6 February 2019

Neste Corporation
Financial Statements Release
2018

Neste's Financial Statements Release for 2018

Very strong year 2018 - Dividend proposed to be increased by 34% to EUR 2.28 per share

Year 2018 in brief:

- Comparable operating profit totaled EUR 1,422 million (EUR 1,101 million)
- Operating profit totaled EUR 1,025 million (EUR 1,171 million)
- Cash flow before financing activities totaled EUR 870 million (EUR 628 million)
- Return on average capital employed (ROACE) was 21.1% over the last 12 months (17.5%)
- Leverage ratio was -1.5% at the end of December (31.12.2017: 8.7%)
- Comparable earnings per share were EUR 4.50 (EUR 3.33)
- Earnings per share: EUR 3.04 (EUR 3.56)
- Board of Directors will propose a dividend of EUR 2.28 per share (1.70), totaling EUR 583 million (EUR 435 million)

Fourth quarter in brief:

- Comparable operating profit totaled EUR 349 million (EUR 311 million)
- Operating profit totaled EUR 183 million (EUR 296 million)
- Renewable Products' comparable operating profit was EUR 281 million (EUR 209 million)
- Renewable Products' comparable sales margin was USD 715/ton (USD 464/ton)
- Oil Products' comparable operating profit was EUR 60 million (EUR 89 million)
- Oil Products' total refining margin was USD 10.5/bbl (USD 10.7/bbl)
- Marketing & Services' comparable operating profit was EUR 19 million (EUR 11 million)

President and CEO Peter Vanacker:

“Neste had a very strong year in 2018. We posted a record-high comparable operating profit of EUR 1,422 million, compared to EUR 1,101 million in 2017. Renewable Products exceeded the previous year's high performance as a result of a favorable market and successful sales margin optimization. We also took an important step in implementation of the renewables growth strategy, when the final investment decision on the Singapore production capacity expansion was taken in December. Oil Products' performance was impacted by a less supportive margin environment and a weaker US dollar compared to 2017. Marketing & Services improved its financial performance from the previous year. We reached a strong ROACE of 21.1% over the last 12 months and a leverage ratio of -1.5% at the end of the year. Our cash flow before financing activities was EUR 870 million in 2018. The strong financial position enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

Renewable Products posted an outstanding full-year comparable operating profit of EUR 983 million (561 million). Our comparable sales margin was significantly higher than in 2017, and had a positive impact of EUR 512 million on the comparable operating profit. Additionally, the retroactive US Blender's Tax Credit decided for the full year 2017 had a positive impact of EUR 140 million on the comparable operating profit in the first quarter. Sales volumes were 2.26 million tons in 2018, approx. 12% lower than in previous year, as a result of the scheduled maintenance activities at the Rotterdam and Singapore refineries. During 2018 approximately 72% of sales volume went to Europe and 28% to North America. Implementation of the renewables growth strategy continued successfully during 2018. As an example, the share of 100% renewable diesel delivered to end-users increased from 25% to 30% of total volumes in full-year 2018. Feedstock mix optimization continued, and the average proportion of waste and residue inputs increased to 83%. In 2018, Neste also acquired the share majority of IH Demeter B.V., a Dutch trader of animal fats and proteins.

Oil Products posted a full-year comparable operating profit of EUR 397 million, which was lower than the EUR 495 million in 2017. During 2018, the reference margin was less favorable, approx. USD 0.7/bbl lower than in 2017, which had a negative impact of EUR 61 million on the comparable operating profit. Supported by good operational performance and the strategic refinery investments being in full operation, our additional margin averaged at USD 6.2/bbl. Higher additional margin had a positive impact of 81 million compared to the previous year. A weaker USD exchange rate had a negative impact of EUR 41 million on the comparable operating profit compared to 2017. During the year 2018, the segment's fixed costs were EUR 53 million higher than in the previous year, mainly due to increased costs related to the scheduled maintenance activities and planning of the 2020 major turnaround in Porvoo. In July we announced that we are exploring ways to introduce liquefied waste plastic as a future raw material for fossil refining. That is one concrete action in our efforts towards low carbon refining.

In Marketing & Services our sales volumes were maintained at the previous year's level. The markets continued to be competitive, but we were able to increase unit margins compared to 2017. Marketing & Services segment generated a full-year comparable operating profit of EUR 77 million (EUR 68 million).

Developments in the global economy have been reflected in the renewable fuel, feedstock and oil markets; and volatility in these markets is anticipated to continue. Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Global oil product demand growth is expected to continue at a lower rate than in 2018, while global refining capacity additions are expected to grow driven by large projects in Asia and the Middle East. Based on our current estimates and a hedging ratio of 80%, Neste's effective EUR/US dollar rate is expected to be within a range 1.17-1.19 in the first quarter of 2019.

Renewable Products' first-quarter sales volumes are expected to be higher than in the fourth quarter of 2018, with no major changes in the sales allocation. Utilization rates of our renewable production facilities are expected to be high in the first quarter. The scheduled Singapore refinery turnaround, which was completed during the fourth quarter, is estimated to have a negative EBIT impact of EUR 15 million in the first quarter of 2019.

Oil Products’ reference margin is expected to be low in the first quarter, driven by a weak gasoline market, but to strengthen towards the end of the quarter. Utilization rates of our production facilities are anticipated to be high in the first quarter.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern in the first quarter."

Neste's Financial Statements, 1 January - 31 December 2018

The Financial Statements Release is unaudited.

Figures in parentheses refer to the corresponding period for 2017, unless otherwise stated.

Key Figures

EUR million (unless otherwise noted)

	10-12/18	10-12/17	7-9/18	2018	2017
Revenue	3,661	3,636	3,884	14,918	13,217
EBITDA	401	394	445	1,639	1,542
Operating profit	183	296	250	1,025	1,171
Comparable operating profit*	349	311	395	1,422	1,101
Profit before income taxes	171	287	229	951	1,094
Net profit	130	244	168	779	914
Comparable net profit**	292	257	305	1,150	851
Earnings per share, EUR	0.51	0.96	0.66	3.04	3.56
Comparable earnings per share**, EUR	1.14	1.00	1.19	4.50	3.33
Investments	124	172	113	438	536
Net cash generated from operating activities	528	445	247	1,452	1,094

	31 Dec 2018	31 Dec 2017
Total equity	4,630	4,338
Interest-bearing net debt	-70	412
Capital employed	5,770	5,533
Return on average capital employed after tax (ROACE)***, %	21.1	17.5
Equity per share, EUR	18.09	16.96
Leverage ratio, %	-1.5	8.7

