in its operations and strives to protect them and the rest of the environment around its sites.

Taking account of forestland and biodiversity in raw material procurement

Neste Oil strives to purchase only certified renewable raw materials to ensure that environmental protection practices are used in producing its inputs. Neste Oil always confirms that its renewable raw materials are fully traceable. Raw materials used by Neste Oil can only be produced in specifically designated areas and production must not be allowed to endanger sensitive areas, threaten forestland, or undermine the biodiversity of the local environment. Neste Oil prioritizes the use of waste and residues in its feedstock procurement.

Neste Oil has committed itself to an international alliance calling for a moratorium on the felling of rainforest and an immediate end to the destruction of rainforest, biodiversity, and irresponsible land use. Neste Oil believes that producing the vegetable oil used for refining into biofuels should not be allowed to increase the amount of land used for cultivating these crops; the focus should be on increasing the yields of existing areas instead.

Read more about the EU regulation for the cultivation and biodiversity of raw materials that have been used for biofuel production.

Read more about the sustainability criteria used with the company's suppliers here.

Oil leak in Kajaani

Around 100 m^3 of water contaminated with heating oil leaked from a National Energy Security Agency storage facility in Kajaani operated by Neste Oil in April 2012. The water is estimated to have contained around 20 m^3 of oil.

Neste Oil began working with the local authorities in containing and cleaning up the spill immediately after the incident took place and continued this work throughout the year. Neste Oil also committed itself to all measures needed to remedy the damage caused and compensate local people.

Following clean-up work carried out in fall 2012 and natural processes, the size of the polluted area had shrunk significantly by the end of the year. No significant damage resulting from the leak has been observed in local waterways and the sedimentary layers of the local lake are clean of oil. The remaining oil has not found its way into the local environment and there is no immediate need for further clean-up work.

Following the incident, the capacity of the facility's water management systems has been increased by over 100 m^3 and additional oil measurement sensors for monitoring water purity have been installed and existing ones upgraded. Operating procedures have also been developed and monitoring increased.

Neste Oil will continue work on the case in 2013 and will draw up a review of the contamination in the area affected by the leak and the clean-up required, which will be used when deciding whether possible further additional measures are needed. Input from the Kainuu Centre for Economic Development, Transport and the Environment and the Finnish Environment Institute on the report will be taken into account when planning follow-up measures. Neste Oil also plans to investigate whether other, lower-profile methods, such as the use of forest fertilization or land reclamation, could be used.

An on-site review of the situation will take place in April 2013, and the plan is to complete a new soil survey by the end of the summer. Neste Oil will produce a proposal covering a waterways monitoring program for the spring 2013 flood season. Further information on the leak (in Finnish) can be found here: http://www.kajaaninoljyvahinko.fi.

Sustainable supply chain

Supply chain in Neste Ol covers production of raw materials, transportation, refining and product use. Selection principles of raw material suppliers are outlined in Neste Oil's Supply compliance principles. Neste Oil monitors the sustainability of its renewable fuels production chain continuously and verifies that it complies with both its own and statutory sustainability criteria on a regular basis – through both its own internal audits and audits carried out by impartial third-party experts.

Sustainability of supply chain

Production of raw materials | Raw material transportation | Refining | Fuel transportation | Product use

Efficient resource usage at Neste Oil covers areas such as:

- Responsible feedstock procurement
- Reducing greenhouse gas emissions across the entire supply chain
- Continuously improving the energy efficiency of refinery operations
- Optimizing logistic flows
- Optimizing the use of water for process, firefighting, and cooling purposes
- Using closed-cycle cooling systems at the company's refineries
- Employing efficient wastewater treatment processes at refineries before discharging effluent into waterways
- Reducing the amount of waste generated during operations and improving recycling efficiency
- Making use of refining sidestreams.

All of the renewable inputs used by Neste Oil are

100%

traced back to their origin.

Palm oil from over 9,000 families

Altogether over 9,000 smallholder families supplied to Neste Oil, and all of these volumes supplied were ISCC-EU-certified (International Sustainability and Carbon Certificate) with assistance from Neste Oil's experts.

What were our targets?	Actions and achievements in 2012	What next?
▪ Increase the proportion of certified raw materials by a minimum of 10%-points compared to 2011.	▪ All renewable feedstocks used in refining were 100% treacable back to their origin. ▪ 77% (49%) of renewable inputs were certified in 2012. 91% (83%) of palm oil used was certified (ISCC or RSPO*).	▪ We ensure that all renewable feedstocks continue being 100% traceable back to their origin. ▪ We continue to increase the proportion of certified renewable feedstocks in refining. ▪ Our aim is that 100% of the palm oil used by Neste Oil will be certified by the end of 2015.

* The ISCC (International Sustainability and Carbon Certification) and RSPO (Roundtable on Sustainable Palm Oil) certification systems have been approved by the European Commission as meeting the requirements of sustainability verification schemes specified in the EU's Renewable Energy Directive.

Greenhouse gas emissions and sustainability verification throughout the supply chain

The following diagram illustrates the various stages of the supply chain related to the fuels that Neste Oil produces, the greenhouse gas emissions emitted during each stage, and the sustainability verification methods used in respect of renewable fuels.

Life cycle of the fuel produced

Production of raw materials | Raw material transportation | Refining | Fuel transportation | Product use

Greenhouse gas emission reduction of the entire life cycle of the fuel produced

Product	Greenhouse gas emissions generated during the product's life cycle (g CO_2eq/MJ):	Emission reduction* compared to fossil diesel (using the EU calculation method):
Fossil diesel	83.8	-
NExBTL diesel (palm oil)	44.8	47
NExBTL diesel (rapeseed oil)	42.8	49
NExBTL diesel (waste animal fat)	20.5	76

* Average greenhouse gas emission reduction values calculated by Neste Oil for the entire life cycle of the fuel produced at the Porvoo refinery and shipped to European markets. The calculation method complies with the requirements of the EU's Renewable Energy Directive and has been verified by SGS. A reference figure of 83.8 g of CO_2eq/MJ has been used when calculating emission reductions. The proportions of greenhouse gas emissions accounted for by the various stages of fossil diesel production are based on CONCAWE estimates. Emission reductions are affected by raw material production methods, the mode of transport used, refining, fuel transportation, and end-use.

Production of renewable and fossil raw materials

In accordance with Neste Oil's sustainability verification scheme, we review:

- Cultivation data provided by raw material suppliers
- Historical data on land use and when cultivation or growing started
- Data on raw material suppliers from verification, audits, and certificates
- Renewable raw material production methods, such as vegetable oil pressing.

Greenhouse gas emissions:

- Crude oil used as the feedstock for producing fossil diesel comes from underground reservoirs, and extraction and flaring account for the largest proportion of greenhouse gas emissions.
- The majority of the greenhouse gas emissions of renewable diesel are associated with cultivation in respect of rapeseed oil and pressing in respect of palm oil. The greenhouse gas emissions associated with waste animal fat are released during transportation. The greenhouse gas emissions of waste and residues (such as waste animal fat and palm fatty acid distillate, PFAD) are not included in the greenhouse gas balance of the end-product.
- Palm oil is better than most other types of vegetable oil in terms of its greenhouse gas balance, because of the excellent yields offered by oil palms and the fact that harvesting is done manually. Its greenhouse gas balance can be improved even further if methane is not generated during pressing or it is recovered.

Emissions generated as a proportion of the entire supply chain:

Fossil diesel: 1–4%

NExBTL diesel (palm oil): 80%

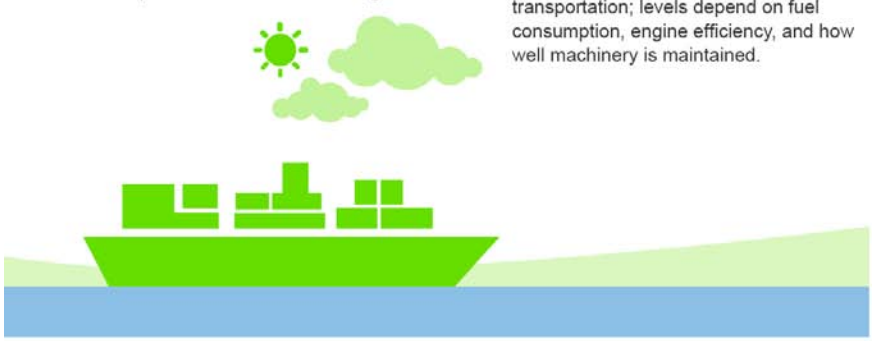
NExBTL diesel (rapeseed oil): 83%

NExBTL diesel (waste animal fat): 63%

Raw material transportation

In accordance with Neste Oil's sustainability verification scheme, we review:

- Mode of transport used
- Compliance with international regulations



Greenhouse gas emissions:

- Fossil and renewable raw materials are transported from where they are produced to where they are refined by sea, rail, and road. CO_2 emissions are generated during transportation; levels depend on fuel consumption, engine efficiency, and how well machinery is maintained.

Emissions generated as a proportion of the entire supply chain:

Fossil diesel: 1%*

NExBTL diesel (palm oil): 5%

NExBTL diesel (rapeseed oil): 1%

NExBTL diesel (waste animal fat): 3%

* Raw material and fuel transportation combined.

Refining

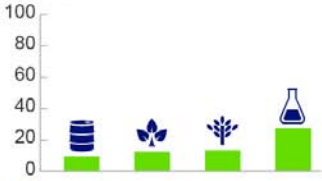
In accordance with Neste Oil's sustainability verification scheme, we review:

- Process energy use
- Energy generation configuration
- Certificates and permits

Greenhouse gas emissions:

- CO_2 is released when producing the hydrogen used in refining, for example. CO_2 generated during refining can be recovered, thereby reducing overall emissions. Neste Oil's refineries in Finland come under the EU's Emissions Trading Scheme.

Emissions generated as a proportion of the entire supply chain:



Fossil diesel: 8–10%

NExBTL diesel (palm oil): 12%

NExBTL diesel (rapeseed oil): 13%

NExBTL diesel (waste animal fat): 27%

Fuel transportation

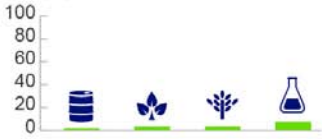
In accordance with Neste Oil's sustainability verification scheme, we review:

- Mode of transport used
- Energy consumption

Greenhouse gas emissions:

- Neste Oil sells the bulk of its fossil and renewable diesel to wholesale customers, which include major oil companies.
- Road transport generates the largest amount of CO_2 emissions; shipments by sea generate fewer emissions per ton of product.
- Road transport emissions have been reduced by equipping tanker trucks with more efficient engines and speed limiters.
- Product transport emissions include storage- and service station-related emissions generated as part of fuel distribution.

Emissions generated as a proportion of the entire supply chain:



Fossil diesel: 1%*

NExBTL diesel (palm oil): 3%

NExBTL diesel (rapeseed oil): 3%

NExBTL diesel (waste animal fat): 7%

* Raw material and fuel transportation combined.

Product use

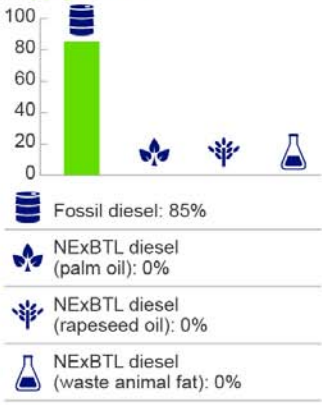
Neste Oil's sustainability verification scheme does not cover product use.

Greenhouse gas emissions:

- The majority of fossil diesel emissions are generated during usage, when the carbon contained in the crude oil used to produce it is released into the atmosphere as CO_2 during combustion.
- Similar volumes of CO_2 emissions are released during the use of NExBTL renewable diesel, but these emissions do not add fossil-based carbon to the CO_2 in the atmosphere. As a result, emissions released when using renewable fuels are not included in the CO_2 balance figures for Neste Oil's supply chain.*
- The levels of tailpipe emissions released when using NExBTL renewable diesel are significantly lower than those of fossil diesel:
  - Nitrogen oxide (NO_x), -9%
  - Particulates (PM), -33%
  - Carbon monoxide (CO), -24%
  - Hydrocarbons (HC), -30%
- Premium-quality fuels are ideal for the latest engines, which offer lower fuel consumption and lower CO_2 emissions.

* Based on the EU's Renewable Energy Directive (2009/28/EC).

Emissions generated as a proportion of the entire supply chain:



Strict sustainability criteria applied to raw material suppliers

Selection principles of raw material suppliers are outlined in Neste Oil's Supply compliance principles.

Procurement criteria for fossil and renewable feedstocks

Neste Oil decides which fossil and renewable feedstock suppliers to use based on its Supply Compliance principles and the procurement criteria contained in its risk management principles. These define the procedures to be followed in areas such as the following:

- Register of approved counterparties
- Supplier criteria
- Counterparty approval procedures
- Credit review
- Security review
- Sustainability review
- Authority to approve a counterparty and documentation.

Only those suppliers are used that operate in line with Neste Oil's HSEQ requirements – in areas such as safety, health care, and labor use – and are able to supply products and services that comply with the appropriate statutory requirements in terms of health, safety, and the environment, and possess other relevant and appropriate statutory permits. Neste Oil's procurement organization also abides by the health, safety, and environmental guidelines of the company's various businesses and refineries.

Neste Oil requires sustainability of the raw material suppliers

Neste Oil is committed to sourcing only raw materials that can be verified as having been produced sustainably and that can be fully traced back to where they were grown or produced – in accordance with the sustainability criteria contained in the EU's Renewable Energy Directive, established by the Environmental Protection Agency in the US, or other statutory regulations.

Neste Oil employs very detailed criteria when selecting its renewable raw material suppliers, and requires suppliers to be committed to Neste Oil's sustainable development principles

related to biofuels. These criteria are defined in the supplier guidelines incorporated into Neste Oil's management system – and require suppliers to be committed to sustainable development and to continuously improving their operational health, safety, and environment performance, to protecting biodiversity, to respecting human rights, to proactively promoting occupational safety, and to acting in accordance with good business ethics.

In line with its criteria, Neste Oil requires that all its renewable raw material suppliers must also be committed to international certification programs. Preference is given to certified raw materials as a means of ensuring that sustainable practices are used in producing the raw materials that Neste Oil buys.

Prior to taking a decision on a raw material supplier, Neste Oil always carries out a due diligence study to clarify areas such as the current level of a supplier's HSEQ performance and their plans for improving their performance. Neste Oil either carries out an audit itself or commissions an impartial, third-party audit of a supplier to determine whether they operate responsibly and sustainably and how they are implementing their development plans in practice.

During 2012, impartial third-party specialists audited 26 (19) of Neste Oil's raw material suppliers in connection with certification procedures. In its own audits, Neste Oil uses the criteria that it has developed as part of its sustainability verification system, which meets the requirements of the EU's Renewable Energy Directive and is expected to receive approval by the European Commission in the near future. Neste Oil also includes a sustainability clause in all the commercial contracts that it signs with its renewable raw material suppliers. NExBTL renewable diesel customers also audited Neste Oil's production and procedures during 2012.

All of the renewable inputs used by Neste Oil are 100% traced back to their origin.

Renewable feedstock suppliers

Neste Oil sourced the bio-inputs needed for producing its renewable fuels from a total of 31 (29) suppliers around the world in 2012. Waste animal fat and rapeseed oil were also sourced from Finland. Neste Oil primarily sources its renewable inputs directly from suppliers around the world. It does not engage in producing or manufacturing any raw materials used in refining renewable fuels, nor does it own or operate any plantations or facilities producing renewable inputs.

Read more about the range of renewable fuels in production.

Some of the Neste Oil's palm oil procured by Neste Oil in 2012 came from smallholder-operated plantations in Indonesia. More than 9,000 smallholder families supplied Neste Oil, and all of these volumes were ISCC-EU-certified (International Sustainability and Carbon Certificate) with assistance from Neste Oil's experts. Neste Oil also continued to explore new opportunities for cooperating with palm oil smallholders in 2012.

Read more about Sustainability of the renewable fuels supply chain.

No complaints proceedings or legal cases related to raw material procurement

There were no outstanding complaints proceedings or legal cases related to the procurement of Neste Oil's raw materials in 2012.

Neste Oil was aware of a new legal case related to the financial affairs of one of its raw material suppliers in 2012, but this was not linked to business between Neste Oil and the company concerned. Although Neste Oil is not involved, it is monitoring the case.

Read more about the complaints lodged against Neste Oil's raw material suppliers in the 2011 Sustainability Report and at the RSPO Web site.

Sustainability of the renewable fuels supply chain

Sustainability issues related to Neste Oil's supply chain are particularly emphasized in the area of renewable fuels production. Neste Oil monitors the sustainability of its renewable fuels production chain continuously and verifies that it complies with both its own and statutory sustainability criteria on a regular basis - through its own internal audits and audits carried out by impartial third-party experts.

All of the renewable inputs used by Neste Oil are 100% traced back to their origin

The production of the raw materials used for producing biofuels is highly regulated today. Like all companies producing renewable fuels for the European market, Neste Oil is required to be able to verify a number of issues in accordance with the requirements of the EU's Renewable Energy Directive, including:

- Being able to trace the origin of the raw materials it uses back to where they are cultivated or produced
- Ensuring that the renewable fuel it produces offers a minimum 35% reduction in greenhouse gas emissions across its entire life cycle when compared to fossil fuel (over 50% from 2017 onwards), and
- Ensuring sustainable criteria are met througout the supply chain.

All the renewable inputs used by Neste Oil can be traced back to the plantations and production sites from which they come. With thorough traceability we ensure that only acceptable raw material ends up in production.

Greenhouse gas emissions of renewable fuels

Under EU legislation, the greenhouse gas emissions released by a fuel classified as renewable diesel over the product's entire life cycle must be at least 35% lower than those of fossil diesel, and under US legislation 20% or 50% lower. The emissions of Neste Oil's renewable diesel produced from all the feedstocks currently used are 40-90% lower. The largest reductions are achieved when using waste- and residue-based inputs.

Neste Oil reviewed its palm oil suppliers' methane capture projects with different stakeholders in 2012. In the year 2012 11% of the plants supplying palm oil to Neste Oil already have equipment in place for preventing the creation of methane or recovering this gas. Neste Oil continues to work on promoting methane capturing at palm oil mills in Indonesia and Malaysia with various stakeholders sharing the same goal. Methane capture systems reduce the carbon footprint of renewable fuel produced from this input.

Rainforests are not cleared for biofuels

Raw material production for biofuels is strictly regulated. Raw materials can be produced only in carefully defined areas, that do not threaten biodiversity. European legislation, in the shape of the EU's Renewable Energy Directive, details all areas that cannot be used to produce raw materials for biofuel production.

Areas include:

1. Areas with a particularly rich level of biodiversity, such as:
   - **Old-growth forests** comprising naturally occurring species that have not been subject to significant disturbance and where local ecological processes are essentially intact
   - Areas that have been designated as **nature reserves**
   - Areas with **rare, endangered, or highly endangered ecosystems or that have designated as sanctuaries for protected species** and that have been recognized as such by international agreements or which are included in lists of protected sites drawn up by intergovernmental organizations or the International Union for Conservation of Nature
   - Biologically **highly diverse grasslands**.
2. Carbon-rich areas, such as:
   - **Wetlands** that are covered by or saturated with water either permanently or for a large part of the year
   - Areas of permanent **forest cover** of greater than one hectare in size with trees higher than five meters and canopy cover of greater than 30% or trees able to reach these thresholds
   - Land larger than one hectare in area with trees higher than five meters and canopy cover of 10-30% or trees able to reach these thresholds
   - **Peatland**, unless it can be shown that cultivating and harvesting raw materials in these areas does not involve drainage of previously undrained soil.

New cultivation cannot be established on land listed above under EU legislation. If cultivation started before January 2008, however, EU legislation approves the use of this land.

Independent third party auditors verify compliance

Compliance with sustainability criteria covering the entire renewable fuel supply chain is demonstrated in accordance with sustainability verification systems approved by the European

Commission. These systems – such as ISCC and RSB EU RED – define the minimum levels of acceptable sustainability and the documentation required during the various stages of the renewable fuel supply chain. Neste Oil's supply chain is monitored through regular independent third-party audits to ensure compliance.

Neste Oil supplies documentation proving the compliance of its operations with these sustainability criteria to its corporate customers and to the authorities responsible for monitoring compliance in those countries where the fuel is sold. Biofuel that fails to meet these sustainability criteria cannot be used to meet the binding mandated bio-content requirements imposed at EU member state level. Biofuels meet the requirements of the US and Canadian markets when the raw materials they are based on, and the production process used, comply with US and Canadian fuel pathway requirements. Neste Oil currently supplies customers in both the US and Canada with renewable diesel.

All the renewable inputs used by Neste Oil meet with the strict sustainability criteria set out in EU biofuel legislation, which forbid forests, wetlands, peat bogs, and areas with high levels of biodiversity from being cleared for biofuel-related purposes.

All Neste Oil's NExBTL plants are ISCC-certified and have an EPA Certificate of Registration

All of Neste Oil's NExBTL plants were re-certified under the ISCC-EU (International Sustainability and Carbon Certification) system in 2012. ISCC certification confirms that renewable fuel is produced in accordance with the EU's Renewable Energy Directive at Neste Oil's sites. Certificates verify that Neste Oil's methods and the documentation used in raw material procurement, fuel production, and product sales match ISCC requirements, and that NExBTL renewable diesel produced from certified raw materials is suitable for use as mandated bio-content.Certification audits on NExBTL plants in 2012 were carried by an independent third party, SGS.

Neste Oil's NExBTL refineries in Singapore and Rotterdam received RIN Generator approval for the first time in 2012 from the Environmental Protection Agency (EPA), which is responsible for monitoring compliance with the sustainability criteria applied to biofuels sold in the US. The two NExBTL units at Porvoo already have RIN Generator approval. This means that all of Neste Oil's NExBTL facilities are now approved for producing fuel complying with US renewable fuel requirements, and that NExBTL renewable diesel can be used to help meet the US' major biofuel and greenhouse gas emission reduction targets. The ability to produce NExBTL renewable diesel for the US market at all three NExBTL sites will enhance the flexibility of Neste Oil's business and represents an important logistics milestone.

Work on developing Neste Oil's sustainability verification scheme continued

Neste Oil has developed its own voluntary sustainability verification scheme applicable to any renewable raw material over the last few years. This scheme, which is designed to demonstrate compliance with the sustainability criteria contained in the EU's Renewable Energy Directive, covers the entire supply chain from raw material procurement to the delivery of fuel to the customer, and can be used by all companies producing renewable fuels of the HVO (Hydrotreated Vegetable Oil) type.

The system broadly mirrors the ISCC certification system, which is widely used in Europe, and includes separate sections devoted to the certification of renewable raw materials, fuel refining, and logistics. The system is better-suited than older ones to flexibly integrating EU-approved raw material certification schemes – such as RSPO RED for palm oil and RTRS EU RED for soy oil – into the overall certification process. This will significantly facilitate and accelerate certification-related work carried out by fuel producers and raw material suppliers, by reducing the duplicate work called for by earlier systems and the cost of certification. Renewable fuel customers will also benefit.

The scheme developed by Neste Oil passed the European Commission's technical evaluation phase in 2012, and further consideration of the system by the Commission is now under way, with feedback being received from member states. Neste Oil hopes to receive approval for the scheme from the Commission in 2013.

The key areas of the sustainability verification scheme developed by Neste Oil are profiled in this supply chain illustration.

Read more about Strict sustainability criteria applied to raw material suppliers.

Sustainability reporting

The goal of Neste Oil's Sustainability Report is to share information on the sustainability of the company's operations and provide the information required by stakeholders in this area. A Sustainability Report is published annually as part of the Annual Report, and supplementary information is published on the Neste Oil Web site.

Developing reporting

Sustainability reporting has been developed based on feedback from the 2011 Report, particularly in terms of the development areas identified during the assurance process.

Emphasis has been given to clarifying the structure of the Sustainability Report, making its content more concise, and explaining the definitions and accounting principles used for the indicators reported on. An analysis of emerging trends in the sustainability field was carried out, and the matrix of key sustainability issues used was updated on the basis of this analysis and feedback from stakeholders. Neste Oil's goal is to communicate its sustainability-related goals more effectively and to highlight the extensive work that it does in the safety area. Feedback on Neste Oil's sustainability reporting can be sent via email to corpcomviestinta@nesteoil.com.

Reporting principles

Neste Oil is committed to the principles of the AA1000APS (2008) standard covering inclusivity, materiality, and responsiveness. The 2012 Sustainability Report is the fourth to have been compiled in accordance with the G3 guidelines (version 3.0) of the Global Reporting Initiative (GRI). An independent third party has assured the sustainability information.

Neste Oil's first combined Annual Report and Sustainability Report to appear primarily online in html-format covered operations in 2011 and was published on 29 February 2012. The 2012 Annual Report and Sustainability Report will also be published primarily online.

Reporting principles and guidelines

Neste Oil is committed to the principles of the AA1000 AccountAbility Principles Standard (2008) standard covering inclusivity, materiality, and responsiveness. The 2012 Sustainability Report is the fourth to have been compiled in applying the G3 guidelines (version 3.0) of the Global Reporting Initiative (GRI).

Neste Oil's financial reporting complies with international IFRS accounting requirements, while corporate governance reporting complies with relevant national legislation and the Finnish Corporate Governance Code covering listed companies. The presentation of environmental costs and liabilities is based on Finnish accounting legislation.Financial indicator data is based on audited figures. Personnel figures are calculated in accordance with the Finnish Accounting Board's general guidelines for annual reports. CONCAWE principles are used in calculating safety-related injury frequency figures.

Changes in previously reported figures and accounting principles are shown alongside the corresponding key figures. Definitions of the indicators reported, together with the calculation principles and formulas used, are presented in the Principles for calculating the key indicators.

Reporting scope

The reporting period covered in the Sustainability Report is the same as that followed in the Annual Report: 1 January – 31 December 2012.

Safety and environmental reporting for 2012 covers all the refineries owned by Neste Oil in Finland and overseas in which the company has a greater than 50% holding. Reporting on safety and environmental matters also covers all of Neste Oil's terminals, the company's fleet (both Neste Oil's own vessels and its time-chartered tonnage), its offices, and the country companies responsible for Oil Retail operations. Neste Oil does not report environmental data for locations where it occupies only part of an office building; these locations include Neste Oil's

offices in Houston, Toronto, Oulu, and Moscow. Reporting on safety matters also covers service providers, key contractors, and the road and marine transportation of Neste Oil's products and feedstocks. In all other respects, reporting covers all aspects of Neste Oil Corporation's activities and those of companies in which Neste Oil has a greater than 50% holding. No changes in the scope of reporting took place during 2012 compared to 2011.

In addition to the corporate Sustainability Report, the Porvoo and Naantali refineries publish regular newsletters for residents in the surrounding areas covering the local impact of Neste Oil's operations. These newsletters can also be read online, in Finnish, at Neste Oil's web site.

Reporting tools and practices

Neste Oil collects data on most environmental and safety indicators with a HSEQ reporting tool which supports Neste Oil's monthly reporting and annual GRI G3 reporting. Neste Oil also continues to use various other reporting tools for collecting the data needed for its sustainability reporting. Personnel data is sourced from Neste Oil's HR systems.

Assurance

An independent third party, PricewaterhouseCoopers Oy, has assured Neste Oil's Finnish-language sustainability information and checked congruence between the Finnish and English versions. PricewaterhouseCoopers has also checked that Neste Oil's reporting meets GRI's Application Level B+ requirements.

Read the assurance report here.

Principles for calculating the key indicators

The Group-level performance indicators include the parent company and companies where the Parent company holds more than 50 percent of shares. The associate companies are not included in the calculations.

Environment

Energy

The energy consumption figures cover Neste Oil's refineries, terminals, offices, the company's own station business and the ships controlled by the Group's own shipping company. The figures are based on the data provided by these units.

Water withdrawal

The water withdrawal volumes are based on the company's own measurements or on invoicing.

Waste water discharges

Neste Oil reports the waste water volumes, chemical oxygen consumption as well as the oil, nitrogen and phosphorus releases. The figures are calculated on the basis of refinery- or terminal-specific data based on sampling or continuous metering. The figures do not include the loading values of waste water treated in municipal or other external waste water treatment plants.

CO_2 emissions

The emission factors compliant with the fuel classification published by Statistics Finland were used for the calculations. The country-specific factors compliant with the GHG protocol were used as the consumption factors for bought-in electricity and heat.

Safety

Accident frequency

Accidents at work resulting in absence from work, disability or medical treatment are included in the accident frequency figures. The formula for calculating accident frequency (number of accidents at work per million working hours): total number of accidents at work * 1000000 / hours worked. The calculation includes the company's own personnel and service providers.

Hours worked

The hours worked by all employees and the service providers during the period under review. When recording the working hours of service providers, an estimate (e.g. accounting hours) can be used if the accurate number of hours is not known.

Accidents at work

Accidents that occur at work/while performing work duties or moving about in the workplace area.

LWI (Lost Workday Injury)

The number of accidents at work resulting in a minimum of one day's absence from work.

TRI (Total Recordable Injuries)

All recorded accidents at work: the number of accidents at work resulting in absence from work, disability or medical treatment

PSE1 (Process Safety Event)

An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE1 classification. The consequences may be:

1) an accident at work resulting in absence from work (LWI, RWI) or fatality

2) a fire or explosion causing direct costs (not production losses) in excess of EUR 25,000

3) evacuation, seeking shelter indoors

4) a leak exceeding the reporting threshold within a certain time, with the limit values according to CONCAWE

5) a release through the emergency discharge system with the above consequences

PSE2 (Process Safety Event)

An unplanned and uncontrolled release of any material, including non-toxic and non-flammable materials from a process, resulting in consequences according to the PSE2 classification. The consequences may be:

1) an accident at work requiring medical treatment (MTC)

2) a fire or explosion causing direct costs (not production losses) in excess of EUR 2,500

3) a leak exceeding the reporting threshold within a certain time, with the limit values according to CONCAWE

4) a release through the emergency discharge system with the above consequences

HSEQ (Health, Safety, Environment, Quality)

Health, safety, environment and quality.

HR

Reporting of personnel numbers

The personnel numbers are calculated as headcount and include, as a rule, employees classified as active and inactive. Unless otherwise specified, the personnel numbers are reported as at December 31.

Number of permanent employees leaving the company

The number of permanent employees leaving the company from Jan 1 to Dec 31. / the number of permanent employees on Dec 31. (Including all reasons for ending the employment).

Number of permanent empoyees joining the company

The number of newly hired permanent employees from Jan 1 to Dec 31. / the number of permanent employees on Dec 31.

Training days per employee

Training days from Jan 1 to Dec 31. / average number of employees during the period Jan 1 to Dec 31. The training days include in-house training and external training.

Training costs

The training costs include external training-related costs, such as the fees of external trainers and the participation fees for external training events, but not, for example, the salaries of participants or the company's own trainers.

Share of managers of female and male employees

Number of female managers on Dec 31 / total number of female employees on Dec 31

Number of male managers on Dec 31 / total number of male employees on Dec 31

Job rotation

Number of employees changing their job during the period Jan 1 to Dec 31 / number of employees on Dec 31

Sick leave percentage

Percentage of absences due to illness, doctor's appointment or medical treatment of the company's own personnel.

Formula for calculating the sick leave percentage: Number of hours of absence due to illness / theoretical number of regular working hours x 100

GRI content index

PricewaterhouseCoopers Oy has checked our reporting and has confirmed it to be Application Level B+.

