Annual Report 2013

Review by the Board of Directors

NESTE OIL

CEO's review: "Hard work in Renewables paid off"

Over 50% of renewable inputs consisted of waste and residues

Neste Oil ranked the world's sixth-most sustainable company

GLOBAL100

Finland's **most respected service station brand**

Target of using **100%** certified palm oil achieved!

Mega-trends represent opportunities

Palm oil sourced from **54,000** smallholders

Ongoing **research on renewable feedstocks**

The **world's best** diesel fuel

Review by the Board of Directors 2013

Neste Oil's comparable operating profit totaled EUR 604 million compared to EUR 355 million in 2012. This profit growth reflected the significantly improved result of the company's Renewable Fuels business. Sales volumes of NExBTL renewable diesel were record high and sales grew in North America in particular. The market conditions were also very favorable and renewable diesel production capacity was run at full utilization rates during the second half the year. In 2013 the use of waste- and residue-based feedstock was further increased to over 1.2 million tons or more than 50% of the total renewable inputs. After a strong start to the year, Oil Products' reference refining margin began to decline and averaged lower than in 2012 since European demand for petroleum products proved soft and additional refining capacity was brought on-line in the Middle East and Asia. Oil Retail improved its performance compared to the previous year in all markets, in particular Finland and Northwest Russia. Sale of the company's retail network in Poland was closed. The Board of Directors will propose a dividend of EUR 0.65 per share (0.38) for 2013, totaling EUR 167 million (97 million).

Figures in parentheses refer to the full-year financial statements for 2012, unless otherwise noted.

The Group's results for 2013

Neste Oil's revenue in 2013 totaled EUR 17,462 million (17,853 million). This decline mainly resulted from lower trading activity and the sale of the retail business in Poland. The Group's comparable operating profit for the year was EUR 604 million, an increase of 70% on the EUR 355 million reported in 2012. The Renewable Fuels segment recorded a significant improvement in comparable operating profit year-on-year, and Oil Retail's result was also clearly higher than in 2012. Oil Products' full-year comparable operating profit was lower than in 2012, mainly due to lower refining margins. The Others segment improved compared to 2012, but remained negative. The Group's fixed costs came in at EUR 691 million (664 million), an increase that was mainly caused by higher staff and maintenance costs.

Oil Products' full-year comparable operating profit was EUR 280 million (396 million), Renewable Fuels' EUR 273 million (–56 million), and Oil Retail's EUR 76 million (58 million). The comparable operating profit of the Others segment totaled EUR –27 million (–43 million), of which Nynas accounted for EUR –13 million (–6 million).

The Group's full-year IFRS operating profit was EUR 632 million (324 million), which was impacted by inventory losses totaling EUR 19 million (61 million) and net capital gains totaling EUR 43 million (45 million). Pre-tax profit was EUR 561 million (233 million), and profit for the period EUR 524 million (159 million). Comparable earnings per share were EUR 1.92 (0.70), and earnings per share EUR 2.04 (0.61). The Group's effective tax rate was low 6.6% (31.9%) mainly due to the write-down of deferred tax liabilities resulting from the Finnish corporate tax rate change, and the tax-exempt items, such as the sale proceeds of the retail network in Poland.

Return on average capital employed after tax (ROACE) and leverage ratio are Neste Oil's financial targets. The company's long-term ROACE target is 15% and ROACE figures are based on comparable results. As of the end of 2013, the rolling twelve-month ROACE was 11.8% (2012 financial year: 5.0%). The leverage ratio target is 25–50%, and leverage was 30.0% (43.2%) at the end of 2013.

Group key figures, MEUR

	2013	2012
Comparable operating profit	**604**	355
- inventory gains/losses	**-19**	-61
- changes in the fair value of open oil derivatives	**4**	-15
- capital gains/losses	**43**	45
IFRS operating profit	**632**	324
Revenue		
Oil Products	**13,271**	13,764
Renewable Fuels	**2,493**	2,163
Oil Retail	**4,528**	4,895
Others	**204**	199
Eliminations	**-3,034**	-3,168
Total	**17,462**	17,853
Comparable operating profit		
Oil Products	**280**	396
Renewable Fuels	**273**	-56
Oil Retail	**76**	58
Others	**-27**	-43
Eliminations	**2**	0
Total	**604**	355
IFRS operating profit		
Oil Products	**286**	491
Renewable Fuels	**252**	-183
Oil Retail	**120**	58
Others	**-26**	-42
Eliminations	**0**	0
Total	**632**	324

Cash flow, investments, and financing

Neste Oil Group’s net cash from operating activities totaled EUR 839 million (468 million) in 2013. The year-on-year difference is mainly attributable to improved cash generation from the Group's businesses, lower working capital resulting from very successful management of receivables, and lower capital expenditure in 2013. Cash flow before financing activities was EUR 759 million (260 million).

