7 February 2018

Neste Corporation
Financial Statements Release
2017

Neste's Financial Statements Release for 2017

Very successful year 2017 with record-high financial results - Dividend proposed to be increased by over 30% to EUR 1.70 per share

Year 2017 in brief:

- Comparable operating profit totaled EUR 1,101 million (EUR 983 million)
- Operating profit totaled EUR 1,171 million (1,155 million)
- Renewable Products' comparable sales margin was USD 365/ton (USD 348/ton)
- Oil Products' total refining margin was USD 11.08/bbl (USD 10.38/bbl)
- Cash flow before financing activities totaled EUR 628 million (EUR 834 million)
- Return on average capital employed (ROACE) was 17.5% (16.9%)
- Leverage ratio was 8.7% at the end of December (31.12.2016: 15.4%)
- Comparable earnings per share were EUR 3.33 (EUR 3.10)
- Board of Directors will propose a dividend of EUR 1.70 per share (1.30), totaling EUR 435 million (EUR 332 million).

Fourth quarter in brief:

- Comparable operating profit totaled EUR 311 million (EUR 262 million)
- Operating profit totaled EUR 296 million (EUR 302 million)
- Renewable Products' comparable operating profit was EUR 209 million (EUR 146 million)
- Oil Products' comparable operating profit was EUR 89 million (EUR 98 million)
- Marketing & Services' comparable operating profit was EUR 11 million (EUR 19 million)
- Cash flow before financing activities was EUR 287 million (EUR 267 million)

President & CEO Matti Lievonen:

“Neste had a very successful year in 2017, as a result of determined strategy implementation, good operational performance and improved safety. We posted an all-time high comparable operating profit of EUR 1,101 million compared to EUR 983 million in 2016. Renewable Products was able to exceed the previous year's very good performance and was again the largest comparable operating profit contributor. Also Oil Products improved as a result of a favorable refining margin environment and good operational performance. We generated a strong cash flow and reached a 8.7% leverage ratio. Return on average capital employed after tax reached 17.5%, which exceeds our long term target level of 15%.

Renewable Products posted an excellent full-year comparable operating profit of EUR 561 million (EUR 469 million), which was a great achievement without the US Blender's Tax Credit. Sales volumes were almost 2.6 million tons, a new annual record and up 16% from the previous year. We allocated a higher share of sales volumes to the European markets compared to 2016. As planned, the share of 100% renewable diesel delivered to end-users increased from 15% in 2016 to 25% of total volumes in full-year 2017. Feedstock mix optimization towards lower-quality raw materials continued successfully, and the proportion of waste and residue inputs was 76%. Operational performance was good as the renewable diesel production facilities operated at a 98% utilization rate in 2017. We have announced the selection of Singapore as the location for the new renewables production capacity. The technical design of the new production unit has been initiated with the aim of a final investment decision by the end of 2018. If the project proceeds as planned, production at the new unit will begin by 2022.

Oil Products posted a comparable operating profit of EUR 495 million (EUR 453 million) in 2017, which was the strongest in this decade. Global oil demand continued solid, and product supply and demand were quite well balanced. The overall refining market was favorable, and the reference margin averaged USD 5.7/bbl in 2017, which was USD 0.8/bbl higher than in the previous year. Oil Products' additional margin was USD 5.4/bbl, supported by good operational performance and contribution of the new strategic investments towards the end of the year. The strategic investments in the Solvent Deasphalting (SDA) unit and the OneRefinery concept were completed during 2017, which will enable reaching our average additional margin target of at least USD 5.5/bbl going forward.

In Marketing & Services we were able to maintain our sales volumes at the previous year's level. However, the markets continued to be competitive and unit margins were clearly lower than in 2016. The segment generated a full-year comparable operating profit of EUR 68 million (EUR 90 million).

Neste expects the Renewable Products' additional margin to stay at a good level in 2018. Sales volumes of the 100% renewable diesel delivered to end-users are planned to grow from the levels in 2017 towards our 50% target in 2020. The vegetable oil market is expected to remain volatile, and Neste continues to expand the use of lower-quality waste and residue feedstock. Utilization rates of our renewable diesel facilities are expected to be high, except for the planned maintenance shutdowns.

Oil Products' reference margin is expected to be below the 2017 average in early 2018, but to get support from the start of the driving season in the spring. Oil product supply and demand are expected to be balanced with continued robust demand growth. Distillates margins are seen to be supported by lower inventory levels compared to the previous year. Crude oil supply limitations by producing countries are likely to lead to a slightly narrower Urals-Brent price differential compared to 2017. We expect high reliability to continue in OneRefinery operations supporting good utilization rate in 2018. We will implement several scheduled unit turnarounds during the spring and autumn.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern. Several actions have been initiated to improve financial performance.

As a conclusion, we expect 2018 to be a strong year for Neste."

Neste's Financial Statements, 1 January - 31 December 2017

The Financial Statements Release is unaudited.

Figures in parentheses refer to the corresponding period for 2016, unless otherwise stated.

Key Figures

EUR million (unless otherwise noted)

	10-12/17	10-12/16	7-9/17	2017	2016
Revenue	3,636	3,421	3,229	13,217	11,689
EBITDA	394	396	431	1,542	1,521
Comparable EBITDA*	409	356	442	1,472	1,349
Operating profit	296	302	339	1,171	1,155
Comparable operating profit*	311	262	350	1,101	983
Profit before income taxes	287	297	331	1,094	1,075
Net profit	244	262	268	914	943
Comparable net profit**	257	228	276	851	793
Earnings per share, EUR	0.96	1.02	1.04	3.56	3.67
Comparable earnings per share**, EUR	1.00	0.89	1.08	3.33	3.10
Investments	172	146	144	536	422
Net cash generated from operating activities	445	394	390	1,094	1,193

	31 Dec 2017	31 Dec 2016
Total equity	4,338	3,755
Interest-bearing net debt	412	683
Capital employed	5,533	5,226
Return on average capital employed after tax (ROACE)***, %	17.5	16.9
Equity per share, EUR	16.96	14.60
Leverage ratio, %	8.7	15.4

* Comparable operating profit is calculated by excluding inventory gains/losses, unrealized changes in the fair value open commodity and currency derivatives, capital gains/losses, insurance and other compensations and other adjustments from the reported operating profit.

** Comparable net profit is calculated by deducting total financial income and expense, income tax expense, non-controlling interests and tax on items affecting comparability from the reported comparable operating profit. Comparable earnings per share is based on comparable net profit.

***Last 12 months

The Group's fourth-quarter 2017 results

Neste's revenue in the fourth quarter totaled EUR 3,636 million (3,421 million). The increase resulted from higher sales prices, which had a positive impact of approx. EUR 200 million, and higher sales volumes, which also had approx. EUR 200 million positive impact on the revenue. A weaker USD exchange rate had a negative impact of approx. EUR 200 million on the revenue. The Group’s comparable operating profit was EUR 311 million (262 million). Renewable Products' sales volumes and additional margin were higher than in the fourth quarter of 2016. Oil Products' result was slightly lower than in the fourth quarter of 2016, mainly due to a weaker USD exchange rate. Marketing & Services was able to maintain its sales volumes, but had clearly lower unit margins, which lead to a lower comparable operating profit compared to the fourth quarter of 2016. The Others segment's comparable operating profit was marginally below the corresponding period of 2016.

Renewable Products’ fourth-quarter comparable operating profit was EUR 209 million (146 million), Oil Products’ EUR 89 million (98 million), and Marketing & Services' EUR 11 million (19 million). The comparable operating profit of the Others segment totaled EUR 0 million (2 million); Nynas accounted for EUR 3 million (9 million) of this figure.

The Group’s operating profit was EUR 296 million (302 million), which was impacted by inventory losses of EUR 1 million (gains of 51 million), and changes in the fair value of open commodity and currency derivatives of EUR -13 million (-11 million), mainly related to hedging of inventories. Profit before income taxes was EUR 287 million (297 million), and net profit EUR 244 million (262 million). Comparable earnings per share were EUR 1.00 (0.89), and earnings per share EUR 0.96 (1.02).

The Group's full-year results for 2017

Neste's revenue in 2017 totaled EUR 13,217 million (11,689 million). The revenue increase mainly resulted from higher sales prices, which had a positive impact of approx. EUR 1,300 million. Higher sales volumes increased the revenue by approx. EUR 400 million. A weaker USD exchange rate had a negative impact of approx. EUR 200 million on the revenue. The Group’s comparable operating profit was EUR 1,101 million (983 million). Renewable Products' higher sales volumes and reference margin compensated the effect of lower additional margin, and the segment achieved a new record in comparable operating profit. Oil Products' result was positively impacted by a higher reference margin compared to the previous year. Marketing & Services' result was negatively impacted by lower unit margins. The Others segment recorded almost similar comparable operating profit compared to 2016.

Renewable Products’ full-year comparable operating profit was EUR 561 million (469 million), Oil Products’ EUR 495 million (453 million), and Marketing & Services' EUR 68 million (90 million). The comparable operating profit of the Others segment totaled EUR -24 million (-23 million); Nynas accounted for EUR -2 million (11 million) of this figure.

The Group’s operating profit was EUR 1,171 million (1,155 million), which was impacted by inventory gains totaling EUR 31 million (280 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 24 million (-118 million), mainly related to hedging of inventories. Profit before income taxes was EUR 1,094 million (1,075 million), and net profit EUR 914 million (943 million). Comparable earnings per share were EUR 3.33 (3.10), and earnings per share EUR 3.56 (3.67).