	GRI Content	Included	Links
	1. Strategy and Analysis		
1.1	CEO's statement	Yes	CEO's review
1.2	Key impacts, risks and opportunities	Yes	Sustainability risks and opportunities Strategy Industry overview Sustainability targets and actions
	2. Organizational Profile		
2.1	Name of the organization	Yes	Neste Oil
2.2	Primary brands, products and services	Yes	Business areas in brief Oil products' customers and solutions Renewable products' customers and solutions
2.3	Operational structure	Yes	Business Note 33 - Group companies on 31 December 2012
2.4	Location of organization's headquarters	Yes	Neste Oil
2.5	Number of countries and location of operations	Yes	Business areas in brief Note 4 - Segment information
2.6	Nature of ownership and legal form	Yes	Note 1 - General information
2.7	Markets served	Yes	Business areas in brief Creating financial added value to stakeholders Developments in renewable fuels' markets Developments in oil products' markets
2.8	Scale of the reporting organization	Yes	Key figures
2.9	Significant changes regarding size, structure or ownership	Yes	Reporting principles
2.10	Awards received in the reporting period	Yes	Sustainability indices and ratings
	3.Reporting Principles		
3.1–3.4	Report profile	Yes	Reporting principles Sustainability reporting
3.5–3.11	Reporting scope and boundary	Yes	Sustainability focus areas Sustainability-related stakeholder survey results Reporting principles Accounting principles
3.12	GRI content index	Yes	
3.13	Assurance	Yes	Independent assurance report Reporting principles

	4. Governance, Commitments and Engagement		
	Governance		
4.1	Governance structure of the organisation	Yes	Corporate Governance Statement 2012
4.2	Position of the Chairman of the Board	Yes	Board of Directors
4.3	Independence of the Board members	Yes	Board of Directors
4.4	Mechanism for shareholder and employee consultation	Yes	Corporate Governance Statement 2012
4.5	Impact of organisation's performance on executive compensation (inc. social and environmental performance)	Yes	Remuneration and shareholdings Remuneration principles for senior management
4.6	Processes for avoiding conflicts of interest	Yes	Board of Directors
4.7	Processes for determining Board members' expertise in strategic management and sustainability	Yes	Nomination Board Board of Directors
4.8	Implementation of mission and values statements, code of conduct and other principles	Yes	Sustainability policies and principles Values and ethical principles Neste Oil's sustainability policy
4.9	Procedures of the Board for overseeing management of sustainability performance, including risk management	Yes	Managing sustainability Risk management
4.10	Processes for evaluating the Board's performance	Yes	Board of Directors
	Commitments to External Initiatives		
4.11	Addressing precautionary approach	Yes	Risk management
4.12	Voluntary charters and other initiatives	Yes	Participation in organisations and joint projects Neste Oil's sustainability policy
4.13	Memberships in associations	Yes	Participation in organisations and joint projects
	Stakeholder Engagement		
4.14	List of stakeholder groups	Yes	Neste Oil's stakeholders
4.15	Identification and selection of stakeholders	Yes	Managing stakeholder relations
4.16	Approaches to stakeholder engagement	Yes	Neste Oil's stakeholders Stakeholder and community engagement
4.17	Key topics raised through stakeholder engagement	Yes	Interacting with non-governmental organisations Neste Oil's stakeholders An active approach to the job market Public affairs and advocacy
	Economic Performance Indicators		
	Management approach to economic responsibility	Yes	Financial targets Sustainability targets Financial responsibility
EC1*	Direct economic value generated and distributed	Yes	Creating financial added value to stakeholders
EC2*	Financial implications, risks and opportunities due to climate change	Partly	Emissions to air Sustainability risks and opportunities
EC3*	Coverage of defined benefit plan obligations	Yes	Remuneration and fringe benefits

			Note 30 - Retirement benefit obligations
EC4*	Significant subsidies received from government	Yes	Taxes and payments benefiting societies Note 8 - Other income
EC5	Entry level wage compared to local minimum wage	Partly	Remuneration and fringe benefits
EC7*	Local hiring procedures and proportion of local senior management	Partly	Equality and diversity
EC9	Significant indirect economic impacts	Yes	Creating financial added value to stakeholders
	Environmental Performance Indicators		
	Management approach to environmental responsibility	Yes	Environmental management Sustainability management Sustainability targets
EN1*	Materials used by weight or volume	Yes	Material and energy balance Raw materials and material efficiency
	Energy		
EN3*	Direct energy consumption	Yes	Material and energy balance
EN4*	Indirect energy consumption	Partly	Material and energy balance
EN5	Energy saved due to conservation and efficiency improvements	Yes	Energy efficiency
EN6	Initiatives to provide energy-efficient or renewable energy based products and services	Yes	Renewable feedstocks Cleaner solutions for customers
	Water		
EN8*	Total water withdrawal by source	Partly	Water use and waste water treatment Material and energy balance
EN9	Water sources significantly affected by withdrawal of water	Partly	Water use and waste water treatment
EN10	Percentage and total volume of water recycled and reused	Partly	Water use and waste water treatment Protecting waterways and soil
	Biodiversity		
EN11*	Location and size of land holdings in areas of high biodiversity	Yes	Protecting the biodiversity and the natural world
EN12*	Description of significant impact of activities, products, and services on biodiversity	Partly	Public affairs and advocacy Protecting the biodiversity and the natural world Sustainability of the renewable fuels supply chain
EN13	Habitats protected or restored	Yes	Protecting the biodiversity and the natural world
EN14	Managing impacts on biodiversity	Yes	Sustainability of the renewable fuels supply chain Protecting the biodiversity and the natural world
EN16*-EN17*	Total direct and indirect greenhouse gas emissions	Yes	Emissions to air Material and energy balance
EN18	Initiatives to reduce greenhouse gas emissions	Partly	Climate and resource efficiency Energy efficiency
EN19*	Emissions of ozone-depleting substances	Yes	Emissions to air
EN20*	NOx, SOx, and other significant air emissions	Yes	Emissions to air Material and energy balance

EN21*	Total water discharge	Yes	Water use and waste water treatment Material and energy balance
EN22*	Total amount of waste by type and disposal method	Yes	Waste Material and energy balance
EN23*	Significant spills	Yes	Sustainability targets Environmental management Case: Oil spill and the storage facility in Kajaani
EN25	Water bodies and habitats affected by discharges of water	Partly	Water use and waste water treatment Protecting the waterways and soil
EN26*	Mitigating environmental impacts of products and services	Yes	Cleaner solutions for customers
EN28*	Non-compliance with environmental regulations	Yes	No fines or sanctions during the reporting period.
EN29	Environmental impacts of transportation	Yes	Emissions to air Transportation safety
EN30	Environmental protection expenditures and investments	Partly	Investments in efficiency, the environment and safety
	Social Performance Indicators		
	Management approach to labor practices and decent work	Yes	HR management Safety management Sustainability management Sustainability targets
	Employment		
LA1*	Total workforce by employment type, employment contract and region	Yes	Personnel
LA2*	Total number and rate of employee turnover	Partly	Personnel turnover
LA4*	Coverage of collective bargaining agreements	Yes	Equality and diversity
LA5*	Minimum notice period regarding operational changes	Yes	Neste Oil follows local legislation.
	Occupational Health and Safety		
LA7*	Rates of injury, occupational diseases, lost days, fatalities and absenteeism	Partly	Occupational safety Wellbeing at work and occupational health
LA8*	Education and prevention programmes regarding serious diseases	Yes	Wellbeing at work and occupational health
LA10*	Training hours per employee	Partly	Developing talent and competence
LA11	Programmes for skills management and lifelong learning	Yes	Developing talent and competence Developing Neste Oil's leadership and corporate culture Supporting managers in their work
LA12	Employees receiving regular performance and career development reviews	Yes	Developing talent and competence
LA13*	Composition of governance bodies and breakdown of employees	Yes	Equality and diversity Personnel
LA14*	Ratio of basic salary of men to women	Partly	Equality and diversity Remuneration and fringe benefits
	Human Rights		
	Management approach to human rights	Yes	Sustainability management

			Society
HR2*	Suppliers and contractors that have undergone human rights screening	Partly	Strict sustainability criteria applied to suppliers
HR3	Human rights related training for employees	No	Human rights and equality
HR4*	Incidents of discrimination and actions taken	Yes	Equality and diversity No such cases in reporting period.
HR5*	Supporting right to freedom of association and collective bargaining in risk areas	Yes	Human rights and equality Values and ethical principles
HR6*	Measures taken to eliminate child and forced labour in risk areas	Yes	Values and ethical principles Human rights and equality
HR7*	Operations identified as having significant risk for forced or compulsory labor and measures taken to contribute to the elimination of forced or compulsory labor	Yes	Values and ethical principles Human rights and equality
	Society		
	Management approach to society	Yes	Sustainability management Society Strict sustainability criteria applied to suppliers Values and ethical principles
	Corruption		
SO3*	Anti-corruption training	Partly	Values and ethical principles
	Public Policy		
SO5*	Public policy positions and participation in public policy development and lobbying	Yes	Public affairs and advocacy
SO6	Contributions to political parties and related institutions	Yes	Human rights and equality
SO7	Legal actions for anti-competitive behaviour, anti-trust, and monopoly	Yes	No legal actions during the reporting period.
	Compliance		
SO8*	Corruption, Anti-competitive behavior, Compliance	Yes	No fines or sanctions during the reporting period.
	Product Responsibility		
	Management approach to product responsibility	Yes	Product safety Sustainability management Certified operation systems
	Customer Health and Safety		
PR1*	Assessment of health and safety impacts of products	Partly	Chemical safety
PR2	Non-compliance with regulations concerning health and safety impacts of products	Yes	Product safety No such cases in reporting period.
PR3*	Product information required by procedures	Partly	Product safety
PR5*	Practices related to customer satisfaction and results of customer satisfaction surveys	Partly	Stakeholder management
PR6*	Adherence to marketing communications laws, standards and voluntary codes	Yes	Product safety

* GRI Core indicator

Independent Assurance Report

(Translation from the Finnish Original)

To the Management of Neste Oil Corporation

We have been engaged by the Management of Neste Oil Corporation (hereinafter also the "Company") to perform a limited assurance engagement on the numeric information on economic, social and environmental responsibility for the reporting period of January 1, 2012 to December 31, 2012, disclosed in the "Sustainability" section of Neste Oil Corporation's online Annual Report 2012 (hereinafter "Sustainability information").

Furthermore, the assurance engagement has covered Neste Oil Corporation's adherence to the AA1000 AccountAbility Principles with moderate (limited) level of assurance.

The scope of the Sustainability information covers Neste Oil Group.

Management's responsibility

The Management of Neste Oil Corporation is responsible for preparing the Sustainability information in accordance with the Reporting criteria as set out in the Company's reporting instructions and the Sustainability Reporting Guidelines of the Global Reporting Initiative (version 3.0).

The Management of Neste Oil Corporation is also responsible for the Company's adherence to the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008.

Practitioner's responsibility

Our responsibility is to express a conclusion on the Sustainability information based on our work performed. Our assurance report has been made in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Neste Oil Corporation for our work, for this report, or for the conclusions that we have reached.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance whether any matters come to our attention that cause us to believe that the Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria.

In addition, we have conducted our work in accordance with the AA1000 Assurance Standard 2008. For conducting a Type 2 assurance engagement as agreed with Neste Oil Corporation, the AA1000 Assurance Standard 2008 requires planning and performing of the assurance engagement to obtain moderate (limited) assurance on whether any matters come to our attention that cause us to believe that Neste Oil Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles and that the Sustainability information is not reliable, in all material respects, based on the Reporting criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Sustainability information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Sustainability information. Our work consisted of, amongst others, the following procedures:

- Interviewing senior management of the Company.
- Interviewing employees from various organisational levels of the Company with regards to materiality, stakeholder expectations, meeting of those expectations, as well as stakeholder engagement.
- Assessing stakeholder inclusivity and responsiveness based on the Company's documentation and internal communication.
- Assessing the Company's defined material sustainability topics as well as assessing the Sustainability information based on these topics.
- Performing a media analysis and an internet search for references to the Company during the reporting period.
- Visiting the Company's Head Office as well as two sites in Finland.
- Interviewing employees responsible for collection and reporting of the information presented in the Sustainability information at the Group level and at the different sites where our visits took place.
- Assessing how Group employees apply the reporting instructions and procedures of the Company.
- Assessing the systems and practices used for the collection and consolidation of quantitative information.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that Neste Oil

Corporation does not adhere, in all material respects, to the AA1000 Accountability Principles.

Furthermore nothing has come to our attention that causes us to believe that Neste Oil Corporation's Sustainability information has not been prepared, in all material respects, in accordance with the Reporting criteria, or that the Sustainability information is not reliable, in all material respects, based on the Reporting criteria.

Our assurance report should be read in conjunction with the inherent limitations of accuracy and completeness for sustainability information. This independent assurance report should not be used for interpreting Neste Oil Corporation's performance in relation to its sustainability policy.

Observations and recommendations

Based on our limited assurance engagement, we provide the following observations and recommendations in relation to Neste Oil Corporation's adherence to the AA1000 AccountAbility Principles. These observations and recommendations do not affect the conclusions presented earlier.

- Regarding Inclusivity: Neste Oil Corporation has a strong commitment to stakeholder engagement. The company has an extensive stakeholder engagement process in place to ensure the identification of relevant stakeholders as well as their concerns and expectations. We recommend that the Company further develops the coordination of stakeholder engagement so that a comprehensive overview of engagement with different stakeholders is obtained at the group level.
- Regarding Materiality: Neste Oil Corporation has processes in place to evaluate and determine the materiality of sustainability topics. The Company carried out a sustainability materiality assessment and defined sustainability focus areas in 2012. We recommend that the Company continues the development of the sustainability focus areas according to the objectives set.
- Regarding Responsiveness: Neste Oil Corporation is committed to being responsive to its stakeholders, which is evident from the ongoing and wide-ranging communication on sustainability issues in media, forums and other communication channels. We recommend that the Company continues to enhance transparency in the area of fossil raw materials taken into consideration its relevance in the Company's business, and the increased interest of the stakeholders based on the updated materiality matrix in 2012.

Practitioner's independence and qualifications

PricewaterhouseCoopers' own Global Independence Policy is applicable to PricewaterhouseCoopers Oy, its partners and professional staff, including all members of the assurance engagement team.

Our multi-disciplinary team of corporate responsibility and assurance specialists possesses the requisite skills and experience within financial and non-financial assurance, corporate responsibility strategy and management, social and environmental issues, as well as knowledge of the energy industry, to undertake this assurance engagement.

Helsinki, 26 February 2013
PricewaterhouseCoopers Oy

Sirpa Juutinen
Partner
Sustainability & Climate Change

Maj-Lis Steiner
Director, Authorised Public Accountant
Sustainability & Climate Change

AA1000
Licensed Assurance Provider
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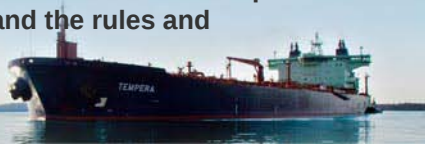
Governance

Neste Oil observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2010 Corporate Governance Code. Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.



Neste Oil's Risk Management Policy emphasizes

- the awareness and proactive management of risks
- the value of risk management in enhancing opportunities and reducing threats, and thereby gaining competitive advantage
- the importance of sufficient risk treatment and risk control, particularly in respect of HSEQ and sustainability
- the benefits of managing risks as an integrated part of planning, decision-making, and operational processes with a defined structure of roles and responsibilities.

Neste Oil follows remuneration principles for senior management approved by the Board and the 2010 Corporate Governance Code covering Finnish listed companies.The recommendations of the Ownership Steering Department of the Prime Minister's Office are taken into account in deciding the remuneration of senior management. The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry.

The only way is forward

A vision of traffic in 2030
"Free, reliable and safe public transport that is accessible at all times."
Man, age of 36-55, the Netherlands.
Read more

Neste Oil paid its personnel a total of

EUR 24.5 million

in performance-based, short-term incentives in 2012.

Corporate Governance Statement 2012

This Corporate Governance Statement has been prepared pursuant to Recommendation 54 of the Corporate Governance Code 2010 and Chapter 7, Section 7 of the Securities Markets Act, and Section 7 of the Ministry of Finance's Decree on the Regular Duty of Disclosure of an Issuer of a Security. The Corporate Governance Statement is issued separately from the Review by the Board of Directors and can be consulted online at www.nesteoil.com/Investors/Corporate Governance.

Regulatory framework

Neste Oil observes good corporate governance practices in accordance with the laws and regulations applicable to Finnish listed companies, the Company's own Articles of Association, and the Finnish 2010 Corporate Governance Code. The Corporate Governance Code can be found at www.cgfinland.fi Neste Oil also complies with the rules of NASDAQ OMX Helsinki Ltd, where it is listed, and the rules and regulations of the Finnish Financial Supervisory Authority.

Neste Oil's Audit Committee has reviewed the Corporate Governance Statement, and the Company's Auditor, Ernst & Young Oy, has monitored that it has been issued and that the description of the main features of the internal control and risk management related to the financial reporting process included in the statement matches the Financial Statements.

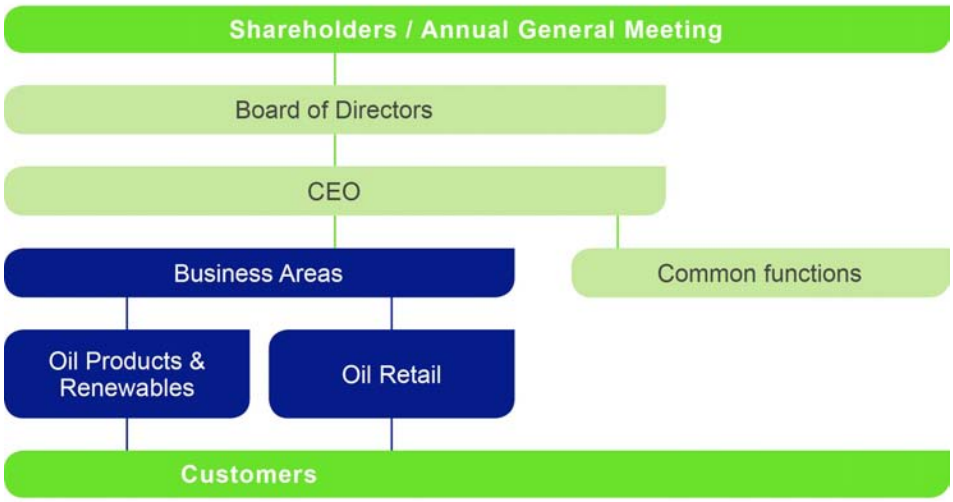
Neste Oil issues consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Securities Markets Act, as well as the appropriate Financial Supervisory Authority standards, and NASDAQ OMX Helsinki Ltd.'s rules. The Review by the Board of Directors and the Parent Company's Financial Statements are prepared in accordance with the Finnish Accounting Act and the opinions and guidelines of the Finnish Accounting Board.

Governance bodies

The control and management of Neste Oil is split between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President & Chief Executive Officer. Ultimate decision-making authority lies with shareholders at the AGM. The latter appoints the members of the Board of Directors and the Company Auditor. The Board of Directors is responsible for Neste Oil's strategy and overseeing and monitoring the Company's business. The President & CEO, assisted by the Neste Executive Board (NEB), is responsible for managing the Company's business and implementing its strategic and operational targets.

Neste Oil's headquarters are located in Espoo, Finland.

Neste Oil's Governance Bodies



Annual General Meeting

Under the Finnish Companies Act, shareholders exercise their decision-making power at General Meetings of Shareholders, and attend meetings in person or through an authorized representative. Each share entitles the holder to one vote.

Shareholders at the Annual General Meeting take decisions on matters including:

- the adoption of the Financial Statements
- the distribution of profit for the year detailed in the Balance Sheet
- discharging the members of the Board of Directors and the President & CEO from liability, and
- the election and remuneration of the members of the Board of Directors and the Auditor.

The Annual General Meeting is held annually before the end of June. An Extraordinary General Meeting addressing specific matters can be held, when considered necessary by the Board of Directors, or when requested in writing by the Company's Auditor or by shareholders representing at least one-tenth of all Company shares.

Under the Articles of Association, an invitation to the Annual General Meeting shall be delivered to shareholders no earlier than two months and no later than three weeks prior to a meeting, but at least nine days before the record date set for the meeting under the terms of the Companies Act. The invitation must be announced in at least two newspapers that are published regularly as decided by the Board of Directors, or in another verifiable manner. The invitation, agenda, and other meeting material shall also be made available online at www.nesteoil.com/Investors/AGM at least three weeks prior to the meeting.

Neste Oil is not aware of any shareholders' agreement regarding the Company's shares.

2012

The 2012 AGM was held in Helsinki on Wednesday, 28 March and adopted the Parent Company's Financial Statements and the Consolidated Financial Statements for 2011 and discharged the Supervisory Board, the Board of Directors, and the CEO from liability for 2011. The AGM also approved the Board of Directors' proposal regarding the distribution of the Company's profit for 2011, sanctioning payment of a dividend of EUR 0.35 per share. This was paid to all shareholders included in the register of shareholders maintained by Euroclear Finland on the record date set for payment of the dividend, which was 2 April 2012. The payment was made on 11 April 2012. The AGM also decided the composition of the Board of Directors and the remuneration to be paid to the members of the Board of Directors, and appointed the Company Auditor.

Nomination Board

A position paper issued by the Finnish Cabinet Committee on Economic Policy in February 2004 stressed that general meetings of shareholders of publicly listed State-owned companies and companies partly owned by the State should appoint a committee to prepare a proposal covering the composition of the board of directors for the following general meeting of shareholders to vote on. The paper indicated that these AGM nomination committees should generally select representatives from a company's largest shareholders and propose an expert member as chairman. The position paper is based on the belief that a company's board of directors should enjoy the trust of its owners and that it should act in the interests of shareholders, and that the preparations for its election should lie in the hands of its owners. This, the paper indicates, will strengthen the potential of owners to make their voice heard as effectively and as openly as possible.

The paper suggests that a nomination committee appointed by a board of directors itself, in line with the Governance Code covering listed companies in Finland, is best suited to companies with a diverse ownership base. In the case of companies owned in full or in part by the State, with large owners that are both well-known to the public and active, the approach recommended under the Governance Code is not to be recommended because

of the nature of the ownership involved and the responsibility associated with this type of major holding.

As a listed State-owned company, Neste Oil observes the recommendation contained in the above position paper in respect of its Nomination Committee. Since 2011, Neste Oil has named the Nomination Committee, in accordance with the new Corporate Governance Code 2010, as the AGM Nomination Board to distinguish it from the Nomination Committee comprising members of the Board of Directors.

Annual General Meetings are responsible for establishing a Nomination Board, selecting its members, and deciding its duties. Representatives of the Company's three largest shareholders are normally elected as members, together with the Chair of the Board of Directors as an expert member. The right to appoint the shareholder representatives on this Nomination Board normally lies with the three shareholders holding the largest number of votes associated with all the Company's shares on 1 November preceding the AGM. In the event that a shareholder does not wish to exercise his right to appoint a representative, this right shall pass to the next-largest shareholder. The Company's largest shareholders shall be determined on the basis of the information on holdings registered in the book-entry system, with the proviso that the holdings of a shareholder required under securities legislation to flag certain changes in his holdings, and with shares spread across a number of funds, for example, shall be combined if the shareholder informs the Company of his wishes to this effect in writing.

The Chair of the Nomination Board generally convenes the Nomination Board, while the Board elects its Chairman from among its members. The Nomination Board is required to present its proposal to the Board of Directors by 1 February prior to the AGM at the latest.

The Board of Directors will propose to the 2013 AGM that the AGM should decide to establish a new permanent Shareholder's Nomination Board that would serve until further notice, unless the AGM decides otherwise.

Activities

The Nomination Board drafts proposals for the following AGM on the following:

- the number of members of the Board of Directors
- the members of the Board of Directors, and
- the remuneration to be paid to the Chairman, Vice Chairman, and the members of the Board of Directors.

Composition of the Nomination Committee prior to the 2012 AGM

The AGM Nomination Board responsible for preparing the 2012 AGM comprised Pekka Timonen, Director General, Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Investment Director, Varma Mutual Pension Insurance Company. Timo Peltola, Chair of Neste Oil's Board of Directors, acted as the Nomination Board's expert member. The Board convened twice and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 1 February 2012.

Composition of the Nomination Board prior to the 2013 AGM

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided on 28 March 2012 to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM. The AGM Nomination Board responsible for preparing the 2013 AGM comprised Jarmo Väisänen, Senior Financial Counselor, Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Director, Investments, Varma Mutual Pension Insurance Company. Jorma Eloranta, Chair of Neste Oil's Board of Directors, acted as the Nomination Board's expert member.

The Nomination Board convened four times and presented its proposal covering the members of the Board of Directors and the remuneration to be paid to them on 1 February 2013.

CVs of Nomination Board members:

Jarmo Väisänen

Licentiate of political science (economics). Chairman of the Nomination Board. Born 1951.

Senior Financial Counselor of the Ownership Steering Department at the Prime Minister's Office. Chairman of the Board of State Security Networks Ltd, Member of the Board of Solidium Oy, and Vice Chairman of the Supervisory Board of Gasum Oy. Chairman of the Nomination Boards of Finnair Corporation and Fortum Corporation.

Timo Ritakallio

M.Sc. (Laws), MBA. Member of the Nomination Board. Born 1962.

Deputy CEO, Ilmarinen Mutual Pension Insurance Company. Member of the Boards of Outotec Oyj, Technopolis Oyj, and Opstock Oyj. Chairman of Remuneration Committee of Technopolis Oyj. Chairman of the Boards of Pohjola Finance and Pohjola Finance AS. Member of the Nomination Boards of Suominen Oyj, Uponor Oyj, Tikkurila Oyj, Kemira Oyj, VVO-Yhtymä Oyj, Oriola-KD Oyj, Ekokem Oy, Sponda Plc, Rautaruukki Oyj, Orion Oyj, Elisa Oyj, Tieto Oyj, and Munksjö Corporation.

Mikko Koivusalo

M.Sc. (Econ.). Member of the Nomination Board. Born 1961.

Director, Investments, Varma Mutual Pension Insurance Company. Member of the Boards of Tornator Oy and Realia Group Oy. Member of the Nomination Board of Fortum Corporation.

Board of Directors

In accordance with Neste Oil's Articles of Association, the Board of Directors has between five and eight members, which are elected at the AGM for a period of office that extends to the following AGM. Anyone 68 years of age or older cannot be elected to the Board.

Activities

The Board shall meet as frequently as necessary, with approximately 9 to 12 regular meetings annually, all scheduled in advance. In addition, extraordinary meetings, if requested by a Board member or the President & CEO, shall be convened by the Chair, or, if the Chair is prevented from attending, by the Vice Chair, or if deemed necessary by the Chair. The Board constitutes a quorum if more than half of its members are present. The Board is responsible for preparing an operating plan for itself for its period of office between Annual General Meetings, to include a timetable of meetings and the most important matters to be addressed at each meeting. The Board evaluates its performance annually to determine whether it is functioning effectively after the end of each financial year.

Duties

The Board's responsibilities and duties are defined in detail in the Board's Charter and cover the following main areas:

- being responsible for the administration and appropriate organization of the operations of the Neste Oil Group in compliance with relevant legislation and regulations, the Company's Articles of Association, and instructions provided by the Annual General Meeting
- being responsible for the strategic development of Neste Oil and for supervising and steering its business
- deciding on Neste Oil's key operating principles
- confirming the annual business plan
- approving the annual financial statements and interim reports
- deciding on major investments and divestments
- confirming Neste Oil's values and most important policies and overseeing their implementation
- appointing the President & CEO and his or her immediate subordinates and deciding on their remuneration
- confirming the Neste Executive Board's and Neste Oil's organizational and operational structure at senior management level, and
- determining the Company's dividend policy to be followed when making a proposal regarding dividends to the AGM.

A member of the Board of Directors may not take part in decision-making in matters regarding (i) agreements between such member and any entity within the Neste Oil Group, (ii) agreements between any entity within the Neste Oil Group and third parties where such member has a material interest in the matter which may conflict with the interest of Neste Oil or any other entity within the Neste Oil Group, and (iii) agreements between any entity within the Neste Oil Group and a legal entity which such member may represent, either individually or together with any other person; provided, however, that this point (iii) does not apply where the party contracting with Neste Oil is a company within the Neste Oil Group. The term 'agreement' as used here includes litigation or other legal proceedings arising from or relating to such agreements.

2012

The 2012 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: Jorma Eloranta, Maija-Liisa Friman, Michiel Boersma, Nina Linander, Laura Raitio, Hannu Ryöppönen, and Markku Tapio. Jorma Eloranta was elected as the Chair of the Board, and Maija-Liisa Friman as the Vice Chair. Timo Peltola's membership in the Board of Directors ended at the AGM held on 28 March 2012, until which Peltola acted as the Chair of the Board.

The Board met 12 times in 2012 and average attendance percentage was 98.8%. In its work in 2012, the Board concentrated on monitoring Neste Oil's financial performance and status and the implementation of the company's strategy through its Value Creation programs. The Board also monitored progress on Neste Oil's strategic growth investments and their operational performance, and oversaw development of the Company's investment process. The Board also carried out other duties coming within the scope of its charter.

Details on the independent status of members, their role in committee work, and their attendance at meetings can be found in the following table.

Board of Directors, 31 December 2012

									Attendance at meetings	
	Position	Born	Education	Main Occupation	Independent of the company	Independent of major shareholders	Personnel and Remuneration Committee	Audit Committee	Board	Committees
Jorma Eloranta	Chair	1951	M.Sc. (Tech).	Non-Executive Director	●	●	●		100%	100%
Maija-Liisa Friman	Vice Chair	1952	M.Sc. (Chem. Eng.)	Non-Executive Director	●	●	●		100%	100%
Michiel Boersma	Member	1947	Ph.D (Chem. Tech.)	Non-Executive Director	●	●		●	100%	100%
Nina Linander	Member	1959	B.Sc. (Econ.), MBA	Partner	●	●		●	100%	100%
Laura Raitio	Member	1962	(Lic. Tech.)	Executive Vice President	●	●		●	100%	87.5%
Hannu Ryöppönen	Member	1952	B.A. (Business Adm.)	Non-Executive Director	●	●		●	91.6%	100%
Markku Tapio	Member	1948	Pol. Sc. (Econ.)	Senior Financial Counsellor	●		●		100%	100%

Board of Directors, 1 January - 28 March 2012*

Timo Peltola	Chair	1946	M.Sc. (Econ.)	Non-Executive Director	●	●	●		100%	100%

*Timo Peltola left Neste Oil's Board of Directors at the AGM held on 28 March 2012.

The shareholdings of members and the remuneration paid to them are detailed in a table in the Remuneration and shareholdings section of the Annual Report.

Members of the Board of Directors

Jorma Eloranta

M.Sc. (Tech). Chair of the Board. Member of the Board since 2011. Independent member.

Born in 1951. President and CEO of Metso Corporation 2004–2011. President and CEO of Kvaerner Masa-Yards 2001–2003. President and CEO of Patria Industries Group 1997–2000. Deputy Chief Executive of Finvest and Jaakko Pöyry Group 1996. President of Finvest 1985–1995. Chairman of the Supervisory Board of Gasum Corporation. Chairman of the Boards of Suominen Corporation, Finnish Foundation for Technology Promotion, and ZenRobotics Oy. Chairman of the Board and President of Pienelo Oy. Vice Chairman of the Board of Uponor Corporation and Member of the Boards of Finnish Fair Foundation and Ovako Group AB. Chair of Neste Oil's Personnel and Remuneration Committee.

Maija-Liisa Friman

M.Sc. (Chem. Eng). Vice Chair of the Board. Member of the Board since 2010. Independent member.

Born in 1952. President and CEO of Aspocomp Group Oyj 2004–2007. Managing Director of Vattenfall Oy in 2000–2004 and Managing Director of Gyproc Oy 1993–2000. Chairman of the Boards of Ekokem and Helsinki Deaconess Institute Foundation. Member of the Boards of TeliaSonera, Finnair and LKAB. Chairman of TeliaSonera's and Finnair's Audit Committee. Member of the Board and partner of Boardman Oy. Member of Neste Oil's Personnel and Remuneration Committee.

Michiel Boersma

Ph.D (Chem. Techn.). Member of the Board since 2007. Independent member.

Born in 1947. Former CEO of Essent NV. Chairman of the Supervisory Boards of ProRail, TMG and VieCuri Medical Centre. Member of the Supervisory Board of POST NL. Chairman of the Boards of Prometheus Energy and the Dutch Topsector for Energy Innovation. Member of the Boards of various Dutch foundations. Senior Advisor of First State Investments. Served for many years in the Shell Group, most recently in 2000–2003, as President, Shell Global Solutions and Executive Vice President of the Shell Oil Products Executive Committee. Member of Neste Oil's Audit Committee.

Nina Linander

B.Sc (Econ.), MBA. Member of the Board since 2005. Independent member.

Born in 1959. Member of the Boards of Specialfastigheter Sverige AB, Awapatent AB, AWA Holding AB and Plagazi AB. Chairman of Speciafastigheter's Finance Committee. Former Group Treasurer of AB Electrolux and former Director, Product Area Electricity at Vattenfall AB. Chair of Neste Oil's Audit Committee.

Laura Raitio

M.Sc. (Chem. Eng.), Lic. Tech. (forest products technology). Member of the Board since 2011. Independent member.

Born in 1962. Executive Vice President, Building and Energy and Member of the Executive Management Team, Ahlstrom Corporation. Ahlstrom's Senior Vice President, Marketing (sales network, human resources, communications and marketing) 2006–2008. Ahlstrom's Vice President and General Manager for Wallpaper & Poster, Pre-impregnated Decor, Abrasive Base in Osnabrück, Germany 2002–2005. Managing Director of Ahlstrom Kauttua Oy 2001–2002. Several managerial positions within Ahlstrom's specialty paper business since 1990. Member of Neste Oil's Audit Committee.

Hannu Ryöppönen

B.A. (Business Adm.). Member of the Board since 2009. Independent member.

Born in 1952. Chairman of the Board of Altor Private Equity Funds. Vice Chairman of the Board of Rautaruukki Oyj. Member of the Boards of AmerSports Oyj, Korsnäs AB and Novo Nordisk A/S. Member of Neste Oil's Audit Committee.

Markku Tapio

Pol. Sc. (Econ.) and Senior Financial Counsellor. Member of the Board since 2008. Independent of company, but dependent on a major shareholder.

Born in 1948. Senior Financial Counselor at the Prime Minister's Office, Ownership Steering Department. Member of the Board of Directors and Remuneration Committee of VR-Group Ltd. Member of the Board of Directors and Remuneration Committee of Kemijoki Oy. Member of Neste Oil's Personnel and Remuneration Committee.

Board committees

The Board has established an Audit Committee, which has four members, and a Personnel and Remuneration Committee, which has three members. A quorum exists when more than two members, including the Chair, are present. All members are elected from amongst the members of the Board for a one-year term. The tasks and responsibilities of each committee are defined in their charters, which are approved by the Board. The schedule and frequency of committee meetings are determined by the Chair and committee members. Committees meet at least twice a year. Each committee reports regularly on its meetings to the Board. Reports include a summary of the matters addressed and the measures undertaken. Each committee conducts an annual self-evaluation of its performance and submits a report to the Board.

Audit Committee

Under its Charter, the Audit Committee shall consist of a minimum of three Board members that are independent of the Company and its subsidiaries and at least one of whom shall be independent of Neste Oil's major shareholders. Members are required to have sufficient knowledge of accounting practices and the preparation of financial statements and other qualifications that the Board deems necessary. The Audit Committee is permitted to use external consultants and experts when deemed necessary.

Duties

The responsibilities and duties of the Audit Committee are defined in detail in the Charter approved by the Board and cover the following main areas:

- monitoring the Company's financial statement reporting process, and, as appropriate, interim reports
- supervising the financial reporting process
- monitoring the efficiency of the Company's internal control, internal audit, and risk management systems
- reviewing the Company's Corporate Governance Statement, which includes a description of the main features of the internal

control and the risk management systems pertaining to the financial reporting process
- monitoring the statutory audit of the Financial Statements and Consolidated Financial Statements
- evaluating the independence of the Company's Statutory Auditor, particularly the provision of related services to the company to be audited
- preparing the proposal or recommendation or resolution on the election of the Statutory Auditor
- reviewing all the material reports produced by the Statutory Auditor addressed to the Company or its subsidiaries
- evaluating the Company's compliance with laws and regulations
- approving internal audit policy and reviewing the annual plan for Internal Audit and internal audit reports, and
- monitoring the Company's financial position.

2012

The Audit Committee until 28 March 2012 comprised Nina Linander (Chair), Jorma Eloranta, Laura Raitio, and Hannu Ryöppönen. Starting from 28 March 2012, the Audit Committee comprised Nina Linander (Chair), Michiel Boersma, Laura Raitio, and Hannu Ryöppönen.

During 2012, the Audit Committee convened eight times and the attendance rate was 96.8%. In addition to its normal duties, the Committee concentrated on monitoring and development work regarding financial reporting, risk management, internal audit reporting and the investment process, as well as monitoring the management of the market risks associated with the expansion of the Renewable Fuels business.