Investments totaled EUR 214 million (292 million) in 2013. Oil Products’ capital expenditure totaled EUR 142 million (180 million), while Renewable Fuels invested EUR 21 million (51 million), Oil Retail EUR 31 million (36 million), and Others EUR 20 million (25 million).

Interest-bearing net debt was EUR 1,252 million as of the end of December 2013, compared to EUR 1,935 million at the end of 2012. Net financial expenses for the year were EUR 71 million (91 million). The average interest rate of borrowing at the end of December was 3.7% and the average maturity 3.7 years. The equity-to-assets ratio was 41.6% (31 Dec. 2012: 34.4%), the leverage ratio 30.0% (31 Dec. 2012: 43.2%), and the gearing ratio 42.8% (31 Dec. 2012: 76.2%).

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,156 million as of the end of December (31 Dec. 2012: 2,135 million). There are no financial covenants in current loan agreements.

In accordance with its hedging policy, Neste Oil has hedged the majority of its net foreign currency exposure for the next 12 months, mainly using forward contracts and currency options. The most important hedged currency is the US dollar.

Main events during 2013

On 28 January, Neste Oil announced that Neste Shipping was to start an efficiency improvement program aimed at improving its profitability and securing the continuity of its operations. As part of this, statutory employer-employee negotiations were started and covered all of Neste Shipping's land- and sea-based personnel in Finland, around 450 people in total.

On 4 February, 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.

On 26 March, Neste Oil announced that Neste Shipping had completed the statutory employer-employee negotiations initiated on 4 February. Following the negotiation process, Neste Shipping decided to terminate the ship and crew management agreements covering three vessels jointly owned with the Swedish-based Stena Group and time-chartered to Neste Shipping.

On 2 April, Neste Oil announced that the Polish competition authorities had approved the sale of Neste Oil’s station network in Poland (Neste Polska Sp. z o.o.) to Shell. The transaction covered a total of 105 unmanned stations and marked the end of Neste Oil's retail operations in Poland.

On 26 April, Neste Oil announced that it will invest a total of approx. EUR 42 million in improving the energy efficiency and operational reliability of the Porvoo refinery. As part of the investment, fired heaters at the refinery's crude distillation unit will be replaced with new-generation heaters.

On 10 September, Neste Oil announced that it expected the Group's full-year comparable operating profit for 2013 to improve significantly compared to 2012 and estimated that it would be above EUR 530 million, mainly due to good performance at Renewable Fuels, which was expected to book a full-year comparable operating profit of more than EUR 200 million for 2013.

On 11 September, Neste Oil held a Capital Markets Day in London and confirmed its long-term ROACE target of 15%.

On 19 September, Neste Oil announced that it is planning to exit the shipping business. The plan is to sell all the company’s own vessels and outsource the ship management functions currently covering them, with around 320 ship management personnel transferring to a new employer. The intention is to retain Neste Shipping's chartering functions and integrate them with Neste Oil's organization. Going forward, Neste Oil intends sourcing its marine transportation through contractual arrangements. In connection with the planned outsourcing, Neste Shipping commenced statutory employer-employee negotiations covering all land- and sea-based personnel. If the current plans are implemented as intended, no significant capital gains or losses are expected. The arrangement is expected to free up approx. EUR 60 million of capital from Neste Oil's balance sheet and improve the Group's result by approx. EUR 10 million annually during the coming years.

On 15 November, Neste Oil announced that Neste Shipping had completed the statutory employer-employee negotiations initiated on 1 October. Following a decision taken after the conclusion of the negotiations, Neste Shipping is considering the possibility of outsourcing its ship management functions, and is to start negotiations on the terms and conditions of an outsourcing contract with various potential ship management companies.

On 18 November 2013, Neste Oil announced its view on the US Environmental Protection Agency's (EPA) proposal on US renewable fuel mandates in 2014. The EPA proposed retaining the biomass-based diesel mandate at the 2013 level and reducing the total renewable fuel mandates by 8% compared to 2013. The view of Neste Oil and the advanced biofuels industry is that the industry has proved its capability to deliver growing volumes of advanced biofuels, and biomass-based diesel in particular, to the US market. As a result, Neste Oil favors higher 2014 mandates for advanced biofuels than those proposed, as this would support further research and investment in this area.