* Comparable operating profit is calculated by excluding inventory valuation gains/losses, unrealized changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations, impairments 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 2018 results

Neste's revenue in the fourth quarter totaled EUR 3,661 million (3,636 million). Higher sales prices had a positive impact of approx. EUR 200 million on the revenue. However, the revenue was decreased due to lower sales volumes having a negative impact of approx. EUR 200 million. The Group’s comparable operating profit was EUR 349 million (311 million). Renewable Products' comparable operating profit was higher than in the fourth quarter of 2017, mainly as a result of higher sales margin. Oil Products' result was lower than in the corresponding period of 2017, mainly due to lower reference margin and higher costs caused by maintenance. Marketing & Services had higher unit margins and lower fixed costs, which lead to a higher comparable operating profit compared to the fourth quarter of 2017. The Others segment's comparable operating profit was weaker than in the corresponding period of 2017, mainly due to increased common corporate costs.

Renewable Products’ fourth quarter comparable operating profit was EUR 281 million (209 million), Oil Products’ EUR 60 million (89 million), and Marketing & Services' EUR 19 million (11 million). The comparable operating profit of the Others segment totaled EUR -12 million (0 million); Nynas accounted for EUR 1 million (3 million) of this figure.

The Group’s operating profit was EUR 183 million (296 million), which was impacted by inventory valuation losses of EUR 231 million (1 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 216 million (-13 million), mainly related to margin hedging. Neste Oil Bahrain W.L.L. has obtained a disadvantageous tax judgement in December 2018, and has appealed against it. As a part of an impairment process, Neste has written down all of Neste Oil Bahrain W.L.L.'s assets of EUR 112 million. Neste is currently engaged in arbitration with Neste Oil Bahrain W.L.L.'s base oil joint operation partners concerning a contractual dispute. Profit before income taxes was EUR 171 million (287 million), and net profit EUR 130 million (244 million). Comparable earnings per share were EUR 1.14 (1.00), and earnings per share EUR 0.51 (0.96).

The Group's full-year 2018 results

Neste's revenue in 2018 totaled EUR 14,918 million (13,217 million). The revenue increase resulted from higher sales prices, which had a positive impact of approx. EUR 2,100 million, and lower sales volumes, which had approx. EUR 100 million negative impact on the revenue. A weaker USD exchange rate had a negative impact of approx. EUR 300 million on the revenue. The Group’s comparable operating profit was EUR 1,422 million (1,101 million). Renewable Products' sales margin was significantly higher compared to 2017, and the retroactive US Blender's Tax Credit decision for 2017 supported the first quarter result. Oil Products' result was lower than in 2017, mainly due to a weaker USD exchange rate and lower reference margin. Marketing & Services was able to increase its unit margins and other income, which lead to a higher comparable operating profit than in the previous year. The Others segment's comparable operating profit was lower than in the year 2017, mainly due to Nynas' weaker result.

Renewable Products’ full-year comparable operating profit was EUR 983 million (561 million), Oil Products’ EUR 397 million (495 million), and Marketing & Services' EUR 77 million (68 million). The comparable operating profit of the Others segment totaled EUR -36 million (-24 million); Nynas accounted for EUR -12 million (-2 million) of this figure.

The Group’s operating profit was EUR 1,025 million (1,171 million), which was impacted by inventory valuation losses of EUR 269 million (gains of 31 million), and changes in the fair value of open commodity and currency derivatives totaling EUR 117 million (24 million), mainly related to margin hedging. In addition there were asset writedowns totaling EUR 198 million regarding our minority shareholding in Nynas AB during the third quarter and in Neste Oil Bahrain W.L.L. during the fourth quarter. Neste is currently engaged in arbitration with the Bahrain base oil joint operation partners concerning a contractual dispute. Profit before income taxes was EUR 951 million (1,094 million), and net profit EUR 779 million (914 million). Comparable earnings per share were EUR 4.50 (3.33), and earnings per share EUR 3.04 (3.56).

	10-12/18	10-12/17	7-9/18	2018	2017
COMPARABLE OPERATING PROFIT	349	311	395	1,422	1,101
- inventory valuation gains/losses	-231	-1	-8	-269	31
- changes in the fair value of open commodity and currency derivatives	216	-13	-49	117	24
- capital gains/losses	0	0	0	2	3
- insurance and other compensations	0	0	0	0	0
- impairments	-112	0	-86	-198	0
- other adjustments*	-38	-1	-3	-48	12
OPERATING PROFIT	183	296	250	1,025	1,171

* Includes provisions for legal proceedings.

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Group's comparable operating profit, 2017	311	1,101
Sales volumes	-89	-171
Reference margin	189	206
Additional margin	-40	326
US Blender's Tax Credit (BTC)	0	140
Currency exchange	16	-63
Fixed costs	-24	-58
Others	-13	-58
Group's comparable operating profit, 2018	349	1,422

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

	10-12	1-12
Group's comparable operating profit, 2017	311	1,101
Renewable Products	72	422
Oil Products	-29	-98
Marketing & Services	8	9
Others including eliminations	-12	-10
Group's comparable operating profit, 2018	349	1,422

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 strong at 21.1%, and leverage ratio remained well below the 40% target.

	31 Dec 2018	31 Dec 2017
Return on average capital employed after tax (ROACE)*, %	21.1	17.5
Leverage ratio (net debt to capital), %	-1.5	8.7

*Last 12 months

Cash flow, investments and financing

The Group's net cash generated from operating activities totaled EUR 1,452 million (1,094 million) in 2018. The difference mainly resulted from cash released from net working capital and a higher EBITDA of the businesses compared to the previous year. Cash flow before financing activities was EUR 870 million (628 million). The Group's net working capital in days outstanding was 21.4 days (26.9 days) on a rolling 12-month basis at the end of 2018.

	10-12/18	10-12/17	7-9/18	2018	2017
EBITDA	401	394	445	1,639	1,542
Capital gains/losses	-1	0	0	-3	-3
Other adjustments	-194	-31	0	-96	-82
Change in net working capital	355	145	-163	99	-104
Finance cost, net	-6	-9	-5	-37	-90
Income taxes paid	-29	-55	-29	-151	-169
Net cash generated from operating activities	528	445	247	1,452	1,094
Capital expenditure	-110	-165	-91	-395	-502
Other investing activities	-29	8	-49	-187	36
Free cash flow (Cash flow before financing activities)	389	287	108	870	628

Cash-out investments were EUR 395 million (502 million) in 2018. Maintenance investments accounted for EUR 253 million (214 million) and productivity and strategic investments for EUR 142 million (288 million). Renewable Products' investments were EUR 139 million (92 million), mainly related to the Singapore capacity expansion project and refinery catalyst changes and maintenance. Oil Products' investments amounted to EUR 178 million (299 million), with the largest project being the wastewater treatment plant at the refinery in Porvoo. Marketing & Services' investments totaled EUR 23 million (40 million) and were focused on the retail station network. Investments in the Others segment were EUR 55 million (72 million), concentrating on IT and business infrastructure upgrade.