Personnel and Remuneration Committee

The Personnel and Remuneration Committee consists of the Chair of the Board and at least two non-executive members of the Board.

Duties

The responsibilities and duties of the Personnel and Remuneration Committee are defined in detail in its Charter approved by the Board and cover the following main areas:

- preparing the appointments of key executive personnel and making proposals to the Board on compensation and incentive systems for key personnel
- preparing and proposing to the Board the appointments of the President & CEO and the members of the Neste Executive Board, and the terms and conditions of their employment, and
- monitoring and evaluating the performance of the President & CEO and the members of the Neste Executive Board.

2012

The Personnel and Remuneration Committee until 28 March 2012 comprised Timo Peltola (Chair), Michiel Boersma, Maija-Liisa Friman, and Markku Tapio. Starting from 28 March 2012, the Personnel and Remuneration Committee comprised Jorma Eloranta (Chair), Maija-Liisa Friman, and Markku Tapio.

The Committee convened seven times, and the attendance rate was 100%. Key activities during 2012 included reviewing remuneration of senior management in relation to updated remuneration principles of the State Ownership Steering Committee, building and implementation of a new long-term share incentive program, updating the remuneration principles for senior management, competitiveness assessment of the remuneration for senior management, and evaluation of the performance of senior management.

President & CEO

Neste Oil's President & CEO, Matti Lievonen (b. 1958, B.Sc. (Eng.), eMBA), manages the Company's business operations in accordance with the Finnish Companies Act and instructions issued by the Board of Directors. The President & CEO shall oversee the executive management of the company in accordance with instructions and orders given by the Board of Directors and is responsible for ensuring that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The President & CEO is appointed by the Board of Directors, which evaluates the performance of the President & CEO annually and approves his remuneration on the basis of a proposal by the Personnel and Remuneration Committee.

Information on the remuneration and shareholdings of the President & CEO can be found in the Remuneration and shareholdings section of the Annual Report.

Neste Executive Board

The Neste Executive Board (NEB) assists the President & CEO in managing the Company and in the deployment of the Company's strategic and operational goals. Members are appointed by the Board of Directors. The NEB meets regularly, on average once a month. Information on the remuneration and shareholdings of the members of the NEB can be found in the Remuneration and shareholdings section of the Annual Report.

2012

The Neste Executive Board comprised nine members until 1 July 2012. The number of members increased to 10 on 1 July 2012 when Neste Oil's new Senior Vice President, Strategy, Tuomas Hyyryläinen, was appointed a member of the Neste Executive Board. Neste Oil's Chief Financial Officer, Ilkka Salonen left the company and the Executive Board on August 31, 2012 and Matti Piri was appointed as the acting Chief Financial Officer and a member of the Executive Board.

The Executive Board met 13 times in 2012. The NEB concentrated on enhancing the implementation of the Group's strategy by monitoring progress on the Value Creation programs, the development of Neste Oil's investment process, and cash flow management by improving the efficiency of the methods used to monitor and control performance in the areas of fixed costs, investments, and working capital. The NEB also oversaw HR development work.

Members of the Neste Executive Board

Matti Lievonen

President & CEO, Chair of the Neste Executive Board

Born 1958. B.Sc. (Eng.), eMBA. President & CEO since 1 December 2008. Joined the company in 2008. Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM, 1986 and 2008, and was with ABB earlier. Member of UPM-Kymmene's Executive Board 2002–2008. Chairman of the Advisory Board, Excellence Finland. Chairman of the Board of the Chemical Industry Federation of Finland as of 1 January 2013. Member of the Boards of Rautaruukki and Nynas AB. Member of the Board of Confederation of Finnish Industries as of 1 January 2013. Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and member of the Advisory Board, National Emergency Supply Agency.

Matti Lehmus

Executive Vice President, Oil Products and Renewables

Born 1974. M.Sc. (Eng.) and eMBA. Member of the Neste Executive Board since 2009. Joined the company in 1997. Responsible for the Oil Products and Renewables business area. Previously served as Executive Vice President of the Oil Products business area (2009–2010), Vice President of the Base Oils business in the Specialty Products Division (2007–2009), Vice President of Oil Refining Business Development (2007) and Gasoline Exports and Trading Manager (2004–2007) in the Oil Refining Division. Vice Chairman of the Board of the Finnish Petroleum Federation.

Sakari Toivola

Executive Vice President, Oil Retail

Born 1953. M.Sc. (Eng.). Member of the Neste Executive Board since 2007. Joined the company in 2007. Responsible for oil retailing in Finland and the Baltic Rim, direct sales, and LPG. Served previously as Managing Director (2002–2007) and Retail Sales Director (2001–2002) of oy Esso ab (Finland). Member of the Boards of Directors of Luotto-osuuskunta Oy and the Finnish Petroleum Federation.

Simo Honkanen

Senior Vice President, Sustainability and HSEQ

Born 1958. M.Sc. (Econ.). Member of the Neste Executive Board since 2009. Joined the company in 2006. Responsible for the Sustainability and HSEQ corporate function. Served previously as Vice President, Marketing and Stakeholder Relations in the Renewable Fuels division (2008–2009), Vice President, New Ventures in the Components Division (2006–2007) and prior to that as Strategy Director in Shell Finland, Marketing Director, Retail in Shell Benelux and France, and in several other managerial positions in Finland and Sweden (1985–2005).

Tuomas Hyyryläinen

Senior Vice President, Strategy

Born 1977. M.Sc. (Econ.) Member of the Neste Executive Board since 2012. Joined the company on 1 July 2012. Responsible for strategy, as well as Business Intelligence and Business Excellence functions, and M&A operations. Previously served as Vice President for strategy at F-Secure and headed strategy at Nokia Devices at Nokia Corporation. Also served in various strategy- and business development-related positions at Nokia's Devices unit and VDSL Systems.

Hannele Jakosuo-Jansson

Senior Vice President, Human Resources

Born 1966. M.Sc. (Eng.). Member of the Neste Executive Board since 2006. Joined the company in 1990. Responsible for the Group's Human Resources function. Served as Laboratory and Research Manager at the Technology Center (1998–2004) and Vice President, Human Resources at Oil Refining (2004–2005). Member of the Board of Tekes, the Finnish Funding Agency for Technology and Innovation.

Osmo Kammonen

Senior Vice President, Communications, Marketing and Public Affairs

Born 1959. M.Sc. (Laws). Member of the Neste Executive Board since 2004. Joined the company in 2004. Responsible for the Group's communications, marketing and public affairs activities. Served as Senior Vice President, Corporate Communications and Investor Relations and Communications Manager in various companies in the electronics, engineering, construction materials, and forest products industries.

Lars Peter Lindfors

Senior Vice President, Technology

Born 1964. Ph.D. (Tech.), MBA. Member of the Neste Executive Board since 2009. Joined the company in 2007. Responsible for Research & Technology and Neste Jacobs. Served previously as Senior Vice President, Technology and Strategy (2009–2012) and Vice President for the company's Research and Technology unit (2007–2009), as Executive Vice President, Renewal and Development at Perstorp Group (2004–2007), Executive Vice President, R&T&D at Perstorp Group (2001–2004), and prior to that at Neste (1989–2001) as R&D Manager and various other positions.

Matti Piri

Acting Chief Financial Officer

Born 1969. M.Sc. (Econ.). Member of the Neste Executive Board since 1 September 2012. Joined the company in 2011. Responsible for the Group's financial management, investor relations, and risk management. Previously served in various finance positions in Central Europe at Mars.

Ilkka Poranen

Senior Vice President, Production and Logistics

Born 1960. M.Sc. (Eng.). Member of the Neste Executive Board since 2009. Joined the company in 1985. Responsible for Production and Logistics. Previously served as Vice President, Corporate Safety (2007–2009), Vice President, Base Oils (1997–2007), and as Plant Manager at the Porvoo Refinery (1986–1997).

Matti Hautakangas*

General Counsel and Secretary to the Neste Executive Board and the Board of Directors.

Born 1963. M.Sc. (Laws). Joined the company in 2003. Secretary to the Neste Executive Board and Board of Directors since 2004. Responsible for the Group's legal affairs. Served previously as Legal Counsel, Oil Refining (2003–2004) and as an attorney-at-law at Procopé & Hornborg Law Offices Ltd. (1994–2003).

* Not a member of the Neste Executive Board

Neste Executive Management Board

The Neste Executive Management Board (NEMB) is responsible for leading and setting operational business targets and monitoring progress on achieving them.

2012
The Neste Executive Management Board comprised the President & CEO, business area Executive Vice Presidents, the CFO, and the Senior Vice President, Production and Logistics. The NEMB met nine times in 2012.

Company Auditor

The Annual General Meeting elects an Auditor annually, which must be an auditing company approved by the Finnish Central Chamber of Commerce. The Auditor's term of office ends at the end of the next AGM following election.

The Auditor is responsible for auditing the Company's accounts, its financial statements, the Review of the Board of Directors, and Neste Oil's administration.

The Auditor's Report covers the Review by the Board of Directors, the Consolidated Financial Statements, and the Parent Company's Financial Statements, and can be found in the Financial Statements section of the Annual Report.

2012

Ernst & Young Oy was elected as Neste Oil's Auditor on 28 March 2012, with Anna-Maija Simola, Certified Public Accountant, as main responsible auditor. Ernst & Young have acted as the Company's Auditor since 2007, when the function was last put out to tender.

Fees charged by the statutory auditor, EUR 1,000

	2012	2011
Audit fees	**1,077**	1,044
Others	**352**	685
Total	**1,429**	1,729

Internal Audit

The Internal Audit Unit supports Neste Oil's Board of Directors, the Board's Audit Committee, and management in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The goal of Internal Audit is to generate added value by making recommendations designed to improve the Company's operations. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.

The central task of Internal Audit is to audit the operations of Neste Oil's units and functions on a regular basis and evaluate their internal controls, risk management, and administrative practices. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments on behalf of management or the Board of Directors' Audit Committee.

Internal Audit reports to the Board of Directors' Audit Committee and administratively to the President & CEO. The Audit Committee is responsible for approving the Internal Audit Charter and Internal Audit's annual operating plan. As a staff function, Internal Audit does not have any direct authority over the activities it reviews.

Misconduct

Preventing misconduct in the Company's operations is one of Neste Oil's primary goals. Continuous efforts are made to identify and evaluate the risks associated with possible misconduct.

Neste Oil observes a number of principles and guidelines to prevent and deal with misconduct. These cover misuse of assets, systems, or a person's position within the Company aimed at benefiting one or more people either directly or indirectly. Regulations cover areas including:

- fraudulent financial reporting
- unauthorized use of Company assets
- income or assets acquired fraudulently or illegally, and
- evading costs or responsibilities using fraudulent or illegal means, and costs generated in a fraudulent or illegal way.

Regulations also include principles covering how supply, purchase, and service contracts should be negotiated. The Neste Oil Code of Conduct defines the general approach that every Company employee is expected to follow.

Should employees notice or suspect misconduct, they can inform their manager or supervisor, the head of Internal Audit, the head of the Group's Corporate Security Unit, Human resources personnel, or anonymously via an online tool. Internal Audit is responsible for evaluating cases that are reported and investigating them thoroughly if appropriate. Legal Affairs is responsible for any legal action taken in response. Misconduct and suspected misconduct is reported to the Board of Directors' Audit Committee.

2012

In 2012, Internal Audit focused on Company's market risks management, overseas operations, and data security at Neste Oil's refineries. Internal Audit's reporting to the Board of Directors' Audit Committee was developed.

No cases of misconduct took place in 2012 that would have had material impact on the Company's financial performance.

Read more about internal communications related to the Code of Conduct in the Sustainability section of the Annual Report.

Insider guidelines

Neste Oil complies with the Insider Guidelines of NASDAQ OMX Helsinki Ltd. that came into force as of 9 October 2009. The Company has also approved its own Guidelines for Insiders, which are stricter in some areas. The Company's closed window, for example, exceeds minimum NASDAQ OMX Helsinki requirements.

The Company's Guidelines for Insiders are updated regularly and are available to all personnel. The Company arranges training on insider guidelines for personnel and expects that its guidelines are followed. The Company supervizes compliance with insider guidelines by checking disclosed information with those concerned annually. The Company's General Counsel is responsible for the coordination and supervision of insider matters. The head of each common function or business area is responsible for supervising insider matters within his or her organization.

The members of the Board of Directors and the President & CEO, the Company's main responsible auditor, and the members of the Neste Executive Board and its secretary have all been classified as insiders subject to a declaration requirement. The holdings of Company securities by such insiders are filed in the public Insider Register, which can be consulted at the Company's web site. A public register is maintained in the insider register system of Euroclear Finland Oy.

The Company has also designated certain other executives, as well as certain individuals responsible for the Company's finances, financial reporting, and communications, who receive insider information on a regular basis due to their position or duties, together with various other people who otherwise work for the Company and receive inside information on a regular basis, as permanent Company-specific insiders.

Permanent insiders may not trade in any Company securities during the period from the closing date of an interim or annual accounting period to the date of publication of the interim report or financial statements bulletin for that period. The minimum period concerned is always 28 days prior to the date of publication of the interim report or the financial statements bulletin ('closed window'). The publication dates of interim reports and financial statements bulletins are shown in the financial calendar at nesteoil.com/investors.

Individuals who participate in the development and preparation of projects that involve insider information, such as mergers and acquisitions, are considered project-specific insiders. Such people are included in a separate register of Project-Specific Insiders maintained by the Company's Legal Department.

Performance Management Process

The Neste Oil Performance Management Process plays an essential role in helping the Group attain its strategic goals and reinforcing its performance-driven mindset.

Excellent operational performance is based on setting challenging targets, executing action plans, reviewing progress, giving feedback, and measuring results and performance.

From a financial reporting point of view, Neste Oil's Performance Management Process consists of a monthly Management Reporting Process and a quarterly Performance Review Process. At Group level, results and information in management reporting and performance reviews are compared to strategic goals and business plans and to analyses and planned corrective actions throughout the year.

Business areas and common functions follow a similar approach, but emphasize a more detailed analysis and definition of corrective actions, as well as continuous improvement and prioritization of actions and development projects.

Main features of internal control and risk management systems pertaining to the financial reporting process

Objectives

The objective of internal control in Neste Oil is to ensure efficient implementation of the Company's strategy and effective operations, assure compliance with both internal instructions and laws and regulations, achieve appropriate financial reporting, and prevent fraud and other misconduct.

The main responsibility for internal control lies with the line organizations of business areas and common functions. Identifying the main risks of processes and defining adequate control points are essential to ensuring an appropriate level of control. In addition to daily monitoring, line organizations evaluate their level of internal control by reviewing, assessing, and auditing their processes, and develop their systems by taking corrective actions as needed.

Line management also has primary responsibility for organizing sufficient control to ensure compliance with the Company's overall management principles, policies, principles, and instructions.

Neste Oil's internal control framework is based on the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework.

Roles and responsibilities

Under the Finnish Companies Act, the Board of Directors is responsible for ensuring that there is adequate control over the Company's accounts and finances. Responsibility for arranging this control is delegated to the President & CEO, who is required to ensure that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

The heads of business areas and common functions are responsible for establishing and maintaining adequate and effective controls in their operations. Responsibility for the practical implementation of this is delegated to each organizational level. Managers at each of these levels are responsible for implementing corporate principles and instructions in their organization, and for assessing the effectiveness of controls as often as needed.

To ensure sufficient control and support the line organization, Neste Oil's controllers and their teams have an independent role in controlling their business line. In certain areas, such as credit and counterparty risks, the Finance Department has risk control responsibility. In respect of financial reporting, Finance has a key role in control activities. Other corporate functions also play a role in assisting, assuring, and monitoring the operation of internal control procedures, such as HSEQ audits.

Internal Audit has overall responsibility for evaluating that internal control processes and procedures operate adequately and effectively.

The Audit Committee oversees the Company's finances, financial reporting, risk management, and internal auditing as part of the company's governance and steering system.

Control environment

Neste Oil's values and management systems are the foundation of the control environment and provide the background for shaping people's awareness and understanding of control issues. With respect to financial reporting:

- the President & CEO and corporate management are responsible for underlining the importance of ethical principles and correct financial reporting
- the Audit Committee, appointed by the Board of Directors, is responsible for overseeing the financial reporting process and related controls
- clearly defined financial reporting roles, responsibilities, and authorities provide a clear framework for everyone, and
- the structure of the organization and the resources allocated within it (segregation of duties, adequate financial reporting competencies recruited and retained) are designed to provide effective control over financial reporting.

Risk assessment

The Group's risk management governance is based on the 'three lines of defense' model, which distinguishes between:

1. Business areas and common functions owning and managing risk
2. Risk management specialists responsible for controlling, consulting, and developing systems, and
3. The Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

There are three risk assessment elements at Neste Oil. An Enterprise Risk Management (ERM) process provides a systematic approach for identifying threats and opportunities related to strategic targets and business plans. Risk manuals consist of risk principles, guidelines, and instructions. Risk awareness across the organization is based on proactive thinking and behavior among individual employees.

As a prerequisite for risk assessment, the organization's objectives need to be established. With respect to financial reporting, the general objective is to have reliable reporting and ensure that transactions are recorded and reported completely and correctly.

Based on risk assessment, the requirement for internal control has been included in the Principle and Instruction for Control of Financial Reporting.

More information on Neste Oil's risk management and risks related to Neste Oil's business can be found in Risk management section of the Annual Report.

Control activities

Control activities are instructions, guidelines, and procedures established and executed to help ensure that the actions identified by management as necessary to address the relevant risks are carried out effectively. Policies and other principles to be followed are documented in Neste Oil's management systems. The most important areas from the standpoint of financial reporting are included in the Controller's Manual.

Neste Oil's entity-level and process-level control activities with respect to reliable financial reporting are described in the Principle and Instruction for Control of Financial Reporting. These establish the minimum controls to be used and include controls related to transactions in specific processes, as well as controls carried out as part of the monthly reporting process. Typical control activities include authorizations, automatic or manual reconciliations, third-party confirmations, control reports, access controls to IT systems, and analytical reviews.

Internal communications

Information and communication systems enable Neste Oil's personnel to capture and exchange the information needed to conduct, manage, and control operations. With respect to financial reporting, this means that personnel have access to adequate information and communication regarding accounting and reporting principles.

The main means of communicating the matters relevant for appropriate financial reporting are the Controller's Manuals used at common function and business area levels, which include instructions covering accounting principles, planning, estimating, and reporting, as well as periodic controllers' meetings.

Monitoring

Monitoring is a key component of the internal control system and enables management and the Board of Directors and the Audit Committee to determine whether the other components of the system are functioning as they should and to ensure that internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action and to management and the Board as appropriate.

Effective monitoring is based on an initial evaluation of controls and whether they are effective in mitigating the risks identified. The ongoing operation of controls is regularly monitored as part of regular management activities, as the efficacy of controls can diminish over time due to changes in the operating environment that affect the risks that controls are designed to mitigate, or due to changes in the controls themselves caused by changes in processes, IT, or personnel.

2012

During 2012, work continued on developing how the Company monitors the efficiency of its control measures. Reporting-related incidents are monitored systematically on a monthly basis, and joint meetings are held with financial and business unit personnel to review control measures that have proved insufficiently effective and agree any process changes needed as a result.

Risk management

Neste Oil's business, personnel, assets, and operating environment are exposed to a wide range of operational risks due to the extent, diversity, and nature of the company's business activities and areas. From the financial risk point of view, risk management is steered by risk appetite, risk tolerance, and risk management opportunities. In the areas of safety and environment risks, Neste Oil focuses on active prevention of risks. Neste Oil promotes a risk-aware culture in all areas of the company's decision-making.

The objective, framework, and process of risk management

The Corporate Risk Management Policy and Principles approved by the Board of Directors define the risk management principles for managing the risks associated with the Group's strategic and operational targets and those of its business areas and common functions. The Board is also responsible for approving Neste Oil's Treasury Risk Policy and Credit and Counterparty Risk Management Principles. Business areas and corporate common functions have additional principles, instructions, and procedures related to risk management, approved by the President & CEO or a member of the Neste Executive Board.

Continuous operational activities are involved in tackling risks in functions such as Finance, Sustainability and HSEQ, and ICT, as well as those related to corporate reputation, legal affairs, technology, investments, and Human resources.

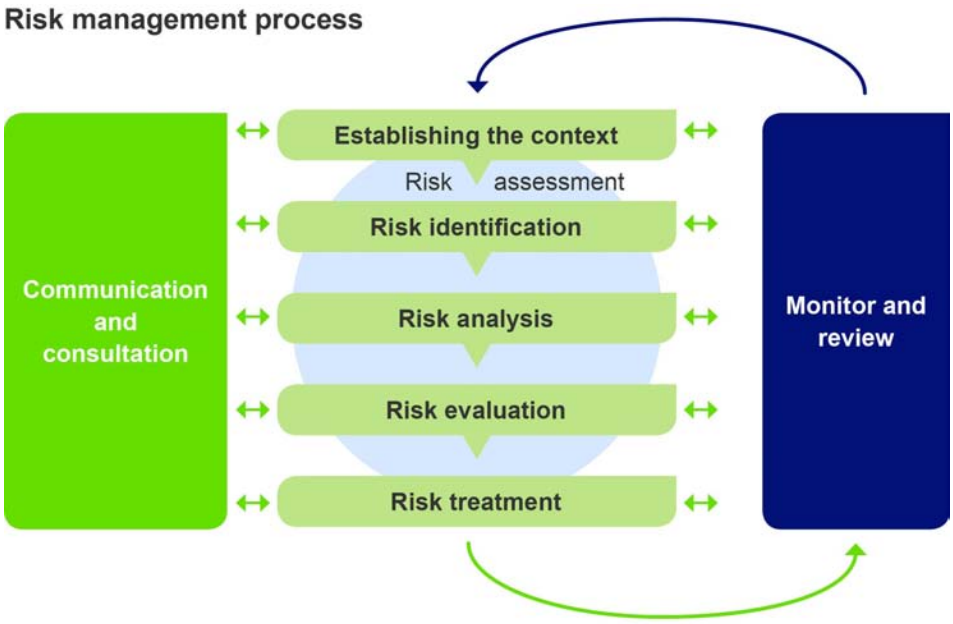
Neste Oil's Risk Management Policy emphasizes:

- the awareness and proactive management of risks
- the value of risk management in enhancing opportunities and reducing threats, and thereby gaining competitive advantage
- the importance of sufficient risk treatment and risk control, particularly in respect of HSEQ and sustainability, and
- the benefits of managing risks as an integrated part of planning, decision-making, and operational processes with a defined structure of roles and responsibilities.

Neste Oil's risk management framework is based on three risk assessment elements:

1. An Enterprise Risk Management (ERM) process that provides a systematic approach to identifying threats and opportunities related to strategic targets and performance plans
2. Risk manuals for specific risk disciplines. Risk manuals and defined processes cover areas such as credit and counterparty risk principles, price risk management principles and instructions, treasury principles and instructions, and proprietary trading manuals and instructions, and
3. Risk awareness across the organization, based on proactive thinking and behavior among individual employees.

Risk management is handled through these three elements by following the basic risk management process (see Risk management process illustration).



Risk management governance

The Board of Directors is responsible for setting the Group's risk appetite and approving the Corporate Risk Management Policy and Principles.

Risk management governance is based on the 'three lines of defense' model (see the Risk management governance illustration), which distinguishes between:

1. Business areas and common functions owning and managing risk
2. Risk management specialists responsible for controlling, consulting, and developing systems, and
3. The Audit Committee, which provides independent assurance of the overall efficacy of the Company's risk management.

Risk management line responsibility

As part of the first line of defense, the President & CEO, supported by the Neste Executive Board, has overall responsibility for the management of risks. A Risk Management Committee steered by the Chief Financial Officer provides a comprehensive understanding of the overall risks faced by the organization to the Neste Executive Board, particularly in respect of risks that threaten the Company's strategy and performance plans, as well as investments and new business models. Management and staff in Neste Oil's business areas and common functions are responsible for assessing and managing risks related to planning, decision-making, and operational processes in their particular areas.

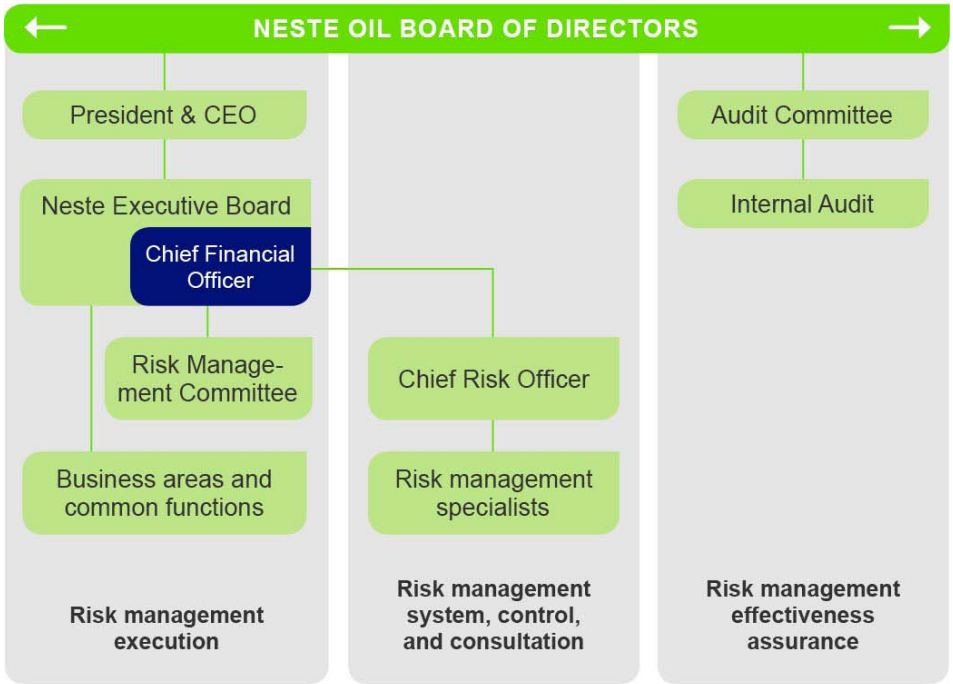
Risk management control and consultation

The second line of defense comprises the Chief Risk Officer, supported by the risk management specialists in the Corporate Risk Management function and other common functions and business areas. These personnel are responsible for overseeing specific risk disciplines, consulting and facilitating risk management processes, and developing risk management systems.

Risk management effectiveness assurance

The third line of defense, led by the Audit Committee, is designed to provide independent assurance on the efficacy of governance and risk management systems. Internal Audit plays a key role in the third line of defense and provides assurance to the Audit Committee.

Risk management governance



Risk reporting

Corporate risk reporting to the Board of Directors, the Audit Committee, the President & CEO, and the Neste Executive Board takes place according to the following main principles:

- risks threatening strategic and performance plan targets are reported as part of the corporate planning process
- risk treatments are reported through the Risk Management Committee as part of the corporate review process, and
- reporting on the overall financial risk situation is provided as part of monthly reporting

Risk relating to Neste Oil's business

The nature of the oil refining industry, regardless of the feedstocks used, exposes Neste Oil to market, counterparty, contractual, and operational risks, as well as other risks in areas such as sustainability, health, safety and the environment, IT and security, and general political and regulatory issues.

In particular, risks related to legislation, technology, and intellectual property rights, as well as feedstock supply, are likely to be of greater significance in renewable fuels than in traditional oil refining. Any of the above risks, either alone or jointly, may have a materially adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Changes in the refining margins of petroleum products and renewable fuels may also have a materially adverse effect on Neste Oil. The company's financial result is primarily affected by

the price differential or margin between refined product prices and the price of the crude oil, vegetable oil, and other feedstocks used in refining.

The cost of the feedstocks Neste Oil acquires and the price at which it can ultimately sell its products depend on a variety of factors largely beyond the company's control. Historically, refining margins have been volatile and are likely to continue to remain so in the future. Future volatility in refining margins may have a material adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Feedstock price	
• The volatility of feedstock prices exposes Neste Oil's inventory value and EBIT to price risks under IFRS accounting. The comparable EBIT that Neste Oil reports is not exposed to this risk, as it is based on current cost valuation.	• From a risk management perspective, Neste Oil's inventory consists of two components; base inventory and 'transaction position'. The latter is hedged using oil and vegetable oil derivatives. • See: Financial Statements, Note 3, Commodity price risks.
Feedstock price differences	
• Changes caused by supply and demand related to the price differentials of specific crude grades (such as the price differential between Russian Export Blend and Brent crude). • Crude oil may also be exposed to adverse short-term physical market strength.	• Crude oil exposure is sometimes reduced by 'locking' the following crude oil differentials: between Brent Dated and Brent Future/Forward contract and between Urals and Brent Dated. • Fixed price premiums on supply contracts or use of commodity derivatives.
Margin	
• Uncertainty related to the development of the world economy, which impacts demand for petroleum products generally and diesel fuel in particular. • Development of global oil refining capacity and, in particular, capacity in the products refined by Neste Oil. • Changes in the costs related to alternative ways of fulfilling regulated bio-mandates. • Fluctuations between crude oil and product prices, as well as price differentials between vegetable oil and renewable fuel prices.	• Neste Oil hedges the components of its refining margins with derivative transaction instruments. Hedging transactions concentrate on the components of Neste Oil's total refining margin. See: Financial Statements, Note 3, Refining margin risk. • Neste Oil monitors the development of worldwide refining capacity and aims to develop the structure of its own refining capacity. • Neste Oil's research and technology activities develop the Company's products and technology and aim to extend the range of raw materials that Neste Oil can use in its processes.
Product price premiums	
• Availability of price arbitrage for refined products between different geographical markets. • Changes in the mandatory product specifications used by the EU and governmental authorities for refined products, such as the EU Fuel Quality Directive. • Pricing and other actions taken by competitors that impact the market.	• Long-term sales contracts • Commodity derivative contracts are used to manage price arbitrage. • Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. • Neste Oil has a strong retail network around the Baltic, which provides a captive market for its refining operations.
Sales volumes	
• Pace of the implementation of renewable fuel legislation, such as the EU Renewable Energy Directive (RED), national regulations, and the United States Renewable Fuel Standard (RFS-2). • Operational availability of Neste Oil's refineries.	• Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. • High levels of operational availability are promoted through preventive maintenance and safety work at all the Company's refineries.
Exchange rate	

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
• Trading in commodities and refined products mainly takes place in US dollars, which exposes Neste Oil to USD/Euro exchange rate volatility.	• Neste Oil limits the uncertainties resulting from changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures. See: Financial Statements, Note 3, Foreign exchange risk.
Costs	
• Changes in the cost and availability of logistics services for feedstocks and refined products. • Changes in environmental and other regulations that could require Neste Oil to make substantial investments without necessarily increasing the capacity or operational efficiency of its refineries. • Changes in the cost of capital.	• Neste Oil aims to link its environmental investments to productivity investments and cooperate constructively with all its stakeholders. • Neste Oil is exposed to interest rate risk primarily through its interest-bearing net debt. See: Financial Statements, Note 3, Interest rate risk.
Hazard risk	
• Hazard risk is defined as the risk of financial losses arising from events leading to the damage of physical or intellectual assets, business interruption, personnel injuries, or environmental, product, or other liabilities. • Risks in the area of marine transportation may, if realized, have a major cost effect.	• High levels of operational excellence are promoted through instructions and principles covering areas such as process-, product- and behavior-based safety, security, marine risk management, crisis management, change management, and business continuity management. • In addition to preventive risk management measures, major hazard risks are covered by insurance policies.
Credit and counterparty risk	
• Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. Risk is linked to the potential failure of counterparties to meet their contractual payment obligations, and depends on the creditworthiness of counterparties and the size of the exposure concerned.	• Credit risk limits are set at Group level, designated by different levels of authorization and delegated to Neste Oil's business areas. • Counterparties are screened and evaluated in respect of their creditworthiness to decide whether open credit lines are acceptable or collateral or other credit enhancements such as letters of credit, bank guarantees, or Parent Company guarantees have to be posted. • See: Financial Statements, Note 3, Credit and counterparty risk.

More information on market, foreign exchange, and interest rate risks, and how they are mitigated can be found in the Financial Statements section of the Annual Report.

More information on environmental and safety risks can be found in the Sustainability section of the Annual Report.

Risk management focus in 2012

Neste Oil further developed its Enterprise Risk Management (ERM) system in 2012 by creating a business simulation model for analyzing the financial impact of risks recognized in the ERM process in relation to business plans and market risks. In addition, the corporate processes, responsibilities, mandates, and methods related to Neste Oil's price risk management were defined as part of a project completed during the year.

Neste Oil prepared to implement and ensure compliance with new legislation adopted in the EU and US aimed at transferring the clearing of over-the counter (OTC) transactions to centralized counterparties by the end of 2012 and requiring OTC derivative contracts to be reported to trade repositories.

Hedging market risks

Uncertainties in the global economy were reflected in the oil market in 2012 and will continue to pose a risk for Neste Oil's business, as solutions to the challenges facing the world economy have yet to be found. Neste Oil manages its market risk mainly through the use of commodity and foreign exchange rate derivatives.

The Renewable Fuels business moved from the ramp-up stage to full-scale operation in 2012, which increased the significance of hedging, especially for reducing cash flow volatility. In line with Neste Oil's current price risk management strategy, the margin hedging ratio used for this business area has been relatively high. The hedging strategy for Renewable Fuels is being reviewed in the light of the changes that have taken place in the business' challenges and opportunities.

Neste Oil's advanced, high-conversion conventional refineries provide a reasonable level of natural protection in a low-margin environment, and the normal refining margin hedging ratio used has been relatively low as a result. In order to secure the Group's financial position in 2012, Neste Oil raised its hedging ratio for Oil Products to approximately 30%. The hedging ratio will be lower in 2013.

Neste Oil's foreign exchange risks in respect of future business margins have been hedged a year ahead in accordance with the company's corporate risk management principles. A higher hedging ratio is used for a couple of months ahead and a lower one longer term.

In respect of transaction risks, business transactions (supply and sales) at both Oil Products and Renewable Fuels are hedged against feedstock price fluctuations and changes in foreign exchange rates.