	10-12/17	10-12/16	7-9/17	2017	2016
COMPARABLE OPERATING PROFIT	311	262	350	1,101	983
- inventory gains/losses	-1	51	61	31	280
- changes in the fair value of open commodity and currency derivatives	-13	-11	-68	24	-118
- capital gains/losses	0	0	0	3	23
- insurance and other compensations	0	0	0	0	0
- other adjustments	-1	0	-4	12	-13
OPERATING PROFIT	296	302	339	1,171	1,155

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Group's comparable operating profit, 2016	262	983
Sales volumes	25	107
Reference margin	-4	169
Additional margin	76	-67
Currency exchange	-38	-34
Fixed costs	-6	-37
Others	-4	-20
Group's comparable operating profit, 2017	311	1,101

Variance analysis by segment (comparison to corresponding period), MEUR

	10-12	1-12
Group's comparable operating profit, 2016	262	983
Renewable Products	64	92
Oil Products	-9	42
Marketing & Services	-8	-21
Others including eliminations	3	5
Group's comparable operating profit, 2017	311	1,101

Financial targets

Return on average capital employed after tax (ROACE) and leverage ratio are Neste's key financial targets. ROACE figures are based on comparable results. The company's long-term ROACE target is 15%, and the leverage ratio target is below 40%. At the end of December, ROACE calculated over the last 12 months was maintained over the target level, and leverage ratio remained in the targeted area.

	31 Dec 2017	31 Dec 2016
Return on average capital employed after tax (ROACE)*, %	17.5	16.9
Leverage ratio (net debt to capital), %	8.7	15.4

*Last 12 months

Cash flow, investments and financing

The Group's net cash generated from operating activities totaled EUR 1,094 million (1,193 million) in 2017. The difference mainly resulted from the US Blender's Tax Credit payments concerning the year 2015 and 2016 received during 2016. The increased finance costs also included one-off costs related to the partial repurchase of existing bonds during the second quarter of 2017. Cash flow before financing activities was EUR 628 million (834 million). The Group's net working capital in days outstanding was 26.9 days (26.8 days) on a rolling 12-month basis at the end of 2017.

	10-12/17	10-12/16	7-9/17	2017	2016
EBITDA	394	396	431	1,542	1,521
Capital gains/losses	0	-1	0	-3	-28
Other adjustments	-31	6	101	-82	129
Change in working capital	145	43	-80	-104	-229
Finance cost, net	-9	1	-12	-90	-63
Income taxes paid	-55	-50	-51	-169	-137
Net cash generated from operating activities	445	394	390	1,094	1,193
Capital expenditure	-165	-116	-131	-502	-407
Other investing activities	8	-11	24	36	49
Free cash flow (Cash flow before financing activities)	287	267	283	628	834

Cash-out investments were EUR 502 million (407 million) in the year 2017. Maintenance investments accounted for EUR 214 million (148 million) and productivity and strategic investments for EUR 288 million (259 million). Renewable Products' investments were EUR 92 million (90 million), mainly related to the biopropane unit investment at the Rotterdam refinery. Oil Products' investments amounted to EUR 299 million (257 million), with the largest projects being the Solvent Deasphalting (SDA) unit at the refinery in Porvoo and the configuration changes at Naantali. Marketing & Services' investments totaled EUR 40 million (26 million) and were focused on the retail station network. Investments in the Others segment were EUR 72 million (35 million), concentrating on ICT and business infrastructure upgrade, and the acquisition of Jacobs Engineering's stake in Neste Jacobs.

Interest-bearing net debt was EUR 412 million at the end of December 2017, compared to EUR 683 million at the end of 2016. Net financial expenses for the year were EUR 77 million (79 million). The average interest rate of borrowing at the end of December was 3.3% (3.5%) and the average maturity 4.5 (3.6) years. At the end of the year the interest-bearing net debt/comparable EBITDA ratio was 0.3 (0.5) over the last 12 months.

The leverage ratio was 8.7% (31 Dec 2016: 15.4%), and the gearing ratio 9.5% (31 Dec 2016: 18.2%). The Group has a strong financial position, which enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

The Group's cash and cash equivalents and committed, unutilized credit facilities amounted to EUR 2,433 million at the end of December (31 Dec 2016: 2,438 million). There are no financial covenants in the Group companies' current loan agreements.

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

US dollar exchange rate

	10-12/17	10-12/16	7-9/17	2017	2016
EUR/USD, market rate	1.18	1.08	1.17	1.13	1.11
EUR/USD, effective rate*	1.15	1.09	1.13	1.12	1.11

* The effective rate includes the impact of currency hedges.

Segment reviews

Neste's businesses are grouped into four reporting segments: Renewable Products, Oil Products, Marketing & Services, and Others.

Renewable Products

Key financials

	10-12/17	10-12/16	7-9/17	2017	2016
Revenue, MEUR	924	870	793	3,243	2,690
EBITDA, MEUR	172	189	146	586	628
Comparable EBITDA, MEUR	238	176	198	671	578
Comparable operating profit, MEUR	209	146	171	561	469
Operating profit, MEUR	144	158	119	476	518
Net assets, MEUR	1,863	1,811	1,870	1,863	1,811
Return on net assets*, %	25.6	28.6	26.6	25.6	28.6
Comparable return on net assets*, %	30.2	25.9	27.0	30.2	25.9

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2016	146	469
Sales volumes	20	104
Reference margin	2	87
Additional margin	71	-47
Currency exchange	-17	-17
Fixed costs	-10	-31
Others	-2	-4
Comparable operating profit, 2017	209	561

Key drivers

	10-12/17	10-12/16	7-9/17	2017	2016
FAME - Palm oil price differential*, USD/ton	272	264	231	242	194
SME - Palm oil price differential**, USD/ton	232	321	254	225	222
Reference margin, USD/ton	321	338	290	291	268
Additional margin***, USD/ton	254	127	256	184	210
Comparable sales margin, USD/ton	464	335	435	365	348
Biomass-based diesel (D4) RIN, USD/gal	0.96	1.06	1.08	1.01	0.91
California LCFS Credit, USD/ton	103	89	87	89	101
Palm oil price****, USD/ton	638	669	628	629	634
Crude palm oil's share of total feedstock, %	24	27	22	23	19

* FAME (Fatty Acid Methyl Ester) seasonal vs. CPO BMD 3rd (Crude Palm Oil Bursa Malaysia Derivatives 3rd month futures price) + 70 $/t freight to ARA (Amsterdam-Rotterdam-Antwerp)
** SME (Soy Methyl Ester) US Gulf Coast vs. CPO BMD 3rd + 70 $/t freight to ARA
*** Based on standard variable production cost of USD 130/ton in 2016 and USD 110/ton in 2017 figures
**** CPO BMD 3rd

Renewable Products' fourth-quarter comparable operating profit totaled EUR 209 million, compared to EUR 146 million in the fourth quarter of 2016. The reference margin, reflecting the general market conditions, was quite similar to that in the fourth quarter of 2016, when the changes made in our margin calculation formula are taken into account. Our additional margin stayed strong and clearly exceeded the level in the corresponding period last year. This was a major achievement considering the lack of the US Blender's Tax Credit during 2017. Sales volumes were 713,000 tons, a new quarterly record, and approx. 8% higher than in the fourth quarter of 2016. Higher sales volumes had a positive impact of EUR 20 million compared to the corresponding period last year. During the fourth quarter approx. 73% (68%) of sales volumes were allocated to the European market and 27% (32%) to North America. The share of 100% renewable diesel delivered to end-users increased to 30% in the fourth quarter. Our renewable diesel production achieved an average utilization rate of 97% (88%) during the quarter. The proportion of waste and residue inputs was 75% (69%) on average. A weaker USD exchange rate had a EUR 17 million negative impact on the comparable operating profit. The segment's fixed costs were EUR 10 million higher than in the fourth quarter of 2016, mainly related to strategic growth projects. Renewable Products' comparable return on net assets was 30.2% (25.9%) at the end of December based on the previous 12 months.

Vegetable oil prices remained quite strong in 2017, supported by crude oil price recovery and filling of inventories in the major consumer areas. Recovery of crude palm oil (CPO) production was slow due to the negative effects of the past El Nino phenomenon on the CPO yield and a labor shortage in Malaysia. Soybean oil (SBO) demand was strong in the US particularly during the second half of 2017, when higher import tariffs against Argentinian soy methyl ester (SME) biodiesel imports were implemented. In Europe rapeseed oil (RSO) stocks reached new record low levels resulting from disappointing rapeseed crop and strong RSO demand especially in the food sector. As a result, RSO ended up being the strongest vegetable oil.

Development of biodiesel margins was clearly different in Europe compared to the US in 2017. European biodiesel prices were supported by a strong RSO, while Fatty Acid Methyl Ester (FAME) biodiesel producers' margins remained unchanged. The EU Commission's decision to lower the anti-dumping tariffs on Argentinian SME imports limited further margin upside. In the US SME biodiesel was quite depressed with weak producers' margins despite SBO remaining relatively firm.

The US Renewable Identification Number (RIN) D4 price was volatile in 2017. It started at a low level due to the uncertainty regarding the US biofuel volume mandate in 2017, recovered progressively in the middle of the year, and peaked at around USD 1.10/gallon due to a relatively high final biomass-based diesel volume mandate. RIN prices decreased towards the end of the year due to speculation regarding a potential retroactive BTC for 2017. The California Low Carbon Fuel Standard (LCFS) credit price averaged USD 89/ton (101/ton) in 2017.