Interest-bearing net debt was EUR -70 million at the end of December 2018, compared to EUR 412 million at the end of 2017. Net financial expenses for the year were EUR 75 million (77 million). The average interest rate of borrowing at the end of December was 3.4% (3.3%) and the average maturity 3.7 (4.5) years. At the end of the year the Net debt to EBITDA ratio was 0.0 (0.3) over the last 12 months.

The leverage ratio was -1.5% (31 Dec 2017: 8.7%), and the gearing ratio -1.5% (31 Dec 2017: 9.5%) at the end of December 2018. The Group's strong financial position enables implementation of our growth strategy going forward while maintaining a healthy dividend distribution.

The Group's liquid funds and committed, unutilized credit facilities amounted to EUR 2,860 million at the end of December 2018 (31 Dec 2017: 2,433 million). There are no financial covenants in the Group companies' current loan agreements.

In accordance with the 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 2018 the Group's foreign currency hedging ratio was approx. 50% of the sales margin for the next 12 months.

US dollar exchange rate

	10-12/18	10-12/17	7-9/18	2018	2017
EUR/USD, market rate	1.14	1.18	1.16	1.18	1.13
EUR/USD, effective rate*	1.18	1.15	1.20	1.19	1.12

* 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

	10-12/18	10-12/17	7-9/18	2018	2017
Revenue, MEUR	884	924	805	3,241	3,243
EBITDA, MEUR	433	172	197	1,026	586
Comparable operating profit, MEUR	281	209	228	983	561
Operating profit, MEUR	400	144	163	899	476
Net assets, MEUR	2,018	1,863	1,834	2,018	1,863
Return on net assets*, %	48.0	25.6	34.8	48.0	25.6
Comparable return on net assets*, %	52.4	30.2	49.4	52.4	30.2

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2017	209	561
Sales volumes	-86	-169
Reference margin	204	267
Additional margin	-47	245
Blender's Tax Credit	0	140
Currency exchange	9	-21
Fixed costs	-3	-24
Others	-5	-15
Comparable operating profit, 2018	281	983

Key drivers

	10-12/18	10-12/17	7-9/18	2018	2017
FAME - Palm oil price differential*, USD/ton	662	272	283	330	242
SME - Palm oil price differential**, USD/ton	247	232	246	231	225
Reference margin, USD/ton	647	321	380	400	291
Additional margin***, excluding BTC, USD/ton	178	254	374	310	184
Comparable sales margin, excluding BTC, USD/ton	715	464	645	600	365
Biomass-based diesel (D4) RIN, USD/gal	0.40	0.96	0.42	0.53	1.01
California LCFS Credit, USD/ton	192	103	184	168	89
Palm oil price****, USD/ton	505	638	542	572	629
Palm oil's share of total feedstock, %	23	24	17	17	24

* 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 110/ton
**** CPO BMD 3rd

Renewable Products' fourth quarter comparable operating profit totaled EUR 281 million, compared to EUR 209 million in the fourth quarter of 2017. The comparable sales margin, which combines both reference margin and additional margin and is the most relevant margin measure, was significantly higher than in the fourth quarter of 2017. The higher sales margin had a positive impact of EUR 157 million on the comparable operating profit. Our sales volumes were impacted by the scheduled Singapore refinery turnaround in the fourth quarter. Therefore, our sales volumes were 575,000 tons, which was 19% lower than in the fourth quarter of 2017. The lower sales volume had a negative impact of EUR 86 million on the comparable operating profit year-on-year. During the fourth quarter approx. 73% (73%) of the volumes were sold to the European market and 27% (27%) to North America. The share of 100% renewable diesel delivered to end-users was 28% (30%) in the fourth quarter, marginally lower due to the Singapore turnaround. Our renewable diesel production had an average utilization rate of 80% (97%) during the quarter, which reflected the Singapore turnaround. The average proportion of waste and residue inputs was 77% (75%). Renewable Products' comparable return on net assets was 52.4% (30.2%) at the end of December based on the previous 12 months.

Vegetable oil prices were under downward pressure during 2018. Palm oil (CPO) was leading the overall vegetable oil complex down as CPO inventories were increasing. This was mainly due to stronger than expected production growth in Indonesia and a major demand reduction induced by increased import tax in India. Even the acceleration of Indonesian biodiesel mandate implementation during the fourth quarter was not able to curb the decline, and CPO price reached a new record low level in November. Soybean oil (SBO) price was also brought down as SBO competes directly with CPO in the food sector. China's implementation of 25% imports tariffs on US soybeans amid trade war escalation triggered a downward move in SBO price by mid-year. During the second half of 2018, SBO price remained relatively stable. While dropping in early 2018, rapeseed oil (RSO) price resisted the downward pressure during the second half of the year as RSO supply was limited by the summer drought and logistics problems due to low water levels in Central European rivers and channels. However, towards the end of year RSO started to decline.

European FAME biodiesel producers' margins were very low in early 2018, but recovered to healthy levels for the rest of the year. The margins were boosted by larger than normal spring maintenance in biodiesel production, and by strong demand combined with limited availability, particularly during the winter period in the fourth quarter. US SME biodiesel producers' margins remained positive throughout the year, supported by the end of SME imports from Argentina. SME producers' margins declined in the fourth quarter as anticipation of a retroactive BTC implementation lead to overproduction.

The US Renewable Identification Number (RIN) D4 price peaked in February at 84 cents per gallon before turning on a continuous downtrend through October. That was impacted by the gradual decline in SBO price, and the negative impact of the biofuel mandate waivers granted to small refineries. D4 RIN price started to rebound just before the year end as crude oil and oil product prices came down. On the other hand, the California Low Carbon Fuel Standard (LCFS) price increased during the year reflecting the difficulty to fulfill the increasingly stringent GHG reduction targets in the state.