Remuneration and shareholdings

Neste Oil follows remuneration principles for senior management approved by the Board and the 2010 Corporate Governance Code covering Finnish listed companies. The recommendations of the Ownership Steering Department of the Prime Minister's Office are taken into account in deciding the remuneration of senior management. The remuneration principles and incentive programs covering senior management have been developed to secure Neste Oil's competitiveness in the oil industry. The Company may also pay annual short-term incentives to senior managers and other personnel.

Remuneration

Neste Oil's Board of Directors is responsible for making decisions on compensation and incentive arrangements for Group management and key personnel based on proposals made by its Personnel and Remuneration Committee. The Company follows remuneration principles for senior management approved by the Board and the 2010 Corporate Governance Code covering Finnish listed companies. The recommendations of the Ownership Steering Department of the Prime Minister's Office are taken into account in deciding the remuneration of senior management.The Remuneration Statement required by the Governance Code can be consulted at www.nesteoil.com.

Short-term incentives

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

2012

Neste Oil paid a total of EUR 24.5 (20.5) million in performance-based, short-term incentives to personnel in spring 2012; this figure included pension and social insurance contributions. The Group-level performance indicators used in 2011 were Neste Oil's adjusted comparable operating profit, leverage ratio, and fixed costs. The Group-level performance indicators in 2012 were comparable operating profit and comparable earnings per share.

Read more about Group-wide remuneration and fringe benefits in the Sustainability section of the Annual Report.

Long-term incentive plan (2010)

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

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

Any possible payments in 2013, 2014 and 2015 will be made partly in Company shares and partly in cash. The maximum sum payable may not exceed the annual gross salary of the year in

question during any earning year. The proportion to be paid in cash will cover taxes and any tax-related costs.

The plan prohibits the transfer of shares for a period of three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Following this, key personnel must retain 50% of any shares received on the basis of the plan until the total value of the shares held corresponds to their annual gross salary. This obligation shall be valid for the duration of a person's employment or service with the Group.

The criteria for the 2010-2102 earning period were partially met in respect of sales volume in the Renewable Fuels business. The total shareholder return on Neste Oil´s stock in relation to the Dow Jones Nordic Return index failed to reach the threshold level, however. As a result, the equaling the value of around 130,000 shares of the 809,000 shares originally allocated will be paid out as a reward for the 2010-2012 earning period in 2013. President & CEO Matti Lievonen will be allocated a reward equivalent to the value of 22,500 shares (partly in shares and partly in cash) instead of the original 75,000 shares allocated to him in December 2009.

At the time of allocation, the maximum rewards of the remaining earning periods in terms of number of shares (including the proportion to be paid in cash) were:

- Approx. 842,000 Neste Oil Corporation shares (earning period 2011-2013)
- Approx. 1,093,000 Neste Oil Corporation shares (earning period 2012-2014)

Long-term incentive plan (2013)

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

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

The plan includes three individual share plans, each with a three-year earning period. The share plans will start in 2013, 2014, and 2015. The Board of Directors will decide on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period, either annually or for the entire earning period. The earning criteria for the 2013-2015 earning period of the first plan will be the Group's comparable free cash flow and the comparable operating profit of Renewable Fuels.

Any possible payments will be made partly in Company shares in 2016, 2017, and 2018, and partly in cash. The proportion to be paid in cash will cover taxes and other tax-related costs.The target long-term incentive for the President and CEO and the other members of Neste Executive Board (NEB) will be 40% of individuals' annual fixed salary. The maximum long-term incentive for the President and CEO will be 100% of his annual fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on target-level earnings under the long-term incentive program that has now been decided on, together with the incentive paid based on the annual short-term program, may not exceed 60% of participants' annual fixed salary in any given year. In addition, the combined amount of incentives to be paid under the short-term program and this new long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year.

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

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

If the targets set for the 2013-2015 earning period of the first share plan are met, the estimated aggregate value of shares to be paid on the basis of this plan will be approximately EUR 3.5 million or approximately 350,000 Neste Oil Corporation shares based on the share price as of December 2012. The estimated maximum value of shares to be paid on the basis of the first share plan, should an excellent level of performance be achieved, will be approximately EUR 7 million or approximately 700,000 shares. The number of shares based on the total value to be paid includes the proportion to be paid in cash.

Remuneration principles for senior management

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

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

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

- align the remuneration provided to managers with Neste Oil's strategic objectives, operational business targets, and core values
- Encourage and motivate senior management towards excellent performance both as individuals and as team members, and also strengthen high performance culture within Neste Oil
- Reward individuals based on achieved challenging targets and world-class operational and financial performance.
- attract and retain top talent
- underline the shared interests of owners and key personnel, and
- increase the value of the Company and shareholder value.

The principles guiding remuneration are as follows:

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

The two key components of senior managers' remuneration are:

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

In addition, overall remuneration includes the following components:

- a long-term, share-based incentive program that is discretionary in nature and restricted to a limited number of participant by the Board of Directors
- other benefits benchmarked against local peers (includes supplementary pension for NEB members)
- recognition awards made under separate Neste Oil guidelines

- intangibles linked to Neste Oil's concept of wellbeing at work, including challenging responsibilities, career opportunities, personal development, management development, an inspiring workplace, and a positive balance between work and leisure time.

Remuneration and shareholdings of the Board of Directors

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

The AGM in 2012 decided to pay the following remuneration to the Board:

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

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

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

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

Shareholdings and remuneration of the Board of Directors as of 31 December 2012

	Shareholdings as of 31 December			Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2012	2011	Change	2012	2012	2011
Jorma Eloranta	12,000	10,500	+1,500	61,800[1)]	11,400	36,900[3)]
Maija-Liisa Friman	6,000	6,000	-	45,750[2)]	11,400	35,400
Michiel Boersma	5,000	5,000	-	35,400	24,000	35,400
Nina Linander	1,100	1,100	-	35,400	24,000	35,400
Laura Raitio	1,500	1,500	-	35,400	11,400	26,550[4)]
Hannu Ryöppönen	3,500	3,500	-	35,400	22,800	35,400
Markku Tapio	-	-	-	35,400	11,400	35,400

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

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

3) Annual remuneration paid to the Vice Chair of the Board was EUR 49,200, of which Jorma Eloranta received remuneration for the period between 14 April and 31 December 2011.

4) Annual remuneration paid to the Member of the Board was EUR 35,400, of which Laura Raitio received remuneration for the period between 14 April and 31 December 2011.

Members of the Board 1 January–28 March 2012*, shareholdings and remuneration

	Share-holdings as of 28 March 2012	Share-holdings as of 31 December		Annual remuneration, EUR	Attendance payments, EUR	Annual remuneration, EUR
	2012	2011	Change	2012	2012	2011
Timo Peltola	15,000	15,000	-	16,500	1,800	66,000

*Timo Peltola left Neste Oil's Board of Directors at the AGM held on 28 March 2012.

Regularly updated data can be consulted at www.nesteoil.com/investors.

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

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

President & CEO

The salary and fringe benefits paid to the President & CEO in 2012 totaled EUR 55,039 a month. In addition to these payments, the President & CEO can receive an annual performance-related incentive, which may not exceed 40% of his or her annual salary and fringe benefits. The criteria for this short-term incentive are based on the President & CEO's success in achieving his or her personal targets and on the Company's financial performance and success in achieving its corporate targets. The President & CEO also comes within the scope of long-term incentive plans approved in 2009 and 2012. The maximum share reward payable under the program approved in 2009 and started in 2010 may not exceed a person's annual gross salary of the year in question during any earning year. The combined maximum amount of performance-based incentives in the program approved in 2012 and started in 2013 is 120% of a person's fixed annual salary, and the maximum amount payable annually under the short-term incentive program is 40% of a person's fixed salary. The maximum sum payable as part of these programs may not exceed 120% of participants' annual fixed in any given year.

The Company may terminate the President & CEO's employment by giving a six-month period of notice, and the President & CEO may resign with the same period of notice. Should the Company decide to give notice of termination, the President & CEO shall be entitled to his or her salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his or her pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2012 totaled EUR 464,211.

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

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

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

Director agreements agreed after 1 January 2009 specify a retirement age of 62 and director agreements agreed after 1 of July 2012 a retirement age of 63. These pension insurance payments in 2012 totaled EUR 295,745.03.

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

Remuneration paid to the President & CEO and NEB members, EUR

	2012			2011
	Salaries and benefits	Performance-based short-term incentives for 2011	Total	Total
President & CEO	700,022,76	161,787.50	861,810.26	859,652.60
Other NEB members	1,763,665,54	412,182.30	2,175,847.84	2,029,907.38

Shareholdings and share incentives of the Neste Executive Board as of 31 December 2012

				Shareholdings as of 31 December			
Name	Born	Position	NEB member since	2012	2011	Change	Share participations from the LTI arrangement 2010-2012*
Matti Lievonen	1958	President & CEO	2008	17,000	17,000	-	22,500
Matti Lehmus	1974	EVP, Oil Products and Renewables	2009	6,010	6,010	-	7,840
Sakari Toivola	1953	EVP, Oil Retail	2007	1,400	1,000	+400	7,840
Simo Honkanen	1958	SVP, Sustainability & HSEQ	2009	3,222	3,222	-	5,880
Tuomas Hyyryläinen[1)]	1977	SVP, Strategy	2012	-	-	-	-
Hannele Jakosuo-Jansson	1966	SVP, Human Resources	2006	3,869	3,779	+90	5,880
Osmo Kammonen	1959	SVP, Communications, Marketing & Public Affairs	2004	9,022	9,022	-	5,880
Lars Peter Lindfors	1964	SVP, Technology	2009	3,450	3,450	-	5,880
Matti Piri[2)]	1969	Acting CFO	2012	-	-	-	-
Ilkka Poranen	1960	SVP, Production & Logistics	2009	5,942	5,942	-	5,880

Information on shareholdings cover Neste Oil shares directly, through organizations in which those concerned have a controlling interest, and in their capacity as trustees.

1) Member of the Neste Executive Board since 1 July 2012.

2) Member of the Neste Executive Board since 1 September 2012.

*This column refers to the number of shares approved for distribution under the long-term share-based incentive plan that began in 2010. The net number of shares that will be distributed is estimated to be 40-50% of the amount shown here after taxes and other statutory payments have been deducted. Shares will be distributed in spring 2013 and will be covered by a restriction period and a share ownership requirement.

Personnel Fund

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

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

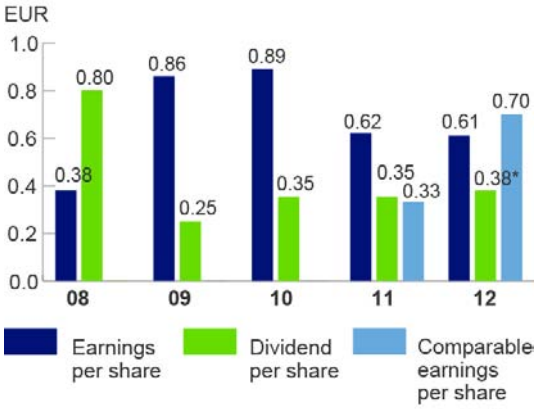
The profit-sharing bonuses paid into the Fund are distributed equally between members. Each employee's share is divided into a tied amount and an amount available for withdrawal. When an employee has been a member of the Fund for five years, he or she can transfer an amount equivalent to no more than 15% of the capital from the tied amount for withdrawal. The amount available for withdrawal will be determined annually and paid to members who wish to exercise their withdrawal rights. Members can choose whether they want to receive the amount available for withdrawal in cash or in Neste Oil shares acquired through the Personnel Fund.

2012
In 2012, the profit-sharing earnings paid into Neste Oil's Personnel Fund for 2011 totaled EUR 845,303 (EUR 674,541 in 2011).

Investor information

Neste Oil shares are traded on NASDAQ OMX Helsinki under the trading code NES1V.HE. The company had 77,744 shareholders as of the end of 2012. The Finnish State owned 50.1% of shares, international institutions 15.4%, Finnish institutions 20.0%, and Finnish households 14.5%.

Earnings per share and dividend per share*



* Proposal by the Board of Directors to the Annual General Meeting.

In line with the company's dividend policy, Neste Oil's dividend payout ratio is at least one third of its comparable net profit.

Investor services on the internet

The Investors section of Neste Oil's website contains the information presented in the Annual Report, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, an extensive material archive, current oil market information, such as prices and refining margins, and a share yield calculator.

www.nesteoil.com/investors

Interim Reports 2013

- January–March Interim Report, 24 April 2013
- January–June Interim Report, 1 August 2013
- January–September Interim Report, 24 October 2013

The only way is forward

A vision of traffic in 2030

"There could be 'car stops' where the drivers could pick people up, and hence increase ridesharing."

Woman age of 36-55, Sweden.

Read more

Share performance and trading on NASDAQ OMX Helsinki

Shares and shareholders

The goal of Neste Oil's investor relations (IR) work is to ensure that investors can form an accurate and appropriately detailed picture of the company's current and future business and financial position.

Share capital

The Company's share capital registered with the Trade Register on 31 December 2012 totaled EUR 40,000,000, divided into one class of 256,403,686 shares. Each share entitles a shareholder to one vote at the Annual General Meeting.

Share registration

Neste Oil's shares are included in the book entry securities systems maintained by Euroclear Finland Oy. The latter is also the official keeper of Neste Oil's list of shareholders.

Trading information

Neste Oil shares are traded primarily on NASDAQ OMX Helsinki under the trading code NES1V.HE. The ISIN code is FI0009013296 and trading takes places in euros (EUR).

Share buyback and issue authorizations

The Board of Directors is not authorized to issue new shares or other securities. The company does not have a share buy-back program in place, and the Board is not authorized to buy back company shares.

IR activities in 2012

Top management and IR personnel met investors in Finland and elsewhere in Europe, as well as in the US, during 2012. Regular contacts were also maintained with analysts and investors.

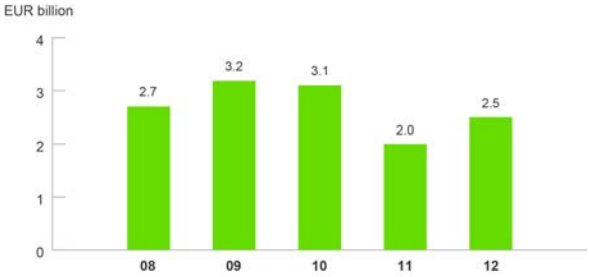
Share performance and trading

Neste Oil's stock closed 2012 at 25.1% above the price at the end of 2011. The share price started the year at EUR 7.94, reached EUR 11.11 at its highest and EUR 7.28 at its lowest. The weighted average price was EUR 9.08. The closing price at the end of the year was EUR 9.77, giving the company a market capitalization of EUR 2.5 billion. The Total Shareholder Return (TSR) during 2012 was 29.6%.

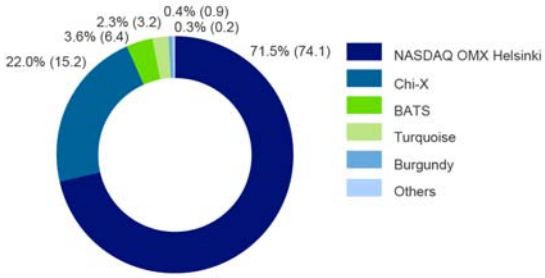
The share price showed strong daily fluctuation during the year and trading was brisk. Average daily trading on NASDAQ OMX Helsinki amounted to some 1.0 million shares, or 0.4% of the company's shares, equivalent to EUR 9.4 million. The average monthly trading volume was 21.6 million shares, or EUR 196 million. During the year as a whole, 259 million shares were traded, accounting for 101% of stock. In addition to the Helsinki Stock Exchange, Neste Oil shares were also traded through several Multilateral Trading Facilities (MTFs).

Share performance and trading on NASDAQ OMX Helsinki

Market capitalization on NASDAQ OMX Helsinki 2008-2012



Trading volumes of Neste Oil's shares (%)



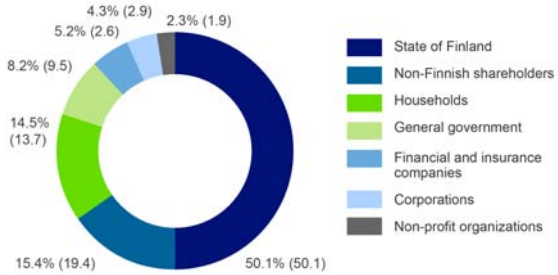
Source: Bloomberg

Shareholders and dividend

Shareholders

Neste Oil had 76,969 shareholders as of the beginning of 2012 and 77,744 as of the end of the year.

Shareholders by category (%)



Largest shareholders by size of holding as of 31 December 2012

		Shares	% of shares	Change
1.	Prime Minister's Office	128,458,247	50.10%	0
2.	Ilmarinen Mutual Pension Insurance Company	6,051,486	2.36%	-3,433,104
3.	Varma Mutual Pension Insurance Company	4,128,970	1.61%	-1,650,000
4.	The Social Insurance Institution of Finland, KELA	2,648,424	1.03%	0
5.	The State Pension Fund	2,540,000	0.99%	350,000
6.	The City of Kurikka	1,550,875	0.60%	0
7.	Mutual Insurance Company Pension-Fennia	1,212,000	0.47%	209,000
8.	Danske Fund Finnish Institutional Equity	1,125,000	0.44%	1,125,000
9.	Wipunen varainhallinta Oy	1,000,000	0.39%	1,000,000
10.	Nordea Fennia Fund	990,000	0.39%	720,000
11.	OP-Delta Fund	940,000	0.37%	615,000
12.	Mandatum Life Unit -Linked	877,156	0.34%	877,156
13.	OP Life Assurance Company Ltd	752,459	0.29%	205,561
14.	Schweizerische Nationalbank	751,050	0.29%	489,274
15.	The Local Government Pensions Institution	746,705	0.29%	395,479
16.	Danske Fund Finnish Equity	713,703	0.28%	502,000

17. OP-Finland Value Fund	690,000	0.27%	565,000
18. Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550,000	0.21%	230,000
19. Mariatorp Oy	550,000	0.21%	550,000
20. SEB Gyllenberg Finlandia Fund	526,250	0.21%	386,250

20 largest owners total	156,802,325	61.15%
Nominee registrations	37,849,801	14.76%
Others	61,751,560	24.08%
Number of Shares	256,403,686	100.00%

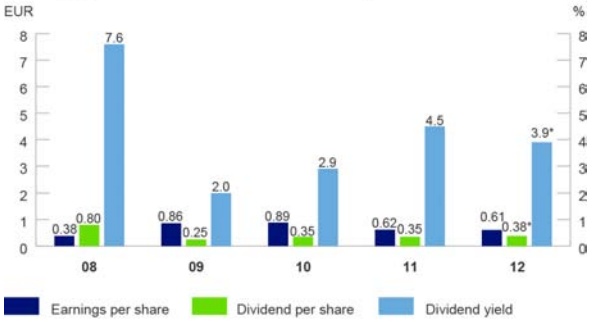
Distribution by number of shares

Number of shares	Number of shareholders	% of shareholders	Total number of shares	% of shares
1–100	25,914	33.3	1,492,082	0.6
101–500	33,808	43.5	8,676,897	3.4
501–1 000	9,301	12.0	7,217,415	2.8
1 001–5 000	7,534	9.7	15,560,970	6.1
5 001–10 000	644	0.8	4,688,611	1.8
10 001–50 000	406	0.5	8,144,987	3.2
50 001–100 000	50	0.1	3,649,115	1.4
100 001–500 000	63	0.1	13,295,402	5.2
500 000 -	24	0.0	193,678,207	75.5
Total	77,744	100.0	256,403,686	100.0
of which nominee registrations	16		37,849,801	14.8

Dividend

Neste Oil's dividend policy is to distribute at least one third of its comparable net profit for the year in the form of dividends. At the Annual General Meeting in 2013, the Board of Directors will propose a dividend of EUR 0.38 per share for 2012, representing 54% of comparable net profit. The dividend for 2011 was EUR 0.35 per share, representing 105% of comparable net profit.

Earnings per share, dividend, and dividend yield



* Proposal by the Board of Directors to the Annual General Meeting.

Shareholder's total return on their investments

Information for shareholders

Annual General Meeting

Neste Oil Corporation's Annual General Meeting will be held on Thursday, 4 April 2013 at 11.00 am EET at Finlandia Hall at Mannerheimintie 13 e, 00100 Helsinki

Registration

Registration and the distribution of voting papers will begin at 10.00 am. Shareholders wishing to participate in the Annual General Meeting should inform the company by 4.00 pm on 28 March 2013 at the latest by:

- visiting www.nesteoil.com and following the instructions given there, or
- phoning +358 (0)20 770 6862 (Monday-Friday, 9.00 am-4.00 pm EET), or
- faxing +358 (0)10 458 5440, or
- writing to Neste Oil Corporation, Marja Telenius, POB 95, FI-00095 Neste Oil.

Holders of proxies are requested to forward them when stating their wish to participate, ensuring that they reach the company by 4 pm on 28 March 2013 at the latest.

AGM and dividend payment in 2013

21 March AGM record date

4 April AGM

9 April Dividend payment record date

16 April Dividend payable

Dividend

The Board of Directors will propose to the AGM that a dividend of EUR 0.38 per share shall be paid for the financial year ending 31 December 2012.

Investor relations

Neste Oil's Investor Relations observes the principles of providing accurate and timely information, commitment, transparency, accessibility, and equal treatment of all investors. To view Neste Oil's Disclosure Policy in its entirety, see www.nesteoil.com

Annual Report for 2012

The Annual Report 2012 is published in Finnish and English primarily online, where it is also available in pdf format. A printed copy of the Financial Statements will be posted to all those who request one.

Stock exchange releases

Stock exchange releases are available in Finnish and English immediately after publication on the company's web site. Anyone wanting to be placed on the email distribution list for releases can find a form for the purpose at www.nesteoil.com

Closed period

Neste Oil observes a closed period ('closed window') prior to the publication of its results. Neste Oil's closed window always begins a minimum of four weeks prior to the publication of its interim or full-year results. During this period, the company will not comment on non-disclosed developments or prospects of its business, nor will company representatives meet analysts or investors, or take part in capital markets events.

Analysts following Neste Oil

The number of financial institutions providing analyses of Neste Oil increased by three during 2012. As of the end of the year, 22 financial institutions published research on Neste Oil.

Financial institutions following Neste Oil

- ABG Sundal Collier
- Bank of America Merrill Lynch
- Barclays Capital
- CA Cheuvreux
- Carnegie
- Citi
- Credit Suisse
- Danske Bank
- Evli Securities
- Exane BNP Paribas
- Goldman Sachs
- Handelsbanken
- Inderes
- Jefferies International
- Nomura
- Nordea Markets
- Pareto Securities
- Pohjola
- SEB Enskilda
- Societe Generale
- Swedbank
- UBS

Contact information for the analysts following Neste Oil at the organizations listed here can be found at www.nesteoil.com.

Investor services on the internet

The Investors section of Neste Oil's website contains the information presented here, together with other IR-related information, including a real-time stock monitor, delayed by 15 minutes, a list of the company's insiders and their holdings, an extensive material archive, current oil market information, such as prices and refining margins, and a share yield calculator.

Interim reports in 2013

- January–March Interim Report, 24 April 2013
- January–June Interim Report, 1 August 2013
- January–September Interim Report, 24 October 2013

Interim Reports are published in Finnish and English and can be downloaded in pdf format at www.nesteoil.com.

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Review by the Board of Directors 2012

Neste Oil's comparable operating profit was EUR 352 million compared to EUR 178 million in 2011, which reflected the significantly improved result of the company's Oil Products and Renewable Fuels businesses. Refining margins and gasoline margins, in particular, were higher in 2012 compared to 2011, mainly due to capacity closures, low inventories, refinery maintenance and other supply limitations. Good progress was made in Renewable Fuels business as new markets were opened and NExBTL diesel sales volumes were increased by more than a million tons from 2011. Although the Renewable Fuels segment remained loss-making in 2012, it reached close to breakeven result in the fourth quarter. In line with the company's feedstock strategy the use of waste- and residue-based feedstock was increased significantly in 2012. The Board of Directors will propose a dividend of EUR 0.38 per share for 2012, totaling 97 million.

Figures in parentheses refer to the full-year financial statements for 2011, unless otherwise noted.

The Group's results for 2012

Neste Oil's revenue in 2012 totaled EUR 17,853 million (15,420 million). This increase resulted mainly from the growth of the Renewable Fuels business and higher product prices compared to 2011. The Group's comparable operating profit for the year almost doubled to EUR 352 million, from EUR 178 million reported in 2011. Both the Oil Products and Renewable Fuels segments recorded clear improvement in comparable operating profit year-on-year, and Oil Retail's result was also slightly higher than in 2011. The Others segment posted a significantly lower result than in 2011. The Group's fixed costs came in at EUR 666 million (613 million). This increase was mainly caused by higher staff, IT service, and research & development costs.

Oil Products' full-year comparable operating profit was EUR 396 million (271 million), Renewable Fuels' EUR -56 million (-163 million), and Oil Retail's EUR 58 million (57 million). The comparable operating profit of the Others segment totaled EUR -46 million (9 million), of which Nynas accounted for EUR -6 million (19 million).

The Group's full-year IFRS operating profit was EUR 321 million (273 million), which was impacted by inventory losses totaling EUR 61 million (gains of 79 million) and capital gain totaling EUR 45 million (11 million). Pre-tax profit was EUR 233 million (206 million), profit for the period EUR 159 million (160 million), and earnings per share EUR 0.61 (0.62).

Given the capital-intensive nature of its business, Neste Oil uses return on average capital employed after tax (ROACE) as its primary financial target. ROACE figures are based on comparable results. As of the end of 2012, the rolling twelve-month ROACE was 4.9% (2011 financial year: 2.6%).

Group key figures, MEUR

	2012	2011
Comparable operating profit	**352**	178
- inventory gains/losses	**-61**	79
- changes in the fair value of open oil derivatives	**-15**	5
- capital gains/losses	**45**	11
IFRS operating profit	**321**	273
Revenue		
Oil Products	**13,764**	12,644
Renewable Fuels	**2,163**	1,026
Oil Retail	**4,895**	4,298
Others	**199**	191
Eliminations	**-3,168**	-2,739
Total	**17,853**	15,420
Comparable operating profit		
Oil Products	**396**	271
Renewable Fuels	**-56**	-163
Oil Retail	**58**	57
Others	**-46**	9
Eliminations	**0**	4
Total	**352**	178
IFRS operating profit		
Oil Products	**491**	373
Renewable Fuels	**-183**	-170
Oil Retail	**58**	58
Others	**-45**	8
Eliminations	**0**	4
Total	**321**	273

Cash flow, investments, and financing

Neste Oil Group's net cash from operating activities totaled EUR 468 million (197 million) in 2012. The year-on-year difference is mainly attributable to more efficient working capital management in 2012.

Investments totaled EUR 292 million (364 million) in 2012. Oil Products' capital expenditure totaled EUR 180 million (131 million), while Renewable Fuels invested EUR 51 million (190 million), Oil Retail EUR 36 million (34 million), and Others EUR 25 million (9 million).

Interest-bearing net debt was EUR 1,935 million as of the end of December 2012, compared to EUR 2,080 million at the end of 2011. Net financial expenses for the year were EUR 88 million (67 million). The average interest rate of borrowing at the end of December was 3.5% and the average maturity 3.9 years.

The equity-to-assets ratio was 35.0% (31 Dec. 2011: 34.0%), the leverage ratio 42.9% (31 Dec. 2011: 45.7%), and the gearing ratio 75.1% (31 Dec. 2011: 84.3%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,135 million as of the end of December (31 Dec. 2011: 1,629 million). There are no financial covenants in current loan agreements.

In accordance with its updated 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.

Main events during the reporting period

On April 17, Neste Oil announced that it had begun a scheduled major maintenance turnaround at the Naantali refinery that would result in the refinery being shut down until the beginning of June.

On May 15, Neste Oil announced that it had expanded the range of renewable raw materials it uses by beginning to produce NExBTL renewable diesel from waste fat sourced from the fish processing industry at its Singapore refinery.

On May 30, Neste Oil announced that it had filed a patent infringement action in the US District Court for the District of Delaware to protect its innovation and patent portfolio, based on its belief that one of its patents is being infringed by Dynamic Fuels, Syntroleum, and Tyson Foods in the production of renewable diesel at Dynamic Fuels' plant in Geismar, Louisiana.

On June 4, Neste Oil announced that diesel production line 4 at the Porvoo refinery had been shut down following an unexpected production incident. Maintenance work originally scheduled for the fall was moved up and carried out during the outage, and the line brought back on-stream in mid-July.

On August 17, Neste Oil and Stora Enso announced that they had decided not to progress with their plans to build a biodiesel plant, for which the two companies had applied for funding under the EU's NER 300 program.

On August 29, Neste Oil announced that it had completed the first phase of its project to build a pilot plant for producing microbial oil at Porvoo. The goal is to develop technology that it is capable of yielding commercial volumes of microbial oil for use as a feedstock for NExBTL renewable diesel.

On September 7, Neste Oil announced that Neste Oil's service stations in Finland would launch premium-quality Neste Pro Diesel on September 9. The new product is the world's first diesel fuel to comply with the toughest Worldwide Fuel Charter (WWFC) specification.

On October 17, Neste Oil announced that the European Commission's proposed changes to biofuel legislation support Neste Oil's ongoing efforts to extend its raw material portfolio. The proposal advocates splitting the EU's requirement for 10% mandated bio content in 2020 into two components, with biofuels produced from crops limited to providing 5% of total traffic fuel consumption, and the other 5% required to come from fuels produced from waste, residues, or completely new types of raw materials.

On October 29, Neste Oil announced that it had launched the commercial production and sale of renewable naphtha for its corporate customers. NExBTL renewable naphtha can be used as a feedstock for producing bioplastics, for example, and as a biocomponent for gasoline.

On December 13, Neste Oil announced that it had signed an agreement to sell its station network in Poland to Shell. The agreement covers 105 sites, all of which are unmanned and located in major cities. The transaction is valued at approximately EUR 80 million, of which around EUR 50 million will be recorded as a capital gain by Neste Oil. The transaction is subject to the approval of the local competition authorities, and is expected to be closed during the first half of 2013.

Strategy implementation

The implementation of Neste Oil's strategy continues to be driven by a series of Value Creation programs: Profitable Growth, Productivity, Renewable Feedstock, Customer Focus, and Winning Culture. These programs have defined targets and their progress is measured continuously.

Achievements as part of the Profitable Growth program in 2012 included increased sales volumes of NExBTL renewable diesel and the opening-up of new markets such as the United States to the fuel. The development of non-road applications continued, and the introduction of renewable naphtha expanded the NExBTL portfolio. Base oil sales volumes increased and sales were expanded in Asia and North America. New retail stations were opened in Finland and North-West Russia, and Neste Oil's retail market share in Finland increased in both gasoline and diesel.

Productivity was enhanced, with the new renewable diesel refineries in Singapore and Rotterdam achieving normal operational status. Capacity utilization at the Porvoo refinery also slightly improved. Diesel production line 4 at Porvoo achieved a new production record in 2012, despite maintenance outages during the second quarter.

The main achievement in the Renewable Feedstock program was the growth in the usage of waste- and residue-based raw materials by 406,000 tons to 742,000 tons in 2012. Waste fat from the fish processing industry was also successfully added to the range of renewable feedstocks used. The opening of Europe's first microbial oil pilot plant in Porvoo was an important step forward in efforts to expand Neste Oil's feedstock base in the area of waste-based materials.

Progress in the Customer Focus program in 2012 included the introduction of a new premium-quality Neste Pro Diesel product and contactless payment for fleet customers. Customer segmentation was also further developed.

Work on the Winning Culture program is also progressing. The results of the personnel survey conducted in 2012 showed improvements in areas such as commitment and leadership. Neste Oil's internal idea system generated over 1,500 ideas from personnel, of which the most promising ones will be followed-up and implemented.

Market overview

Uncertainties in the world economy, geopolitical tensions in oil-producing countries, and fears surrounding the escalating Eurozone crisis were the main drivers in the oil market during 2012. Crude oil prices peaked in early March and reached USD 125/bbl amid concerns about a deepening crisis between Iran and the West. As the summer approached, a variety of factors, including escalating fears about Eurozone economies, pushed crude below USD 100/bbl, and prices bottomed out at around USD 90/bbl in late June. They bounced back in the early fall and traded in a relatively tight USD 105-115/bbl range for the rest of the year. Brent crude averaged USD 112/bbl in 2012.

The price differential between heavier and lighter crude was again volatile and averaged USD -1.3/bbl in 2012, which was slightly narrower than in 2011. The differential widened significantly during the spring on the back of higher crude prices and the refinery maintenance season, narrowing as the summer

progressed to around zero during early July due to the sanctions on Iran and lower Iranian crude volumes. The refinery maintenance season in the fall saw the price differential widen again, before narrowing to around USD -1/bbl, where it stood at the end of the year.

Refining margins were volatile but were stronger on average than in 2011. The year started with the insolvency of Petroplus and the closure of several of its refineries, followed shortly after by the announcement of other refinery closures in the US. Low inventories, refinery incidents, and maintenance during the spring and fall pushed margins up in a market where demand growth in many regions was weak. Middle distillates were the strongest part of the barrel. Margins for middle distillates strengthened during the year and peaked at very high levels in the early part of the fourth quarter, after which they moved down towards the end of the year. Gasoline margins were seasonally low during the early first quarter and the late fourth quarter, but were at their highest since 2008 during the summer and fall. Overall European gasoline margins in 2012 were clearly stronger compared to 2011. Rising crude prices saw fuel oil margins weaken during the early part of the year, but strong bunker demand in Asia, high Japanese energy consumption, and falling crude prices strengthened margins during the mid-summer season. Fuel oil margins weakened again towards the end of the year, hand in hand with healthy Russian product flows and low demand in Asia. Fuel oil margins were at their lowest just before Christmas.

Global biodiesel demand in 2012 grew compared to 2011. Demand growth in Europe, however, was impacted by lower road diesel consumption and the increasing use of raw materials applicable for double counting in fulfilling biofuel mandates.

Vegetable oil price spreads continued to be very volatile in 2012. Palm oil prices rose during the early part of the year due to increased palm oil demand resulting from a poor soy bean crop in South America. The price differential between rapeseed oil and palm oil narrowed to well below long-term average levels before widening again during the second half as palm oil production grew and demand declined. Towards the end of the year, the growth in palm oil production exceeded expectations and inventory levels increased, which reduced palm oil prices further.