On December 27, Neste Oil published that it had received an announcement pursuant to Chapter 9, Section 5 of the Securities Markets Act regarding a change in its shareholders. BlackRock, Inc. had announced that its aggregate holding in Neste Oil Corporation had risen above the 5% threshold on December 18 and was 5.01%.

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, and Customer Focus. These programs have defined targets and their progress is measured continuously.

Key achievements in the Profitable Growth program in 2013 include further developing the business operations of Renewable Fuels and the opening-up of new markets such as Australia, Austria, Italy, and Switzerland for the fuel. Customer segments and future potential were identified in new application areas such as chemicals and solvents. Base oil sales increased and new customers were secured in Asia and North America. The product range of the base oil joint venture in Bahrain was expanded in February.

Productivity was systematically enhanced and the renewable diesel refineries in Singapore and Rotterdam achieved normal operational status, with output exceeding the refineries' nameplate capacity. Tall oil pitch was tested successfully at the Naantali refinery to gain bio-mandate status for products. The implementation of energy efficiency plans proceeded well and the energy efficiency index of the company's oil refineries hit a record high.

The main achievement in the Renewable Feedstock program was the expansion of Neste Oil's renewable feedstock portfolio; technical corn oil (TCO), spent bleaching earth oil (SBEO), and tall oil pitch (TOP) were added. All the renewable feedstocks used by Neste Oil are 100% traced back to their origin and palm oil is 100%-certified. Neste Oil has been the first company to receive a RSPO-RED certificate, developed by the Roundtable on Sustainable Palm Oil (RSPO) for biofuels meeting the Renewable Energy Directive (RED) requirements, for the NExBTL renewable diesel produced at its refineries in Singapore and Rotterdam. Extensive R&D work is continuing to develop new, long-term renewable inputs for NExBTL production. The focus during 2013 was on gaining customer and market acceptance for different types of feedstock to enable Neste Oil to leverage its extensive feedstock portfolio globally. This will also be one of the main focus areas in 2014.

Progress in the Customer Focus program during 2013 included further development of customer segmentation and other sales processes and tools, leading to the creation of new solutions with customers in areas such as logistics, premium and specialty products, and high-quality solutions. Neste Pro Diesel, a premium-quality diesel fuel developed and produced by Neste Oil in Finland, was the first anywhere to comply with the WWFC 5 specification drawn up as part of the Worldwide Fuel Charter (WWFC) by automotive manufacturers in Europe, the US, and Asia.

Market overview

Continuing uncertainties in the world economy and geopolitical tensions in oil-producing countries were the main drivers in the oil market during 2013. Brent traded in the USD 100–120/bbl range, peaking in early February, when it reached USD 120/bbl, before weakening in the lead-up to the summer as new concerns related to the international economy and future growth prospects in China drove the price close to USD 100/bbl. Following some positive signs in the international economy, combined with political unrest in Syria and strikes that reduced Libyan crude oil exports, crude trended up during the late summer and early fall towards USD 120/bbl. As the strikes ended in Libya and negotiations between Iran and Western countries pointed to the possibility of a future easing of crude export sanctions, crude prices returned to USD 105–110/bbl, ending the year at around USD 110/bbl. The increasing production of tight oil in the US limited crude price increases and resulted in narrower differentials between lighter and heavier crudes.

The price differential between Russian Export Blend (REB) and Brent averaged USD –1/bbl in 2013, which was slightly narrower than in 2012. The differential widened significantly during the spring on the back of higher crude prices and the refinery maintenance season before narrowing and reaching even positive differential levels in the late summer when delayed maintenance at Russian refineries and the strikes in Libya reduced oil exports. The refinery maintenance season in the fall and the end of the strikes in Libya saw the price differential widen again, approaching around USD –2/bbl. With the ending of the maintenance season, the differential narrowed towards USD –1–1.5/bbl, where it stood at the end of the year.

Refining margins in Europe were volatile and clearly weaker on average than in 2012. Margins during the first quarter were strong, as gasoline margins were unseasonably high due to refinery outages and relatively low gasoline inventories. After a strong start to the year, refining margins experienced growing pressure in the second half as new capacity was ramped up in the Middle East and Asia. High diesel exports from the US to Europe also pushed European refining margins down, to such an extent that many refiners were forced to make economic run cuts. Margins were lowest at the end of the year after the fall maintenance season.

Middle distillates were again the strongest part of the barrel. Gasoline margins were seasonally low during the early part of the first quarter and the fourth quarter, but were strong from the spring until the early fall. Fuel oil margins were strong during the first half of the year, but weakened significantly during the second half.