Renewable Products' full-year comparable operating profit was EUR 983 million (561 million). The comparable sales margin was significantly higher than in 2017, and had a positive impact of EUR 512 million on the comparable operating profit year-on-year. Additionally, the retroactive US Blender's Tax Credit decided for the full year 2017 had a positive impact of EUR 140 million on the comparable operating profit in the first quarter. Sales volumes were 2.26 million tons in 2018, approx. 12% lower than in previous year, mainly due to the scheduled maintenance at the Rotterdam and Singapore refineries. Lower sales volumes had a negative impact of EUR 169 million on the segment's comparable operating profit year-on-year. During 2018 approximately 72% (74%) of sales volume went to Europe and 28% (26%) to North America. The share of 100% renewable diesel delivered to end-users increased to 30% (25%) of total volumes in full-year 2018. Renewable diesel production had a capacity utilization rate of 84% (98%) in 2018, impacted by the scheduled maintenance. Feedstock mix optimization continued successfully, and the average proportion of waste and residue inputs was 83% (76%). A weaker USD had a negative impact of EUR 21 million on the segment's comparable operating profit compared to the year 2017. During 2018 the segment's fixed costs were EUR 24 million higher than in the previous year, mainly related to strategic growth projects.

Production

	10-12/18	10-12/17	7-9/18	2018	2017
Neste MY Renewable Diesel, 1,000 ton	566	644	662	2,368	2,587
Other products, 1,000 ton	62	53	63	214	196
Utilization rate*, %	80	97	93	84	98

* Based on nominal capacity of 2.7 Mton/a in 2018, and 2.6 Mton/a in 2017.

Sales

	10-12/18	10-12/17	7-9/18	2018	2017
Neste Renewable Diesel, 1,000 ton	575	713	547	2,261	2,567
Share of sales volumes to Europe, %	73	73	71	72	74
Share of sales volumes to North America, %	27	27	29	28	26

Oil Products

Key financials

	10-12/18	10-12/17	7-9/18	2018	2017
Revenue, MEUR	2,456	2,355	2,661	10,105	8,490
EBITDA, MEUR	-54	197	212	515	863
Comparable operating profit, MEUR	60	89	146	397	495
Operating profit, MEUR	-224	140	151	170	650
Net assets, MEUR	2,257	2,497	2,665	2,257	2,497
Return on net assets*, %	6.7	25.6	20.6	6.7	25.6
Comparable return on net assets*, %	15.7	19.5	16.4	15.7	19.5

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2017	89	495
Sales volumes	-2	-1
Reference margin	-15	-61
Additional margin	7	81
Currency exchange	8	-41
Fixed costs	-27	-53
Others	1	-23
Comparable operating profit, 2018	60	397

Key drivers

	10-12/18	10-12/17	7-9/18	2018	2017
Reference refining margin, USD/bbl	4.31	4.93	6.03	5.01	5.68
Additional margin, USD/bbl	6.17	5.76	6.39	6.17	5.39
Total refining margin, USD/bbl	10.48	10.69	12.41	11.18	11.08
Urals-Brent price differential, USD/bbl	-0.87	-0.89	-1.33	-1.51	-1.39
Urals' share of total refinery input, %	55	64	72	69	69

Oil Products' comparable operating profit totaled EUR 60 million (89 million) in the fourth quarter. The reference margin, which reflects general market conditions, averaged USD 4.3/bbl in the fourth quarter. Reference margin was burdened by weak gasoline margins, and was approx. USD 0.6/bbl lower than in the corresponding period last year. The lower reference margin had a negative impact of EUR 15 million on the comparable operating profit year-on-year. Despite the scheduled refinery unit maintenances in Porvoo, we achieved a solid additional margin of USD 6.2/bbl. The higher additional margin had a positive impact of EUR 7 million on the comparable operating profit year-on-year. The segment's fixed costs were EUR 27 million higher compared to the fourth quarter of 2017, mainly due to higher scheduled maintenance activities of the residue cracker line in Porvoo. The negative EBIT impact of the unit maintenances totaled EUR 60 million during the fourth quarter. Oil Products' comparable return on net assets was 15.7% (19.5%) at the end of December over the previous 12 months.

During the fourth quarter the use of Russian crude was 55% (64%) of total input. The average refinery utilization rate was only 76% (86%), which reflected the Porvoo unit maintenances. The production costs were also high at USD 6.0/bbl (5.4) due to the maintenance.

Crude oil prices were volatile during 2018, and Brent traded in a range between USD 50/bbl and USD 86/bbl. Crude price trended up from the first quarter until the end of the third quarter. During that period crude oil market was supported by the agreement between OPEC and non-OPEC countries to cut oil production, and also geopolitical tensions impacted the crude oil price. Towards the end of the third quarter the coming sanctions against Iran played a key role in crude oil price increasing further to USD 85/bbl level. However, during the fourth quarter crude oil price came under heavy pressure as the crude oil demand growth outlook became more uncertain, higher price was boosting investments in crude supply, and the global equity markets were weakening. In December the OPEC and non-OPEC countries made a decision to continue the supply cuts, but it was not sufficient to stabilize crude prices. In 2018 Brent price averaged USD 71.7/bbl.

The Russian Export Blend (REB) crude averaged USD 1.5/bbl lower than Brent in 2018, and USD 0.9/bbl lower during the fourth quarter. The OPEC production cuts in heavier crude qualities, lower REB export volumes through the Baltic Sea ports compared to 2017, and sanctions against Iran were the key drivers of REB price during 2018. Towards the end of the fourth quarter the sanctions against Iran drove REB price differential to Brent to very narrow levels.

Reference margin trended upwards during the first half of 2018 driven by good product demand and global spring refinery maintenance season. During the summer season high US refinery runs, rising gasoline inventories, and concerns of higher crude oil price negatively impacting gasoline demand, had a dampening effect on the reference margin. Reference margin spiked in August driven by the hot and dry weather conditions, which caused cooling limitations for many European refineries. Weather related factors played a role also later in the year as low water levels in the river Rhine boosted reference margin in November. Reference margin weakened towards the end of the year as high refinery utilization rates in the US and seasonally weaker gasoline demand drove lower gasoline cracks, and narrowing REB differential negatively impacted refining margins. On average diesel was the strongest part of the barrel in 2018. Neste’s reference margin averaged USD 5.0/bbl in 2018, and USD 4.3/bbl during the fourth quarter.