Renewable Products' full-year comparable operating profit was EUR 561 million (469 million). During the year 2017 reference margin averaged higher than in the previous year and had a positive impact of EUR 87 million on the segment's operating profit. Even though our additional margin improved significantly during the second half of the year, it was cumulatively lower compared to the full-year 2016 average. That was mainly due to the expiry of the US Blender's Tax Credit at the end of 2016. The lower additional margin had a negative impact of EUR 47 million year-on-year. Higher sales volumes had a positive impact of EUR 104 million on the comparable operating profit compared to the previous year. Sales volumes were 2.57 million tons in 2017, a new annual record and up 16% from the previous year. During the year 2017 approximately 74% (66%) of sales volume went to Europe and 26% (34%) to North America. The share of 100% renewable diesel delivered to end-users increased to 25% of total volumes in full-year 2017. Renewable diesel production achieved a high capacity utilization rate of 98% (88%) in 2017. Feedstock mix optimization continued successfully, and the proportion of waste and residue inputs was 76% (78%) on average. A weaker USD exchange rate had a EUR 17 million negative impact on the comparable operating profit. The segment's fixed costs were EUR 31 million higher than in 2016, mainly related to strategic growth projects.

Production

	10-12/17	10-12/16	7-9/17	2017	2016
Neste MY Renewable Diesel, 1,000 ton	644	551	659	2,587	2,213
Other products, 1,000 ton	53	45	51	196	182
Utilization rate, %	97	88	99	98	88

Sales

	10-12/17	10-12/16	7-9/17	2017	2016
Neste MY Renewable Diesel, 1,000 ton	713	662	637	2,567	2,222
Share of sales volumes to Europe, %	73	68	73	74	66
Share of sales volumes to North America, %	27	32	27	26	34

Oil Products

Key financials

	10-12/17	10-12/16	7-9/17	2017	2016
Revenue, MEUR	2,355	2,159	2,045	8,490	7,395
EBITDA, MEUR	197	179	251	863	780
Comparable EBITDA, MEUR	146	151	210	708	670
Comparable operating profit, MEUR	89	98	158	495	453
Operating profit, MEUR	140	126	199	650	563
Net assets, MEUR	2,497	2,424	2,538	2,497	2,424
Return on net assets*, %	25.6	23.2	25.2	25.6	23.2
Comparable return on net assets*, %	19.5	18.7	20.0	19.5	18.7

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2016	98	453
Sales volumes	5	2
Reference margin	-6	82
Additional margin	5	-19
Currency exchange	-21	-19
Fixed costs	8	-13
Others	-1	10
Comparable operating profit, 2017	89	495

Key drivers

	10-12/17	10-12/16	7-9/17	2017	2016
Reference refining margin, USD/bbl	4.93	5.19	7.21	5.68	4.88
Additional margin, USD/bbl	5.76	5.34	4.76	5.39	5.50
Total refining margin, USD/bbl	10.69	10.53	11.96	11.08	10.38
Urals-Brent price differential, USD/bbl	-0.89	-2.20	-1.02	-1.39	-2.48
Urals' share of total refinery input, %	64	66	66	69	68

Oil Products' comparable operating profit totaled EUR 89 million (98 million) in the fourth quarter. As expected, the refining market weakened towards the end of the year. Reference margin averaged at USD 4.9/bbl in the fourth quarter, only slightly below the level in the corresponding period last year. The lower reference margin had a negative impact of EUR 6 million on the segment's operating profit. We achieved a strong additional margin of USD 5.8/bbl, supported by a very good operational performance and the new SDA unit reaching full utilization. The higher additional margin had a positive impact of EUR 5 million on the segment's operating profit compared to the corresponding period last year. Our sales volumes were also higher than in the fourth quarter of 2016 and had a EUR 5 million positive impact on the result. A weaker USD exchange rate had a negative impact of EUR 21 million on the comparable operating profit compared to the fourth quarter of 2016. Oil Products' comparable return on net assets was 19.5% (18.7%) at the end of December over the previous 12 months.

During the fourth quarter the use of Russian crude was 64% (66%) of total input. The average utilization rate at the refinery in Porvoo was 88% (78%), which mainly reflected the planned maintenance at Production Line 4 in October. The Production Line in Naantali recorded an average utilization rate of 65% (52%).

Crude oil prices were volatile during 2017. Crude oil price trended down to below USD 50/bbl during the first half of the year, driven by a growing US shale oil production and lack of confidence in the production cuts by OPEC and non-OPEC countries. However, rising geopolitical tensions, strong product demand, slower US oil rig count growth and signs of production cuts continuing in 2018, turned the market up. In 2017 Brent price averaged USD 54.3/bbl, but at year end it was approx. USD 66/bbl - the highest level since the summer of 2015.

The Russian Export Blend (REB) crude averaged USD 1.4/bbl lower than Brent in 2017 and USD 0.9/bbl lower during the fourth quarter. The supply cuts by OPEC countries reduced competition from the Middle Eastern grades in the Baltic Sea and Mediterranean markets, which drove a narrower REB differential. Healthy refining margins and strong fuel oil cracks pushed European refinery runs to high levels, which increased Urals demand.

Reference margin trended modestly upwards during the first half of 2017 driven by good product demand and active refinery maintenance season in Asia. In September Hurricane Harvey closed temporarily around 25% of the US refining capacity thus impacting both crude oil market and product margins. That together with lower product inventories after the spring maintenance season and healthy product demand growth tightened product markets further. Towards the end of the year an increasing refinery utilization and a narrowing REB differential negatively impacted refining margins. On average gasoline was the strongest part of the barrel in 2017, but diesel margins strengthened significantly compared to 2016 as healthy global economic growth supported product demand and drove inventories lower. Neste's reference margin averaged USD 5.7/bbl in 2017, and USD 4.9/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 495 million (453 million). The reference margin was approx. USD 0.8/bbl higher than in the previous year, which had a positive impact of EUR 82 million on the comparable operating profit year-on-year. The lower additional margin had a negative impact of EUR 19 million compared to the previous year. Sales volumes were quite well in line with 2016. A weaker USD exchange rate had a negative impact of EUR 19 million on the comparable operating profit compared to 2016. In the year 2017 the segment's fixed costs were EUR 13 million higher than in the previous year, mainly due to maintenance activities.

Production

	10-12/17	10-12/16	7-9/17	2017	2016
OneRefinery					
- Porvoo production, 1,000 ton	2,948	2,770	3,241	12,190	11,718
- Porvoo utilization rate, %	88	78	97	92	89
- Naantali (PL5) production, 1,000 ton	490	456	243	1,726	1,869
- Naantali (PL5) utilization rate, %	65	52	36	59	62
Refinery production costs, USD/bbl	5.4	5.3	4.0	4.4	4.2
Bahrain base oil plant production, (Neste's share) 1,000 ton	57	11	55	210	159

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

	10-12/17	%	10-12/16	%	7-9/17	%	2017	%	2016	%
Middle distillates*	1,835	49	1,652	46	1,793	50	6,808	48	6,590	46
Light distillates**	1,269	34	1,185	33	1,106	31	4,630	33	4,706	33
Heavy fuel oil	338	9	414	11	361	10	1,483	10	1,594	11
Base oils	117	3	109	3	107	3	449	3	461	3
Other products	168	4	245	7	219	6	823	6	965	7
TOTAL	3,727	100	3,605	100	3,587	100	14,193	100	14,316	100

* Diesel, jet fuel, heating oil
** Motor gasoline, gasoline components, LPG

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

	10-12/17	%	10-12/16	%	7-9/17	%	2017	%	2016	%
Baltic Sea area*	2,200	57	1,831	51	2,110	59	8,268	58	8,037	56
Other Europe	1,027	35	1,376	38	1,210	34	4,606	32	4,596	32
North America	178	7	236	7	175	5	746	5	1,198	8
Other areas	323	1	162	4	93	3	572	4	485	3

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

Marketing & Services

Key financials

	10-12/17	10-12/16	7-9/17	2017	2016
Revenue, MEUR	1,027	964	986	3,912	3,552
EBITDA, MEUR	17	25	33	93	111
Comparable EBITDA, MEUR	17	26	33	93	112
Comparable operating profit, MEUR	11	19	27	68	90
Operating profit, MEUR	11	19	27	69	89
Net assets, MEUR	280	196	304	280	196
Return on net assets*, %	28.7	47.3	34.0	28.7	47.3
Comparable return on net assets*, %	28.5	47.5	34.0	28.5	47.5

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2016	19	90
Sales volumes	0	0
Unit margins	-6	-14
Currency exchange	0	2
Fixed costs	-1	-3
Others	-1	-6
Comparable operating profit, 2017	11	68

Marketing & Services' comparable operating profit was EUR 11 million (19 million) in the fourth quarter of 2017. Sales volumes were maintained at the same level as in the corresponding period last year. Traffic fuel demand declined seasonally for the winter period, and heavy duty traffic continued to grow in Finland. All focus markets continue to be very competitive, and average unit margins declined from the previous quarter and from the corresponding period last year. Lower unit margins had a negative impact of EUR 6 million on the comparable operating profit compared to the fourth quarter of 2016. Marketing & Services' comparable return on net assets was 28.5% (47.5%) at the end of December on a rolling 12-month basis.

Marketing & Services segment's full-year comparable operating profit was EUR 68 million (90 million). Sales volumes were similar to the previous year. Average unit margins were clearly lower, particularly in Finland and Russia, which had a negative impact of EUR 14 million on the result compared to the year 2016. Higher fixed costs and lower other income resulted in EUR 9 million lower profit contribution compared to the previous year.