Crude palm oil (CPO) prices were volatile and traded at USD 680–825/ton (Malaysia) during the year. Lower-than-expected supply growth, combined with strong exports, kept Malaysian palm oil inventories below the 2 million ton benchmark level from March 2013 onwards, which resulted in higher prices towards the end of the year.

Rapeseed oil (RSO) and soybean oil (SBO) prices fell during the year. SBO prices, in particular, came under pressure, as the US soybean crop was better than expected, while the outlook for the 2014 crop in South America remained very good. The price differential between palm oil and rapeseed oil was wider than the long-term average during the first half of the year, but narrowed subsequently. The CPO/RSO spread fell from USD 330/ton in the first quarter to around USD 150/ton in the fourth quarter of 2013. Animal fat prices remained at a premium over palm oil, but the premium was clearly narrowed during the fourth quarter.

Demand for biodiesel in the EU fell by approximately 8% compared to 2012, due to a lower mandate in Spain, double countable biofuels reducing physical demand, and stagnating fossil diesel demand. European Fatty Acid Methyl Ester (FAME) prices remained quite stable, but the price differential compared to rapeseed oil varied significantly. The year started with narrow FAME margin levels, which began to gradually improve after the European Commission announced its intention to implement antidumping duties on imports of biodiesel from Indonesia and Argentina. Despite some occasional tightness in European markets, this eased towards the end of the year as a result of higher domestic supplies. Antidumping duties were finally introduced on Argentinean and Indonesian biodiesel in November.

In the US, the biomass-based diesel mandate was raised from 1 billion to 1.28 billion gallons for 2013. The Blender's Tax Credit of USD 1/gallon was applied retroactively for 2012 and 2013 and led to higher demand and higher prices for Soybean Methyl Ester (SME) and renewable diesel. High demand, combined with a market approaching the 10% ethanol blend wall in gasoline, pushed biomass-based diesel and its Renewable Identification Number (RIN) value to record highs in the late summer. In response to criticism against future renewable fuels targets that were expected to exceed the ethanol blend wall, the Environmental Protection Agency (EPA) proposed lowering the targets for ethanol and cellulosic biofuel but keeping the bio/renewable diesel mandate unchanged in 2014 and 2015. By the end of the year, biofuel prices had clearly dropped compared to the exceptional highs seen during summer.

Key drivers

	2013	2012
Reference refining margin, USD/bbl	**4.82**	7.39
Neste Oil total refining margin, USD/bbl	**9.60**	10.17
Urals-Brent price differential, USD/bbl	**-1.02**	-1.29
NWE Gasoline margin, USD/bbl	**10.54**	13.16
NWE Diesel margin, USD/bbl	**18.07**	20.60
NWE Heavy fuel oil margin, USD/bbl	**-16.27**	-12.92
Brent Dated crude oil, USD/bbl	**108.7**	111.6
FAME seasonal- Palm oil price differential, USD/ton*	**356.0**	234.6
SME - Soybean oil price differential, USD/ton**	**388.6**	175.3
USD/EUR, market rate	**1.33**	1.28
USD/EUR, hedged	**1.30**	1.33
Crude freights, WS points (TD7)***	**91**	91

* FAME seasonal vs. CPOBMD3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month future price) + 70 $/t freight to ARA (Amsterdam–Rotterdam–Antwerpen)

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

*** Worldscale (WS) points for a 80,000 ton crude cargo from the North Sea to Continental Europe

Production and sales

Production

Neste Oil's production totaled 16.3 million tons (15.4 million) in 2013, of which 2.0 million tons (1.8 million) took the form of NExBTL renewable diesel. The increase from 2012 reflected both higher output at the Porvoo refinery and higher renewable diesel volumes at the Singapore and Rotterdam refineries.

Neste Oil´s production, by plant

(1,000 t)	2013	2012
Porvoo refinery	**12,016**	11,511
Naantali refinery	**2,147**	1,908
NExBTL refineries	**2,009**	1,849
Bahrain VHVI plant (Neste Oil's share)	**151**	128
Edmonton iso-octane plant (Neste Oil´s share)	**-**	8

The Porvoo refinery operated at an average capacity utilization rate of 88% (87%) in 2013, reflecting the maintenance outage at production line 4 during the second quarter of the year. The Naantali refinery ran at a lower rate of 78% (67%) on average to optimize the refining margin.

The proportion of Russian Export Blend (REB) in Neste Oil's total refinery input at Porvoo and Naantali averaged 63% (63%) for the year as a whole. Production costs at the Porvoo and Naantali refineries totaled USD 4.8/bbl (4.4) for the year.

Neste Oil's renewable diesel facilities achieved an average capacity utilization of 91% (85%) in 2013.