Oil Products' full-year comparable operating profit was EUR 397 million (495 million). During 2018 the reference margin was approx. USD 0.7/bbl lower than in 2017, which had a negative impact of EUR 61 million on the comparable operating profit. The additional margin averaged at USD 6.2/bbl, and had a positive impact of 81 million compared to the previous year. A weaker USD exchange rate had a negative impact of EUR 41 million on the comparable operating profit compared to 2017. During the year 2018 the segment's fixed costs were EUR 53 million higher than in the previous year, mainly due to increased costs for maintenance activities, and planning of the Porvoo refinery major turnaround in 2020.

Production

	10-12/18	10-12/17	7-9/18	2018	2017
Refinery					
- Production, 1,000 ton	3,346	3,439	3,569	13,959	13,916
- Utilization rate, %	76	86	97	89	89
Refinery production costs, USD/bbl	6.0	5.4	4.2	4.9	4.4
Bahrain base oil plant production, (Neste's share) 1,000 ton	39	57	48	190	210

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

	10-12/18	%	10-12/17	%	7-9/18	%	2018	%	2017	%
Middle distillates*	1,810	50	1,922	52	1,633	45	7,119	49	7,154	50
Light distillates**	1,209	34	1,269	34	1,294	36	4,732	33	4,630	33
Heavy fuel oil	298	8	251	7	346	10	1,177	8	1,137	8
Base oils	113	3	117	3	125	3	483	3	449	3
Other products	184	5	168	5	236	6	922	6	823	6
TOTAL	3,614	100	3,727	100	3,634	100	14,433	100	14,193	100

* Diesel, jet fuel, heating oil, low sulphur marine fuels
** Motor gasoline, gasoline components, LPG

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

	10-12/18	%	10-12/17	%	7-9/18	%	2018	%	2017	%
Baltic Sea area*	2,232	62	2,200	59	2,163	60	8,770	61	8,268	58
Other Europe	901	25	1,027	28	1,040	29	3,930	27	4,606	32
North America	314	9	178	5	413	11	1,016	7	746	5
Other areas	167	5	323	9	18	1	717	5	572	4

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

Marketing & Services

Key financials

	10-12/18	10-12/17	7-9/18	2018	2017
Revenue, MEUR	1,135	1,027	1,123	4,315	3,912
EBITDA, MEUR	26	17	31	101	93
Comparable operating profit, MEUR	19	11	24	77	68
Operating profit, MEUR	19	11	24	77	69
Net assets, MEUR	249	280	275	249	280
Return on net assets*, %	29.1	28.7	25.1	29.1	28.7
Comparable return on net assets*, %	29.1	28.5	25.1	29.1	28.5

* Last 12 months

Variance analysis (comparison to corresponding period), MEUR

	10-12	1-12
Comparable operating profit, 2017	11	68
Sales volumes	-1	0
Unit margins	5	5
Currency exchange	0	-1
Fixed costs	3	-1
Others	1	5
Comparable operating profit, 2018	19	77

Marketing & Services' comparable operating profit was EUR 19 million (11 million) in the fourth quarter. Transportation fuel demand followed a normal seasonality pattern towards the winter period. Road traffic growth in Finland is slowing down on a rolling 12 months basis. Our sales volumes were slightly below the corresponding period last year. All focus markets, particularly Russia, continued to be very competitive, but we were able to improve average unit margins compared to the corresponding period last year. Higher unit margins had a positive impact of EUR 5 million on the comparable operating profit year-on-year. The segment's fixed costs were EUR 3 million lower compared to the fourth quarter of 2017. Marketing & Services' comparable return on net assets was 29.1% (28.5%) at the end of December on a rolling 12-month basis.

Marketing & Services segment's full-year comparable operating profit was EUR 77 million (68 million). Sales volumes were maintained at the previous year's level. Average unit margins improved, which had a positive impact of EUR 5 million year-on-year. Also the other income was higher than in 2017, which had a positive impact of EUR 5 million on the comparable operating profit. The segment's fixed costs were EUR 1 million higher compared to the full-year 2017.

Sales volumes by main product categories, million liters

	10-12/18	10-12/17	7-9/18	2018	2017
Gasoline, station sales	247	265	276	1,049	1,080
Diesel, station sales	441	445	458	1,764	1,739
Heating oil	185	179	159	669	615

Net sales by market area, MEUR

	10-12/18	10-12/17	7-9/18	2018	2017
Finland	829	736	823	3,149	2,820
Northwest Russia	87	73	75	299	290
Baltic countries	219	218	225	867	802

Others

Key financials

	10-12/18	10-12/17	7-9/18	2018	2017
Comparable operating profit, MEUR	-12	0	-4	-36	-24
Operating profit, MEUR	-12	0	-90	-122	-24

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. The comparable operating profit of the Others segment totaled EUR -12 million (0 million) in the fourth quarter; Nynas accounted for EUR 1 million (3 million) of this figure. The common corporate costs were higher than in the fourth quarter of 2017.

The full-year comparable operating profit of the Others segment totaled EUR -36 million (-24 million); Nynas accounted for EUR -12 (-2 million) of this figure. Nynas' result was impacted by lower sales volumes and higher production costs compared to the previous year. As a result of normal impairment testing, we booked an asset writedown of EUR 86 million regarding our shareholding in Nynas AB during the third quarter.

Annual General Meeting

Neste Corporation's Annual General Meeting (AGM) was held in Helsinki on 5 April 2018. The AGM adopted the company's Financial Statements and Consolidated Financial Statements for 2017, and discharged the Board of Directors and the President and CEO from liability for 2017. The AGM also approved the Board of Directors' proposal regarding the distribution of the company's profit for 2017, authorizing payment of a dividend of EUR 1.70 per share in two installments. The first dividend installment, EUR 0.85 per share, was paid on 16 April 2018, and the second installment, EUR 0.85 per share, was paid on 17 October 2018.

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: Ms. Martina Flöel, Mr. Matti Kähkönen, Ms. Laura Raitio, Mr. Jean-Baptiste Renard, Mr. Willem Schoeber and Mr. Marco Wirén. The following were elected as new members: Ms. Elizabeth (Elly) Burghout and Mr. Jari Rosendal. Mr. Kähkönen was elected as Chair and Ms. Raitio as new Vice Chair.

Convening right after the Annual General Meeting, Neste's Board of Directors elected the members of its two Committees. Matti Kähkönen was elected Chair and Elly Burghout, Laura Raitio, and Jean-Baptiste Renard as members of the Personnel and Remuneration Committee. Marco Wirén was elected Chair and Martina Flöel, Jari Rosendal 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.