Sales volumes by main product categories, million liters

	10-12/17	10-12/16	7-9/17	2017	2016
Gasoline station sales	265	274	290	1,080	1,112
Diesel station sales	445	432	444	1,739	1,695
Heating oil	179	181	153	615	620

Net sales by market area, MEUR

	10-12/17	10-12/16	7-9/17	2017	2016
Finland	736	658	712	2,820	2,497
Northwest Russia	73	70	72	290	248
Baltic countries	218	207	202	802	777

Others

Key financials

	10-12/17	10-12/16	7-9/17	2017	2016
Comparable operating profit, MEUR	0	2	-2	-24	-23
Operating profit, MEUR	0	2	-2	-24	-11

The Others segment consists of Neste Engineering Solutions, Nynas, a joint venture owned by Neste (49.99% share) and Petróleos de Venezuela, and common corporate costs. Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017, and the company name Neste Jacobs Oy was changed to Neste Engineering Solutions Oy on 1 January 2018. The comparable operating profit of the Others segment totaled EUR 0 million (2 million) in the fourth quarter; Nynas accounted for EUR 3 million (9 million) of this figure.

The full-year comparable operating profit of the Others segment totaled EUR -24 million (-23 million); Nynas accounted for EUR -2 million (11 million) of this figure.

Annual General Meeting

Neste Corporation's Annual General Meeting (AGM) was held in Helsinki on 5 April 2017. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2016, and discharged the Board of Directors and the President & CEO from liability for 2016. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2016, authorizing payment of a dividend of EUR 1.30 per share. The dividend was paid on 18 April 2017.

In accordance with the proposal made by the Shareholders' Nomination Board, the AGM confirmed the membership of the Board of Directors at eight members, and the following were re-elected to serve until the end of the next AGM: Mr. Jorma Eloranta, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. The following were elected as new members: Ms. Martina Flöel, Ms. Heike van de Kerkhof and Mr. Matti Kähkönen. Mr. Eloranta was re-elected as Chair and Mr. Matti Kähkönen was elected as new Vice Chair.

Convening right after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Jorma Eloranta was elected Chair and Heike van de Kerkhof, Matti Kähkönen and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Laura Raitio, Martina Flöel, and Willem Schoeber as members of the Audit Committee.

In accordance with a proposal by the Board of Directors, PricewaterhouseCoopers Oy, were appointed as the company's Auditor, with Authorized Public Accountant Mr Markku Katajisto as the principally responsible auditor for Neste Corporation, until the end of the next AGM. Payment for their services shall be made in accordance with their invoice approved by the Company.

Shares, share trading, and ownership

Neste’s shares are mainly traded on NASDAQ Helsinki Ltd. The share price closed the year 2017 at EUR 53.35, up by 46.2% compared to the end of 2016. The total shareholder return (TSR) was 49.7% (35.7%) in 2017. At its highest during 2017, the share price reached EUR 54.05, while the lowest daily closing price was EUR 31.15. Market capitalization was EUR 13.7 billion as of 31 December 2017. An average of 0.64 million shares were traded daily, representing 0.2% of the company’s shares.

Neste’s share capital registered with the Company Register as of 31 December 2017 totaled EUR 40 million, and the total number of shares was 256,403,686. As resolved by the AGM held on 1 April 2015, the Board of Directors was authorized to purchase and/or take as security a maximum of 1,000,000 company shares using the company's unrestricted equity. At the end of December 2017, Neste held 613,545 treasury shares purchased under this authorization. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

At the end of 2017, the Finnish State owned 50.1% (50.1% at the end of 2016) of outstanding shares, foreign institutions 31.5% (30.3%), Finnish institutions 9.6% (10.1%), and Finnish households 8.74% (9.6%).

Personnel

Neste employed an average of 5,297 (5,013) employees in 2017, of which 1,693 (1,585) were based outside Finland. At the end of December, the company had 5,339 employees (5,001), of which 1,758 (1,602) were located outside Finland.

Environmental, Social and Governance (ESG)

Key figures

	10-12/17	10-12/16	2017	2016
TRIF*	1.6	3.0	2.1	2.8
PSER**	1.8	2.4	2.1	3.1
GHG reduction, Mton***	2.1	1.6	8.3	6.7

* Total Recordable Incident Frequency, number of cases per million hours worked. Includes both Neste's and contractors' personnel.
** Process Safety Event Rate, number of cases per million hours worked.
*** Cumulative greenhouse gas (GHG) reduction achieved with Neste's renewable products compared to crude oil based diesel. Calculation method complies with the EU Renewable Energy Directive (RES 2009/28/EU).

Neste's occupational safety performance, measured by the key TRIF indicator, improved during the fourth quarter and cumulatively in 2017 compared to the previous year. The TRIF target for 2017 was reached. During the fourth quarter the main focus was on contractor safety and on good preparation for the winter period. Also PSER, the main indicator for process safety, improved during the fourth quarter and cumulatively in 2017 compared to the previous year. The PSER target for 2017 was reached. Our long-term safety development activities continue according to the corporate-wide Way Forward to Safety program plan focusing on behavior, leadership, operational discipline, process safety and contractor safety. Short-term actions focus on learning from incidents and effectiveness of the agreed actions.

Neste produces renewable products that enable our customers to reduce their greenhouse gas (GHG) emissions. We have introduced a target of 7.0 million tons for this GHG reduction in 2017. During the year 2017 we achieved 119% of our annual GHG reduction target.

Neste’s operational environmental emissions were in substantial compliance at all sites during 2017. A total of 10 (8) minor non-compliance cases occurred at Neste's operations with limited local environmental impact only. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. Efforts were taken during 2017 to improve environmental management of our operations under the Environmental Roadmap.

The updated version of Neste's Human Rights Principle was approved in 2017. A renewed Ethics Online system, made available at our website, allows internal and external stakeholders to easily express their concerns anonymously if they believe that our business conditions are not in accordance with Neste's Code of Conduct. Neste was included in the Dow Jones Sustainability Index (DJSI) World Index for the 11th consecutive time. In April 2017, we improved transparency by launching a new Crude Palm Oil Dashboard site. The site introduces all companies, mills, and estates that supply CPO to Neste. The site also provides information on certifications and maps of mill locations. In 2017 we started developing a new Supplier Sustainability Portal to digitalize supplier engagement. There we aim at having the first system release ready in the second half of 2018. In 2017, we made progress with mapping of our palm fatty acid distillate (PFAD) supply chain from palm refineries to the palm oil mill level. We are committed to mapping our PFAD supply chain to the oil palm plantations in 2020.

Read more about the topics on Neste's website.

Research and development

Neste's R&D expenditure totaled EUR 44 million (41 million) in 2017. Expansion of the feedstock portfolio was continued, feedstock purification technologies further developed and start-up of the feedstock hub in Sluiskil, the Netherlands, supported. Broadening of the product portfolio was continued with special focus on renewable aviation fuel, low sulphur marine fuels and new bio-based plastics and chemicals. Neste's patent portfolio in renewable feedstock, fuels and chemical applications was further strengthened with record high number of new patents and patent applications.

Expansion of the renewable feedstock base continued to be a key research topic in 2017. Volume of waste and residue based renewable feedstock increased again summing up to an annual total of 2.4 (2.1) million tons and accounted for 76% (78%) of the total renewable feed. In addition to NEXBTL feedstock expansion, a major effort was put on research of alternative refinery feeds including renewable and fossil waste based feeds, e.g. waste plastics. Improvements in renewable diesel production capacity enabled to reach total production of 2.6 (2.2) million tons. R&D also supported the development and optimization of Neste's fossil refinery units, which in 2017 included the start-up of a new cracker feedstock pretreatment unit by solvent deasphalting. Refinery optimization was continued by developing modeling tools and testing or developing catalysts with strategic partners.

Main events published during 2017

On 7 February, Neste announced that its Oil Retail business area would from now on be called Marketing & Services. Marketing & Services is one of Neste Corporation's three reporting segments. The reason for renaming the business area was the increased importance of solutions and services.

On 31 May, Neste announced that it will issue a EUR 400 million bond. The 7-year bond carries a coupon of 1.5 per cent. The bond offering was allocated to 136 investors. The proceeds from the issue will be used for the partial repurchase of the existing EUR 400 million notes due 2019 and the existing EUR 500 million notes due 2022. BNP Paribas, ING Bank N.V. and Nordea Bank AB (publ) acted as joint lead managers for the transaction.

On 9 August, Neste announced that it would begin a two-month shutdown at its Naantali refinery. The major turnaround will complete the plan to implement closer integration of the operations of the two Finnish refineries under uniform management. The Finnish refinery operations of Neste consist of four production lines at the Porvoo refinery, and one in Naantali.

On 6 September, Neste announced that its Shareholders' Nomination Board had been appointed with the following members: The Chair Pekka Timonen, Director General of the Ministry of Economic Affairs and Employment; Timo Ritakallio, President and CEO of Ilmarinen Mutual Pension Insurance Company; Elli Aaltonen, Director General of the Finnish Social Insurance Institution, and Jorma Eloranta, the Chair of Neste's Board of Directors.

On 13 September, Neste announced that it collaborates with Genève Aéroport to offer sustainable and renewable solutions for aviation. Neste and Genève Aéroport are pioneering together to make flying more sustainable by starting to decarbonize aviation towards fossil neutral growth. Genève Aéroport is planning the introduction of renewable jet fuel at the Geneva International Airport; the target is that at least 1% of the annual jet fuel consumption at the airport shall be composed of renewable jet fuel starting late 2018.

On 19 September, Neste held a Capital Markets Day in London under the theme "Delivering profitable growth". Neste's long-term financial targets are leverage ratio and ROACE after tax. The leverage target was revised to below 40%. The ROACE target remains at 15%. Neste's new dividend policy is to distribute at least 50% of the company's comparable net profit for the year. The company intends to distribute the annual dividend in two installments, and this will be proposed to the Annual General Meeting 2018.