Sales

Total sales volumes in 2013 were higher than in 2012, mainly due to increased sales volumes of NExBTL renewable diesel, while motor gasoline and diesel sales were slightly lower. Sales to Europe and North America, in particular, increased, reducing the share of domestic sales.

Neste Oil´s sales from in-house production, by product category

(1,000 t)	2013	%	2012	%
Motor gasoline	**4,216**	***26***	4,281	*27*
Gasoline components	**0**	***0***	19	*0*
Diesel fuel	**5,838**	***37***	5,886	*38*
Jet fuel	**660**	***4***	651	*4*
Base oils	**436**	***3***	394	*3*
Heating oil	**231**	***1***	229	*1*
Heavy fuel oil	**1,253**	***8***	1,171	*7*
LPG	**334**	***2***	262	*2*
NExBTL renewable diesel	**1,938**	***12***	1,665	*11*
Other products	**1,121**	***7***	1,172	*7*
Total	**16,026**	***100***	15,729	*100*

Neste Oil´s sales from in-house production, by market area

(1,000 t)	2013	%	2012	%
Finland	**6,057**	***38***	7,104	*45*
Other Nordic countries	**2,581**	***16***	2,563	*16*
Other Europe	**5,405**	***34***	4,232	*27*
USA & Canada	**1,690**	***10***	1,247	*8*
Other countries	**293**	***2***	583	*4*
Total	**16,026**	***100***	15,729	*100*

Segment reviews

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

Oil Products

	2013	2012
Revenue, MEUR	**13,271**	13,764
Comparable EBITDA, MEUR	**465**	583
Comparable operating profit, MEUR	**280**	396
IFRS operating profit, MEUR	**286**	491
Total refining margin, USD/bbl	**9.60**	10.17
Net assets, MEUR	**2,163**	2,252
Comparable return on net assets, %	**11.8**	16.6

Oil Products' full-year comparable operating profit for 2013 amounted to EUR 280 million, compared to EUR 396 million in 2012. This decrease was largely due to a lower refining margin and slightly higher fixed costs for staff and maintenance at refineries and terminals. The Base Oil business continued to suffer from overcapacity in the market, and its full-year profit contribution was clearly lower than in 2012. Neste Oil's total refining margin stood at USD 9.60/bbl in 2013, compared to USD 10.17/bbl in 2012. The segment's comparable return on net assets was 11.8% (16.6%) in 2013.

Renewable Fuels

	2013	2012
Revenue, MEUR	**2,493**	2,163
Comparable EBITDA, MEUR	**371**	43
Comparable operating profit, MEUR	**273**	-56
IFRS operating profit, MEUR	**252**	-183
Net assets, MEUR	**1,768**	1,860
Comparable return on net assets, %	**15.2**	-2.8

Renewable Fuels' comparable operating profit was EUR 273 million in 2013, compared to EUR -56 million in 2012. This increase resulted mainly from a higher sales margin, particularly during the third and fourth quarters, when markets were very favorable. Sales volumes for the year as a whole totaled 1,938,000 tons, over 270,000 tons higher than in 2012. Approximately 56% of volumes went to Europe and 44% to North America in 2013. Renewable diesel capacity operated at an average utilization rate of 91% compared to 85% in 2012. Renewable Fuels' comparable return on net assets was 15.2% (–2.8%) in 2013.

Oil Retail

	2013	2012
Revenue, MEUR	**4,528**	4,895
Comparable EBITDA, MEUR	**104**	91
Comparable operating profit, MEUR	**76**	58
IFRS operating profit, MEUR	**120**	58
Net assets, MEUR	**255**	345
Comparable return on net assets, %	**26.1**	17.3
Total sales volume*, 1,000 m^3	**4,000**	4,160
- gasoline station sales, 1,000 m^3	**1,151**	1,256
- diesel station sales, 1,000 m^3	**1,491**	1,620
- heating oil, 1,000 m^3	**635**	651
- heavy fuel oil, 1,000 m^3	**225**	255

*includes both station and terminals sales

Oil Retail posted a full-year comparable operating profit of EUR 76 million compared to EUR 58 million in 2012. Performance improved in all markets, especially Finland and Northwest Russia. The efficiency of the station network improved and the majority of the profit improvement came from better average margins. Overall sales volumes declined compared to 2012, mainly due to the sale of the Polish station network and a decline in truck traffic in Finland. Given the difficult market conditions, successful management of receivables contributed to the segment's good cash flow. The sale of the station network in Poland also reduced fixed costs and depreciation from the second quarter onwards. Oil Retail's comparable return on net assets was 26.1% (17.3%) in 2013.