The AGM approved the Board of Directors' proposal on authorizing the Board to decide on the conveyance of the treasury shares held by the company under the following terms:

Under the authorization, the Board shall be authorized to take one or more decisions on the conveyance of treasury shares held by the company, provided that the number of shares thereby conveyed totals a maximum of 1,000,000 shares, equivalent to approximately 0.39% of all the company's shares.

The treasury shares held by the company may be conveyed to the company's shareholders in proportion to the shares they already own or through a directed share issue that bypasses shareholders' pre-emptive rights if the company has a weighty financial reason for doing so, such as using the shares in question as consideration in possible acquisitions or in other arrangements that are part of the company's business, to finance investments, or as part of the company's incentive program.

The treasury shares held by the company may be conveyed against payment or free of charge. A directed share issue may only be made free of charge if there is a particularly weighty financial reason, in respect of the company's interests and those of all its shareholders, for doing so.

The Board shall decide on other terms and conditions of share issue. The authorization shall remain in force until 30 June 2021.

Shares, share trading, and ownership

Neste’s shares are mainly traded on NASDAQ Helsinki Ltd. The share price closed the year at EUR 67.36, up by 26.3% compared to the end of 2017. The total shareholder return (TSR) was 29.4% (49.7%) in 2018. At its highest during 2018, the share price reached EUR 76.54, while the lowest price was EUR 52.12. Market capitalization was EUR 17.3 billion as of 31 December 2018. An average of 0.51 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 2018 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 2018, Neste held 573,662 treasury shares purchased under this authorization. As resolved by the AGM held on 5 April 2018, the Board of Directors was authorized to take one or more decisions on the conveyance of treasury shares held by the company totaling a maximum of 1,000,000 shares. The Board of Directors has no authorization to issue convertible bonds, share options, or new shares.

As of 31 December 2018, the State of Finland owned directly 36.4% (50.1% at the end of 2017) of outstanding shares, foreign institutions 37.6% (31.5%), Finnish institutions 18.3% (9.6%), and Finnish households 7.7% (8.7%).

Personnel

Neste employed an average of 5,468 (5,297) employees in 2018, of which 1,787 (1,693) were based outside Finland. At the end of December, the company had 5,413 employees (5,339), of which 1,820 (1,758) were located outside Finland.

Environmental, Social and Governance (ESG)

Key figures

	10-12/18	10-12/17	2018	2017
TRIF*	1.7	1.6	1.7	2.1
PSER**	2.8	1.8	2.1	2.1
GHG reduction, Mton***	1.9	2.1	7.9	8.3

* 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 compared to 2017. The annual TRIF result 1.7 was the best ever at Neste, and the target for 2018 was reached. During the fourth quarter the main focus was on contractor safety, managing winter conditions and safe execution of the planned maintenances at the Singapore and Porvoo refineries.

PSER, the main indicator for process safety, remained at the 2017 level. However, during the fourth quarter it was worse than in the comparable period of 2017, and we did not meet our PSER target for 2018. Making substantial improvements in process safety remains a top priority for Neste.

Our long-term safety development activities continue focusing on behavior, leadership, operational discipline, process safety and contractor safety. The key items in process safety are investments in asset integrity, ensuring comprehensive and effective process hazard analysis and actions in all operations, and continuous development of safety critical operations. Short-term actions focus on rollout of the updated Life Saving Rules, and ensuring effectiveness of the ongoing actions.

Neste produces renewable products that enable our customers to reduce their greenhouse gas (GHG) emissions. During the 2018 this GHG reduction was 7.9 million tons, slightly lower compared to the 8.3 million tons in the previous year. The reduction achieved in 2018 was impacted by the scheduled maintenance activities at the renewable diesel production facilities in Rotterdam and Singapore.

Emissions from operations at Neste's refineries were in substantial compliance at all sites during 2018. A total of two (10) minor non-compliance cases occurred at Neste's operations with very limited local environmental impact only. No serious environmental incidents resulting in liability occurred at Neste's refineries or other production sites. Efforts taken during 2018 to improve environmental management contributed to the performance improvement.

Neste was included in the Dow Jones Sustainability World Index for the 12th consecutive time in 2018. In January 2018, Neste was ranked the second most sustainable company in the world on the Global 100 list.

In 2018, we updated the Neste Traceability Dashboard to provide exact coordinates of the palm oil plantations in our supply chain. We also introduced data on our palm fatty acid distillate (PFAD) supply chain. In 2018, we continued our PFAD supply chain mapping efforts in collaboration with palm oil suppliers and sustainability specialist from the Consortium of Resource Experts (CORE). With CORE, we continued conducting risk assessments of palm oil mills that supply palm oil to refineries where PFAD is extracted as a processing residue. We have developed a new Supplier Sustainability Portal to digitalize renewable raw material supplier evaluation, monitoring, and engagement, and launched the first operational version in December 2018.

Following an earlier human rights impact assessment, in 2018 Neste initiated a human rights due diligence (HRDD) process across relevant departments and units to evaluate their strength in terms of internal policies, management processes and operating procedures.

During 2018, all new employees were required to complete a Code of Conduct online training. Trainings on anti-corruption, competition law compliance, and trade sanction compliance were conducted with defined target groups, such as sales and procurement teams. Neste's Anti-corruption Principle was also renewed during 2018.

Read more about the topics on Neste's website.

Research and development

Neste's R&D expenditure totaled EUR 48 million (44 million) in 2018. Expansion of the feedstock portfolio was continued, feedstock pretreatment and purification technologies further developed, and operations of the feedstock hub in Sluiskil, the Netherlands, supported. Research on waste plastic based feedstock for chemical recycling made progress with the ambition level concretized to use more than 1 Mton/a of liquefied waste plastic as refinery feedstock by 2030. Broadening of the product portfolio was done with special focus on renewable aviation fuel, low sulphur marine fuels, and new bio-based chemicals and chemically recycled plastics. Neste's patent portfolio in renewable feedstock, fuels and chemical applications was further strengthened with record high number of new patents and patent applications.

R&D supported activities for further expanding the feedstock portfolio in Renewable Products production towards higher share of lower quality waste and residue feedstock such as used cooking oils. It also supported capacity debottlenecking and maintenance cycle optimization at the production sites. Key priority was to provide validation information on the NEXBTL technology improvements included into the design of the Singapore capacity expansion project. Technology development for utilizing waste plastic as refinery feedstock was enhanced with selected external partners along the waste plastics to fuels and chemicals value chain.

R&D pursued to establish more strategic co-operations with external partners, key universities and institutes. For example, a strategic research co-operation with Aalto University was announced in the autumn.