European FAME biodiesel margins began the year positively, but became negative as overcapacity led to low sales prices. Further pressure was put on FAME profitability by biodiesel imports from Argentina and Indonesia, as well as the increased use of double countable waste and residue feedstock, such as used cooking oil. European FAME producers' margins recovered in the fourth quarter, as biofuel imports are limited in the winter season due to stricter cold property requirements.

In the US, the Renewable Identification Number (RIN) market price has been an important driver of biofuel profitability. RIN prices declined gradually during 2012 and significantly at the end of the third quarter, which was interpreted as resulting from the growing supply of local biodiesel. The reintroduction of a blender's credit was approved as part of the Fiscal Cliff negotiation compromise, and is expected to impact the US biofuel market positively in 2013. The US Environmental Protection Agency (EPA) raised the biomass-based diesel mandate by 28% from 1.00 to 1.28 billion gallons a year for 2013.

Key drivers

	2012	2011
Reference refining margin, USD/bbl	**7.39**	4.37
Neste Oil total refining margin*, USD/bbl	**10.17**	8.76
Urals-Brent price differential, USD/bbl	**-1.29**	-1.71
NWE Gasoline margin, USD/bbl	**13.16**	7.41
NWE Diesel margin, USD/bbl	**20.60**	18.12
NWE Heavy fuel oil margin, USD/bbl	**-12.92**	-15.96
Brent Dated crude oil, USD/bbl	**111.58**	111.27
USD/EUR, market rate	**1.28**	1.39
USD/EUR, hedged	**1.33**	1.35
Crude freights, WS points (TD7)	**91**	104

* Adjusted according to the updated comparable operating profit calculation method

Production and sales

Production

Neste Oil's production totaled 15.4 million tons (15.0 million) in 2012, of which 1.8 million tons (0.7 million) took the form of NExBTL renewable diesel. Despite a major maintenance turnaround at the Naantali refinery and production interruptions on diesel production line 4 at Porvoo in the spring, output increased compared to 2011, reflecting increasing volumes from the Singapore and Rotterdam renewable diesel refineries.

Neste Oil´s production*, by plant

(1,000 t)	2012	2011
Porvoo refinery	**11,511**	11,761
Naantali refinery	**1,908**	2,264
NExBTL refineries	**1,849**	682
Bahrain VHVI plant (Neste Oil's share)	**128**	45
Beringen polyalfaolefin plant	**-**	43
Edmonton iso-octane plant (Neste Oil´s share)	**8**	191

* Adjusted to include only products refined for sales

The Porvoo refinery operated at an average capacity utilization rate of 87% (86%) in 2012, impacted mostly by maintenance work carried out on production line 4 during the second quarter of the year. Capacity utilization at Naantali was 67% (85%), affected by the major maintenance turnaround there during the second quarter as well as other maintenance work during the second half of the year.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input at Porvoo and Naantali averaged 63% (66%) in 2012. Production costs at the Porvoo and Naantali refineries totaled USD 4.4/bbl (4.3) for the year as a whole.

Production at the renewable diesel refineries achieved an average capacity utilization of 85% in 2012.

Sales

Total sales in 2012 increased by almost 3%, mostly due to higher NExBTL volumes. Diesel sales increased towards end of the year, but were still lower than in 2011, while gasoline sales remained steady throughout the year. Exports exceeded domestic sales in 2012.

Neste Oil´s sales from in-house production, by product category

(1,000 t)	2012	%	2011	%
Motor gasoline	**4,281**	***27***	4,143	*27*
Gasoline components	**19**	***0***	209	*2*
Diesel fuel	**5,886**	***38***	6,007	*39*
Jet fuel	**651**	***4***	763	*5*
Base oils	**394**	***3***	332	*2*
Heating oil	**229**	***1***	199	*1*
Heavy fuel oil	**1,171**	***7***	1,007	*7*
LPG	**262**	***2***	361	*2*
NExBTL renewable diesel	**1,665**	***11***	628	*4*
Other products	**1,172**	***7***	1,636	*11*
Total	**15,729**	***100***	15,284	*100*

Neste Oil´s sales from in-house production, by market area

(1,000 t)	2012	%	2011	%
Finland	**7 104**	***45***	7 893	*52*
Other Nordic countries	**2 563**	***16***	2 618	*17*
Other Europe	**4 232**	***27***	2 988	*20*
USA & Canada	**1 247**	***8***	1 591	*10*
Other countries	**583**	***4***	194	*1*
Total	**15 729**	***100***	15 284	*100*

Segment reviews

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

Oil Products

	2012	2011
Revenue, MEUR	**13,764**	12,644
Comparable EBITDA, MEUR	**583**	463
Comparable operating profit, MEUR	**396**	271
IFRS operating profit, MEUR	**491**	373
Total refining margin, USD/bbl	**10.17**	8.76
Net assets, MEUR	**2,252**	2,228
Comparable return on net assets, %	**16.6**	11.4

Oil Products' full-year comparable operating profit for 2012 amounted to EUR 396 million, compared to EUR 271 million in 2011. This improvement was largely due to a higher total refining margin. Base Oil's full-year profit contribution was lower than in 2011. Neste Oil's total refining margin totaled USD 10.17/bbl in 2012, which compares to USD 8.76/bbl in 2011. Fixed costs in refining operations were similar to those in 2011. Oil Product's comparable return on net assets was 16.6% (11.4%) in 2012.

Renewable Fuels

	2012	2011
Revenue, MEUR	**2,163**	1,026
Comparable EBITDA, MEUR	**43**	-85
Comparable operating profit, MEUR	**-56**	-163
IFRS operating profit, MEUR	**-183**	-170
Net assets, MEUR	**1,860**	1,963
Comparable return on net assets, %	**-2.8**	-8.7

Renewable Fuels' comparable operating profit was EUR -56 million in 2012, compared to EUR -163 million in 2011. Sales volumes in 2012 were more than 1 million tons higher than in 2011. New renewable diesel markets such as the US were opened up, and the customer base was expanded. The segment's result was negatively impacted for most of the year by low margins due to narrow vegetable oil price differentials and the low margins of FAME biodiesel producers. These margin-related factors improved by the fourth quarter. Another factor impacting Renewable Fuels' result is the comparatively high price of natural gas in Singapore. This has increased utility costs, which are the subject of development work at the site. Renewable Fuels' comparable return on net assets was -2.8% (-8.7%) in 2012.

Oil Retail

	2012	2011
Revenue, MEUR	**4,895**	4,298
Comparable EBITDA, MEUR	**91**	89
Comparable operating profit, MEUR	**58**	57
IFRS operating profit, MEUR	**58**	58
Net assets, MEUR	**345**	326
Comparable return on net assets, %	**17.3**	17.6
Total sales volume*, 1,000 m^3	**4,160**	3,982
- gasoline station sales, 1,000 m^3	**1,256**	1,279
- diesel station sales, 1,000 m^3	**1,620**	1,479
- heating oil, 1,000 m^3	**651**	654
- heavy fuel oil, 1,000 m^3	**255**	263

*includes both station and terminals sales

Oil Retail posted a full-year comparable operating profit of EUR 58 million compared to EUR 57 million in 2011. Overall sales volumes increased, but margins varied between different markets. The situation in the Baltic countries improved compared to 2011, while Finland was clearly more competitive in 2012. Oil Retail's comparable return on net assets was 17.3% (17.6%) in 2012.

Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ OMX Helsinki Ltd. The share price closed the year at EUR 9.77, up by 25.1% compared to the end of 2011. At its highest during 2012, the share price reached EUR 11.11, while at its lowest the price stood at EUR 7.28. Market capitalization was EUR 2.5 billion as of 31 December 2012. An average of 1.0 million shares was traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of 31 December 2012 totaled EUR 40 million, and the total number of shares outstanding was 256,403,686. The company does not hold any of its own shares, and the Board of Directors has no authorization to buy back company shares or 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 2011) of outstanding shares, foreign institutions 15.4% (19.4%), Finnish institutions 20.0% (16.8%), and Finnish households 14.5% (13.7%).

As of the end of 2012, members of the Board of Directors and the Neste Executive Board and its secretary owned a total of 82,724 Neste Oil shares, which represents 0.03% of outstanding shares, either directly, through organizations in which those concerned have a controlling interest, or in their capacity as trustees.

Largest shareholders as of 31 December 2012

Shareholder	Shares	%
Prime Minister´s Office	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	6,051,486	2.36
Varma Mutual Pension Insurance Company	4,128,970	1.61
The Social Insurance Institution of Finland, KELA	2,648,424	1.03
The State Pension Fund	2,540,000	0.99
The City of Kurikka	1,550,875	0.60
Mutual Insurance Company Pension-Fennia	1,212,000	0.47
Danske Fund Finnish Institutional Equity	1,125,000	0.44
Wipunen varainhallinta Oy	1,000,000	0.39
Nordea Fennia Fund	990,000	0.39
OP-Delta Fund	940,000	0.37
Mandatum Life Unit -Linked	877,156	0.34
OP Life Assurance Company Ltd	752,459	0.29
Schweizerische Nationalbank	751,050	0.29
The Local Government Pensions Institution	746,705	0.29
Danske Fund Finnish Equity	713,703	0.28
OP-Finland Value Fund	690,000	0.27
Sijoitusrahasto Taalaritehdas Arvo Markka Osake	550,000	0.21
Mariatorp Oy	550,000	0.21
SEB Gyllenberg Finlandia Fund	526,250	0.21
20 largest owners total	156,802,325	61.15
Nominee registrations	37,849,801	14.76
Others	61,751,560	24.08
Number of shares, total	256,403,686	100.00

Breakdown of share ownership as of 31 December 2012

By the number of shares owned

No. Of shares	No. of shareholders	% of shareholders	No. Of shares	% of shares
1–100	25,914	33.3	1,492,082	0.6
101–500	33,808	43.5	8,676,897	3.4
501–1,000	9,301	12.0	7,217,415	2.8
1,001–5,000	7,534	9.7	15,560,970	6.1
5,001–10,000	644	0.8	4,688,611	1.8
10,001–50,000	406	0.5	8,144,987	3.2
50,001–100,000	50	0.1	3,649,115	1.4
100,001–500,000	63	0.1	13,295,402	5.2
Over 500,000	24	0.0	193,678,207	75.5
Total	**77,744**	**100.0**	**256,403,686**	**100.0**
of which nominee registrations	16		37,849,801	14.8

By shareholder category

	% of shares
State of Finland	50.1
Non-Finnish shareholders	15.4
Households	14.5
General government	8.2
Financial and insurance companies	5.2
Corporations	4.3
Non-profit organizations	2.3
Total	100.0

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's 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. A person who has reached the age of 68 cannot be elected to the Board of Directors. 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 on 28 March 2012 in Helsinki. The AGM adopted the company’s financial statements and consolidated financial statements for 2011 and discharged the Supervisory Board, the Board of Directors, and the President & CEO from liability for 2011. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2011. A dividend of EUR 0.35 per share was paid on 11 April 2012.

In accordance with the proposal made by the AGM 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 Michiel Boersma, Mr Jorma Eloranta, Ms Maija-Liisa Friman, Ms Nina Linander, Ms Laura Raitio, Mr Hannu Ryöppönen, and Mr Markku Tapio. Jorma Eloranta was elected as Chair and Maija-Liisa 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 Markku Tapio as members of the Personnel and Remuneration Committee. Nina Linander was elected Chair and Michiel Boersma, Laura Raitio, and Hannu Ryöppönen as members of the Audit Committee.

In accordance with a proposal by the Board of Directors, Ernst & Young Oy, Authorized Public Accountants, were appointed as the company's Auditor, with Authorized Public Accountant Anna-Maija Simola as Senior Auditor, until the end of the next AGM. Payment for their services will be made in accordance with their invoice.

Following a proposal by the Prime Minister's Office, representing the Finnish State, the AGM decided to establish an AGM Nomination Board to prepare proposals covering the members of the Board of Directors and their remuneration for consideration by the next AGM. The Nomination Board comprises representatives of the Company's three largest shareholders and also includes, as an expert member, the Chair of the Board. In 2012, the Nomination Board comprised Senior Financial Counselor Jarmo Väisänen of the Ownership Steering Department at the Prime Minister's Office; Timo Ritakallio, Deputy CEO, Ilmarinen Mutual Pension Insurance Company; and Mikko Koivusalo, Director, Investments, Varma Mutual Pension Insurance Company. The Chair of Neste Oil's Board of Directors, Jorma Eloranta, served as the Board's expert member.

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

Personnel

Neste Oil employed an average of 5,031 (4,926) employees in 2012, of which 1,450 (1,427) were based outside Finland. As of the end of 2012, the company had 5,022 employees (4,825), of which 1,474 (1,407) were located outside Finland. Wages and salaries paid by the company totaled EUR 253 million (240 million) in 2012.

Health, safety, and the environment

Neste Oil's focus on safety continued in 2012, with the main emphasis on people and process safety. The year's achievements included implementation of 12 safety elements and self-assessments at all business units. This work will continue in 2013, with detailed action plans at site level. Overall safety performance declined in 2012, however. The total recordable injury frequency (TRIF, number of cases per million hours worked) was 3.6 (2.7); this figure combines the company's own and contractors' personnel. The corporate target was 2.0. The method used for calculating TRIF was adjusted in 2012 to exclude off-duty hours at Shipping. In general, the severity of injuries has decreased. The record-low frequency of lost workday injuries – 1.5 (1.9) – was very positive. Process Safety Events (PSE) frequency in 2012 was 5.6 (4.8). Substantial efforts were made to improve working practices at heights. Over 800 people were trained in this high-risk area and new working guidelines were implemented across the Group for both Neste Oil and contractor personnel.

Operational environmental emissions were in substantial compliance at all sites. Permitted levels were exceeded four times, once at Porvoo and Singapore and twice at Naantali. No serious environmental incidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2012, with the exception of the accidental release of diesel-class fuel at a third-party terminal operated by Neste Oil in Kajaani in April.

Neste Oil has received emission rights for 3.2 million tons of CO_2 emissions per year between 2008 and 2012, and has acquired further rights from the market to cover the deficit between its allocated rights and verified emissions. The verification of emissions for 2012 is scheduled, and Neste Oil will be able to report and surrender allowances equal to its total emissions in 2013. Neste Oil has used rights received from clean development mechanisms to help meet its requirements.

The European Renewable Energy Directive (RED) was still being implemented in some EU member states as of the end of 2012. Neste Oil's internal procedures have been updated to meet the directive's requirements, and the company has filed a voluntary scheme for verifying the sustainability of its biofuels with the EU. All of Neste Oil's NExBTL plants have received International Sustainability and Carbon Certification (ISCC) system certificates, ensuring that their output is eligible for use on the European biofuel market. All Neste Oil sites are also EPA-approved for the US market.

Neste Oil retained its position in a number of sustainability indexes during 2012, and was included in the Dow Jones Sustainability World Index for the sixth year in succession, for example. It was also selected for inclusion in The Global 100 list of the world's most sustainable companies for the sixth year in succession, and was ranked 19th. Neste Oil was also rated among the top performers in the oil & gas sector by the Forest Footprint Disclosure Project, which reviews industries using forest risk commodities, and was included in the STOXX® Global ESG Leaders Index and featured in the Ethibel EXCELLENCE Investment Register in 2012, as well as the new Storebrand Trippel Smart and SPP Global Topp 100 fund.

In January 2013, after the reporting period, Neste Oil was selected for inclusion in The Global 100 list for the seventh year in succession and ranked 4th. Companies selected for inclusion in The Global 100 are considered the most capable in their sectors in managing environmental, social, and governance issues, and in their ability to make use of new business opportunities in these areas.

Research and development

Research and development focusing on both crude oil-based and renewable fuels is crucial in implementing Neste Oil's strategy. Neste Oil's R&D expenditure totaled EUR 42 million (42 million) in 2012. An additional approx. EUR 8 million was invested in a microbial oil pilot plant commissioned in the fall. Extending the company's raw material base is one of the main goals of Neste Oil's R&D work. Around 70% of annual R&D expenditure goes to research into renewable raw materials. Research work is focused on both completely new types of raw materials, such as microbes and algae, and existing materials, such as used cooking oil and technical corn oil.

Neste Oil focused on expanding the use of waste- and residue-based feedstock, particularly animal fat and palm fatty acid distillate (PFAD), in 2012. Inputs coming from waste and residues increased by over 400,000 tons to 742,000 tons and accounted for approx. 35% (40%) of total renewable feedstock usage in 2012. Neste Oil’s goal is to increase this volume further. Palm oil accounted for 65% (53%) of all the raw materials used in renewable diesel production in 2012.

Neste Oil's R&D personnel also played a key role in the launch of Neste Pro Diesel, the outcome of an in-house R&D project.

Events after the reporting period

On January 28, Neste Oil announced that Neste Shipping will start an efficiency improvement program aimed at improving its profitability and securing the continuity of its operations. As part of the efficiency improvement program, statutory employer-employee negotiations will be started and will cover all Neste Shipping's land- and sea-based personnel in Finland, around 450 people in total. The negotiations could result in a maximum of 130 people being made redundant. The goal of the efficiency improvement program is to make the business profitable by increasing revenue and reducing costs by a total of around EUR 15 million annually.

On February 4, Neste Oil announced that it will build an isomerization unit at its Porvoo refinery. The investment, valued at approx. EUR 65 million, is intended to increase the output of high-octane gasoline and improve refining flexibility at the site. Neste Oil took the initial decision to make the investment in 2008, but announced in 2009 that it would postpone the project until the market situation improved. Neste Oil believes that the demand for cleaner fuels, such as high-octane, low-sulfur gasoline, is continuing to grow globally.

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.

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 a short-term 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 and other key market areas may influence the speed at which the demand for these fuels develops. Risks also include any problems or delays in capturing the anticipated benefits from the company's renewable diesel investments. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing fuel technologies or hybrid and electric engines may have a negative impact on the company's results. Renewable fuels margins can be volatile in various markets due to rapidly changing feedstock and product prices, and affect the profitability of the Renewable Fuels 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, and the price differentials between different vegetable oils.

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

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 company has moved ahead with its major projects and as turbulence has continued in the global economy. 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 2012.

Outlook

Uncertainties in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets and this volatility is expected to continue. Global oil demand is generally forecasted to grow moderately in 2013, but new refining capacity is likely to put pressure on simple refineries. Complex refiners such as Neste Oil, are expected to remain the most competitive. Diesel is projected to be the strongest part of the barrel going forward, and gasoline margins are expected to improve seasonally by summer. The base oil market is likely to be under pressure due to sluggish demand in the automotive industry. The renewable fuels market is based on biofuel regulations, and biofuel demand is expected to continue growing. Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstock.

Production line 4 at the Porvoo refinery is scheduled to be shut down for maintenance for up to eight weeks starting in the second quarter. The shutdown includes a four-week regulatory pressure vessel inspection. No other major oil refinery maintenance is planned for 2013.

Renewable Fuels' full-year comparable operating profit is expected to improve from that seen in 2012 and be positive. The result will depend on market volatility and successful sales allocations. The average margin hedging ratio used in Renewable Fuels is currently clearly lower than in 2012. A shutdown of three weeks at the Singapore NExBTL refinery due a utility supplier's maintenance work in January will reduce the sales volumes in the first quarter.

The Group's investments are expected to total approx. EUR 300-350 million in 2013.

The Group's full-year comparable operating profit is expected to improve compared to 2012, assuming that Neste Oil's reference refining margin remains at the average level of approx. USD 5/bbl typical of the last few years and that Renewable Fuels' result will develop as expected.

Dividend distribution proposal

The parent company's distributable equity as of 31 December 2012 amounted to EUR 1,035 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 0.38 per share for 2012, totaling EUR 97 million based on the number of registered shares as of 4 February 2013.

Financial statements

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Group Financials

MEUR	2012	2011
Revenue	**17,853**	**15,420**
Comparable EBITDA	**684**	**493**
Comparable Operating Profit	**352**	**178**
Oil Products	**396**	271
Renewable Fuels	**-56**	-163
Oil Retail	**58**	57
Others (incl. Eliminations)	**-46**	13
IFRS Operating Profit	**321**	**273**
Net Cash from Operations	**468**	**197**
Earnings per share, EUR	**0.61**	**0.62**
Leverage, %	**42.9**	**45.7**
ROACE, %	**4.9**	**2.6**

Key financial indicators

		2012	2011	2010
Income statement				
Revenue	EUR million	**17,853**	15,420	11,892
Operating profit	EUR million	**321**	273	323
- of revenue	%	**1.8**	1.8	2.7
Comparable operating profit	EUR million	**352**	178	240
Profit before income taxes	EUR million	**233**	206	296
- of revenue	%	**1.3**	1.3	2.5
Profitability				
Return on equity (ROE)	%	**6.3**	6.6	9.9
Return on capital employed, pre-tax (ROCE)	%	**6.5**	5.9	7.7
Return on average capital employed, after tax (ROACE)	%	**4.9**	2.6	4.6
Financing and financial position				
Interest-bearing net debt	EUR million	**1,935**	2,080	1,801
Leverage ratio	%	**42.9**	45.7	42.6
Gearing	%	**75.1**	84.3	74.3
Equity-to-assets ratio	%	**35.0**	34.0	36.5
Other indicators				
Capital employed	EUR million	**4,923**	4,850	4,607
Capital expenditure and investments in shares	EUR million	**292**	364	943
- of revenue	%	**1.6**	2.4	7.9
Research and development expenditure	EUR million	**42**	42	41
- of revenue	%	**0.2**	0.3	0.3
Average number of personnel		**5,031**	4,926	5,030

Share-related indicators				
Earnings per share (EPS)	EUR	**0.61**	0.62	0.89
Equity per share	EUR	**10.01**	9.58	9.43
Cash flow per share	EUR	**1.83**	0.77	4.32
Price/earnings ratio (P/E)		**15.96**	12.61	13.38
Dividend per share	EUR	**0.38** [1)]	0.35	0.35
Dividend payout ratio	%	**62.1** [1)]	56.5	39.2
Dividend yield	%	**3.9** [1)]	4.5	2.9
Share prices				
At the end of the period	EUR	**9.77**	7.81	11.95
Average share price	EUR	**9.08**	10.22	11.86
Lowest share price	EUR	**7.28**	6.19	10.45
Highest share price	EUR	**11.11**	14.70	13.77
Market capitalization at the end of the period	EUR million	**2,505**	2,003	3,064
Trading volumes				
Number of shares traded	1,000	**259,007**	285,178	242,190
In relation to weighted average number of shares	%	**101**	111	95
Average number of shares		**255,918,686**	255,918,686	255,913,809
Number of shares at the end of the period		**255,918,686**	255,918,686	255,918,686

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

Calculations of key financial indicators

Calculation of key financial indicators

Operating profit	=	Operating profit includes the revenue from the sale of goods and services, other income such as gain from sale of shares or non-financial assets, share of profit (loss) of associates and joint ventures, less losses from sale of shares or non-financial assets, as well as expenses related to production, marketing and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in operating profit.
Comparable operating profit	=	Operating profit -/+ inventory gains/losses -/+ gains/losses from sale of shares and non-financial assets - unrealized change in fair value of oil and freight derivative contracts. Inventory gains/losses include the change in fair value of all trading inventories.
Return on equity, (ROE) %	= 100 x	Profit before taxes - taxes / Total equity average
Return on capital employed, pre-tax (ROCE) %	= 100 x	Profit before taxes + interest and other financial expenses / Capital employed average
Return on average capital employed, after-tax (ROACE) %	= 100 x	Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax) / Capital employed average
Capital employed	=	Total assets - interest-free liabilities - deferred tax liabilities - provisions
Interest-bearing net debt	=	Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	= 100 x	Interest-bearing net debt / Interest bearing net debt + total equity
Gearing, %	= 100 x	Interest-bearing net debt / Total equity
Equity-to-assets ratio, %	= 100 x	Total equity / Total assets - advances received

Return on net assets, %	= 100 x	Segment operating profit / Average segment net assets
Comparable return on net assets, %	= 100 x	Segment comparable operating profit / Average segment net assets
Segment net assets	=	Property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment, provisions and pension liabilities
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)	=	Profit for the period attributable to the equity holders of the company / Adjusted average number of shares during the period
Equity per share	=	Shareholder's equity attributable to the equity holders of the company / Adjusted average number of shares at the end of the period
Cash flow per share	=	Net cash generated from operating activities / Adjusted average number of shares during the period
Price / earnings ratio (P/E)	=	Share price at the end of the period / Earnings per share
Dividend payout ratio, %	= 100 x	Dividend per share / Earnings per share
Dividend yield, %	= 100 x	Dividend per share / Share price at the end of the period
Average share price	=	Amount traded in euros during the period / 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
Trading volume	=	Number of shares traded during the period, and number of shares traded during the period in relation to the weighted average number of shares during the period

Consolidated income statement

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Revenue	4, 7	**17,853**	15,420
Other income	8	**98**	36
Share of profit (loss) of associates and joint ventures	19	**-3**	26
Materials and services	9	**-16,186**	-13,962
Employee benefit costs	10	**-342**	-316
Depreciation, amortization and impairments	11	**-332**	-315
Other expenses	12	**-767**	-616
Operating profit		**321**	273
Financial income and expenses	13		
Financial income		**3**	4
Financial expenses		**-84**	-72
Exchange rate and fair value gains and losses		**-7**	1
Total financial income and expenses		**-88**	-67
Profit before income taxes		**233**	206
Income tax expense	14	**-74**	-46
Profit for the period		**159**	160
Attributable to:			
Owners of the parent		**157**	158
Non-controlling interests		**2**	2
		159	160
Earnings per share from profit attributable to owners of the parent (in EUR per share)	15		
Basic		**0.61**	0.62
Diluted		**0.61**	0.62

Consolidated statement of comprehensive income

MEUR	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Profit for the period	**159**	160
Other comprehensive income for the period, net of tax:		
Translation differences and other changes	**10**	-1
Cash flow hedges		
recorded in equity	**-50**	-10
transferred to income statement	**84**	-19
Net investment hedges	**-1**	-1
Hedging reserves in associates and joint ventures	**-1**	1
Other comprehensive income for the period, net of tax	**42**	**-30**
Total comprehensive income for the period	**201**	130
Attributable to:		
Owners of the parent	**199**	128
Non-controlling interests	**2**	2
	201	130

The notes are an integral part of these consolidated financial statements.

Consolidated balance sheet

MEUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	18	**61**	55
Property, plant and equipment	17	**3,869**	3,968
Investments in associates and joint ventures	19	**242**	239
Non-current receivables	20, 21	**3**	16
Pension assets	30	**0**	0
Deferred tax assets	28	**33**	50
Derivative financial instruments	20, 25	**37**	19
Available-for-sale financial assets	20, 21	**4**	4
Total non-current assets		**4,249**	4,351
Current assets			
Inventories	22	**1,464**	1,457
Trade and other receivables	20, 23	**1,154**	1,045
Derivative financial instruments	20, 25	**57**	59
Cash and cash equivalents	24	**409**	304
Total current assets		**3,084**	2,865
Assets classified as held for sale	5	**52**	56
Total assets		**7,385**	7,272
EQUITY			
Capital and reserves attributable to owners of the parent	26		
Share capital		**40**	40
Other equity		**2,522**	2,413
Total		**2,562**	2,453
Non-controlling interests		**16**	14
Total equity		**2,578**	2,467

LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	20, 27	**1,977**	1,891
Deferred tax liabilities	28	**340**	331
Provisions	29	**27**	22
Pension liabilities	30	**48**	46
Derivative financial instruments	20, 25	**6**	12
Other non-current liabilities	20, 27	**7**	9
Total non-current liabilities		**2,405**	2,311
Current liabilities			
Interest-bearing liabilities	20, 27	**357**	493
Current tax liabilities	20, 27	**40**	26
Derivative financial instruments	20, 25	**47**	88
Trade and other payables	20, 27	**1,925**	1,872
Total current liabilities		**2,369**	2,479
Liabilities related to assets held for sale	5	**33**	15
Total liabilities		**4,807**	4,805
Total equity and liabilities		**7,385**	7,272

The notes are an integral part of these consolidated financial statements.

Consolidated cash flow statement

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Cash flows from operating activities			
Profit for the period		**159**	160
Adjustments for			
Income tax	14	**74**	46
Share of profit (loss) of associates and joint ventures	19	**3**	-26
Depreciation and amortization	11	**332**	315
Other non-cash income and expenses		**43**	0
Financial expenses - net	13	**88**	67
Profit/loss from disposal of fixed assets and shares	8	**-46**	-12
		653	550
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		**-106**	-166
Decrease (+)/increase (-) in inventories		**13**	-404
Decrease (-)/increase (+) in trade and other payables		**49**	348
Change in working capital		**-44**	-222
		609	328
Interest and other finance cost paid		**-83**	-68
Interest income received		**0**	5
Dividends received		**0**	0
Realized foreign exchange gains and losses		**-20**	19
Income taxes paid		**-38**	-87
		-141	-131
Net cash generated from operating activities		**468**	197

Cash flows from investing activities			
Purchases of property, plant and equipment	17	**-269**	-341
Purchases of intangible assets	18	**-22**	-23
Purchases of other shares		**-1**	0
Proceeds from sale of subsidiaries, net of cash disposed	6	**-**	2
Proceeds from capital repayments in associates and joint ventures	19	**2**	-
Proceeds from sale of property, plant and equipment		**79**	22
Proceeds from sale of other shares		**0**	0
Changes in non-current receivables		**3**	-25
Net cash used in investing activities		**-208**	-365
Cash flow before financing activities		**260**	-168
Cash flows from financing activities			
Payment of (-) / proceeds from (+) current interest-bearing liabilities		**-173**	47
Proceeds from non-current interest-bearing liabilities		**1,022**	457
Repayments of non-current interest-bearing liabilities		**-914**	-324
Dividends paid to the owners of the parent		**-90**	-90
Dividends paid to non-controlling interests		**0**	-
Other financing activities		**-**	0
Net cash used in financing activities		**-155**	90
Net decrease (-)/increase (+) in cash and cash equivalents		**105**	-78
Cash and cash equivalents at beginning of the period		**304**	380
Exchange gains (+)/losses (-) on cash and cash equivalents		**1**	2
Cash and cash equivalents at end of the period	24	**410**	304

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

MEUR	Note	Share capital	Reserve fund	Fair value and other reserves	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2011		40	13	6	-6	2,361	2,414	12	2,426
Dividend paid						-90	-90		-90
Share-based compensation						1	1		1
Transfer from retained earnings			2			-2	0		0
Total comprehensive income for the year				-29	-1	158	128	2	130
Total equity at 31 December 2011	26	40	15	-23	-7	2,428	2,453	14	2,467

Total equity at 1 January 2012		**40**	**15**	**-23**	**-7**	**2,428**	**2,453**	**14**	**2,467**
Dividend paid						**-90**	**-90**	**0**	**-90**
Share-based compensation							**0**		**0**
Transfer from retained earnings			**3**			**-3**	**0**		**0**
Total comprehensive income for the year				**33**	**9**	**157**	**199**	**2**	**201**
Total equity at 31 December 2012	26	**40**	**18**	**10**	**2**	**2,492**	**2,562**	**16**	**2,578**

The notes are an integral part of these consolidated financial statements.

1 General information

Neste Oil Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The Company is listed on the NASDAQ OMX Helsinki.

Neste Oil Corporation and its subsidiaries (together referred to as the Neste Oil Group) is a refining and marketing company focused on advanced, cleaner traffic fuels. The Group's refineries and other production facilities, together with its network of service stations and other retail outlets in Finland and the Baltic Rim area, supply both domestic and export markets with gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas, bitumen and NExBTL renewable diesel based on Neste Oil's proprietary technology. Neste Oil's supply and distribution chain includes a tanker fleet for carrying crude oil and other feedstock imports and refined product exports. As an oil refiner, Neste Oil is a leading manufacturer of environmentally benign petroleum products.

The Board of Directors has approved these consolidated financial statements for issue on 4 February 2013.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The notes to the consolidated financial statements also include compliance with the Finnish accounting and corporate legislation. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through the income statement. The consolidated financial statements are presented in millions of euros unless otherwise stated.

New Standards and amendments and interpretations to existing standards

The following interpretations or amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2012 but do not have a material impact on the Group consolidated financial statements:

• Amendment to IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards, if applicable, on 1 January 2013 or when they become effective.

Amendments to IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment effects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IAS 12 Income Taxes - Deferred Taxes: Recovery of Underlying Assets

The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40. The Group does not have investment properties and therefore the amendment is not expected to have an impact on the Group's consolidated financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Revised)

There are numerous amendments to IAS 19. According the amended standard actuarial gains and losses relating to defined benefit obligations and past service costs will be recognized as they occur. The Group has applied the corridor method for recognize actuarial gains and losses. This change will increase the Group's reported defined benefit liability from EUR 48 million to EUR 99 million as at December 31, 2012. Change in

equity will be EUR -47 million. Net interest cost will replace interest expense and expected return on plan assets. Impact to the Group reported net income will not be material. The amendment becomes effective for annual periods beginning on or after 1 January 2013, retrospective application.

IAS 28 Investments in Associates and Joint Ventures (as revised 2011)

As a consequence of the new IFRS 11 'Joint Arrangements', and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investments in Associates', has been renamed IAS 28 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. From 1 January 2011 onwards the group has early adapted the IAS 28. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify when an entity has a legally enforceable right to set-off posted amounts and when setting-off happens enough simultaneously so that an asset and a liability can be netted. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Amendments to IFRS 1 Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', prospectively to government loans existing at the date of transition to IFRS. The amendment is effective for annual periods on or after 1 January 2013. The amendment is still subject to endorsement by the EU.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply the recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

The standard is issued to reflect the first phase of the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The adoption of the first phase of IFRS 9 will have an impact on classification and measurements of the Group's financial instruments. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The amendment is still subject to endorsement by the EU.

IFRS 10 Consolidated Financial Statement

The standard replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. The new standard establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The standard becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 11 Joint Arrangements

The standard replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly-controlled Entities - Non-monetary Contributions by Venturers'. The new standard changes accounting treatment of jointly controlled entities. Jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method only. The Group's joint ventures are accounted for by using the equity method of accounting and therefore this has no impact on the Group's financial position. The standard becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 12 Disclosure of Interests in Other Entities

The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after 1 January 2014.

IFRS 13 Fair Value Measurement

The standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation will not have an impact on the Group. The interpretation is effective for annual periods beginning on or after 1 January 2013.