The strategic objectives remain unchanged: be the Baltic Sea champion and create global renewables growth. The company seeks value growth in all business areas in its home markets in the Baltic Sea area. Neste is the global leader in the renewable diesel market, and is committed to developing significant business from outside road transportation markets by 2020. Sales volumes of the 100% renewable diesel delivered to end-users are targeted to grow from approx. 25% in 2017 to 50% of the total sales in 2020. Neste has introduced a Green Hub concept to promote renewable jet fuel use through airport partnerships, and the first partnership was recently announced with the Geneva Airport. Following a successful production trial, Neste aims to make the first commercial delivery of bio-based plastics during the first half of 2018.

Neste's target is to increase its renewables capacity further, and it will continue the debottlenecking of the existing capacity to 3 million tons/a by 2020. The company will finalize the feasibility studies for a new, up to 1 million ton/a production capacity by the end of 2017. These feasibility studies include the selection of the site location as well as an updated feedstock and demand outlook. The project scope includes renewable diesel and jet fuel production as well as pretreatment enabling processing of lower-quality raw materials. Neste aims to make the final investment decision on a new production unit by the end of 2018 with a target to have it operational by 2022.

On 29 September, Neste announced that it acquires Jacob Engineering's stake in Neste Jacobs Oy. Neste and Jacobs Engineering Group have agreed that Neste acquires the 40% shareholding of Jacobs in Neste Jacobs Oy. After this transaction, Neste holds all shares in Neste Jacobs.

On 30 November, Neste announced that Heike van de Kerkhof, member of the Board of Directors of Neste, has resigned from the Board of Directors as she will become employed by BP in the United Kingdom at the beginning of 2018. Laura Raitio was elected to replace van de Kerkhof as a member of the Personnel and Remuneration Committee. Raitio will also continue to be a member of the Audit Committee.

On 30 November, the Environmental Protection Agency (EPA) in the US published the final ruling covering renewable fuel volume requirements for 2018 under the Renewable Fuel Standard (RFS) program. Neste MY Renewable Diesel meets the requirements of an advanced biofuel in the biomass-based diesel category. The final ruling increases requirements for advanced biofuels in the biomass-based diesel category from the current 2.0 billion gallons to 2.1 billion gallons in 2018. The EPA also finalized a volume requirement for biomass-based diesel for 2019 to remain at the same level as in 2018.

On 12 December, Neste announced that its Board of Directors has decided on target group, allocations, and performance criteria for the Performance Share Plan (PSP) 2018-2020. Approximately 130 key persons, including the members of the Neste Executive Board, belong to the target group of the PSP 2018-2020.

On 12 December, Neste announced that the growth program for Renewable Products takes a step forward. The Board of Directors had decided that Neste's additional production capacity for renewable diesel, renewable aviation fuel and raw materials for various biochemical uses will be located in Singapore. The decision initiated technical design of the new production line, with the aim of a final investment decision by the end of 2018. If the project proceeds as planned, production at the new production line will begin by 2022.

Events after the reporting period

On 4 January, 2018, Neste announced that it had received an announcement pursuant to Chapter 9, Section 5 of the Securities Markets Act regarding a change in its shareholding. Prime Minister's Office had announced that its aggregate holding of shares and votes in Neste Corporation had decreased below the 50% threshold and is currently 49.74%.

On 31 January, Neste announced that the Shareholders' Nomination Board proposes to the AGM to be held on 5 April 2018 that the Vice Chair of the Board of Directors Mr. Matti Kähkönen shall be elected as the new Chair of the Board of Directors. In addition, the current Board Members Ms. Martina Flöel, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber, and Mr. Marco Wirén shall be re-elected for a further term of office. The Nomination Board further proposes that Ms. Raitio shall be elected as the new Vice Chair of the Board. The Shareholders' Nomination Board further proposes that the Board shall have eight members and that Ms. Elizabeth (Elly) Burghout (BSc, Chemical Engineering) and Mr. Jari Rosendal (M.Sc. Eng.) shall be elected as new members.

Potential risks

There have been no significant changes in Neste´s short-term risks or uncertainties since the end of 2016.

Key market risks affecting Neste's financial results for the next 12 months include changes in the biofuel regulation, unexpected changes in the market prices, changes in the competitive situation and any scheduled or unexpected shutdowns at Neste’s refineries.

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

Outlook

Developments in the global economy have been reflected in the oil, renewable fuel, and renewable feedstock markets; and volatility in these markets is expected to continue. According to current market estimates, the US dollar is expected to stay weak in 2018.

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

Neste expects the Renewable Products' additional margin to stay at a good level in 2018. Sales volumes of the 100% renewable diesel delivered to end-users are planned to grow from the levels in 2017 towards our 50% target in 2020. The vegetable oil market is expected to remain volatile, and Neste continues to expand the use of lower-quality waste and residue feedstock. Utilization rates of our renewable diesel facilities are expected to be high, except for a planned four-week maintenance shutdown at the Rotterdam refinery in the second quarter and a nine-week major turnaround at the Singapore refinery in the fourth quarter.

Global oil product demand is expected to remain strong in 2018, driven by a solid macroeconomic growth, and to be reflected in both distillates and gasoline demand. Recent oil demand growth estimates for 2018 vary between 1.3 and 1.7 million bbl/d. Global crude oil inventories have started to decline from their peak levels in the second half of 2017, which has led to a crude price increase to above USD 65/bbl. OPEC's decision to continue its production cuts into 2018 is expected to support crude oil price and market structure also in the first half of 2018.

Oil Products' reference margin is expected to be below the 2017 average in early 2018, but to get support from the start of the driving season in the spring. Oil product supply and demand are expected to be balanced with continued robust demand growth. Distillates margins are seen to be supported by lower inventory levels compared to the previous year. Crude oil supply limitations by producing countries are likely to lead to a slightly narrower Urals-Brent price differential compared to 2017. We expect high reliability to continue in OneRefinery operations supporting good utilization rate in 2018. We will implement several scheduled unit turnarounds during the spring and autumn. The new SDA unit commissioned in 2017 reached full design capacity utilization by the end of 2017.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern. Several actions have been initiated to improve financial performance.

As a conclusion, we expect 2018 to be a strong year for Neste.

Dividend distribution proposal

Neste's dividend policy is to distribute at least 50 percent of its comparable net profit in the form of a dividend. The parent company's distributable equity as of 31 December 2017 amounted to EUR 1,948 million, and there have been no material changes in the company’s financial position since the end of the financial year. The Board of Directors will propose to the Annual General Meeting that Neste Corporation pays a cash dividend of EUR 1.70 per share (1.30) for 2017, totaling EUR 435 million (332 million) based on the number of outstanding shares. The Board of Directors will also propose that the annual dividend shall be paid in two installments. The first installment of dividend, EUR 0.85 per share, would be paid to shareholders registered in the shareholders’ register of the Company maintained by Euroclear Finland Ltd on the record date for the first dividend installment, which shall be Monday, 9 April 2018. The Board proposes to the AGM that the first dividend installment would be paid on Monday, 16 April 2018. The second installment of dividend, EUR 0.85 per share, would be paid to shareholders registered in the shareholders' register of the Company maintained by Euroclear Finland Ltd on the record date for the second dividend installment, which shall be Wednesday, 10 October 2018. The Board proposes to the AGM that the second dividend installment would be paid on Wednesday, 17 October 2018. The Board of Directors is authorized to set a new dividend record date and payment date for the second installment of the dividend, in case the rules and regulations on the Finnish book-entry system would be changed, or otherwise so require.

The proposed dividend represents a yield of 3.2% (at year-end 2017 share price of EUR 53.35) and 51% of the comparable net profit in 2017, and an increase of 31% compared to the dividend distributed in the previous year.

Reporting date for the company's first-quarter 2018 results

Neste will publish its first-quarter results on 26 April 2018 at approximately 9:00 a.m. EET.

Espoo, 6 February 2018

Neste Corporation
Board of Directors

Further information:

Matti Lievonen, President & CEO, tel. +358 10 458 11
Jyrki Mäki-Kala, CFO, tel. +358 10 458 4098
Investor Relations, tel. +358 10 458 5292

Conference call

A conference call in English for investors and analysts will be held today, 7 February 2018, at 3 p.m. Finland / 1 p.m. London / 8 a.m. New York. The call-in numbers are as follows: Finland: +358 (0)9 7479 0404 rest of Europe: +44 (0)330 336 9411, US: +1 786 789 4797, using access code 1221392. The conference call can be followed at the company's website. An instant replay of the call will be available until 14 February 2018 at +358 (0)9 8171 0562 for Finland, +44 (0)20 7660 0134 for Europe and +1 719 457 0820 for the US, using access code 1221392.

The preceding information contains, or may be deemed to contain, "forward-looking statements". These statements relate to future events or our future financial performance, including, but not limited to, strategic plans, potential growth, planned operational changes, expected capital expenditures, future cash sources and requirements, liquidity and cost savings that involve known and unknown risks, uncertainties, and other factors that may cause Neste Corporation's or its businesses' actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, such forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," or "continue," or the negative of those terms or other comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Future results may vary from the results expressed in, or implied by, the forward-looking statements, possibly to a material degree. All forward-looking statements made in this report are based on information presently available to management and Neste Corporation assumes no obligation to update any forward-looking statements. Nothing in this report constitutes investment advice and this report shall not constitute an offer to sell or the solicitation of an offer to buy any securities or otherwise to engage in any investment activity.