Main events published during 2018

On 4 January, 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 was currently 49.74%.

On 9 February, Neste announced that Neste's Board of Directors had appointed Peter Vanacker President and CEO of Neste as of 1 November 2018. He will join Neste on 1 September 2018 as a Senior Executive and start familiarizing himself with Neste's business and operations. Matti Lievonen, who has served as Neste Corporation's President and CEO since 2008, acted as the President and CEO of Neste until 31 October 2018 and retired at the end of the 2018 after reaching his retirement age.

On 9 February, Neste announced that the US Blender's Tax Credit (BTC) had been approved retroactively for the year 2017. The retroactive reinstatement of the BTC for 2017 will have a positive impact on Neste's comparable operating profit in the first quarter of 2018. The impact is estimated to be somewhat lower than it was in the full year 2016. The respective cash flow is expected to be received during the first half of 2018.

On 19 March, Neste announced that it had started up the world's first large-scale renewable propane production facility in Rotterdam in the Netherlands. The first cargo of renewable propane had been delivered to SHV Energy, who will market and sell the product to its customers across Europe as BioLPG. Neste's new facility has a production capacity of 40,000 tons per year.

On 25 May, Neste announced that it had agreed to acquire the sole control and 51% of the shares of IH Demeter B.V., a Dutch trader of animal fats and proteins. The current owners shall remain as co-owners. The transaction was subject to regulatory approvals.

On 7 June, Neste announced that Neste and IKEA are now able to utilize renewable residue and waste raw materials as well as sustainably-produced vegetable oils in the production of plastic products. The pilot at commercial scale starts during the fall 2018. It will be the first large-scale production of renewable, bio-based polypropylene plastic globally.

On 14 June, Neste announced that it was satisfied with the preliminary agreement on the EU Renewable Energy Directive (RED II). The trialogue negotiations between the European Council, the European Parliament and the European Commission on the post-2020 EU Renewable Energy Directive (RED II) took place in Strasbourg.

On 18 June, Neste announced that it will be collaborating with Dallas Fort Worth International Airport (DFW) in an effort to reduce air pollution, especially carbon dioxide emissions, from aircraft at DFW. Both parties share the view that environmental awareness is growing globally and actions to combat climate change are needed in aviation, the fastest growing means of transport in the world today.

On 27 June, Neste announced that it welcomes the US EPA’s proposal on renewable fuel volume requirements. The US Environmental Protection Agency (EPA) announced its proposal covering the renewable fuel volume requirements for 2019 under the Renewable Fuel Standard (RFS) program on 26 June. The proposal calls for an almost 600 million gallon increase in the advanced biofuel category in 2019, from the current 4.29 billion gallons to 4.88 billion gallons in 2019. The biomass-based diesel standard for 2019 was already set in 2017. However, the EPA proposes an over 15% increase in the biomass-based diesel category in 2020 from 2.1 billion gallons to 2.43 billion gallons.

On 18 July, Neste announced that it is exploring ways to introduce liquefied waste plastic as a future raw material for fossil refining. The aim of the development project is to proceed to industrial scale trial during 2019. The company’s target is to process annually more than one million tons of waste plastic by 2030.

On 3 September, Neste announced that its acquisition of the share majority of the Dutch animal fat trader Demeter has been approved by the regulatory authorities, and the deal has been closed. Neste now owns 51% of the shares of IH Demeter B.V., making Neste the controlling shareholder. The former owners remain as co-owners.

On 11 September, Neste announced that it had signed a Memorandum of Understanding (MOU) with Alaska Airlines. In addition to Alaska Airlines’ efforts to increase fuel-efficiency and adopt innovative flight technology, the agreement will allow Neste and Alaska to work more closely together to design, create and implement solutions that lay the groundwork for the wider adoption of renewable fuels within the airline industry.

On 12 September, Neste announced that the following members had been appointed to Neste's Shareholders' Nomination Board: The Chair, Senior Financial Counsellor Jarmo Väisänen of the Ownership Steering Department in the Prime Minister’s Office of Finland; President and CEO Jouko Pölönen of Ilmarinen Mutual Pension Insurance Company; Executive Vice-President Reima Rytsölä of Varma Mutual Pension Insurance Company and Matti Kähkönen, the Chair of Neste's Board of Directors.

On 11 October, Neste announced that Neste and Air BP, the international aviation fuel products and services supplier, had entered into an agreement to explore opportunities to increase the supply and availability of sustainable aviation fuel for airline customers.

On 1 November, Neste announced that Peter Vanacker had started as the President and CEO. He joined Neste in September 2018 as a Senior Executive and since then had familiarized himself with Neste's business and operations.

On 6 November, Neste announced that Neste and Clariant, a world leader in specialty chemicals, have signed an agreement for a new partnership to join forces in developing and making new sustainable material solutions accessible to a variety of industries. In the first phase of the partnership, companies will start replacing fossil-based ethylene and propylene used in Clariant’s top-quality hot-melt adhesives, with monomers derived from renewable feedstock. In a later phase, the companies will also develop other sustainable additive solutions derived from renewable raw materials for plastics and coatings applications.

On 7 November, Neste announced that it is launching Neste MY Renewable Diesel for the Swedish transport market. It is made from 100% renewable raw materials and emits up to 90% less greenhouse gas emissions compared to conventional fossil diesel. Neste MY Renewable Diesel in Sweden is aimed initially at the transport industry and other business customers and is sold via the distributors Swea Energi, Biofuel Express, Ecobränsle, Colabitoil and Energifabriken. The fuel can easily replace traditional diesel in private cars as well.

On 13 November, Neste announced that it was satisfied with the European Parliament’s voting on the EU post-2020 Renewable Energy Directive (RED II). As expected, the Parliament supports the EU-wide overall target of 32% for renewables in 2030, and the binding target of minimum 14% for renewables in transport in 2030. The Renewable Energy Directive creates a predictable investment environment for biofuels. The proposal needs to be formally approved by the Council before final publication.

On 3 December, Neste announced that the US Environmental Protection Agency (EPA) had published the final ruling covering renewable fuel volume requirements under the Renewable Fuel Standard (RFS) program for 2019, and biomass-based diesel for 2020. The final ruling increases requirements for biomass-based diesel from the 2019 standard by 330 million gallons for 2020. Neste MY Renewable Diesel also competes for the additional advanced biofuel volumes for 2019 which will increase by 630 million gallons over the 2018 standard.