Annual improvements to IFRS.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates include the expected useful lifetimes of tangible and intangible assets, the amount of income taxes recognized as expense and deferred tax assets or liabilities, actuarial assumptions applied in the calculation of defined benefit obligations, and assumptions made in the recognition of provisions or valuation of receivables. Actual results may differ from these estimates.

Consolidation

Subsidiaries

The consolidated financial statements cover the parent company, Neste Oil Corporation, and all those companies in which Neste Oil Corporation has the power to govern financial and operating policies and holds, directly or indirectly, more than 50% of voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances, and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Non-controlling interests are presented in the consolidated balance sheets within equity, separate from the equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statements of income. Where necessary, subsidiaries' accounting policies have been modified to ensure consistency with Group policies.

Associates, joint ventures and jointly controlled assets

Associated companies are entities over which the Group has significant influence but not control, and generally involve a shareholding of between 20% and 50% of voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another company or companies. The Group's interests in associates and joint ventures are accounted for by the equity method of accounting.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the investment in associates and joint ventures are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the joint venture acquired, the difference is recognized directly in the income statement.

The Group's share of the post-acquisition profits or losses after tax of its associates and joint ventures is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In respect of interest of jointly controlled assets the Group recognises its share of the jointly controlled assets and liabilities as well as its part of any income or expenses incurred. Because the assets, liabilities, income and expenses are recognised in the financial statements of the Group, no adjustments of other consolidation procedures are required.

Segment reporting

The Group's operations are divided into four operating segments: Oil Productions, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation resources.

Until 20 December 2010 the reportable segments of the Group were presented in line with the Company's internal organisational and reporting structure adopted as of 1 April 2009. At the time business areas also represented the reporting segments. On 20 December 2010 the Group reorganised its operations so that the Oil Products and Renewable Fuels business areas were merged to create one business area Oil Products and Renewables. Financial reporting has remained unchanged.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses. Comparative figures in 2011 financial statements have been reclassified.

The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements.

Non-current assets and disposal groups held for sale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value, less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

The assets are not depreciated.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') or the functional currency of the Group. The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all Group entities (none of which uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

• assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;

• income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

• all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

Revenue recognition

Revenue from the sale of goods is recorded in the income statement when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when services have been provided. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licences are recognised when the risks and rewards are transferred to the buyer.

Revenue will be recognised as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission.

Revenue includes sales from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. Where forward sale and purchase contracts for crude oil or oil products have been determined to be for trading purposes, the associated sales and purchases are reported net within sales whether or not physical delivery has occurred. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the income statement.

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as capital gains on disposal of other non-current assets and rental income.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement in 'Other income' over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant, and equipment are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they relate to.

Borrowing costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility.

Income taxes

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. For items recognized directly in equity, the income tax effect is similarly recognized. Management judgment is required in determining the provision for income taxes and the deferred tax assets.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, the fair valuation of derivative financial instruments, pension liabilities recognized in the balance sheet, provisions and tax losses carried forward. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Research and development

Research expenditure is recognized as an expense as incurred and included in other operating expenses in the consolidated financial statements. Expenditure on development activities is capitalized only when it relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

Property, plant and equipment

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, marine fleet, and retail station network infrastructure and equipment. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value at the date of acquisition.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3-5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. The same principle is applied to the costs incurred for compulsory periodic docking of ships. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory is included in other tangible assets and is depreciated according to possible usage of the crude oil. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and structures, including terminals	20-40 years
Production machinery and equipment, including special spare parts	15-20 years
Marine fleet	15-20 years
Retail station network infrastructure and equipment	5-15 years
Other equipment and vehicles	3-15 years
Other tangible assets	20-40 years

The residual values and useful lives of assets are reviewed, and adjusted where appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated income statement.

Intangible assets

Intangible assets are stated at historical cost and amortized on a straight-line method over expected useful lives. Intangible assets comprise the following:

Computer software

Computer software licences are capitalized on the basis of the costs incurred to acquire and introduce the software in question. Costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognized as an expense.

Trademarks and licences

Trademarks and licences have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost, less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Emission allowances

Emission allowances, which are purchased to cover future periods deficit are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as any change in the probable amount of the provision, are reflected in the operating profit.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Group classifies financial assets in the following categories: financial assets at fair value through income statement, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the asset known as the trade date. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through income statement are subsequently carried at fair value. Unlisted equity securities, for which fair value cannot be measured reliably, are recognized at cost less impairment. Loans and receivables are carried at amortized cost, using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of assets in 'financial assets at fair value through income statement' category are included in the income statement in the period in which they arise. The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

Financial assets at fair value through income statement

The assets in this category are financial assets held for trading, and include derivative financial instruments, if they are held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in 'Trade and other receivables' in the balance sheet.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted the effective interest rate. The amount of the loss is recognized in the income statement within 'Other expenses'.

The Group could reduce its counterparty risks by selling trade receivables to the third party e.g. bank. The sale of the receivables essentially transfers ownership of the receivables to the bank, indicating it to obtain all of the rights associated with the receivables. The Group receives the advance from the bank at the time of sale. Fees and other expenses are deducted from the advance.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses'.

Leases

Finance leases

Lease arrangements that transfer substantially all the risks and rewards related to a leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments, as determined at the inception of the lease. Lease payments are allocated between the reduction of the outstanding liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities according to their maturities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shortest.

An arrangement that does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. Determining whether an arrangement is, or contains, a lease are based on IFRIC interpretation 4.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognised in profit or loss as consumed.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met.

Financial liabilities

Financial liabilities are recognized initially as net proceeds less any transaction costs incurred, and subsequently at amortized cost. Any difference between net proceeds and redemption value is recognized as interest cost over the period of the borrowing, using the effective interest method. Bank overdrafts are shown in current liabilities on the balance sheet. Derivative financial instruments are categorized as held for trading and included in financial liabilities at fair value through income statement, unless they are designated as hedges as defined in IAS 39. Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date.

Employee benefits

Pension obligations

Neste Oil's group companies operate various pension schemes. These schemes are generally funded through insurance companies. The Group has both defined benefit and defined contribution plans.

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the Project Unit Credit Method. Pension costs are expensed during employee's service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligations is the market yield of high-quality corporate bonds (AA-rated) that have similar maturity terms to those of the related pension liability. The liability or asset recognized in the balance sheet is the defined benefit obligation at the balance sheet date less the fair value of plan assets with adjustment for unrecognised actuarial gains and losses and past service costs.

Actuarial gains and losses exceeding 10% of total defined benefit obligations or the present value of plan assets, whichever is higher, are recorded in the income statement over the expected average remaining working lives of employees. The interest cost is included in employee benefit expenses.

Share-based payments

Expenses related to share-based payments are recorded in the income statement and a respective liability is recognized in the balance sheet for share-based payments settled in cash. The liability recognized in the balance sheet is measured at fair value at each reporting date. For transactions settled in equity, an increase corresponding to the expense in the income statement is entered in shareholders' equity.

Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in Note 3.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity/other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. for example when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the

foreign exchange derivative contracts hedging of the future USD-sales are recorded within revenue. When the forecast transaction that is being hedged results in the recognition of a property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity/other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement in 'financial income and expenses', together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk compensating the effect. If derivative financial instruments do not qualify for hedge accounting, any movement in fair value is recognized in the income statement.

Derivative financial instruments that do not qualify for hedge accounting

Some oil and freight derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Oil derivative contracts are also held for trading purposes. Certain currency and interest rate derivative contracts also do not qualify for hedge accounting. For derivative financial instruments that do not qualify for hedge accounting, any movement in fair value is recognized in the income statement in operating profit for oil and freight derivative contracts and in 'financial income and expenses' concerning derivative financial instruments related to financing activities.

Definitions

Operating profit

Operating profit includes the revenue from the sale of goods and services, other income such as gains on sale of shares or non-financial assets, less losses from the sale of shares or non-financial assets, as well as expenses related to production, marketing, and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in the operating profit.

Comparable operating profit

Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sale of shares and non-financial assets, and unrealized changes in the fair value of oil and freight derivative contracts from the reported operating profit. Inventory gains/losses include the change in fair value of all trading inventories. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses.

Segment net assets

Segment net assets include property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment as well as provisions and pension liabilities.

Return on net assets, %

Return on net assets is calculated by dividing segment operating profit with average segment net assets.

Comparable return on net assets, %

Comparable return on net assets is calculated by dividing segment comparable operating profit with average segment net assets.

3 Financial risk management

Risk management principles

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Risks are generally managed at source, within the Group's business areas and common functions. A number of risk management strategies have been developed to address the impact of the risks related to Neste Oil's business activities. The Neste Oil Corporate Risk Management Policy with the related Corporate Risk Management Principles, approved by the Board of Directors, defines risk management governance, responsibilities and processes for communicating and reporting risks and risk management.

The documents define detailed principles covering strategic risks, market risks, including counterparty risks, operational and functional risks, including risks involving human safety, and legal liabilities. The Corporate Risk Management Policy and Principles complement Neste Oil's other management principles and instructions. The Treasury Principles and the Credit and Counterparty Risk Management Principles are also approved by the Board of Directors. The Board of Directors' Audit Committee regularly reviews and monitors financial risk management policy, principles, risk limits, and other risk management activities.

The management of financially related risks aims to reduce the volatility in earnings, the balance sheet, and cash flow, while securing effective and competitive financing for the Group.

Risk management organization

The Corporate Risk Management and risk management professionals in business areas and common functions are responsible for controlling special risk disciplines, consulting and facilitating risk management processes and developing risk management systems.

Neste Oil's Group Treasury is responsible for managing foreign exchange, credit and counterparty, interest rate, liquidity, and refinancing risks as well as insurance management. The price risk management i.e. hedging of the Group's refining margin and refinery inventory price risk is also organized in Group Treasury. In addition, Group Treasury coordinates the management of the price risk associated with utilities and the obligation to return emission allowances, and provides price hedging services.

The Corporate Risk Management and Group Treasury units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer and both units work in close cooperation with the Group's business areas.

Oil Products and Renewables business area and other functions to a smaller degree enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Products and Renewables business area also enters into derivative transactions for proprietary trading purposes within authorized risk limits.

Risk Management Committee monitors the risk management process and compliance. Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks are reported to the Board of Directors, the Audit Committee, the Risk Management Committee, the President & Chief Executive Officer, and other corporate management as part of the strategy and planning process. A report on the market and financing risks of reporting segments and the Group is included in the monthly management report.

Market risks

1. Commodity price risks

The main commodity price risks Neste Oil faces on its businesses are related to market prices for crude oil, renewable feedstocks and other feedstocks, as well as refined petroleum and renewable products. These prices are subject to significant fluctuations resulting from a variety of factors affecting demand and supply globally.

Neste Oil's results of operations in any given period are principally driven by the demand for and prices of refined fossil fuel or renewable products relative to the supply and cost of raw materials. These factors, combined with Neste Oil's own consumption of crude oil, renewable feedstocks, other feedstocks and output of refined products, drive operational performance and cash flows in Oil Products and Renewables, which is Neste Oil's largest business area in terms of revenue, profits and net assets.

Neste Oil divides the commodity price risks affecting Neste Oil's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

Inventory price risk

From a risk management perspective, Neste Oil's refinery inventory consists of two components. The first and largest component remains relatively constant over time and is referred to as the 'base' inventory, which includes the minimum level of stocks that Neste Oil is required to maintain under Finnish laws and regulations.

In fossil fuel refining business the base inventory comprises the minimum level of stocks along with which can reasonably be assured that the refineries can be kept in operation. The fossil fuel base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

In renewable refining business the price risk related base inventory is higher than the physical inventory and is approximately one third of the annual renewable refining capacity used. This is mainly resulting from feedstock market practices and logistics involved.

The base inventory creates a risk in Neste Oil's income statement and balance sheet inasmuch as Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste Oil's inventory risk management policies target inventories in excess of the 'base inventory' inasmuch as these stocks create cash flow risks depending on the relationships between feedstock purchases, refinery production and refined petroleum product sales over any given period.

The amount of inventories in excess of the base inventory at Neste Oil is called 'transaction position'. According to the Neste Oil risk management principle any open exposures of the transaction position are hedged without delay.

Refining margin risk

As the total refining margin is an important determinant of Oil Products and Renewables business area's earnings, its fluctuations constitute a significant risk.

In the fossil fuel refining business the refining margin at risk is a function of the sales price of the refined fossil products and the fossil feedstocks used to produce them. Neste Oil's exposure to low fossil refining margins is partly offset by its high conversion refineries.

In Renewable business the refining margin is mainly a function of the NExBTL sale price received and feedstocks used. The underlying indices used in the NExBTL pricing are primarily oil products or conventional biodiesel related, while the price of feedstocks used derive from different vegetable oils and fats. As a result, Neste Oil is exposed to greater margin volatility in the Renewable business compared to that in the fossil fuel refining.

With the aim of securing its margin, Neste Oil has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the renewable business target hedge ratios are typically higher due to greater margin fluctuation. In the renewable business hedge ratio is measured as a percentage of the committed sales volumes for the rolling 6 months.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on its forecasted or committed sales and refinery production, which are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying feedstock and refined petroleum products for which derivative financial instruments can be sold and purchased, and the actual quality of Neste Oil's feedstock and refined petroleum products in any given period, the business will remain exposed to some degree of basis risk.

The exposure to open positions of oil derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste Oil operates and reports in euro, this factor, among others, exposes Neste Oil's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste Oil is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings, and in the Group's balance sheet. Generally, this is done by hedging currency risks in contracted and forecasted cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-euro zone subsidiaries (referred to as translation exposure).

Transaction exposure

In general, all business areas hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecasted over a 12-month period on a rolling basis, and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 60% for the first six months and 25% of the next three months for the renewable business. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Treasury Principles. The most important hedged currency is the U.S. dollar.

The company is hedging its Malaysian ringgit (MYR) based raw material purchases. The Group's net exposure is managed through the use of forward contracts and options. All transactions are made for hedging purposes and the majority is also hedge accounted for according to IFRS. Business areas are responsible for forecasting net foreign currency cash flows, while Group Treasury is responsible for implementing hedging transactions.

Neste Oil has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than home currency. The principle is to hedge this balance sheet exposure fully using forward contracts and options. Open exposures are allowed based on risk limits set by the Treasury Principles. The largest and most volatile item in terms of balance sheet exposure is net working capital. Since many of the Group's business transactions, sales of products and services and purchases of crude oil and other feedstock are linked to the U.S. dollar, the daily exposure of net working capital is hedged as part of the balance sheet hedge in order to neutralize the effect of volatility in EUR/USD exchange rate. During 2012, the daily balance sheet exposure fluctuated between approximately EUR 179 million and 1,372 million. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess the base inventory. Group Treasury is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2012 and 2011, in millions of euros.

MEUR	2012	2011
EUR	**2,181**	2,183
SGD	**86**	97
USD	**67**	93
Other	**-**	11
	2,334	2,384

The nominal and fair values of outstanding foreign exchange derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

Translation exposure

Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste Oil may seek to reduce the volatility in equity in the consolidated balance sheet through hedging transactions. Forward contracts are used to hedge translation exposure. Any hedging decisions are made by Group Treasury. The total non-euro-denominated equity of the Group's subsidiaries and associated companies was EUR 500 million as of 31 December 2012 (2011: EUR 463 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	**2012**			**2011**		
MEUR	**Net investment**	**Hedge**	**Hedge %**	Net investment	Hedge	Hedge %
USD	**61**	**-**	**0 %**	60	-	0 %
SEK	**222**	**-**	**0 %**	196	-	0 %
CAD	**80**	**-**	**0 %**	73	73	100%
PLN	**-**	**-**	**0 %**	15	-	0 %
RUB	**77**	**-**	**0 %**	68	-	0 %
EEK	**-**	**-**	**0 %**	-	-	0 %
LTL	**34**	**-**	**0 %**	31	-	0 %
BHD	**-**	**-**	**0 %**	-	-	0 %
Other	**26**	**-**	**0 %**	20	-	0 %
	500	**-**	**0 %**	463	73	16%

3. Interest rate risk

Neste Oil is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Company's interest rate risk management is to limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the net debt portfolio is 12 months, and duration can vary between six and 36 months. Interest rate derivatives have been used to adjust the duration of the net debt portfolio. The Group's interest rate risk management is handled by Group Treasury. The nominal and fair values of outstanding interest rate derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

The following table summarizes the re-pricing of the Group's interest-bearing debt.

MEUR

Period in which re-pricing occurs	**within 1 year**	**1 year - 5 years**	**> 5 years**	**Total**
Financial instruments with floating interest rate				
Financial liabilities				
Loans from financial institutions	841	0	0	841
Finance lease liabilities	6	64	0	70
Bonds	0	0	0	0
Effect of interest rate swaps	650	-500	-150	0
Financial instruments with fixed interest rate				
Bonds	0	882	448	1,330
Finance lease liabilities	-	-	93	93
	1,497	446	391	2,334

4. Key sensitivities to market risks

Sensitivity of operating profit to market risks arising from the Group's operations

Due to the nature of its operations, the Group's financial performance is sensitive to the market risks described above. The following table details the approximate impact that movements in the Group's key price and currency exposures would have on its operating profit for 2013 (2012), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

Approximate impact on operating profit (IFRS), excluding hedges [1)]

		2013	**2012**
+/- 10% in the EUR/USD exchange rate	EUR million	- 98 / + 120	**- 120 / + 150**
+/- USD 1.00/barrel in total refining margin	USD million	+/- 105	**+/- 110**
+/- USD 10/barrel in crude oil price	USD million	+/- 100	**+/- 100**
+/- USD 100/t in palm oil price	USD million	+/- 55	**+/- 50**
+/- USD 50/t in Renewable Fuels refining margin	USD million	+/- 100	**+/- 100**

[1)] Inventory gains/losses excluded from comparable operating profit

Sensitivity to market risks arising from financial instruments as required by IFRS 7

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the period and equity to changes in oil prices, the EUR/USD exchange rate, and interest rates, resulting from financial instruments, such as financial assets and liabilities and derivative financial instruments, as defined by IFRS, included in the balance sheet as of 31 December 2012 (2011). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

• the flat price variation for oil derivative contracts of crude oil, refined oil products and vegetable oil is assumed to be +/- 10%

• the sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument

• the sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation

• the sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero

• the sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

• the variation in EUR/USD-rate is assumed to be +/- 10%

• the position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, trade and other liabilities, and cash and cash equivalents, as well as derivative financial instruments

• the position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

• the variation in USD/MYR-rate is assumed to be +/- 10%

• the position includes MYR-denominated derivative financial instruments

• the position excludes MYR-denominated future cash flows

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

• the variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve

• the interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps

• the income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity.

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from other balance sheet items than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items recorded directly in equity. Items affecting the income statement are not included in equity.

Sensitivity to market risks arising from financial instruments as required by IFRS 7

		2012		2011	
		Income statement	**Equity**	Income statement	Equity
+/- 10% change in oil price [1)]	EUR million	**+/- 9**	**-/+ 7**	-/+ 14	-/+ 4
+/- 10% change in EUR/USD exchange rate	EUR million	**+ 63 / - 79**	**+ 42 / - 39**	+ 70 / - 80	+ 45 / - 55
1% parallel shift in interest rates	EUR million	**+/- 9**	**+/- 0**	+/- 11	+/- 0
+/- 10% change in USD/MYR exchange rate	EUR million	**+ 8 / - 8**	**+/- 0**	+ 11 / - 11	+/- 0

[1)] includes crude oil, refined oil products and vegetable oil derivatives

5. Hedge accounting

The Group uses foreign currency derivative contracts to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted future sales and earnings, as well as in Neste Oil's balance sheet. Foreign exchange derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, net investment hedges, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses foreign exchange forward contracts and options as hedging instruments.

With the aim of securing a certain refining margin per barrel, the Group may hedge its refining margin using commodity derivative contracts. Certain commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges.

The Group uses interest rate derivatives and its variations e.g. callable swaps to reduce the volatility of interest expenses in the income statement and by adjusting the duration of the debt portfolio. Interest rate derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, hedges of the fair value of recognized assets or liabilities, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses interest rate swaps as hedging instruments.

Cash flow hedges

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are certain commodity derivative contracts hedging refining margin, foreign currency derivative contracts hedging USD-sales, feedstock purchases priced in MYR or capital expenditure denominated in foreign currencies for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2018.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity/other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2012 and 2011 the ineffective portion has been immaterial. Retrospective testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. The gain or loss to the effective portion of the foreign exchange derivative contracts hedging of the MYR based purchases are booked into equity/other comprehensive income until transferred to the inventory as part of raw-material purchase costs according to IAS 2. When the forecast transaction, which is being hedged results in the recognition of property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging

variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity/ other comprehensive income. Movements in hedging reserve are presented in the statement of comprehensive income.

Fair value hedges

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk compensating the effect. The ineffective portion is also recognized in the income statement.

Items recognized in the income statement

MEUR	2012	2011
gain or loss on the hedging instrument	**18**	17
gain or loss on the hedged item	**-18**	-16

Hedges of net investments in foreign entities

Hedges of the net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity/ other comprehensive income, while any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity /other comprehensive income are included in the income statement when the foreign operation is disposed of.

Liquidity and refinancing risks

Liquidity risk is defined as financial distress or extraordinarily high financing costs arising due to a shortage of liquid funds in a situation where business conditions unexpectedly deteriorate and require financing. The objective of liquidity risk management is to maintain sufficient liquidity and to ensure that it is available fast enough to avoid uncertainty related to financial distress at all times.

Neste Oil's principal source of liquidity is expected to be cash generated from operations. In addition, the Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. The Group must always have access to unutilized, committed credit facilities to cover all loans maturing within the next 12 months and any potential forecasted negative cash flows after investment activities. Unutilized committed credit facilities must always amount to at least EUR 500 million. In addition, total short-term financing shall not account for more than 30% of the total interest-bearing liabilities.

The average loan maturity as of 31 December 2012 was 3.9 years. The most important financing programs in place are:

• Revolving multicurrency credit facility (committed), EUR 1,500 million

• Overdraft facilities (committed), EUR 150 million

• Revolving credit facility (committed), EUR 75 million

• Domestic commercial paper program (uncommitted), EUR 400 million.

As of 31 December 2012, the Company had cash and cash equivalents and committed, unutilized credit facilities totalling EUR 2,135 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities

MEUR	2012	2011
Floating rate		
– cash and cash equivalents	**410**	304
– overdraft facilities, expiring within one year	**150**	150
– revolving credit facility, expiring within one year	**75**	-
– revolving credit facility, expiring beyond one year	**1,500**	1,175
	2,135	1,629

The contractual maturity of interest-bearing liabilities as of 31 December 2012 is presented in the following table.

MEUR	2013 [1]	2014	2015	2016	2017	2018-	Total
Bonds and debentures	59	60	359	345	277	482	1,582
- less finance charges	59	60	59	45	27	32	282
Repayment of bonds and debentures	0	0	300	300	250	450	1,300
Loans from financial institutions	359	372	52	8	48	24	863
- less finance charges	5	8	1	1	1	1	17
Repayment of loans from financial institutions	354	364	51	7	47	23	846
Finance lease liabilities	21	22	42	39	16	223	363
- less finance charges	15	15	14	13	13	130	200
Repayment of finance lease liabilities	6	7	28	26	3	93	163
Interest rate swaps							
- less finance charges	-3	-9	-10	-8	-2	-2	-34

[1] Repayments in 2013 are included in current liabilities in the balance sheet

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 25.

The contractual maturity of interest-bearing liabilities as of 31 December 2011 is presented in the following table.

MEUR	2012 [1]	2013	2014	2015	2016	2017-	Total
Bonds and debentures	**158**	34	34	334	319	52	931
- less finance charges	**38**	34	34	34	19	2	161
Repayment of bonds and debentures	**120**	-	-	300	300	50	770
Loans from financial institutions	**342**	218	384	54	439	73	1,510
- less finance charges	**10**	11	19	3	33	3	79
Repayment of loans from financial institutions	**332**	207	365	51	406	70	1,431
Finance lease liabilities	**56**	47	15	15	16	230	379
- less finance charges	**14**	14	13	13	13	138	205
Repayment of finance lease liabilities	**42**	33	2	2	3	92	174
Interest rate swaps							
- less finance charges	**2**	1	-3	-3	-2	2	-3

[1] Repayments in 2012 are included in current liabilities in the balance sheet

Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size of the exposure. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. The management principles for credit and counterparty risk are covered in the Neste Oil Credit and Counterparty Risk Management Principles approved by the Board of Directors.

The amount of risk is quantified as the expected loss to Neste Oil in the event of a default by counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste Oil's business areas, which are responsible for counterparty risk management within these limits. When determining the credit lines for sales contracts for oil deliveries, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral or other credit enhancements such as letter of credit, bank guarantee or parent company guarantee have to be posted. In the event, that a collateral is required the credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services. In addition, Neste Oil may reduce its counterparty risk by e.g. selling trade receivables.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to the rated counterparties by the general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste Oil has negotiated framework agreements in the form of an ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement with the main counterparties concerning commodity, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults and termination events. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Neste Oil reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties are rated with the minimum counterparty credit rating requirement being BBB (S&P). Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Oil Group, the minimum credit rating requirement for the insurers and/or reinsurers is A- (S&P).

As of the balance sheet date, the biggest receivable balances were from the customers in the Scandinavian wholesale markets. In addition, the Group has a large number of different counterparties on the international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

The Group follows the credit and counterparty guidelines in review and follow-up process of the credit limits daily. The impact of the financial market conditions to the Group's counterparties with regard to the associated credit risk are also assessed in the process, by taking into account all available information about counterparties, their financial situation and business activities. Balances due from a single sales transaction to a counterparty with open credit line may amount to approximately EUR 7.5-8 million due to the nature of the oil business, where cargoes including large volumes of refined oil products, for example 10,000 tons, are sold as one transaction. For this example, oil product price is based on a crude oil price of USD 110/barrel representing the price level prevailing at the turn of the financial period 2012/2013.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure as at 31 December 2012, approximately 92% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from Standard & Poor's, Moody's or Fitch. Respectively, Group Treasury had an exposure for currency and interest rate derivative contracts as at 31 December 2012 with banks, of which all have investment grade rating at a minimum. Derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. 39% of the trade receivables portfolio exposure is from counterparties or their parent companies having credit rating BBB- (S&P) minimum. 61% consists of trade receivables from the counterparties not having credit rating, most of it comprising from a large number of corporate and private customers. With respect to undue trade receivables, there were no indications as of 31 December 2012 that the counterparties would not meet their obligations.

Analysis of trade receivables by age

MEUR	**2012**	2011
Undue trade receivables	**961**	845
Trade receivables 1-30 days overdue	**47**	42
Trade receivables 31-60 days overdue	**0**	0
Trade receivables more than 60 days overdue	**0**	0
	1,008	887

Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures access to capital markets at all times despite the volatile nature of the industry in which Neste Oil operates. Despite the fact that the Group does not have a public credit rating, the Group's target is to have a capital structure equivalent to that of other oil refining and marketing companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25-50%. The leverage ratio as of 31 December 2012 and 2011 was as follows:

MEUR	**2012**	2011
Total interest-bearing liabilities [1)]	**2,345**	2,384
Cash and cash equivalents [2)]	**410**	304
Interest-bearing net debt	**1,935**	2,080
Total equity	**2,578**	2,467
Interest-bearing net debt and total equity	**4,513**	4,547
Leverage ratio	**42.9 %**	45.7 %

[1)] Includes EUR 11 million of interest-bearing liabilities related to Assets held for sale as disclosed in Note 5.

[2)] Includes EUR 1 million of cash and cash equivalents related to Assets held for sale as disclosed in Note 5.

4 Segment information

Neste Oil´s business structure

The Group's operations are built around two business areas and eight common functions. Business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products and Renewables, and Oil Retail. The common functions are: Production & Logistics, Finance, Strategy, Human Resources, Sustainability and HSEQ, Technology, Communications, Marketing and Public Affairs, and Legal Affairs. Production & Logistics is responsible for operating the production facilities of Oil Products and Renewables. The result and net assets of Production & Logistics are accounted within reporting segments Oil Products and Renewable Fuels.

Operating segments

The Group's operations are divided into four operating segments: Oil Products, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation of resources.

Operating segments are engaged in following key business activities:

Oil Products segment markets and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, base oils, liquefied petroleum gas and other oil products and services which are related to them to domestic and international wholesale markets. The Shipping business is included in the Oil Products segment.

Renewable Fuels segment markets and sells NExBTL renewable diesel based on Neste Oil's proprietary technology to domestic and international wholesale markets.

Oil Retail segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Neste Oil's own service station network and direct sales.

Others segment consists of Group administration, shared service functions, Research and Technology, Neste Jacobs and Nynas AB.

Operating segments presented above don't include any segments which are formed from aggregating two or more smaller segments.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements as described in 'Summary of significant accounting policies'. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement. The 'other expenses' included in the income statement for each business segment includes the following major items:

Oil Products: maintenance, freights, rents, and other property costs and insurance premiums, change in the fair value of open oil derivative positions

Renewable Fuels: freights, repairs and maintenance, research, storage charges, rents, other property costs, change in the fair value of open oil derivative positions

Oil Retail: rents and other property costs and maintenance

Segment operating assets and liabilities comprise of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities comprise operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Group's customer structure in 2012 and 2011 did not result in any major concentration in any given geographical area or operating segment.

Information about the Group's operating segments as of and for the years ended 31 December 2012 and 2011 is presented in the following tables:

MEUR

2012	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
External revenue	10,991	1,938	4,888	36	-	17,853	
Internal revenue	2,773	225	7	163	-3,168	0	
Total revenue	13,764	2,163	4,895	199	-3,168	17,853	7
Other income	70	18	5	23	-18	98	8
Share of profit of associates and joint ventures	3	-	0	-6	-	-3	19
Materials and services	-12,455	-2,005	-4,627	-21	2,922	-16,186	9
Employee benefit costs	-166	-26	-34	-118	2	-342	10
Depreciation, amortization and impairments	-187	-99	-33	-13	0	-332	11
Other expenses	-538	-234	-148	-109	262	-767	12
Operating profit [1)]	491	-183	58	-45	0	321	
Financial income and expense						-88	13
Profit before taxes						233	
Income taxes						-74	14
Profit for the period						159	
Comparable operating profit	396	-56	58	-46	0	352	
Changes in the fair value of open oil and freight derivative positions	6	-22	0	1	-	-15	
Inventory gains/losses	44	-105	-	-	-	-61	
Sales gains/losses	45	-	0	0	-	45	
Operating profit [1)]	491	-183	58	-45	0	321	
Capital expenditure and investments in shares	180	51	36	25	-	292	17, 18
Segment operating assets	3,819	2,134	676	204	-286	6,547	
Investment in associates and joint ventures	28	-	1	213	-	242	19
Deferred tax assets						35	28
Unallocated assets						561	
Total assets	3,847	2,134	677	417	-286	7,385	
Segment operating liabilities	1,595	274	332	106	-283	2,024	
Deferred tax liabilities						340	28
Unallocated liabilities						2,443	
Total liabilities	1,595	274	332	106	-283	4,807	
Segment net assets	2,252	1,860	345	311	-3	4,765	
Return on net assets, %	20.6	-9.3	17.3	-15.3			
Comparable return on net assets, %	16.6	-2.8	17.3	-15.7			

[1)] The operating profit of Others segment includes a write-off related to an IT project amounting to EUR 14 million.

MEUR

2011	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
External revenue	10,284	811	4,291	34	-	15,420	
Internal revenue	2,360	215	7	157	-2,739	0	
Total revenue	12,644	1,026	4,298	191	-2,739	15,420	7
Other income	28	0	4	18	-14	36	8
Share of profit of associates and joint ventures	10	-	-	16	-	26	19
Materials and services	-11,517	-960	-4,037	-12	2,564	-13,962	9
Employee benefit costs	-158	-23	-32	-105	2	-316	10
Depreciation, amortization and impairments	-192	-78	-32	-13	-	-315	11
Other expenses	-442	-135	-143	-87	191	-616	12
Operating profit	373	-170	58	8	4	273	
Financial income and expense						-67	13
Profit before taxes						206	
Income taxes						-46	14
Profit for the period						160	
Comparable operating profit	271	-163	57	9	4	178	
Changes in the fair value of open oil and freight derivative positions	1	4	0	-	-	5	
Inventory gains/losses	90	-11	-	-	-	79	
Sales gains/losses	11	-	1	-1	-	11	
Operating profit	373	-170	58	8	4	273	
Capital expenditure and investments in shares	131	190	34	9	-	364	17, 18
Segment operating assets	3,864	2,167	648	182	-306	6,555	
Investment in associates and joint ventures	25	-	1	213	-	239	19
Deferred tax assets						50	28
Unallocated assets						428	
Total assets	3,889	2,167	649	395	-306	7,272	
Segment operating liabilities	1,660	204	323	79	-301	1,965	
Deferred tax liabilities						331	28
Unallocated liabilities						2,509	
Total liabilities	1,660	204	323	79	-301	4,805	
Segment net assets	2,228	1,963	326	315	-3	4,829	
Return on net assets, %	15.7	-9.0	17.9	2.7			
Comparable return on net assets, %	11.4	-8.7	17.6	3.0			

Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and retail selling network in Finland, North-West Russia, Estonia, Latvia, Lithuania and Poland. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets comprise of intangible assets, property, plant and equipment and investments in associates and joint ventures including shareholder loans. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. 'Baltic rim' includes Estonia, Latvia, Lithuania, Russia and Poland. The Group's activities in this geographical area comprise mainly of retail activities in the mentioned countries.

MEUR

2012	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
Revenue by destination	**7,524**	**2,687**	**1,844**	**3,952**	**1,465**	**381**	**0**	**17,853**
Non-current assets	**2,402**	**213**	**180**	**707**	**0**	**709**	**0**	**4,211**
Capital expenditure	**226**	**0**	**25**	**32**	**0**	**9**	**0**	**292**

2011	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
Revenue by destination	7,374	2,348	1,425	2,409	1,639	225	0	15,420
Non-current assets	2,415	213	166	722	28	746	0	4,290
Capital expenditure	139	0	22	153	2	48	0	364

5 Assets held for sale

The assets and liabilities held for sale relate to Neste Oil's operating activities in Poland. In December 2012 Neste Oil signed an agreement that Shell Polska Sp. z o.o. will buy Neste Oil's station network (Neste Polska Sp. z o.o.) in Poland. The transaction is expected to be closed during the first half of 2013. The operations are part of the Oil Retail segment.