NESTE GROUP
JANUARY - DECEMBER 2017
The financial statements release is unaudited

FINANCIAL STATEMENT SUMMARY AND NOTES TO THE FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF INCOME

MEUR	Note	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Revenue	3	**3,636**	3,421	**13,217**	11,689
Other income		**6**	14	**22**	71
Share of profit (loss) of joint ventures		**4**	10	**1**	14
Materials and services		**-3,037**	-2,840	**-10,927**	-9,519
Employee benefit costs		**-102**	-96	**-372**	-349
Depreciation, amortization and impairments	3	**-98**	-94	**-371**	-366
Other expenses		**-113**	-113	**-399**	-386
Operating profit		**296**	302	**1,171**	1,155
Financial income and expenses					
Financial income		**1**	2	**4**	4
Financial expenses		**-15**	-18	**-79**	-67
Exchange rate and fair value gains and losses		**5**	12	**-2**	-17
Total financial income and expenses		**-9**	-4	**-77**	-79
Profit before income taxes		**287**	297	**1,094**	1,075
Income tax expense		**-42**	-35	**-180**	-133
Profit for the period		**244**	262	**914**	943
Profit attributable to:					
Owners of the parent		**244**	262	**911**	939
Non-controlling interests [1]		**0**	1	**3**	4
		244	262	**914**	943
Earnings per share from profit attributable to the owners of the parent (in euro per share) [1]					
Basic earnings per share		**0.96**	1.02	**3.56**	3.67
Diluted earnings per share		**0.95**	1.02	**3.55**	3.66

[1] Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs. Non-controlling interests include cumulative profit attributable to non-controlling interests of Neste Jacobs until the acquisition date 29 September 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Profit for the period	**244**	262	**914**	943
Other comprehensive income net of tax:				
Items that will not be reclassified to profit or loss				
Remeasurements on defined benefit plans	**0**	-9	**2**	-21
Items that may be reclassified subsequently to profit or loss				
Translation differences	**-6**	9	**-15**	6
Cash flow hedges				
recorded in equity	**0**	-33	**69**	-20
transferred to income statement	**-13**	1	**-15**	6
Share of other comprehensive income of investments accounted for using the equity method	**-8**	-4	**2**	-9
Total	**-28**	-27	**40**	-17
Other comprehensive income for the period, net of tax	**-27**	-37	**42**	-38
Total comprehensive income for the period	**217**	226	**956**	905
Total comprehensive income attributable to:				
Owners of the parent	**217**	225	**952**	902
Non-controlling interests	**0**	1	**3**	4
	217	226	**956**	905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MEUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	5	**100**	87
Property, plant and equipment	5	**3,856**	3,747
Investments in joint ventures		**213**	216
Non-current receivables		**51**	55
Deferred tax assets		**35**	39
Derivative financial instruments	7	**4**	9
Available-for-sale financial assets		**5**	5
Total non-current assets		**4,262**	4,157
Current assets			
Inventories		**1,563**	1,416
Trade and other receivables		**1,097**	1,034
Derivative financial instruments	7	**86**	48
Cash and cash equivalents		**783**	788
Total current assets		**3,530**	3,285
Total assets		**7,793**	7,443
EQUITY			
Capital and reserves attributable to the owners of the parent			
Share capital		**40**	40
Other equity	2	**4,298**	3,693
Total		**4,338**	3,733
Non-controlling interests		**0**	22
Total equity		**4,338**	3,755
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities		**1,032**	1,117
Deferred tax liabilities		**269**	246
Provisions		**55**	53
Pension liabilities		**131**	136
Derivative financial instruments	7	**0**	2
Other non-current liabilities		**17**	11
Total non-current liabilities		**1,504**	1,565
Current liabilities			
Interest-bearing liabilities		**163**	354
Current tax liabilities		**36**	40
Derivative financial instruments	7	**72**	164
Trade and other payables		**1,679**	1,565
Total current liabilities		**1,951**	2,123
Total liabilities		**3,455**	3,688
Total equity and liabilities		**7,793**	7,443

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

MEUR	**10-12/2017**	10-12/2016	**1-12/2017**	1-12/2016
Cash flows from operating activities				
Profit before income taxes	**287**	297	**1,094**	1,075
Adjustments, total [1]	**77**	104	**363**	546
Change in working capital	**145**	43	**-104**	-229
Cash generated from operations	**508**	444	**1,353**	1,393
Finance cost, net [1]	**-9**	1	**-90**	-63
Income taxes paid	**-55**	-50	**-169**	-137
Net cash generated from operating activities	**445**	394	**1,094**	1,193
Cash flows from investing activities				
Capital expenditure	**-164**	-116	**-475**	-407
Transactions with non-controlling interests	**0**	0	**-27**	0
Proceeds from sales of property, plant and equipment	**1**	1	**5**	40
Proceeds from non-current receivables and available-for-sale financial assets	**7**	-11	**31**	9
Cash flows from investing activities	**-157**	-127	**-467**	-359
Cash flow before financing activities	**287**	267	**628**	834
Cash flows from financing activities				
Net change in loans and other financing activities	**1**	-3	**-283**	-387
Dividends paid to the owners of the parent	**0**	0	**-332**	-256
Dividends paid to non-controlling interests	**0**	0	**-15**	-1
Cash flows from financing activities	**1**	-3	**-631**	-644
Net increase (+)/decrease (-) in cash and cash equivalents	**288**	265	**-3**	191

[1] Working capital hedges previously included in 'Finance cost, net' are now presented in 'Adjustments, total'. The change was made retrospectively without change in 'Net cash generated from operating activities'.

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

MEUR	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2016	40	20	1	-12	-39	-54	-59	3,186	3,084	20	3,104
Profit for the period								939	939	4	943
Other comprehensive income for the period, net of tax					-23	-21	6		-38		-38
Total comprehensive income for the period	0	0	0	0	-23	-21	6	939	902	4	905
Transactions with the owners in their capacity as owners											
Dividend decision								-256	-256	-1	-257
Share-based compensation			3	2				-2	3		3
Transfer from retained earnings		1						-1	0		0
Total equity at 31 December 2016	40	20	4	-10	-62	-75	-52	3,867	3,733	22	3,755

MEUR	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2017	**40**	**20**	**4**	**-10**	**-62**	**-75**	**-52**	**3,867**	**3,733**	**22**	**3,755**
Profit for the period								**911**	**911**	**3**	**914**
Other comprehensive income for the period, net of tax					**56**	**2**	**-15**		**42**	**0**	**42**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**56**	**2**	**-15**	**911**	**952**	**3**	**956**
Transactions with the owners in their capacity as owners											
Dividend decision								**-332**	**-332**	**-15**	**-347**
Transactions with non-controlling interests								**-17**	**-17**	**-11**	**-27**
Share-based compensation			**2**	**1**				**-1**	**2**		**2**
Transfer from retained earnings		**-1**						**1**	**0**		**0**
Total equity at 31 December 2017	**40**	**20**	**7**	**-9**	**-6**	**-73**	**-68**	**4,428**	**4,338**	**0**	**4,338**

KEY FIGURES

	31 Dec 2017	31 Dec 2016
EBITDA, MEUR	**1,542**	1,521
Comparable EBITDA, MEUR	**1,472**	1,349
Capital employed, MEUR	**5,533**	5,226
Interest-bearing net debt, MEUR	**412**	683
Capital expenditure and investment in shares, MEUR	**536**	422
Return on average capital employed, after tax, ROACE %	**17.5**	16.9
Return on equity %	**22.7**	28.1
Equity per share, EUR	**16.96**	14.60
Cash flow per share, EUR	**4.28**	4.67
Price/earnings ratio (P/E)	**14.99**	9.94
Earnings per share (EPS), EUR	**3.56**	3.67
Comparable earnings per share, EUR	**3.33**	3.10
Comparable net profit	**851**	793
Equity-to-assets ratio, %	**55.8**	50.6
Leverage ratio, %	**8.7**	15.4
Gearing, %	**9.5**	18.2
Dividend per share	**1.70** [1]	1.30
Dividend payout ratio, %	**47.8** [1]	35.4
Dividend yield, %	**3.2** [1]	3.6
Average number of shares	**255,775,535**	255,696,935
Outstanding number of shares at the end of the period	**255,790,141**	255,717,112
Average number of personnel	**5,297**	5,013

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim report has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by EU. The condensed interim report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016. The accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended 31 December 2016. The IFRS principles require the management to make estimates and assumptions when preparing financial statements. Although these estimates and assumptions are based on the management´s best knowledge of today, the final outcome may differ from the estimated values presented in the financial statements. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

Any new IFRS and IFRIC changes did not have a material impact on the reported income statement, statement of financial position or notes and the Group has not applied any new standards as of 1 January 2017.

2. TREASURY SHARES

A total of 73,029 treasury shares of Neste Corporation has been on the 15th of March 2017 conveyed without consideration to the key persons participating in the Share Ownership Plan 2013 according to the terms and conditions of the plan. The directed share issue is based on the authorization of the Annual General Meeting on 1st April 2015. A total of 79 people are in the target group of the payment from the plan. The number of treasury shares after the directed share issue is 613,545 shares.

3. SEGMENT INFORMATION

Neste's operations are grouped into four reporting segments: Renewable Products, Oil Products, Marketing & Services and Others. The Others segment consists of the engineering and technology solutions company Neste Jacobs; Nynas, a joint venture 50/50-owned by Neste and Petróleos de Venezuela; and common corporate costs. Neste acquired Jacobs Engineering's 40% stake in Neste Jacobs in September 2017 and after this transaction Neste holds all shares in Neste Jacobs. Neste Jacobs Oy company name was changed to Neste Engineering Solutions Oy on 1 January 2018. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste President & CEO, to assess performance and to decide on allocation of resources.