Shares, share trading, and ownership

Neste Oil's shares are traded on NASDAQ OMX Helsinki Ltd. The share price closed the year 2013 at EUR 14.37, up by 47.1% compared to the end of 2012. The total shareholder return (TSR) was 51.0% (29.6%) in 2013. At its highest during 2013, the share price reached EUR 17.33, while at its lowest the price stood at EUR 10.13. Market capitalization was EUR 3.7 billion as of 31 December 2013. An average of 1.0 million shares were traded daily, representing 0.4% of the company's shares.

Neste Oil's share capital registered with the Company Register as of 31 December 2013 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 2012) of outstanding shares, foreign institutions 17.2% (15.4%), Finnish institutions 17.8% (20.0%), and Finnish households 14.9% (14.5%).

Largest shareholders as of 31 December 2013

Shareholder	Shares	% of shares
Prime Minister´s Office	128,458,247	50.10
Ilmarinen Mutual Pension Insurance Company	5,765,849	2.25
Varma Mutual Pension Insurance Company	3,390,514	1.32
The Social Insurance Institution of Finland, KELA	2,648,424	1.03
The State Pension Fund	2,190,000	0.85
The City of Kurikka	1,550,875	0.60
Mutual Insurance Company Pension-Fennia	1,483,107	0.58
Wipunen varainhallinta Oy	1,300,000	0.51
Nordea Fennia Fund	1,250,000	0.49
Mariatorp Oy	825,000	0.32
Schweizer Nationalbank	804,678	0.31
Nordea Life Assurance Finland Ltd.	773,595	0.30
Keva	746,705	0.29
Veritas Pension Insurance Company Ltd.	745,853	0.29
OP-Delta Fund	720,000	0.28
OP-Focus Non-UCITS Fund	710,000	0.28
Mandatum Life Unit -Linked	664,057	0.26
Nordea Pro Finland Fund	645,000	0.25
Danske Fund Finnish Equity	554,331	0.22
Fennia Life Insurance Company Ltd.	513,609	0.20
20 largest owners total	155,739,844	60.74
Nominee registrations	42,272,202	16.49
Others	58,391,640	22.77
Number of shares, total	256,403,686	100.00

Breakdown of share ownership as of 31 December 2013

By the number of shares owned

No. of shares	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	27,423	34.1	1,571,552	0.6
101–500	34,786	43.3	8,946,017	3.5
501–1 000	9,532	11.9	7,398,003	2.9
1 001–5 000	7,416	9.2	15,511,093	6.0
5 001–10 000	682	0.8	4,965,802	1.9
10 001–50 000	414	0.5	8,385,437	3.3
50 001–100 000	56	0.1	4,069,347	1.6
100 001–500 000	38	0.0	8,464,545	3.3
500 001–	24	0.0	197,091,890	76.9
Total	**80,371**	**100.0**	**256,403,686**	**100.0**
of which nominee registrations	11		42,272,202	

By shareholder category

	% of shares
State of Finland	50.1
Non-Finnish shareholders	17.2
Households	14.9
General government	7.6
Financial and insurance companies	3.8
Corporations	4.3
Non-profit organizations	2.1
Total	**100.0**

Corporate governance

The control and management of Neste Oil Corporation is divided between the Annual General Meeting of Shareholders (AGM), the Board of Directors, and the President & Chief Executive Officer. The General Meeting of Shareholders appoints the Board of Directors based on a proposal made by the AGM Nomination Board. The term of office of the Board of Directors will expire at the end of the next Annual General Meeting following its election. 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 Annual General Meeting of Shareholders based on a proposal by the Board of Directors.

Neste Oil's Annual General Meeting (AGM) was held on 4 April 2013 in Helsinki. The AGM adopted the company's financial statements and consolidated financial statements for 2012 and discharged the Board of Directors and the President & CEO from liability for 2012. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2012. A dividend of EUR 0.38 per share was paid on 16 April 2013.

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. Jorma Eloranta, Ms. Maija-Liisa Friman, Mr. Michiel Boersma, and Ms. Laura Raitio. Mr. Per-Arne Blomquist, Mr. Willem Schoeber, and Ms. Kirsi Sormunen were elected as new members. Mr. Eloranta was re-elected as Chair and Ms. Friman as Vice Chair. The AGM decided to keep the remuneration paid to Board members unchanged.

Convening after the Annual General Meeting, the Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Maija-Liisa Friman and Willem Schoeber as members of the Personnel and Remuneration Committee. Per-Arne Blomquist was elected Chair and Michiel Boersma, Laura Raitio, and Kirsi Sormunen 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 shall be made in accordance with their invoice approved by the company.