In 2011, the assets and liabilities held for sale relate to district Neste Oil's 50% holding in an iso-octane plant in Edmonton, Canada. In December 2011 Neste Oil signed an agreement to divest the whole asset. Furthermore, Neste Oil will sell the associated product and feedstock inventories at closing. The transaction was closed on January 19, 2012. The operations are part of the Oil Products segment.

Assets classified as held for sale

MEUR	2012	2011
Property, plant and equipment	**39**	27
Other assets	**12**	29
Cash and cash equivalents	**1**	-
Total	**52**	56

Liabilities related to assets held for sale

MEUR	2012	2011
Interest-bearing liabilities	**11**	-
Other liabilities	**22**	15
Total	**33**	15

6 Acquisitions and disposals

Acquisitions

No acquisitions took place in financial periods 2012 and 2011.

Disposals

On January 19, 2012 Neste Oil sold its 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation. A capital gain amounting to EUR 45 million resulting from the transaction has been included in the consolidated financial statements.

Assets and Liabilities of Neste Oil´s 50 % Holding in Iso-Octane production plant.

MEUR	19 January 2012
Property, plant and equipment	28
Shares in subsidiaries and associates	-
Inventories	27
Trade and other receivables	3
Cash and cash equivalents	0
Total assets	58
Trade and other payables	9
Total liabilities	9
Sold net assets	49
Gain on disposal	45
Total consideration	94
Cash consideration received	94
Cash and cash equivalents disposed of	-
Cash inflow arising from disposal	94

During the financial period 2011, the Group sold its 93.85% interest in its Estonian subsidiary, AS Reola Gaas. The transaction was completed on 1 August 2011 and no material capital gain was recognised in the consolidated financial statements. The selling price was not material.

7 Analysis of revenue by category

MEUR	2012	2011
Sale of goods	**17,676**	15,202
Revenue from services	**158**	172
Royalty income	**1**	0
Other	**18**	46
	17,853	15,420

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,446 million (2011: EUR 1,210 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 9.

Oil trading included in Sale of goods comprise of revenue from physical and derivative financial instrument trading activities conducted on international and regional markets by taking delivery of and selling petroleum products and raw materials within a short period of time for the purpose of generating a profit from short term fluctuations in product and raw material prices and margins. Trading mainly involves transactions based on the use of derivative financial instruments.

Revenue from services mainly comprises revenue from the chartering services and Neste Jacobs, which is included in the Others segment.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 204 million (2011: EUR 178 million).

8 Other income

MEUR	2012	2011
Gain on sale of subsidiaries	**-**	0
Capital gains on disposal of other non-current assets	**46**	12
Rental income	**5**	7
Government grants	**8**	11
Other	**39**	6
	98	36

Government grants relate mainly to the shipping operations, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2011: EUR 4 million) of the amount is included in 'Trade and other receivables' in the consolidated balance sheet. This amount relating to operations in the financial period ended 31 December is applied for and received during the following financial period. The Group believes that it has fulfilled all the conditions related to the grants recognized in the income statement.

In 2012 other income includes compensation for production losses amounting to EUR 22 million.

9 Materials and services

MEUR	2012	2011
Change in product inventories	**-5**	-253
Materials and supplies		
Purchases	**16,137**	14,327
Change in inventories	**25**	-127
External services	**29**	15
	16,186	13,962

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,446 million (2011: EUR 1,210 million). The corresponding amount is included in 'Revenue', Note 7.

10 Employee benefit costs

MEUR	2012	2011
Wages, salaries	**253**	240
Social security costs	**23**	21
Pension costs-defined contribution plans	**39**	39
Pension costs-defined benefit plans	**17**	7
Other costs	**10**	9
	342	316

Number of personnel (average)

	2012	2011
Oil Products	**2,085**	2,060
Renewable Fuels	**260**	258
Oil Retail	**1,316**	1,263
Others	**1,370**	1,345
	5,031	4,926

11 Depreciation, amortization and impairment charges

MEUR	2012	2011
Depreciation of property, plant, and equipment		
Buildings and structures	65	66
Machinery and equipment	239	223
Other tangible assets	19	16
	323	305
Amortization of intangible assets	9	10
Depreciation, amortization and impairment charges total	332	315

12 Other expenses

MEUR	2012	2011
Operating leases and other property costs	102	100
Freights relating to sales	242	152
Repairs and maintenance	117	116
Services	83	72
Other	223	176
	767	616

Operating leases include rents for land, premises, machinery and equipment as well as time charter vessels.

Services include planning- and consulting services, IT-services and other services.

Other expenses include selling expenses, insurance premiums and unrealized changes in the fair value of open oil and freight derivative positions when negative.A write-off related to an IT project amounting to EUR 14 million is included in services and other costs in 2012.

Fees charged by the statutory auditor

EUR thousands	2012	2011
Audit fees	1,077	1,044
Auditor's mandatory opinions	7	13
Tax advisory	14	44
Other advisory services	331	628
	1,429	1,729

13 Financial income and expenses

MEUR	2012	2011
Financial income		
Dividend income on available-for-sale investments	**0**	0
Interest income from loans and receivables	**3**	4
Other financial income	**0**	0
	3	4
Financial expenses		
Interest expenses for financial liabilities at amortized cost	**-81**	-68
Interest rate derivatives, hedge accounted	**0**	0
Interest rate derivatives, non-hedge accounted	**4**	2
Other financial expenses	**-7**	-6
	-84	-72
Exchange rate and fair value gains and losses		
Loans and receivables	**0**	-8
Other	**-6**	3
Foreign exchange derivatives, non-hedge accounted	**-1**	6
	-7	1
Financial cost - net	**-88**	-67

Netgains/losses on financial instruments included in operating profit

MEUR	2012	2011
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	**-108**	23
Non-hedge accounted foreign exchange rate, oil and freight derivative instruments	**-27**	-58
	-135	-35

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Financial instruments held for trading purposes include also the net result of physical trading transactions for those contracts that meet the criteria specified in IAS 39.5-6. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR -32 million (2011: EUR -58 million), and transactions entered into for trading purposes amounting to EUR 5 million (2011: EUR 0 million).

Aggregate exchange differences charged/credited to the income statement

MEUR	2012	2011
Revenue	**8**	11
Materials and services	**-2**	-3
	6	8

14 Income tax expense

The major components of tax expenses are presented in the following table.

MEUR	2012	2011
Current tax expense	53	70
Adjustments recognized for current tax for prior periods	6	3
Change in deferred taxes	15	-27
	74	46

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled in the following table.

MEUR	2012	2011
Profit before tax	233	206
Hypothetical income tax calculated at Finnish tax rate 24.5% (2011: 26%)	-57	-54
Effect of different tax rates of foreign subsidiaries	6	7
Tax exempt income	4	13
Non-deductible expense	-19	-32
Taxes for prior periods	-3	-4
Net results of associated companies	-1	7
Tax losses without deferred tax asset	-1	-
Effect of change of Finnish income tax rate	-	19
Tax losses for prior periods without deferred tax asset	-2	-
Adjustment to deferred tax liabilities	2	-
Other	-3	-2
Tax charge in the consolidated income statement	-74	-46

The Group's effective income tax rate was 31.91% (2011: 22.31%). The effective tax rate is higher than the Finnish corporate tax rate of 24.5%. Non-deductible expenses, losses as well as the share of losses of associates and joint ventures increased the effective tax rate.

15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Since the Company has not granted any options, there is no dilution. The average number of shares has been adjusted with treasury shares, 485,000 shares (2011: 485,000), as described in note 26.

	2012	2011
Profit attributable to owners of the parent, MEUR	**157**	158
Weighted average number of ordinary shares in issue (thousands)	**255,919**	255,919
Earnings per share basic and diluted (euro per share)	**0.61**	0.62

16 Dividend per share

The dividends paid in 2012 were EUR 0.35 per share, totalling EUR 90 million and 2011 EUR 0.35 per share, totalling EUR 90 million. A dividend of EUR 0.38 per share will be proposed at the Annual General Meeting on 4 April 2013, corresponding to total dividends of EUR 97 million for 2012. This dividend is not reflected in the financial statements.

17 Property, plant and equipment

MEUR

2012	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2012	94	2,031	3,912	160	150	6,347
Exchange differences	2	8	3	0	0	13
Additions	2	51	138	8	70	269
Disposals	0	-34	-18	0	-5	-57
Reclassifications	-6	68	-34	27	-62	-7
Reclassified as non current asset held for sale	-16	-32	-29	-2	0	-79
Gross carrying amount at 31 December 2012	76	2,092	3,972	193	153	6,486
Accumulated depreciation and impairment losses at 1 January 2012	-	660	1,635	84	-	2,379
Exchange differences	-	3	3	0	-	6
Disposals	-	-33	-18	0	-	-51
Reclassifications	-	1	-1	0	-	0
Depreciation for the period	-	65	239	19	-	323
On non current assets reclassified as held for sale	-	-18	-21	-1	-	-40
Accumulated depreciation and impairment losses at 31 December 2012	-	678	1,837	102	-	2,617
Carrying amount at 1 January 2012	94	1,371	2,277	76	150	3,968
Carrying amount at 31 December 2012	76	1,414	2,135	91	153	3,869

MEUR

2011	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2011	89	1,830	3,447	159	757	6,282
Exchange differences	-2	-3	-4	0	-1	-10
Additions	4	33	52	3	249	341
Disposals	-2	-18	-56	-3	-4	-83
Reclassifications	6	356	485	1	-848	0
Reclassified as non current asset held for sale	-1	-167	-12	-	-3	-183
Gross carrying amount at 31 December 2011	94	2,031	3,912	160	150	6,347
Accumulated depreciation and impairment losses at 1 January 2011	-	757	1,475	71	-	2,303
Exchange differences	-	-1	-2	0	-	-3
Disposals	-	-16	-51	-3	-	-70
Reclassifications	-	0	0	-	-	0
Depreciation for the period	-	66	223	16	-	305
On non current assets reclassified as held for sale	-	-146	-10	-	-	-156
Accumulated depreciation and impairment losses at 31 December 2011	-	660	1,635	84	-	2,379
Carrying amount at 1 January 2011	89	1,073	1,972	88	757	3,979
Carrying amount at 31 December 2011	94	1,371	2,277	76	150	3,968

Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table.

	2012	2011
Gross carrying amount	**234**	249
Accumulated depreciation	**68**	62
Carrying amount	**166**	187

Capitalized borrowing costs

Borrowing costs related to investment projects were not capitalized during the financial period 2012. During 2011 borrowing costs amounting to EUR 16 million were capitalized related to the Renewable Fuels investment projects in Singapore and Rotterdam as well as Oil Products investment project in Bahrain. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.38% in 2011.

18 Intangible assets

MEUR

2012	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2012	11	143	154
Exchange differences	-	0	0
Additions	-	22	22
Disposals	-	-18	-18
Reclassifications	-	7	7
Reclassified as non current asset held for sale	-	0	0
Gross carrying amount at 31 December 2012	11	154	165
Accumulated amortization and impairment losses at 1 January 2012	-	99	99
Exchange differences	-	0	0
Disposals	-	-4	-4
Reclassifications	-	0	0
Amortization for the period	-	9	9
On non current assets reclassified as held for sale	-	0	0
Accumulated amortization and impairment losses at 31 December 2012	-	104	104
Carrying amount at 1 January 2012	11	44	55
Carrying amount at 31 December 2012	11	50	61

MEUR

2011	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2011	11	130	141
Exchange differences	-	0	0
Additions	-	23	23
Disposals	-	0	0
Reclassifications	-	0	0
Reclassified as non current asset held for sale	-	-10	-10
Gross carrying amount at 31 December 2011	11	143	154
Accumulated amortization and impairment losses at 1 January 2011	-	98	98
Exchange differences	-	0	0
Disposals	-	0	0
Reclassifications	-	0	0
Amortization for the period	-	10	10
On non current assets reclassified as held for sale	-	-9	-9
Accumulated amortization and impairment losses at 31 December 2011	-	99	99
Carrying amount at 1 January 2011	11	32	43
Carrying amount at 31 December 2011	11	44	55

Emission allowances

Neste Oil's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 16.1 million tons emission allowances for the period 2008-2012. Emission allowances, which are purchased to cover future periods deficit are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as the change in the probable amount of the provision, are reflected in operating profit.

As at 31 December 2012 Intangible assets include emission allowances amounting to EUR 6.7 million. The actual amount of CO_2 emissions in 2012 were 3.1 million tons (2011: 3.4 million tons). The Group has purchased emission allowances for 1.4 million tons during the financial period ended 31 December 2012 (2011: 0.4 thousand tons).

Impairment test of goodwill

Goodwill is allocated to Group's cash-generating units (CGU's). From 11 identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

MEUR	2012	2011
Oil Products	**2**	2
Other	**9**	9
	11	11

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of three years. The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering services within oil refining, chemicals and biopharma industries, as well as the billability rate.

Cash flows beyond the period are extrapolated for Neste Jacobs Group using 1 percent nominal growth rate. The risk of potential personnel turnover as well as tight market outlook are taken into account in the growth assumption. The discount rate used is 7.0%, representing the WACC specified for the business area in question after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

The key assumptions used in the impairment test in Neste Jacobs are the billability rate affecting the EBITDA, and the discount rate. A reasonably possible change in the key assumptions would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

19 Investments in associates and joint ventures

Investments in associates

MEUR	2012	2011
Carrying amount		
At 1 January	**2**	2
At 31 December	**2**	2

A complete list of Group's associated companies, countries of incorporation, and interests held is disclosed in Note 33.

Summarized financial information in respect of the Group's associates, all of which are unlisted, is set out below:

MEUR	2011
Assets	10
Liabilities	8
Revenue	15
Profit/loss	0

The financial statements of the Group's associates are not published within the Group's reporting timetable. The summarized financial information presented above, therefore, is from the latest published financial statements of the associates concerned (2011).

Investments in joint ventures

MEUR	2012	2011
Carrying amount		
At 1 January	**237**	212
Share of profits of joint ventures	**-3**	26
Capital repayments in joint ventures	**-2**	-
Translation differences	**9**	-1
Hedging reserves in joint ventures	**-1**	0
At 31 December	**240**	237

The Group's interest in its principle joint ventures at 31 December, all of which are unlisted, are listed in the following table.

	Country of incorporation	2012 % interest held	2011 % interest held
Glacia Limited	Bermuda	**50.00**	50.00
Lacus Ltd.	Bermuda	**50.00**	50.00
NSE Biofuels Oy Ltd	Finland	**50.00**	50.00
Nynas AB	Sweden	**49.99**	49.99
Terra Ltd.	Bermuda	**50.00**	50.00

Glacia Limited is a joint venture company owned on a 50/50 basis by Neste Oil and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste Oil fleet in January 2007. Neste Oil has entered into a 10-year time charter contract with the joint venture for the vessel of which 4 years remain.

Lacus Ltd. and Terra Ltd. are two joint venture companies owned on a 50/50 basis by Neste Oil and Concordia Maritime AG (part of the Stena Group). Both companies own one Panamax-size product tankers delivered in January and February 2007. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the vessels of which 4 years remain.

NSE Biofuels Oy Ltd is a joint venture company owned on a 50/50 basis by Neste Oil and Stora Enso. The Company that was established in 2007, has built a demonstration plant that converts wood-based biomass to hydrocarbons in Varkaus, Finland. The technology converting forestry residues to biowax through gasification, purification and Fischer-Tropsch has been successfully demonstrated in 2011. The operation of the company in Varkaus has ended in 2012.

Nynas AB (formerly AB Nynäs Petroleum) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. The sales volumes, including side products, amounted to 3.1 million tons in total in 2011. Neste Oil Owns 49.99% of the shares of the company. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petroleos de Venezuela S.A. Nynas AB is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table.

MEUR

2012	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
Glacia Limited	**38**	**17**	**29**	**3**	**8**	**3**
Lacus Ltd.	**28**	**8**	**20**	**3**	**6**	**2**
NSE Biofuels Oy Ltd	**-**	**1**	**-**	**0**	**1**	**2**
Terra Ltd.	**28**	**9**	**20**	**2**	**6**	**2**

2011	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
Glacia Limited	41	15	32	4	8	2
Lacus Ltd.	30	7	22	2	5	1
NSE Biofuels Oy Ltd	3	1	-	1	3	0
Nynas AB	437	765	513	271	2,579	35
Terra Ltd.	30	7	22	2	5	1

The financial statements of Nynas AB are not published within the Group's reporting timetable. The share of profits of joint ventures for 2012 is consolidated based on the company's preliminary results for the financial period.

Transactions carried out with associates and joint ventures are disclosed in Note 32.

20 Carrying amounts of financial assets and liabilities by measurement categories

Financial assets and liabilites divided by categories were as follows as of December 31:

MEUR

2012 Balance sheet item	Financial assets/ liabilities at fair value through income statement							
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available-for -sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	3	-	-	3	3	21
Derivative financial instruments	37	-	-	-	-	37	37	25
Available-for-sale financial assets	-	-	-	4	-	4	4	21
Current financial assets								
Trade and other receivables	-	-	1,154	-	-	1,154	1,154	23
Derivative financial instruments	30	27	-	-	-	57	57	25
Carrying amount by category	67	27	1,157	4	-	1,255	1,255	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	1,977	1,977	2,032	27
Derivative financial instruments	6	-	-	-	-	6	6	25
Other non-current liabilities	-	-	-	-	7	7	7	27
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	357	357	357	27
Current tax liabilities	-	-	-	-	40	40	40	27
Derivative financial instruments	13	34	-	-	-	47	47	25
Trade and other payables	-	-	-	-	1,925	1,925	1,925	27
Carrying amount by category	19	34	-	-	4,306	4,359	4,414	

MEUR

2011 Balance sheet item	Financial assets/ liabilities at fair value through income statement: Hedge accounting	Non-hedge accounting	Loans and receivables	Available-for -sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables	-	-	16	-	-	16	16	21
Derivative financial instruments	19	-	-	-	-	19	19	25
Available-for-sale financial assets	-	-	-	4	-	4	4	21
Current financial assets								
Trade and other receivables	-	-	1,045	-	-	1,045	1,045	23
Derivative financial instruments	18	41	-	-	-	59	59	25
Carrying amount by category	37	41	1,061	4	-	1,143	1,143	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	1,891	1,891	1,907	27
Derivative financial instruments	3	9	-	-	-	12	12	25
Other non-current liabilities	-	-	-	-	9	9	9	27
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	493	493	493	27
Current tax liabilities	-	-	-	-	26	26	26	27
Derivative financial instruments	52	36	-	-	-	88	88	25
Trade and other payables	-	-	-	-	1,872	1,872	1,872	27
Carrying amount by category	55	45	-	-	4,291	4,391	4,407	

The fair values of each class of financial assets and financial liabilities are presented in the detailed note for each balance sheet item referred to in the table above.

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the assets or liability that is not based on observable market data (unobservable inputs).

2012 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	**-**	**37**	**-**	**37**
Current derivative financial instruments	**8**	**49**	**-**	**57**

Financial liabilities

Non-current derivative financial instruments	**-**	**6**	**-**	**6**
Current derivative financial instruments	**3**	**44**	**-**	**47**

During the financial period 2012 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

2011 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	19	-	**19**
Current derivative financial instruments	6	53	-	**59**

Financial liabilities

Non-current derivative financial instruments	-	12	-	**12**
Current derivative financial instruments	10	78	-	**88**

During the financial period 2011 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

21 Non-current receivables and available-for-sale financial assets

Non-current receivables	Fair value		Carrying amount	
MEUR	**2012**	2011	**2012**	2011
Non-current interest-bearing receivables	**0**	1	**0**	1
Other non-current receivables	**3**	15	**3**	15
	3	16	**3**	16

The carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method, and the fair values are determined by using the discounted cash flow method, applying the market interest rate at the balance sheet date. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets

MEUR	2012	2011
At 1 January	**4**	4
Additions	**0**	0
Disposals	**0**	0
At 31 December	**4**	4
Investments in unlisted equity instruments	**4**	4
	4	4

Available-for-sale financial assets are investments in unlisted equity instruments, and are measured at cost, because their fair value cannot be reliably measured in the absence of an active market.

22 Inventories

MEUR	2012	2011
Materials and supplies	**488**	494
Finished products and goods	**969**	961
Other inventories	**7**	2
	1,464	1,457

Write downs of inventories amounted to EUR 40 million as at 31 December 2012 (2011: EUR 7 million).

23 Current trade and other receivables

	Fair value		Carrying amount	
MEUR	**2012**	2011	**2012**	2011
Trade receivables	**1,008**	887	**1,008**	887
Other receivables	**114**	118	**114**	118
Advances paid	**6**	6	**6**	6
Accrued income and prepaid expenses	**26**	34	**26**	34
	1,154	1,045	**1,154**	1,045

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Impairment of trade receivables amounted to EUR 4 million (2011: EUR 3 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

The trade receivables were sold to the third party during the year 2012, but the volume was not substantial.

24 Cash and cash equivalents

Cash and cash equivalents include the following:

MEUR	**2012**	2011
Cash at bank and in hand	**383**	293
Short term bank deposits	**26**	11
Total	**409**	304
Cash and cash equivalents included in Assets held for sale	**1**	-
Total	**410**	304

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

25 Derivative financial instruments

Nominal values of interest rate and currency derivative contracts and share forward contracts

MEUR	2012			2011		
	Remaining maturities			Remaining maturities		
	< 1 year	1–7 years	Total	< 1 year	1–7 years	Total
Derivative financial instruments designated as hedges of net investment in foreign operations						
Forward foreign exchange contracts	-	-	-	73	-	73
	-	-	-	73	-	73
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps [1)]	-	50	50	32	50	82
Forward foreign exchange contracts	646	-	646	729	-	729
Currency options						
- Purchased	113	-	113	206	-	206
- Written	92	-	92	193	-	193
	851	50	901	1,160	50	1,210
Derivative financial instruments designated as fair value hedges						
Interest rate swaps [1)]	-	700	700	-	460	460
	-	700	700	-	460	460
Non-hedge accounting derivative financial instruments						
Interest rate swaps [1)]	230	50	280	-	230	230
Forward foreign exchange contracts	993	-	993	611	-	611
	1,223	50	1,273	611	230	841

[1)] Interest rate swaps mature in 7 years.

Volumes of commodity derivative contracts

	Volume million bbl			Volume million bbl		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Commodity derivative contracts designated as cash flow hedges [2]						
Futures and forwards						
- Sales contracts	**14**	**-**	**14**	19	-	19
	14	**-**	**14**	19	-	19
Non-hedge accounting commodity derivative contracts [3]						
Futures and forwards						
- Sales contracts	**7**	**-**	**7**	27	-	27
- Purchase contracts	**17**	**-**	**17**	34	-	34
Options						
- Purchased	**0**	**-**	**0**	1	-	1
- Written	**0**	**-**	**0**	1	-	1
	24	**-**	**24**	63	-	63

[2] Commodity derivative contracts with hedge accounting status are oil derivatives.

[3] Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

Fair values of derivative financial instruments

MEUR	Fair value 2012				Fair value 2011			
	Positive		Negative		Positive		Negative	
Interest rate and currency derivative contracts and share forward contracts	**< 1 year**	**1–7 years**	**< 1 year**	**1–7 years**	< 1 year	1–7 years	< 1 year	1–7 years
Derivative financial instruments designated as hedges of net investment in foreign operations								
Forward foreign exchange contracts	**-**	**-**	**-**	**-**	-	-	2	-
	-	**-**	**-**	**-**	-	-	2	-
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps [1)]	**-**	**-**	**-**	**6**	-	-	1	3
Forward foreign exchange contracts	**18**	**-**	**1**	**-**	0	-	32	-
Currency options								
- Purchased	**1**	**-**	**1**	**-**	0	-	5	-
- Written	**1**	**-**	**-**	**-**	0	-	3	-
	20	**-**	**2**	**6**	0	-	41	3
Derivative financial instruments designated as fair value hedges								
Interest rate swaps [1)]	**-**	**37**	**-**	**-**	0	19	-	0
	-	**37**	**-**	**-**	0	19	-	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps [1)]	**-**	**-**	**4**	**0**	-	-	-	9
Forward foreign exchange contracts	**8**	**-**	**5**	**-**	3	-	10	-
	8	**-**	**9**	**0**	3	-	10	9

[1)] Interest rate swaps mature in 7 years.

MEUR	Fair value 2012				Fair value 2011			
	Positive		Negative		Positive		Negative	
Commodity derivative contracts	**< 1 year**	**1-3 years**	**< 1 year**	**1-3 years**	< 1 year	1-3 years	< 1 year	1-3 years
Commodity derivative contracts designated as cash flow hedges [2)]								
Futures and forwards								
- Sales contracts	**10**	**-**	**11**	**-**	10	-	3	-
	10	**-**	**11**	**-**	10	-	3	-
Non-hedge accounting commodity derivative contracts [3)]								
Futures and forwards								
- Sales contracts	**7**	**-**	**7**	**-**	20	-	27	-
- Purchase contracts	**12**	**-**	**18**	**-**	25	-	4	-
Options								
- Purchased	**-**	**-**	**-**	**-**	-	-	-	-
- Written	**-**	**-**	**-**	**-**	1	-	1	-
	19	**-**	**25**	**-**	46	-	32	-

[2)] Commodity derivative contracts with hedge accounting status are oil derivatives.

[3)] Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

MEUR	2012				2011			
	Assets		Liabilities		Assets		Liabilities	
Balance sheet reconciliation	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivative financial instruments	**57**	**37**	**47**	**6**	59	19	88	12

Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. at the amount which could be used if willing parties would make transactions at the balance sheet date. The fair values are determined using a variety of methods and financial valuation techniques, and assumptions are based on market quotations on the relevant balance sheet date.

The fair values of the interest rate swaps and their variations are the present values of the estimated future cash flows. Changes in the fair value of interest rate swaps and their variations are reported either in equity or in the income statement depending on whether they qualify for hedge accounting. Foreign exchange forward contracts are calculated using the valuation model and the market rates at the balance sheet date. The fair value of currency options are calculated using market rates at the balance sheet date and by using the Black and Scholes option valuation model. Changes in the fair value of foreign currency derivative contracts are reported either in equity or in income statement depending on whether they qualify for hedge accounting.

The fair value of exchange traded oil commodity futures and option contracts is determined using the forward exchange market quotations as per 31 December 2012. The fair value of over-the-counter oil and freight derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per 31 December 2012. Changes in the fair value of oil commodity derivative contracts are reported either in equity or in the income statement depending on whether they qualify for hedge accounting.

26 Equity

Share capital

Neste Oil's share capital registered with the Trade Register as of 31 December 2012 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined.

	Number of shares, 1000	Share capital MEUR
Registered at 1 January 2011	256,404	40
Registered at 31 December 2011	256,404	40
Registered at 1 January 2012	256,404	40
Registered at 31 December 2012	256,404	40

Treasury shares

Neste Oil has entered into an agreement with a third party service provider concerning the administration of the share-based management share performance arrangement for key management personnel. As part of the agreement, the service provider purchased a total of 500,000 Neste Oil shares in February 2007 in order to hedge part of Neste Oil's cash flow risk in relation to the possible future payment of the rewards, which will take place partly in Neste Oil shares and partly in cash during 2013, 2014 and 2015. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by Neste Oil, as required by IFRS 2, Share based payments and

SIC-12, Consolidation - Special purpose entities. The consolidated balance sheet and the consolidated changes in total equity reflect the substance of the arrangement with a deduction amounting to EUR 12 million in equity. This amount represents the consideration paid for the shares by the third party service provider. During financial periods 2012 and 2011 no shares were assigned. As at 31 December 2012 there were 485,000 shares (2011: 485,000 shares) accounted for as treasury shares.

Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates.

27 Non-current and current liabilities

MEUR	Fair value		Carrying amount	
Non-current liabilities	**2012**	2011	**2012**	2011
Bonds	**1,384**	680	**1,330**	665
Loans from financial institutions	**488**	1,095	**487**	1,094
Finance lease liabilities	**158**	132	**158**	132
Other loans	**2**	0	**2**	0
Other non-current liabilities	**5**	8	**5**	8
Accruals and deferred income	**2**	1	**2**	1
Non-current liabilities total	**2,039**	1,916	**1,984**	1,900
of which interest-bearing			**1,977**	1,891

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date.

MEUR	Fair value		Carrying amount	
Current liabilities	**2012**	2011	**2012**	2011
Bonds	**-**	120	**-**	120
Loans from financial institutions	**342**	301	**342**	301
Finance lease liabilities	**7**	42	**7**	42
Advances received	**13**	15	**13**	15
Trade payables	**1,370**	1,278	**1,370**	1,278
Other current liabilities	**440**	513	**440**	513
Current tax liabilities	**40**	26	**40**	26
Accruals and deferred expenses	**110**	96	**110**	96
Current liabilities total	**2,322**	2,391	**2,322**	2,391
of which interest-bearing			**357**	493

The carrying amounts of current interest-free liabilities are reasonable approximations of their fair value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates at the balance sheet date.

Re-pricing periods of the Group's interest-bearing debt is disclosed in Note 3, Financial risk management, section 'Market risk'.

The future minimum lease payments of finance lease liabilities and their present value in the balance sheet

	2012			2011		
MEUR	**Minimum lease payments**	**Future finance charges**	**Present value of minimum lease payments**	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	**20**	**13**	**7**	45	1	44
Between one and five years	**126**	**58**	**68**	43	-4	47
More than 5 years	**201**	**111**	**90**	86	3	83
Total amounts payable	**347**	**182**	**165**	174	0	174

Finance lease liabilities arise from bareboat agreements on crude oil tankers Tempera and Mastera delivered in 2002 and 2003 that are classified as finance lease agreements under IAS 17. The lease terms are 13 years for both vessels as agreed on the amendment made on year 2012, and in addition the lessee having a call option to purchase the leased assets in the 12th and 13th year of the lease period. Minimum lease payments in each agreement include option prices as terminal payments.

In addition, finance lease liabilities arise from two finance lease agreements for the Singapore production plant and one finance lease agreement for the Rotterdam production plant. The agreements of Singapore plant are made with two local companies that provide utilities and jetty- and storage services that are used by the production facility. The major assets under these agreements are a jetty used for loading and discharging of vessels, a pipeline for off-gas produced as a side product in the production process, and product tanks used for storing of the end product. The leasing contracts are 30 and 15 years long. The agreement of Rotterdam plant is made with a local company that provides utilities that are used by the production facility. The major assets under this agreement consist of pipelines.

28 Deferred income taxes

The movement in deferred tax assets and liabilities during 2012:

MEUR	at 1 Jan 2012	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2012
Deferred tax assets						
Tax loss carried forward	15	-6	-	-	-	9
Provisions	4	-1	-	-	-1	2
Pensions	11	1	-	-	-	12
Cash flow hedges	13	-3	-10	-	-	0
Other temporary differences	7	5	-	-1	-1	10
Total deferred tax assets	50	-4	-10	-1	-2	33
Deferred tax liabilities						
Depreciation difference and untaxed reserves	282	4	-	-	-	286
Excess of book basis over tax basis of property, plant and equipment	19	2	-	-	-	21
Finance leases	5	0	-	-	-	5
Capitalized interest	18	-1	-	-	-	17
Other temporary differences	7	6	-2	-	-	11
Total deferred tax liabilities	331	11	-2	-	-	340

The movement in deferred tax assets and liabilities during 2011:

MEUR	at 1 Jan 2011	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2011
Deferred tax assets						
Tax loss carried forward	7	8	-	-	-	15
Provisions	4	0	-	-	-	4
Pensions	12	-1	-	-	-	11
Cash flow hedges	0	1	10	2	-	13
Other temporary differences	8	-1	-	-	-	7
Total deferred tax assets	31	7	10	2	-	50
Deferred tax liabilities						
Depreciation difference and untaxed reserves	291	-9	-	-	-	282
Excess of book basis over tax basis of property, plant and equipment	28	-9	-	-	-	19
Cash flow hedges	-2	-	-	2	-	0
Finance leases	6	-1	-	-	-	5
Capitalized interest	16	2	-	-	-	18
Capitalized fixed costs of inventories	5	-5	-	-	-	0
Other temporary differences	3	2	2	-	-	7
Total deferred tax liabilities	347	-20	2	2	-	331

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities in the same jurisdictions amounting to EUR 2 million (2011: EUR 1 million) have been netted in the balance sheet.

Deferred tax assets, MEUR	**2012**	**2011**
Deferred tax asset to be recovered after more than 12 months	**15**	29
Deferred tax asset to be recovered within 12 months	**18**	21
	33	50

Deferred tax liabilities , MEUR	**2012**	**2011**
Deferred tax liability to be recovered after more than 12 months	**331**	331
Deferred tax liability to be recovered within 12 months	**9**	0
	340	331

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable.

The deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is controlled by the Group, and such distribution, which will realize a relevant tax effect, is not probable within foreseeable future.

29 Provisions

MEUR	Environmental provisions	Provision to return emission allowances	Restructuring provisions	Other provisions	Total
At 1 January 2012	**8**	**9**	**0**	**5**	**22**
Charged to income statement					
Additional provisions	**2**	**-**	**0**	**9**	**11**
Amounts used during the period	**-1**	**-9**	**0**	**0**	**-10**
Reversed unused provisions	**0**	**-**	**-**	**6**	**6**
Reclassified as non-current liability related to assets held for sale	**-2**	**-**	**-**	**-**	**-2**
At 31 December 2012	**7**	**0**	**0**	**20**	**27**

	2012	2011
Current provisions	**9**	12
Non-current provisions	**18**	10
	27	22

The nature of certain of Neste Oil's businesses exposes Neste Oil to risks of environmental costs and potential contingent liabilities arising from the manufacture, use, storage, disposal and maritime and inland transport as well as sale of materials that may be considered to be contaminants when released into environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

30 Retirement benefit obligations

The Group has several pension arrangements in different countries. Pension cover is based on the legislation and agreement in force in each country. Finnish statutory pensions that are managed in a pension insurance company are accounted for as a defined contribution plan in the group financial statements. The Finnish voluntary pension plan to be accounted for as a defined benefit plan and are managed in a life insurance companies. The Group uses December 31 as measurement date for its defined benefit arrangements. The voluntary pension plan grants additional pension benefits in excess of statutory benefits. The plan provides old age pensions, disability pensions, survivors' pensions, and funeral grants. The voluntary pension plan has been closed since 1 January 1994.