REVENUE

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Renewable Products	**924**	870	**3,243**	2,690
Oil Products	**2,355**	2,159	**8,490**	7,395
Marketing & Services	**1,027**	964	**3,912**	3,552
Others	**68**	77	**237**	294
Eliminations	**-737**	-649	**-2,666**	-2,241
Total	**3,636**	3,421	**13,217**	11,689

OPERATING PROFIT

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Renewable Products	**144**	158	**476**	518
Oil Products	**140**	126	**650**	563
Marketing & Services	**11**	19	**69**	89
Others	**0**	2	**-24**	-11
Eliminations	**1**	-3	**0**	-5
Total	**296**	302	**1,171**	1,155

COMPARABLE OPERATING PROFIT

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Renewable Products	**209**	146	**561**	469
Oil Products	**89**	98	**495**	453
Marketing & Services	**11**	19	**68**	90
Others	**0**	2	**-24**	-23
Eliminations	**1**	-3	**0**	-6
Total	**311**	262	**1,101**	983

DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Renewable Products	**28**	31	**110**	109
Oil Products	**57**	53	**213**	217
Marketing & Services	**6**	6	**25**	22
Others	**7**	5	**24**	18
Eliminations	**0**	0	**0**	0
Total	**98**	94	**371**	366

CAPITAL EXPENDITURE AND INVESTMENTS IN SHARES

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
Renewable Products	**47**	31	**122**	104
Oil Products	**104**	86	**307**	249
Marketing & Services	**9**	13	**37**	31
Others	**12**	16	**70**	38
Eliminations	**0**	0	**0**	0
Total	**172**	146	**536**	422

TOTAL ASSETS

MEUR	31 Dec 2017	31 Dec 2016
Renewable Products	**2,255**	2,191
Oil Products	**3,827**	3,581
Marketing & Services	**585**	545
Others	**499**	502
Unallocated assets	**934**	933
Eliminations	**-308**	-310
Total	**7,793**	7,443

NET ASSETS MEUR	31 Dec 2017	31 Dec 2016
Renewable Products	1,863	1,811
Oil Products	2,497	2,424
Marketing & Services	280	196
Others	292	249
Eliminations	-12	-12
Total	4,920	4,667

TOTAL LIABILITIES MEUR	31 Dec 2017	31 Dec 2016
Renewable Products	392	380
Oil Products	1,330	1,157
Marketing & Services	306	350
Others	206	253
Unallocated liabilities	1,516	1,845
Eliminations	-295	-297
Total	3,455	3,688

RETURN ON NET ASSETS, %	31 Dec 2017	31 Dec 2016
Renewable Products	25.6	28.6
Oil Products	25.6	23.2
Marketing & Services	28.7	47.3

COMPARABLE RETURN ON NET ASSETS, %	31 Dec 2017	31 Dec 2016
Renewable Products	30.2	25.9
Oil Products	19.5	18.7
Marketing & Services	28.5	47.5

QUARTERLY SEGMENT INFORMATION

QUARTERLY REVENUE

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	924	793	828	699	870	640	596	584
Oil Products	2,355	2,045	2,080	2,009	2,159	1,961	1,916	1,359
Marketing & Services	1,027	986	952	948	964	925	886	776
Others	68	57	58	55	77	73	75	70
Eliminations	-737	-652	-638	-639	-649	-564	-546	-482
Total	3,636	3,229	3,280	3,071	3,421	3,034	2,927	2,306

QUARTERLY OPERATING PROFIT

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	144	119	122	91	158	162	48	150
Oil Products	140	199	130	182	126	125	218	95
Marketing & Services	11	27	19	12	19	25	23	22
Others	0	-2	-6	-17	2	6	-8	-11
Eliminations	1	-4	0	3	-3	0	-1	-2
Total	296	339	264	271	302	319	280	254

QUARTERLY COMPARABLE OPERATING PROFIT

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	209	171	101	80	146	124	119	80
Oil Products	89	158	122	126	98	120	149	86
Marketing & Services	11	27	19	11	19	25	23	22
Others	0	-2	-6	-17	2	-6	-8	-11
Eliminations	1	-4	0	3	-3	0	-1	-2
Total	311	350	236	204	262	264	282	175

QUARTERLY DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	28	27	28	26	31	26	29	24
Oil Products	57	52	52	52	53	56	54	53
Marketing & Services	6	6	6	6	6	5	5	5
Others	7	6	6	5	5	5	4	4
Eliminations	0	0	0	0	0	0	0	0
Total	98	92	92	89	94	93	92	87

QUARTERLY CAPITAL EXPENDITURE
AND INVESTMENTS IN SHARES

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	47	23	24	28	31	16	38	19
Oil Products	104	78	71	55	86	54	66	44
Marketing & Services	9	7	13	7	13	9	7	3
Others	12	36	14	8	16	8	8	6
Eliminations	0	0	0	0	0	0	0	0
Total	172	144	122	98	146	88	118	71

QUARTERLY NET ASSETS

MEUR	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Renewable Products	1,863	1,870	1,895	1,844	1,811	1,803	1,735	1,828
Oil Products	2,497	2,538	2,597	2,629	2,424	2,443	2,451	2,484
Marketing & Services	280	304	204	212	196	208	192	164
Others	292	293	283	257	249	249	260	7
Eliminations	-12	-14	-10	-11	-12	-9	-10	-10
Total	4,920	4,990	4,968	4,930	4,667	4,693	4,628	4,474

4. RECONCILIATION OF KEY FIGURES TO IFRS FINANCIAL STATEMENTS

RECONCILIATION BETWEEN COMPARABLE OPERATING PROFIT AND OPERATING PROFIT

Group

MEUR	10-12/2017	10-12/2016	7-9/2017	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**311**	262	350	**1,101**	983
inventory gains/losses	**-1**	51	61	**31**	280
changes in the fair value of open commodity and currency derivatives	**-13**	-11	-68	**24**	-118
capital gains and losses	**0**	0	0	**3**	23
insurance and other compensations	**0**	0	0	**0**	0
other adjustments	**-1**	0	-4	**12**	-13
OPERATING PROFIT	**296**	302	339	**1,171**	1,155

Renewable Products

MEUR	10-12/2017	10-12/2016	7-9/2017	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**209**	146	171	**561**	469
inventory gains/losses	**-31**	35	-29	**-80**	123
changes in the fair value of open commodity and currency derivatives	**-35**	-23	-23	**-5**	-60
capital gains and losses	**0**	0	0	**0**	0
insurance and other compensations	**0**	0	0	**0**	0
other adjustments	**0**	0	0	**0**	-13
OPERATING PROFIT	**144**	158	119	**476**	518

Oil Products

MEUR	10-12/2017	10-12/2016	7-9/2017	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**89**	98	158	**495**	453
inventory gains/losses	**30**	15	89	**111**	157
changes in the fair value of open commodity and currency derivatives	**22**	12	-45	**29**	-57
capital gains and losses	**0**	0	0	**3**	11
insurance and other compensations	**0**	0	0	**0**	0
other adjustments	**-1**	0	-4	**12**	0
OPERATING PROFIT	**140**	126	199	**650**	563

Marketing & Services

MEUR	10-12/2017	10-12/2016	7-9/2017	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**11**	19	27	**68**	90
inventory gains/losses	**0**	0	0	**0**	0
changes in the fair value of open commodity and currency derivatives	**0**	0	0	**0**	0
capital gains and losses	**0**	0	0	**0**	0
insurance and other compensations	**0**	0	0	**0**	0
other adjustments	**0**	0	0	**0**	0
OPERATING PROFIT	**11**	19	27	**69**	89

Others

MEUR	10-12/2017	10-12/2016	7-9/2017	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**0**	2	-2	**-24**	-23
inventory gains/losses	**0**	0	0	**0**	0
changes in the fair value of open commodity and currency derivatives	**0**	0	0	**0**	0
capital gains and losses	**0**	0	0	**0**	12
insurance and other compensations	**0**	0	0	**0**	0
other adjustments	**0**	0	0	**0**	0
OPERATING PROFIT	**0**	2	-2	**-24**	-11

RECONCILIATION BETWEEN COMPARABLE OPERATING PROFIT AND COMPARABLE NET PROFIT

MEUR	10-12/2017	10-12/2016	1-12/2017	1-12/2016
COMPARABLE OPERATING PROFIT	**311**	262	**1,101**	983
total financial income and expenses	**-9**	-4	**-77**	-79
income tax expense	**-42**	-35	**-180**	-133
non-controlling interests	**0**	-1	**-3**	-4
tax on items affecting comparability	**-2**	6	**11**	26
COMPARABLE NET PROFIT	**257**	228	**851**	793

RECONCILIATION OF RETURN ON AVERAGE CAPITAL EMPLOYED, AFTER TAX (ROACE), %

MEUR	31 Dec 2017	31 Dec 2016
COMPARABLE OPERATING PROFIT, LAST 12 MONTHS	**1,101**	983
financial income	**4**	4
exchange rate and fair value gains and losses	**-2**	-17
income tax expense	**-180**	-133
tax on other items affecting ROACE	**-1**	16
Comparable net profit, net of tax	**921**	853
Capital employed average	**5,266**	5,047
RETURN ON CAPITAL EMPLOYED, AFTER TAX (ROACE), %	**17.5**	16.9