Following a proposal by the Board of Directors, the AGM decided to establish a permanent Shareholders' Nomination Board to be responsible for drafting and presenting proposals covering the remuneration and number of members of the Company's Board of Directors and for presenting candidates as potential Board members to the AGM and to an Extraordinary General Meeting of Shareholders where needed. The Nomination Board shall also be responsible for identifying successors for existing Board members. The Nomination Board shall consist of four members, three of which shall be appointed by the Company's three largest shareholders, who shall appoint one member each. The Chair of the Company's Board of Directors shall serve as the fourth member. The Company's largest shareholders entitled to elect members to the Nomination Board shall be determined annually on the basis of the registered holdings in the Company's list of shareholders as of the first weekday in September in the year concerned. The Chair of the Board of Directors shall convene the first meeting of the Nomination Board, which will be responsible for electing a Chair from among its members. The Nomination Board shall serve until further notice, unless the AGM decides otherwise. Its members shall be elected annually and their term of office shall end when new members are elected to replace them. The Nomination Board shall forward its proposals for the AGM to the Company's Board of Directors annually by 31 January, prior to the holding of the AGM.

The following members were appointed to Neste Oil's Shareholders' Nomination Board on 2 September, 2013: Eero Heliövaara, Director General of the Prime Minister's Office's Ownership Steering Department; Timo Ritakallio, Deputy CEO of Ilmarinen Mutual Pension Insurance Company; Mikko Koivusalo, Vice President, Capital Markets, Varma Mutual Pension Insurance Company; and Jorma Eloranta, the Chair of Neste Oil's Board of Directors.

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

Personnel

Neste Oil employed an average of 5,097 (5,031) employees in 2013, of which 1,452 (1,450) were based outside Finland. As of the end of 2013, the company had 5,049 employees (5,022), of which 1,477 (1,474) were located outside Finland. Wages and salaries paid by the company totaled EUR 270 million (253 million) in 2013.

Health, safety, and the environment

Efforts to improve safety performance were stepped up due to an increase in injuries during the first half of 2013. Safety performance is the first item on the CEO's monthly report to the Board of Directors. In addition to continuous improvement in selected key safety areas, a safety project was included under the corporate Value Creation program umbrella to focus on improving safety leadership and the safety awareness of Neste Oil employees and contractors. Process safety management teams were introduced at refineries to promote harmonized process safety management and the sharing of best practices across the Group.

People safety performance declined overall during 2013, although the second half saw a clear and continuous improvement. The total recordable injury frequency (TRIF, number of cases per million hours worked) was 4.2 (3.6); this figure combines the company’s own and contractors' personnel. The corporate target was 2.2. A clear improvement in process safety took place during the second half. Process Safety Event (PSE) frequency for the year as a whole was 3.0 (5.6). The corporate target was 4.0.

Operational environmental emissions were in substantial compliance at all sites. Permitted levels were exceeded seven times, but all were of a minor nature. No serious environmental incidents resulting in liability occurred at Neste Oil's refineries or other production facilities in 2013.

The European Renewable Energy Directive (RED) was implemented in key EU member states by the end of 2013, with minor exceptions. Neste Oil’s internal procedures are in compliance with the directive’s requirements, and the company has filed a voluntary scheme for verifying the sustainability of its biofuels with the EU. The voluntary scheme was finally approved by the European Commission in January 2014 and its implementation has been started. 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, and selected parts of the palm oil supply chain were successfully audited by a third party in Malaysia.

In April, Neste Oil published a set of No-Deforestation and Responsible Sourcing Guidelines and started active verification work with The Forest Trust (TFT), a non-profit organization focused on preventing deforestation. This extends beyond Neste Oil’s own supply chain to identify potential sustainability risks in the palm oil industry as a whole.

In November, Neste Oil was awarded the world's first RSPO-RED certificate, developed by the Roundtable for Sustainable Palm Oil (RSPO) for biofuels, and in December announced that it had achieved its 100% palm oil certification target two years early.

Neste Oil retained its position in a number of sustainability indexes during 2013, and was included in the Dow Jones Sustainability World Index for the seventh year in succession. It was also selected for inclusion in The Global 100 list of the world's most sustainable companies for the seventh year in succession, and was ranked fourth. Companies on The Global 100 list 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. Neste Oil was also rated among the top performers in the oil & gas sector by CDP Forest, which reviews industries using forest risk commodities.