The benefits include, in addition to pension payments, payments for other long-service benefits which are unfunded.

The Group has defined benefit plans also in Belgium and in Switzerland. As at 31 December 2012 the defined benefit plans comprised of the Finnish voluntary pension plans as well as pension plans in Belgium and Switzerland.

Defined benefit plans

Amounts recognized in the income statement

MEUR	2012	2011
Current service cost	14	5
Interest cost	15	15
Expected return on plan assets	-12	-13
Net actuarial gains and losses recognized during the period	0	0
Settlements	0	0
Total included in personnel expenses (Note 10)	17	7

Amounts recognized in the balance sheet

MEUR	2012	2011
Present value of funded obligations	435	334
Present value of unfunded obligations	8	-
Fair value of plan assets	-345	-277
	98	57
Unrecognized actuarial gains and losses	-50	-11
Net liability (+) / asset (-)	48	46

Movement in the net asset/liability recognized in the balance sheet

MEUR	2012	2011
At the beginning of the period	46	47
Total expense charged in the income statement	17	7
Refund from the foundation to the employer	-	0
Contributions paid	-15	-8
At the end of the period	48	46

Amounts recognized in the balance sheet

MEUR	2012	2011
Defined benefit obligations	48	46
Defined benefit assets	0	0
Net asset (-) / liability (+)	48	46

Changes in the present value of the defined benefit obligation

MEUR	2012	2011
Opening defined benefit obligation	334	336
Service cost	14	5
Interest cost	15	15
Actuarial gains / losses	96	-4
Benefits paid	-16	-15
Settlements	0	-3
Closing defined benefit obligation	443	334

Changes in the fair value of plan assets

MEUR	2012	2011
Opening fair value of plan assets	**277**	289
Expected return on plan assets	**12**	13
Actuarial gains/losses	**57**	-16
Contributions by employer	**15**	8
Benefits paid	**-16**	-15
Settlements	**0**	-2
Translation differences	**0**	-
Closing fair value of plan assets	**345**	277

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution in categories is not possible to provide.

The actual return on plan assets was EUR 69 million (2011: EUR -3 million).

The following table shows the time series of the present value of the funded defined benefit obligation and the fair value of the plan assets, as well as experience adjustments included in them.

As at 31 December

MEUR	2012	2011	2010	2009	2008
Present value of funded und unfunded obligation	**443**	334	336	710	627
Fair value of plan assets	**345**	277	289	720	601
Deficit(+)/surplus(-)	**98**	57	47	-10	26
Experience adjustments on plan assets	**57**	0	-5	74	-225
Experience adjustments on plan liabilities	**0**	-4	1	-15	0

Contributions amounting to EUR 11 million are expected to be paid to the plan during 2013.

The principal actuarial assumptions used

Finland	2012	2011
Discount rate	**2.4-2.7 %**	4.5 %
Expected return on plan assets	**2.7 %**	4.5 %
Future salary increases	**3.5 %**	3.5 %
Future pension increases	**0.0-2.1 %**	0.0-2.1%

Other countries	2012	2011
Discount rate	**2.0-3.0 %**	2.5-4.5 %
Expected return on plan assets	**2.5-3.0 %**	2.5-4.5 %
Future salary increases	**1.5-2.5 %**	1.5-2.0 %
Future pension increases	**0.0 %**	3.5 %

31 Share-based payments

Share-based incentive plan as of 1 January 2010

The Board of Directors decided in December 2009 to establish a new share-based incentive plan for the Group's key personnel. The aim of the plan is to align the objectives of the owners and key personnel of Neste Oil: e.g. increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on holding Company shares. The plan includes three three-year earning periods, first one of which started in 2010 and second in 2011 and the last one in 2012. The Board of Directors decides the earnings criteria and targets to be met as well as the maximum level of the payable reward for each earnings period. The earning criteria for the plans is the same, the sales volume at Renewable Fuels and total shareholder return on Neste Oil share in relation to the Dow Jones Nordic Return Index. The potential reward will be paid partly in Company shares and partly in cash in 2013, 2014 and 2015. The maximum level of payable reward may not, during any earnings year, exceed the annual gross salary of the year in question. The portion to be paid in cash will cover taxes and tax-related costs arising from the reward. The plan prohibits the transfer of shares within three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Even after this, key personnel must hold 50% of the shares received on the basis of the plan as long as the value of the shares held in total corresponds to their annual gross salary. This obligation to own shares is valid as long as the employment or service in the Group continues.

The maximum amount of reward for key personnel for Plan 2012-2014 equals the value of 1,098,000 Neste Oil shares, of which 1,018,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 425,000 shares, of which the maximum reward for the President & CEO equaled the value of 100,000 shares.

The maximum amount of reward for key personnel for Plan 2011-2013 equals the value of 842,000 Neste Oil shares, of which 740,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 320,000 shares, of which the maximum reward for the President & CEO equaled the value of 80,000 shares.

The maximum amount of reward for key personnel for Plan 2010-2012 equals the value of 809,000 Neste Oil shares, of which 630,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 305,000 shares, of which the maximum reward for the President & CEO equaled the value of 75,000 shares.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan.

Grant dates and prices	Plan 2012-2014	Plan 2011-2013	Plan 2010-2012
Grant dates	2 Jan 2012	3 Jan 2011	4 Jan 2010
Grant prices, euros	6.70	10.81	11.50
Share price as at grant date, euros	8.10	12.21	12.70

Term of the plan	Plan 2012-2014	Plan 2011-2013	Plan 2010-2012
Beginning of earnings period	1 Jan 2012	1 Jan 2011	1 Jan 2010
End of earnings period	31 Dec 2014	31 Dec 2013	31 Dec 2012
End of restriction period	1 Jan 2018	1 Jan 2017	1 Jan 2016

Assumptions used in calculating the value of the reward	Plan 2012-2014	Plan 2011-2013	Plan 2010-2012
Amount of granted shares at the beginning of the period, maximum reward	-	802,000	696,000
Amount of shares granted during the period, maximum reward	1,098,000	-	-
Adjustments to the amount of shares	-80,000	-62,000	-66,000
Amount of granted shares at the end of the period, maximum reward	1,018,000	740,000	630,000
Number of participants at the end of the financial period	68	54	35
Share price at the end of the financial period, euros	9.77	9.77	9.77
Estimated rate of realization of the earnings criteria, %	55 %	55 %	20 %
Estimated termination rate before the end of the restriction period, %	6.7 %	10.0 %	7.5 %

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earnings period.

Accounting treatment

The Share-based incentive plans described earlier in this note are accounted for as a share based transaction with cash alternative. The portion of the earned reward (approximately 50%) for which the participants will receive shares of Neste Oil is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants (approximately 50%), is accounted for as a cash settled transaction. The earned reward is entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the income statement are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the income statement.

The expense included in the income statement is specified in the following table.

MEUR	2012	2011
Expense recognized in the income statement	**0**	0
Change in fair value of the liability recognized in the balance sheet	**1**	1
Total expense charged to the income statement	**1**	1
Change in fair value of the hedging instrument	**0**	0
Net effect of share based payments in the income statement	**1**	1

The liability recognized in the balance sheet related to share based payments amounted to EUR 2 million (2011: EUR 1 million). The expense to be recognized during the financial periods 2013-2016 is estimated as 31 December 2012 to amount to 10 million. The actual amount may differ from this estimate.

Hedging

The Group hedges its exposure to the share price development during the time period between the grant date and the delivery date. The hedging arrangement is accounted for as treasury shares and has been described in detail in Note 26.

32 Related party transactions

The Group is controlled by the State of Finland, which owns 50.1% of the Company's shares. The remaining 49.9% of shares are widely held.

The group has a related party relationship with its subsidiaries, associates, joint ventures (Note 33) and with the members of the Board of Directors, the President and CEO and other members of the Neste Executive Board (key management persons), close members of the families of the mentioned key management persons and entities controlled or jointly controlled by the mentioned key management persons or close members of those persons' families.

Parent company of the Group is Neste Oil Corporation. The transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated during consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. All transactions between Neste Oil and other companies controlled by the State of Finland are on an arm's length basis.

Transactions carried out with related parties

2012	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	**0**	**24**	**3**	**0**	**15**
Joint ventures	**102**	**66**	**3**	**0**	**0**
Key management persons and entities controlled by them	**-**	**-**	**-**	**-**	**-**
	102	**90**	**6**	**0**	**15**

2011	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Associates	1	15	3	0	16
Joint ventures	115	57	4	0	0
Key management persons and entities controlled by them	-	-	-	-	-
	116	72	7	0	16

The major part of business between Neste Oil and its joint venture, Nynas, comprises sales of bitumen production from the Naantali refinery to Nynas based on a long term agreement. Process oils were sold from the Porvoo refinery to Nynas.

Key management compensation

EUR thousand	2012	2011
Salaries and other short-term employee benefits	**3,453**	3,336

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Board. Key management compensation includes termination benefits. There were no outstanding loan receivables from key management on 31 December 2012 or 31 December 2011.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Managament Performance Share Arrangements have been disclosed in Note 31, Share based payments.

Compensation to President and CEO, Board of Directors and Supervisory Board

EUR thousand	**2012**	2011
Matti Lievonen, President and CEO	**862**	860
Board of Directors		
Jorma Eloranta, chairman as of 28 March 2012	**73**	46
Timo Peltola, chairman until 28 March 2012	**19**	76
Maija-Liisa Friman, vice chairman as of 28 March 2012	**57**	46
Mikael von Frenckell	**-**	8
Michiel Boersma	**58**	55
Ainomaija Haarla	**-**	11
Nina Linander	**58**	57
Laura Raitio	**46**	35
Hannu Ryöppönen	**57**	57
Markku Tapio	**47**	46
Board of Directors, all members total	**415**	437
Supervisory Board, all members total	**-**	12

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended.

The Supervisory Board was abolished in May, 2011.

In the event the Company decides to give notice of termination to the President and Chief Executive Officer, he will be entitled to compensation equalling 24 months' salary. The retirement age of the President and CEO is 60, and the pension paid is 60% of his retirement salary.

Shareholdings of the Board of Directors, the President & CEO, and Neste Executive Board are presented in Annual report.

33 Group companies on 31 December 2012

Subsidiaries	Group holding %	Country of incorporation
Kide Automaatit Oy	100.00%	Finland
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
Neste Canada Inc.	100.00%	Canada
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Aktiebolag	100.00%	Sweden
Neste Jacobs Oy	60.00%	Finland
Neste LPG AB	100.00%	Sweden
Neste Markkinointi Oy	100.00%	Finland
Neste Oil AB	100.00%	Sweden
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Oil BR Ltd	100.00%	Belarus
Neste Oil Components Finance B.V.	100.00%	The Netherlands
Neste Oil Finance B.V.	100.00%	The Netherlands
Neste Oil Holding (U.S.A.), Inc.	100.00%	USA
Neste Oil Insurance Limited	100.00%	Guernsey
Neste Oil Limited	100.00%	Great Britain
Neste Oil Netherlands B.V.	100.00%	The Netherlands
Neste Oil N.V.	100.00%	Belgium
Neste Oil Services, Inc.	100.00%	USA
Neste Oil Singapore Pte. Ltd.	100.00%	Singapore
Neste Oil (Suisse) S.A.	100.00%	Switzerland
Neste Oil US, Inc.	100.00%	USA
Neste Petroleum, Inc.	100.00%	USA
Neste Polska Sp. z o.o.	100.00%	Poland
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Trading (U.S.A.), Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

Associated companies	Group holding %	Country of incorporation
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	40.00%	Finland
Bahrain Lube Base Oil Company B.S.C. (Closed) [1)]	45.00%	Bahrain
Nemarc Shipping Oy	50.00%	Finland
Neste Arabia Co. Ltd.	48.00%	Saudi-Arabia
Oy Innogas Ab	50.00%	Finland
Porvoon Alueverkko Oy	33.33%	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Finland
Vaskiluodon Kalliovarasto Oy	50.00%	Finland

Joint ventures	Group holding %	Country of incorporation
Glacia Limited	50.00%	Bermuda
Lacus Ltd.	50.00%	Bermuda
NSE Biofuels Oy Ltd	50.00%	Finland
Nynas AB	49.99%	Sweden
Terra Ltd.	50.00%	Bermuda

[1)] Bahrain Lube Base Oil Company B.S.C. (Closed), previously classified as a joint venture, is reported as jointly controlled asset and is therefore classified as an associated company.

34 Contingencies and commitments

Contingent liabilities

MEUR	2012 Value of collateral	2011 Value of collateral
On own behalf for commitments		
Real estate mortgages	**26**	26
Pledged assets	**1**	2
Other contingent liabilities	**12**	31
Total	**39**	59
On behalf of associates and joint ventures		
Guarantees	**1**	2
Total	**1**	2
On behalf of others		
Guarantees	**1**	1
Other contingent liabilities	**3**	2
Total	**4**	3
	44	64

Operating lease liabilities

MEUR	2012	2011
Due within one year	**69**	74
Due between one and five years	**116**	142
Due later than five years	**79**	80
	264	296

Operating leases

Lease rental expenses amounting to EUR 76 million (2011: EUR 76 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments

MEUR	2012	2011
Commitments for purchase of property, plant and equipment	**10**	24
	10	24

The Group's operating lease commitments primarily relate to time charter vessels, land and office space.

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligation. The total fixed fees payable under the agreements during 2011-2026 as at 31 December 2012 are presented in the table below.

Fixed fees payable under take-or-pay contracts

MEUR	2012
Payable 2012	16
Payable after 2012	211
Total payable	227

Other contingent liabilities

Neste Oil Corporation has a collective contingent liability with Fortum Heat and Gas Oy related to liabilities of the demerged

Fortum Oil and Gas Oy based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act.

35 Disputes and potential litigations

Some Group companies are involved in legal proceedings or disputes incidental to their business. In management's opinion, the outcome of these cases is difficult to predict but not likely to have material effect on Group's financial position.

36 Events after the balance sheet date

On 28 January 2013, Neste Oil announced that Neste Oil's shipping subsidiary, Neste Shipping Oy, will start an efficiency improvement program aimed at improving its profitability and securing the continuity of its operations. As part of the efficiency improvement program, statutory employer-employee negotiations will be started and will cover all of Neste Shipping's land- and sea-based personnel in Finland, around 450 people in total. The negottiations could result in a maximum of 130 people being made redundant. The goal of the efficiency improvement program is to make the business profitable by increasing revenue and reducing costs by a total of around EUR 15 million annually.

On 4 February 2013, Neste Oil announced that it will build an isomerization unit at its Porvoo refinery. The investment valued at approx. EUR 65 million, is intended to increase the output of high-octane gasoline and improve refining flexibility at the site. Neste Oil took the initial decision to make the investment in 2008, byt announced in 2009 that it would postpone the project until the market situation improved. Neste Oil believes that the demand for cleaner fuels, such as high-octane, low-sulfur gasoline, is continuing to grow globally.

Parent company income statement

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Revenue	2	**11,992**	11,235
Change in product inventories		**-97**	174
Other operating income	3	**16**	14
Materials and services	4	**-10,939**	-10,555
Personnel expenses	5	**-183**	-165
Depreciation, amortization and write-downs	6	**-142**	-140
Other operating expenses	7	**-332**	-276
Operating profit		**315**	287
Financial income and expenses	8	**-65**	-70
Profit before extraordinary items		**250**	217
Extraordinary items	9	**-130**	-31
Profit before appropriations and taxes		**120**	186
Appropriations	10	**-7**	-17
Income tax expense	11	**-24**	-49
Profit for the year		**89**	121

Parent company balance sheet

MEUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Fixed assets and other long-term investments	12, 13		
Intangible assets		**39**	25
Tangible assets		**1,638**	1,631
Other long-term investments		**2,607**	2,619
		4,284	4,275
Current assets			
Inventories	14	**823**	852
Long-term receivables	15	**231**	130
Short-term receivables	16	**992**	920
Cash and cash equivalents		**361**	231
		2,407	2,133
Total assets		**6,691**	6,408
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		**40**	40
Retained earnings		**947**	915
Profit for the year		**89**	121
		1,076	1,076
Accumulated appropriations	18	**917**	910
Provisions for liabilities and charges	19	**1**	9
Liabilities	20		
Long-term liabilities		**2,339**	2,287
Short-term liabilities		**2,358**	2,126
		4,697	4,413
Total equity and liabilities		**6,691**	6,408

Parent company cash flow statement

MEUR	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Cash flows from operating activities		
Profit before extraordinary items	**250**	217
Depreciation, amortization and write-downs	**142**	140
Other non-cash income and expenses	**7**	4
Financial income and expenses	**65**	70
Divesting activities, net	**0**	0
Operating cash flow before change in working capital	**464**	431
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	**-80**	-165
Decrease (+)/increase (-) in inventories	**28**	-155
Decrease (-)/increase (+) in interest-free liabilities	**61**	179
Change in working capital	**9**	-141
Cash generated from operations	**473**	290
Interest and other financial expenses paid, net	**-64**	-68
Dividends received	**18**	3
Income taxes paid	**1**	-82
Realized foreign exchange gains and losses	**-23**	8
Group contributions, net	**-31**	-8
Net cash from operating activities	**374**	143

Cash flows from investing activities		
Capital expenditure	**-183**	-94
Proceeds from sale of fixed assets	**3**	1
Investments in shares in subsidiaries	**0**	-830
Investments in shares in other shares	**-1**	0
Proceeds from shares in subsidiaries	**0**	600
Proceeds from sale of other shares	**0**	0
Change in other investments, increase (-)/decrease (+)	**-94**	25
Net cash used in investing activities	**-275**	-298
Cash flow before financing activities	**99**	-155
Cash flows from financing activities		
Proceeds from long-term liabilities	**1,039**	514
Payments of long-term liabilities	**-908**	-308
Change in short-term liabilities	**-11**	-12
Dividends paid	**-90**	-90
Cash flow from financing activities	**30**	104
Net increase (+)/decrease (-) in cash and cash equivalents	**129**	-51
Cash and cash equivalents at the beginning of the period	**231**	282
Cash and cash equivalents at the end of the period	**361**	231
Net increase (+)/decrease (-) in cash and cash equivalents	**130**	-51

1 Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in thousands of euros unless otherwise stated.

Revenue

Revenue include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Trading sales include the value of physical deliveries and the net result of derivative financial instruments.

Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

Derivative financial instruments

Neste Oil uses derivative financial instruments mainly to hedge oil price, foreign exchange and interest rate exposures.

Oil commodity derivative contracts hedging future cash flow are booked once the underlying exposure occurs. Unrealized losses on derivatives held for trading purposes are booked immediately, but gains are booked only at maturity or when the open exposure is closed with a similar instrument.

There are two different types of foreign exchange derivative contracts: hedges for future cash flow and hedges of balance sheet items. Gains or losses on derivative financial instrument that hedge future cash flows are recognized once the underlying income or expense occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognized in the income statement. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures.

Gains or losses for derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

Fixed assets and depreciation

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated. The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 years

Inventories

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

Research and development

Research and development expenditures are expensed as incurred with the exception of investments in buildings and equipment.

Pension expenses

An external pension insurance company manages the pension plan.The pension expenses are booked to income statement during the year they occur.

Extraordinary items

Extraordinary items consist of received or given group contributions from or to Neste Oil Group companies.

Deferred taxes

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply.

Provisions

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Oil Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, restructuring provisions, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.

2 Revenue

Revenue by segment

MEUR	2012	2011
Oil Products	**11,945**	11,181
Renewable Fuels	**0**	6
Oil Retail	**0**	0
Other	**114**	117
Eliminations	**-67**	-69
	11,992	11,235

Revenue by market area

MEUR	2012	2011
Finland	**6,424**	6,367
Other Nordic countries	**1,981**	1,922
Baltic countries, Russia and Poland	**681**	560
Other European countries	**1,873**	1,436
North and South America	**860**	874
Other countries	**173**	76
	11,992	11,235

3 Other operating income

MEUR	2012	2011
Rental income	**9**	9
Gain on sale of intangible and tangible assets	**0**	0
Insurance compensations	**2**	1
Government grants	**3**	3
Other	**2**	1
	16	14

4 Materials and services

MEUR	2012	2011
Materials and supplies		
Purchases during the period	**10,992**	10,522
Change in inventories	**-59**	30
	10,933	10,552
External services	**6**	3
	10,939	10,555

5 Personnel expenses

MEUR	2012	2011
Wages, salaries and remunerations	**137**	127
Indirect employee costs		
Pension costs	**36**	30
Other indirect employee costs	**10**	8
	183	165

Salaries and remuneration

Key management compensations are presented in Note 32 in the Neste Oil Group consolidated financial statements.

Average number of employees

	2012	2011
Oil Products	**1,558**	1,505
Other	**729**	718
	2,287	2,223

6 Depreciation, amortization and write-downs

MEUR	2012	2011
Depreciation according to plan	**142**	140
Write-offs	**0**	0
	142	140

7 Other operating expenses

MEUR	2012	2011
Operating leases and other property costs	**20**	19
Freights relating to sales	**86**	73
Repairs and maintenance	**88**	67
Other	**138**	118
	332	276
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	**15**	3

Fees charged by the statutory auditor

EUR thousands	2012	2011
Audit fees	**349**	313
Auditor's mandatory opinions	**5**	8
Tax advisory	**8**	21
Other advisory services	**279**	585
	641	927

8 Financial income and expenses

MEUR	2012	2011
Dividend income		
From Group companies	18	3
From others	0	0
Dividend income total	18	3
Interest income from long-term loans and receivables		
From Group companies	1	1
From others	0	0
Interest income from long-term loans and receivables total	1	1
Other interest and financial income		
From Group companies	5	6
Other	0	0
Other interest and financial income total	5	6
Interest expenses and other financial expenses		
To Group companies	-4	-7
Other	-75	-73
Interest expenses and other financial expenses total	-79	-80
Exchange rate differences	-10	0
Financial income and expenses total	-65	-70

Total interest income and expenses

MEUR	2012	2011
Interest income	6	7
Interest expenses	-72	-73
Net interest expenses	-66	-66

9 Extraordinary items

MEUR	2012	2011
Group contributions		
Group contributions received	**35**	50
Group contributions given	**-165**	-81
	-130	-31

10 Appropriations

Change in depreciation difference

MEUR	2012	2011
Difference between depreciation according to plan and depreciation in taxation	**-7**	-16

11 Income tax expense

MEUR	2012	2011
Income taxes on regular business operations	**54**	57
Income taxes on extraordinary items	**-32**	-8
Change in deferred tax assets	**2**	0
	24	49

12 Fixed assets and long-term investments

Change in acquisition cost 2012, MEUR

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2012	1	90	91
Increases	0	24	24
Decreases	-	15	15
Transfers between items	-	8	8
Acquisition cost as of 31 December 2012	1	107	108
Accumulated depreciation, amortization and write-downs as of 1 January 2012	1	65	66
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	1	1
Depreciation and amortization for the period	0	5	5
Accumulated depreciation, amortization and write-downs as of 31 December 2012	1	69	70
Balance sheet value as of 31 December 2012	-	38	38
Balance sheet value as of 31 December 2011	-	25	25

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2012	25	1,054	2,081	79	99	3,338
Increases	-	32	90	1	33	156
Decreases	-	1	3	0	4	8
Transfers between items	-	-	-	-	-8	-8
Acquisition cost as of 31 December 2012	25	1,085	2,168	80	120	3,478
Accumulated depreciation, amortization and write-downs as of 1 January 2012	0	479	1,227	30	-	1,736
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	1	2	0	-	3
Depreciation, amortization and write downs for the period	-	31	104	2	-	137
Accumulated depreciation, amortization and write-downs as of 31 December 2012	0	510	1,329	32	-	1,870
Revaluations	6	24	-	-	-	30
Balance sheet value as of 31 December 2012	31	600	839	48	120	1,638
Balance sheet value as of 31 December 2011	31	599	854	48	99	1,631
Balance sheet value of machinery and equipments used in production						807

Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of 1 January 2012	2,579	13	1	0	3	23	2,619
Increases	-	1	-	-	1	0	2
Decreases	-	3	-	0	0	11	14
Acquisition cost as of 31 December 2012	2,579	11	1	0	4	12	2,607
Accumulated depreciation, amortization and write-downs as of 1 January 2012	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2012	-	-	-	0	0	0	0
Balance sheet value as of 31 December 2012	2,579	11	1	0	6	12	2,607
Balance sheet value as of 31 December 2011	2,579	13	1	0	3	23	2,619

Interest-bearing and interest-free receivables

MEUR	2012	2011
Interest-bearing receivables	12	14
Interest-free receivables	12	23
	24	37

13 Revaluations

MEUR	Revaluations as of Jan 1 2012	Increases	Decreases	Revaluations as of Dec 31 2012
Land areas	6	-	-	6
Buildings	24	-	-	24
	30	-	-	30

Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation. Deferred taxes have not been booked on revaluations.

14 Inventories

MEUR	2012	2011
Raw materials and supplies	**306**	242
Products/finished goods	**512**	610
Advance payments on inventories	**5**	0
	823	852
Replacement value of inventories	**824**	853
Book value of inventories	**823**	852
Difference	**1**	1

15 Long-term receivables

MEUR	2012	2011
Receivables from Group companies		
Other long-term receivables	**230**	127
Deferred tax assets	**1**	3
	231	130

16 Short-term receivables

MEUR	2012	2011
Trade receivables	**490**	450
Receivables from Group companies		
Trade receivables	**364**	325
Other receivables	**35**	50
Accrued income and prepaid expenses	**2**	2
Total	**401**	377
Receivables from associated companies		
Trade receivables	**0**	0
Other receivables	**1**	1
Total	**1**	1
Other receivables	**80**	74
Accrued income and prepaid expenses	**20**	18
	992	920

Short-term accrued income and prepaid expenses

MEUR	2012	2011
Accrued interest	**6**	4
Accrued taxes	**1**	6
Other	**15**	10
	22	20

17 Changes in shareholders' equity

MEUR	2012	2011
Share capital at 1 January	**40**	40
Share capital at 31 December	**40**	40
Retained earnings at 1 January	**1,036**	1,005
Dividends paid	**-90**	-90
Reversal of revaluation	**-**	0
Profit for the year	**89**	121
Retained earnings at 31 December	**1,035**	1,036
Distributable equity	**1,035**	1,036

18 Accumulated appropriations

MEUR	2012	2011
Depreciation difference	**917**	910

19 Provisions for liabilities and charges

MEUR	Restructuring provisions	Provision for pensions	Provision for environment	Other provision	Total
Provisions as of 1 January 2012	0	0	9	0	9
Increase	0	-	1	-	1
Decrease	0	-	9	-	9
Provisions as of 31 December 2012	0	0	1	0	1

20 Liabilities

Long-term liabilities

MEUR	2012	2011
Bonds	1,292	646
Loans from financial institutions	487	1,093
Liabilities to Group companies		
Other long-term liabilities	551	540
Other long-term liabilities	7	6
Accruals and deferred income	2	2
	2,339	2,287

Interest- bearing liabilities due after five years

MEUR	2012	2011
Bonds	447	49
Loans from financial institutions	23	70
Liabilities to Group companies	511	495
	981	614

Shor-term liabilities

MEUR	2012	2011
Bonds	-	120
Loans from financial institutions	342	292
Advances received	1	2
Trade payables	1,022	931
Liabilities to Group companies		
Advances received	0	0
Trade payables	107	62
Other short-term liabilities	422	180
Accruals and deferred income	0	0
Total	529	242
Liabilities to associated companies		
Trade payables	2	2
Other short-term liabilities	0	0
Total	2	2
Other short-term liabilities	368	466
Accruals and deferred income	94	71
	2,358	2,126

Short-term accruals and deferred income

MEUR	2012	2011
Salaries and indirect employee costs	42	38
Accrued interests	29	21
Other short-term accruals and deferred income	23	12
	94	71

Interest-bearing and interest-free liabilities

MEUR	2012	2011
Long-term liabilities		
Interest-bearing liabilities	2,332	2,279
Interest-free liabilities	7	8
	2,339	2,287
Short-term liabilities		
Interest-bearing liabilities	608	540
Interest-free liabilities	1,750	1,586
	2,358	2,126

21 Contingent liabilities

Contingent liabilities

MEUR	2012	2011
Operating lease liabilities		
Due within a year	**3**	3
Due after a year	**4**	2
	7	5
Contingent liabilities given on own behalf		
Real estate mortgages	**24**	24
Pledged assets	**1**	1
Other contingent liabilities	**2**	2
	27	27
Contingent liabilities given on behalf of Group companies		
Real estate mortgages	**2**	2
Guarantees	**238**	206
	240	208
Contingent liabilities given on behalf of associated companies		
Guarantees	**1**	2
	1	2
Contingent liabilities given on behalf of others		
Guarantees	**1**	1
	1	1
Contingent liabilities total	**276**	243

22 Derivative financial instruments

Interest and currency derivative contracts and share forward contracts

MEUR	2012			2011		
	Contract or notional value	Fair value	Not recognized as an income	Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	**1,030**	**26**	**-6**	772	5	-4
Forward foreign exchange contracts	**1,945**	**15**	**11**	1,756	-33	-27
Currency options						
Purchased	**113**	**0**	**0**	206	-5	-5
Written	**92**	**2**	**2**	193	-3	-3

Oil and freight derivative contracts

	2012			2011		
	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	**19**	**13**	**13**	44	-5	-5
Purchase contracts	**17**	**-10**	**-10**	35	17	17

The fair values of foreign exchange currency derivative contracts are based on market values at the balance sheet date. The fair values of interest rate swaps are the present values of the estimated future cash flows and the fair values of currency options are calculated with option valuation model.

The fair value of exchange traded oil commodity futures and option contracts are based on the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is based on the net present value of the forward contracts quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the 'Derivative financial instruments' table.

23 Other contingent liabilities

Real estate investments

The Company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10 years control period.

24 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2012 EUR thousands
Subsidiary shares				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	39,725
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Neste Eesti AS	Estonia	10,000	100.00	5,927
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste Oil AB	Sweden	2,000,000	100.00	23,972
Neste Oil BR Ltd	Belarus	1	100.00	-
Neste Oil Components Finance B.V.	The Netherlands	40	100.00	8,022
Neste Oil Finance B.V.	The Netherlands	26,090	100.00	69,177
Neste Oil Holding (U.S.A.), Inc.	USA	1,000	100.00	18,428
Neste Oil Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste Oil Limited	Great Britain	500,100	100.00	1,793
Neste Oil N.V.	Belgium	4,405,414	99.99	414,753
Neste Oil (Suisse) S.A.	Switzerland	200	100.00	62
Neste Oil US, Inc.	USA	1,000	100.00	1,100
Neste Renewable Fuels Oy	Finland	200	100.00	1,826,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,578,644
Associated companies				
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Neste Arabia Co. Ltd.	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				794
Other shares and holdings				
CLEEN Oy	Finland	100		100
East Office of Finnish Industries Oy	Finland	1		10
Ekokem Oy Ab	Finland	75,000	2.13	125
Fine Carbon Fund Ky	Finland	1		1
Kiinteistö Oy Anttilankaari 8	Finland	51		545
Kiinteistö Oy Himoksen Aurinkopaikka	Finland	51		457
Kiinteistö Oy Katinkullan Hiekkaniemi	Finland	102		903
Kiinteistö Oy Katinkultaniemi	Finland	51		398
Kiinteistö Oy Kuusamon Tähti 1	Finland	51		457
Kiinteistö Oy Laavutieva	Finland	51		311

Kiinteistö Oy Lapinniemi & Osakeyhtiö Lapinniemi	Finland	24	125
Nordic Carbon Fund Ky	Finland	1	1
Posintra Oy	Finland	190	34
			3,467
Telephone shares			
Kymen Puhelin Oy	Finland	1	0
Pietarsaaren Seudun Puhelin Oy	Finland	3	1
Osuuskunta PPO	Finland	1	-
Savonlinnan Puhelinosuuskunta SPY	Finland	1	1
			2
Connection fees			65
Total			2,582,972

Proposal for the distribution of earnings and signing of the Review by the Board of Directors and the Financial Statements

The parent company's distributable equity as of 31 December 2012 stood at EUR 1,035 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.38 per share for 2012, totalling EUR 97 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 4 February 2013

Jorma Eloranta

Michiel Boersma

Maija-Liisa Friman

Nina Linander

Laura Raitio

Hannu Ryöppönen

Markku Tapio

Matti Lievonen
President and CEO

Auditor's report

To the Annual General Meeting of Neste Oil Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Neste Oil Corporation for the financial period 1.1. - 31.12.2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act.

We support that the members of the Board of Directors of the parent company and the President and CEO should be discharged from the liability for the financial period audited by us.

Espoo, February 4, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

ANNA-MAIJA SIMOLA
Anna-Maija Simola
Authorized Public Accountant

Quarterly segment information

Revenue

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	**3,607**	**3,389**	**3,224**	**3,544**	3,377	3,327	3,070	2,870
Renewable Fuels	**505**	**597**	**595**	**466**	399	290	144	193
Oil Retail	**1,258**	**1,266**	**1,181**	**1,190**	1,112	1,107	1,058	1,021
Others	**45**	**48**	**54**	**52**	56	44	47	44
Eliminations	**-818**	**-795**	**-757**	**-798**	-775	-663	-645	-656
Total	**4,597**	**4,505**	**4,297**	**4,454**	4,169	4,105	3,674	3,472

Operating profit

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	**128**	**248**	**-80**	**195**	3	56	136	178
Renewable Fuels	**-43**	**-73**	**-59**	**-8**	-32	-81	-53	-4
Oil Retail	**5**	**23**	**15**	**15**	9	24	13	12
Others	**-35**	**-1**	**1**	**-10**	1	15	7	-15
Eliminations	**2**	**-4**	**6**	**-4**	-3	1	6	0
Total	**57**	**193**	**-117**	**188**	-22	15	109	171

Comparable operating profit

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	**116**	**154**	**49**	**77**	27	86	75	83
Renewable Fuels	**-2**	**-19**	**-33**	**-2**	-15	-57	-55	-36
Oil Retail	**5**	**23**	**15**	**15**	9	23	13	12
Others	**-37**	**0**	**1**	**-10**	2	15	8	-16
Eliminations	**0**	**-2**	**6**	**-4**	-3	1	6	0
Total	**82**	**156**	**38**	**76**	20	68	47	43