RECONCILIATION OF EQUITY-TO-ASSETS RATIO, %

MEUR	31 Dec 2017	31 Dec 2016
Total equity	**4,338**	3,755
Total assets	**7,793**	7,443
Advances received	**21**	18
EQUITY-TO-ASSETS RATIO, %	**55.8**	50.6

5. CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT AND CAPITAL COMMITMENTS

CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT MEUR	31 Dec 2017	31 Dec 2016
Opening balance	**3,833**	3,816
Depreciation, amortization and impairments	**-371**	-366
Capital expenditure	**509**	422
Disposals	**-12**	-49
Translation differences	**-4**	10
Closing balance	**3,955**	3,833

CAPITAL COMMITMENTS MEUR	31 Dec 2017	31 Dec 2016
Commitments to purchase property, plant and equipment	**32**	26
Total	**32**	26

6. INTEREST-BEARING NET DEBT AND LIQUIDITY

Interest-bearing net debt MEUR	31 Dec 2017	31 Dec 2016
Short-term interest-bearing liabilities	**163**	354
Long-term interest-bearing liabilities	**1,032**	1,117
Interest-bearing liabilities	**1,195**	1,471
Cash and cash equivalents	**-783**	-788
Interest-bearing net debt	**412**	683

Liquidity, unused committed credit facilities and debt programs MEUR	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	**783**	788
Unused committed credit facilities	**1,650**	1,650
Total	**2,433**	2,438
In addition: Unused commercial paper program (uncommitted)	**400**	400

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Group has not made any significant changes in policies regarding risk management during the reporting period. Aspects of the Group´s financial risk management objective and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

Interest rate and currency derivative contracts MEUR	**31 Dec 2017** Nominal value	**31 Dec 2017** Net fair value	31 Dec 2016 Nominal value	31 Dec 2016 Net fair value
Interest rate swaps				
Hedge accounting	**124**	**1**	350	6
Non-hedge accounting	**26**	**1**	0	0
Currency derivatives				
Hedge accounting	**1,392**	**27**	1,730	-44
Non-hedge accounting	**1,634**	**29**	1,132	-13

Commodity derivative contracts MEUR	**31 Dec 2017** Volume GWh	**31 Dec 2017** Volume million bbl	**31 Dec 2017** Net fair value	31 Dec 2016 Volume GWh	31 Dec 2016 Volume million bbl	31 Dec 2016 Net fair value
Sales contracts						
Hedge accounting	**0**	**0**	**0**	0	0	0
Non-hedge accounting	**0**	**17**	**-59**	0	27	-89
Purchase contracts						
Hedge accounting	**0**	**0**	**0**	0	0	0
Non-hedge accounting	**2,865**	**15**	**18**	2,381	18	31

Commodity derivative contracts include oil, vegetable oil, electricity, freight and gas derivative contracts.

The fair values of derivative financial instruments subject to public trading are based on market prices as of the balance sheet date. The fair values of other derivative financial instruments are based on the present value of cash flows resulting from the contracts, and, in respect of options, on evaluation models. The amounts also include unsettled closed positions. Derivative financial instruments are mainly used to manage the Group's currency, interest rate and price risk.

Carrying amounts of financial assets and liabilities by measurement categories

Financial assets and liabilities divided by categories were as follows as of December 31, 2017:

Balance sheet item	Derivatives, hedge accounting	Assets/ liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts	Fair value
Non-current financial assets							
Non-current receivables			51			51	51
Derivative financial instruments	2	2				4	4
Available-for-sale financial assets				5		5	5
Current financial assets							
Trade and other receivables, excluding non-financial assets			1,094			1,094	1,094
Derivative financial instruments	29	58				86	86
Cash and cash equivalents			783			783	783
Carrying amount by category	30	60	1,928	5	0	2,023	2,023
Non-current financial liabilities							
Interest-bearing liabilities					1,032	1,032	1,065
Other non-current liabilities					17	17	17
Current financial liabilities							
Interest-bearing liabilities					163	163	163
Derivative financial instruments	2	70				72	72
Trade and other payables					1,679	1,679	1,679
Carrying amount by category	2	70	0	0	2,892	2,964	2,997

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).

Fair value hierarchy, MEUR

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-current derivative financial instruments	0	4	0	4
Non-current available-for-sale financial assets	0	0	5	5
Current derivative financial instruments	1	86	0	86

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-current derivative financial instruments	0	0	0	0
Current derivative financial instruments	8	64	0	72

During the twelve-month period ended 31 December 2017, 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.

The fair values of non-current interest-bearing liabilities that are carried at amortized cost, but for which fair value is disclosed, are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. Non-current interest-bearing liabilities are classified into fair value measurement hierarchy level 1.

8. RELATED PARTY TRANSACTIONS

The group has a related party relationship with its subsidiaries, joint arrangements and the entities controlled by Neste's controlling shareholder the State of Finland. Related party includes also 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 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 related party transactions are on arm's length basis.

Transactions carried out with joint arrangements and other related parties	**31 Dec 2017**	31 Dec 2016
Sales of goods and services	**191**	173
Purchases of goods and services	**182**	158
Receivables	**84**	82
Financial income and expenses	**1**	0
Liabilities	**4**	10

9. CONTINGENT LIABILITIES

MEUR	31 Dec 2017	31 Dec 2016
Contingent liabilities		
On own behalf for commitments		
Real estate mortgages	**17**	17
Pledged assets	**116**	116
Other contingent liabilities	**40**	48
Total	**174**	182
On behalf of joint arrangements		
Pledged assets	**45**	46
Guarantees	**1**	1
Total	**46**	47
On behalf of others		
Guarantees	**1**	2
Other contingent liabilities	**0**	0
Total	**1**	2
Total	**221**	230

MEUR	31 Dec 2017	31 Dec 2016
Operating lease liabilities		
Due within one year	**74**	79
Due between one and five years	**61**	80
Due later than five years	**71**	78
Total	**206**	237

The Group's operating lease commitments primarily relate to time charter vessels, land and office space.

Disputes and potential litigations

The previous years' bio mandate disputes were closed favourably for Neste in 2017. In March 2017 the Supreme Administrative Court decided that the penalty fee of 44 million euros paid by Neste in 2014 and received back from the Finnish Customs in August 2015 (based on the decision of the Administrative Court of Helsinki) was levied without justification. In June 2017 the Administrative Court of Helsinki decided that also the penalty payment of 17 million euros levied in 2015 was unjustified and Tax Administration returned the penalty payment to Neste in July 2017 with no intentions to appeal against the decision. The dispute regarding two shippings placed under an export procedure in 2013 was closed favorably for Neste in August 2017. The representative of Finnish state did not appeal against the administrative court about the Finnish Customs' decision not to levy excise tax, interest and additional tax totalling approximately EUR 18 million. Neste Oil Bahrain W.L.L. has in January 2018 become aware of claim by the Bahraini Ministry of Finance concerning an initial payment and certain other demands relating to an alleged income tax liability. The company considers the claim to be without merit and it will defend itself in competent courts.

Calculation of key figures

Calculation of key figures

EBITDA	=		Operating profit + depreciation, amortization and impairments
Comparable EBITDA	=		Comparable operating profit + depreciation, amortization and impairments
Comparable operating profit [1]	=		Operating profit -/+ inventory gains/losses -/+ changes in the fair value of open commodity and currency derivatives -/+ capital gains/losses - insurance and other compensations -/+ other adjustments
Items affecting comparability	=		Inventory gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations and other adjustments
Comparable net profit	=		Comparable operating profit - total financial income and expense - income tax expense - non-controlling interests - tax on items affecting comparability
Return on equity (ROE), %	=		Profit before income taxes - income tax expense, last 12 months
		100 x	Total equity average, 5 quarters end values
Return on average capital employed, after-tax (ROACE), %	=		Comparable operating profit + financial income + exchange rate and fair value gains and losses - income tax expense - tax on other items affecting ROACE, last 12 months
		100 x	Capital employed average, 5 quarters end values
Capital employed	=		Total equity + interest bearing liabilities
Interest-bearing net debt	=		Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	=		Interest-bearing net debt
		100 x	Interest bearing net debt + total equity
Gearing, %	=		Interest-bearing net debt
		100 x	Total equity
Equity-to-assets ratio, %	=		Total equity
		100 x	Total assets - advances received
Return on net assets, %	=		Segment operating profit, last 12 months
		100 x	Average segment net assets, 5 quarters end values
Comparable return on net assets, %	=		Segment comparable operating profit, last 12 months
		100 x	Average segment net assets, 5 quarters end values
Segment net assets	=		Property, plant and equipment + intangible assets + investments in joint ventures + inventories + interest-free receivables and liabilities - provisions - pension liabilities allocated to the business segment
Research and development expenditure	=		Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated statement of income. 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 owners of the parent / Adjusted average number of shares during the period
Comparable earnings per share	=		Comparable net profit / Adjusted average number of shares during the period
Equity per share	=		Shareholder's equity attributable to the owners of the parent / Adjusted 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

Calculation of key drivers

Oil Products reference margin (USD/bb	=		Product value - feed cost - standard refining variable cost - sales freights
Oil Products total refining margin (USD/bbl)	=		Comparable sales margin x average EUR/USD exchange rate for the period x standard refinery yield / Refined sales volume x standard barrels per ton
Oil Products additional margin (USD/bb	=		Oil Products total refining margin - Oil Products reference margin
Renewable Products reference margin (USD/ton)	=		Share of sales volumes Europe x (FAME - CPO) + share of sales North America x (SME - SBO) [2]
Renewable Products comparable sales margin (USD/ton)	=		Comparable sales margin / Total sales volume
Renewable Products additional margin (USD/ton)	=		Comparable sales margin - (reference margin - standard variable production cost)

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

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

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