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 40 million (42 million) in 2013. Extending the feedstock base is one of the main goals of Neste Oil’s R&D work. About 70% of the R&D project portfolio in 2013 was devoted to research on renewable raw materials. Research work concentrated on both completely new types of inputs, such as pilot-scale microbial oil and algae oil, and existing materials, such as waste animal fat, vegetable oil residues, used cooking oil, and technical corn oil. Efficiency improvements at Neste Oil’s conventional oil refineries and renewable refineries were another key focus area of technology development.

Neste Oil focused on expanding the use of waste- and residue-based feedstock, particularly waste animal fat, palm fatty acid distillate (PFAD), and technical corn oil (TCO), in 2013. The usage of waste and residue-based inputs increased by 476,000 tons to 1,219,000 tons and accounted for approx. 52% (35%) of total renewable feedstock usage in 2013. Technical corn oil was used in production for the first time during 2013. Non-residue vegetable oils, principally palm oil, accounted for approx. 48% of the inputs used in renewable diesel production in 2013.

Events after the reporting period

On January 8, Neste Oil announced that it disputes the view of Finnish Customs that biofuel mandate requirements were not met in 2009 and 2010. Finnish Customs has levied a penalty payment totaling EUR 44 million on Neste Oil because Finnish biofuel mandate requirements were not met in 2009 and 2010. Neste Oil disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. Neste Oil has appealed the Finnish Customs' decision and considers the penalty payment unjustified. The penalty payment was paid in January 2014.

On January 22, the European Commission (EC) announced a proposal to amend the EU’s post-2020 climate targets. The proposed key new target is to reduce greenhouse gas emissions by 40% compared to 1990 levels by 2030. In addition, a binding EU-level target of 27% was proposed for the use of renewable energy. Neste Oil sees the emission reduction target proposed by the Commission as both important and ambitious. However, Neste Oil also believes it is important that the EU continues a consistent policy on promoting the use of renewable fuels in transport, and that national targets covering their use will continue. The EC proposal for post-2020 climate targets is not expected to impact Neste Oil's business in the near- to mid-term.

On January 22, Neste Oil announced that it had been selected for inclusion in The Global 100 list for the eighth year in succession and ranked sixth.

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, North America, and other key market areas may influence the speed at which the demand for these fuels develops. Over the longer term, failure to protect Neste Oil's proprietary technology or the introduction and implementation of competing technologies may have a negative impact on the company's results. 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 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, the price differentials between different vegetable oils, and the biodiesel margins.

For more detailed information on Neste Oil's risks and risk management, please refer to the company's Annual Report and Notes to the 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 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 2013.

Outlook

Developments in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets, and the volatility is expected to continue. Global oil demand is generally forecasted to pick up more than 1 million barrels per day in 2014, but, as in 2013, this growth is more than compensated by new refining capacity additions in Asia and Middle East. This development is expected to lead to continued high product imports to Europe, putting pressure on average utilization rates of simple refineries in particular. Complex refiners such as Neste Oil are expected to remain the most competitive. Diesel is projected to be the strongest part of the barrel, and gasoline margins are expected to improve seasonally during the spring and summer. While demand for premium-quality base oils is continuing to grow, base oil margins are likely to remain under pressure due to overcapacity.

Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks, but no fundamental changes in the drivers influencing feedstock price differentials are expected. Price differentials between vegetable oils are likely to widen from the current narrow levels during the year 2014 in both Europe and North America.

Uncertainties regarding political decision-making in the US are likely to be reflected in the renewable fuel markets. Examples of pending decisions include the volume targets for biomass-based diesel and renewal of the Blender's Tax Credit, which both impact the US market.

Production line 4 at the Porvoo refinery is scheduled to be shut down for decoking maintenance for approximately five weeks during the first quarter. The Singapore NExBTL refinery is scheduled to be taken down for maintenance either during the fourth quarter of 2014 or the first quarter of 2015.

The Group's investments are expected to total approx. EUR 300–350 million in 2014.

Neste Oil expects the Group's full-year comparable operating profit to be at the level of EUR 500 million in 2014. This is based on the assumption that Neste Oil's reference refining margin averages USD 4.5/bbl during the year. The reintroduction of a US Blender's Tax Credit for biofuels would impact the result positively. Weakening of the euro against the US dollar would also have a positive impact on the result.

Dividend distribution proposal

Neste Oil's dividend policy is to distribute at least one third of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2013 amounted to EUR 1,242 million, and there have been no material changes in the company’s financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Oil Corporation pays a cash dividend of EUR 0.65 per share (0.38) for 2013, totaling EUR 167 million (97 million) based on the number of registered shares.

The proposed dividend represents a yield of 4.5% (at year-end 2013 share price of EUR 14.37) and 34% of the comparable net profit in 2013.