On 5 December, Neste announced that it had received a notification under Chapter 9, Section 5 of the Finnish Securities Markets Act, according to which the total holding of Valtion kehitysyhtiö Vake Oy (State Business Development Company) of the shares and votes of Neste Corporation had risen above the threshold of 5% and was 8.31%. To Neste Corporation’s knowledge, Valtion kehitysyhtiö Vake Oy is 100% controlled by the State of Finland.

On 11 December, Neste announced that the Board of Directors of Neste Corporation had decided on the establishment of new share-based long-term incentive schemes for selected members of the Company’s management and selected key employees. The decision includes a Performance Share Plan (also “PSP”) as the main structure and a Restricted Share Plan (also “RSP”) as a complementary structure for specific situations.

On 12 December, Neste announced that it had made the final investment decision on additional renewable products production capacity in Singapore. The decision is based on a growing global market demand for low-carbon solutions in transport and cities, aviation, polymers and chemicals. The investment worth approximately EUR 1.4 billion will extend Neste’s renewable product overall capacity in Singapore by up to 1.3 million tons per annum, bringing the total renewable product capacity close to 4.5 million tons annually in 2022. The company’s target is to start up the new production line during the first half of 2022.

Events after the reporting period

On 18 January, 2019, Neste announced that the Shareholders' Nomination Board proposes to the AGM to be held on 2 April 2019 that the company's Board of Directors shall comprise the following members: The Shareholders' Nomination Board proposes that Mr. Matti Kähkönen shall be re-elected as the Chair of the Board of Directors. In addition, the current Board members Ms. Elly (Elizabeth) Burghout, Ms. Martina Flöel, Mr. Jean-Baptiste Renard, Mr. Jari Rosendal, Mr. Willem Schoeber, and Mr. Marco Wirén are proposed to be re-elected for a further term of office. The Nomination Board further proposes that Mr. Wirén shall be elected as the Vice Chair of the Board. The Shareholders' Nomination Board further proposes that the Board shall have eight members and that Ms. Sonat Burman-Olsson shall be elected as a new member.

Potential risks

There have been no significant changes in Neste´s short-term risks or uncertainties since the end 2017.

Key market risks affecting Neste's financial results for the next 12 months include political and geopolitical risks, such as impact of the US sanctions on Nynas' business, possible trade war, 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. Outcome of legal proceedings may have an impact on Neste's financial results.

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 renewable fuel, feedstock and oil markets; and volatility in these markets is anticipated to continue. Vegetable oil price differentials are expected to vary, depending on crop outlooks, weather phenomena, and variations in demand for different feedstocks. Global oil product demand growth is expected to continue at a lower rate than in 2018, while global refining capacity additions are expected to grow driven by large projects in Asia and the Middle East. Based on our current estimates and a hedging rate of 80%, Neste's effective EUR/US dollar rate is expected to be within a range 1.17-1.19 in the first quarter of 2019.

Renewable Products' first-quarter sales volumes are expected to be higher than in the fourth quarter of 2018, with no major changes in the sales allocation. Utilization rates of our renewable production facilities are expected to be high in the first quarter. The scheduled Singapore refinery turnaround, which was completed during the fourth quarter, is estimated to have a negative EBIT impact of EUR 15 million in the first quarter 2019.

Oil Products' reference margin is expected to be low in the first quarter, driven by a weak gasoline market, but to strengthen towards the end of the quarter. Utilization rates of our production facilities are anticipated to be high in the first quarter.

In Marketing & Services the sales volumes and unit margins are expected to follow the previous years' seasonality pattern in the first quarter.

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 2018 amounted to EUR 2,181 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 2.28 per share (1.70) for 2018, totaling EUR 583 million (435 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 1.14 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 Thursday, 4 April 2019. The Board proposes to the AGM that the first dividend installment would be paid on Thursday, 11 April 2019.

The second installment of the dividend shall be paid in October 2019. The Board of Directors will propose to the Annual General Meeting a share issue without payment (share split). If the Board's proposal is approved, the second installment will be divided between one old and two new shares so that EUR 0.38 will be paid for each share. If the AGM does not approve the share issue without payment proposed by the Board, the second installment will be paid in the same manner as the first, i.e. EUR 1.14 per share. The second installment of dividend 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 Friday, 4 October 2019. The Board proposes to the AGM that the second dividend installment would be paid on Friday, 11 October 2019. 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 3.4% (at year-end 2018 share price of EUR 67.36) and 51% of the comparable net profit in 2018, and an increase of 34% compared to the dividend distributed in the previous year.

Reporting date for the company's first-quarter 2019 results

Neste will publish its first-quarter results on 26 April 2019 at approximately 9:00 a.m. EET.

Espoo, 5 February 2019

Neste Corporation
Board of Directors

Further information:

Peter Vanacker, President and 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, 6 February 2019, 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 4245 0806, rest of Europe: +44 (0)844 571 8892, US: +1 631 510 7495, using access code 8992107. The conference call can be followed at the company's website. An instant replay of the call will be available until 13 February 2019 at +44 (0) 3333 009785 for Europe and +1 917 677 7532 for the US, using access code 8992107.

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 2018
The financial statements release is unaudited

FINANCIAL STATEMENT SUMMARY AND NOTES TO THE FINANCIAL STATEMENT

CONSOLIDATED STATEMENT OF INCOME

EUR million	Note	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Revenue	3, 4	**3,661**	3,636	**14,918**	13,217
Other income		**4**	6	**17**	22
Share of profit (loss) of joint ventures		**1**	4	**-9**	1
Materials and services		**-3,025**	-3,037	**-12,459**	-10,927
Employee benefit costs		**-111**	-102	**-400**	-372
Depreciation, amortization and impairments	4	**-218**	-98	**-614**	-371
Other expenses		**-129**	-113	**-429**	-399
Operating profit	4	**183**	296	**1,025**	1,171
Financial income and expenses					
Financial income		**3**	1	**7**	4
Financial expenses		**-12**	-15	**-48**	-79
Exchange rate and fair value gains and losses		**-3**	5	**-34**	-2
Total financial income and expenses		**-12**	-9	**-75**	-77
Profit before income taxes		**171**	287	**951**	1,094
Income tax expense		**-41**	-42	**-172**	-180
Profit for the period		**130**	244	**779**	914
Profit attributable to:					
Owners of the parent		**129**	244	**778**	911
Non-controlling interests		**0**	0	**0**	3
		130	244	**779**	914
Earnings per share from profit attributable to the owners of the parent (in euro per share)					
Basic earnings per share		**0.51**	0.96	**3.04**	3.56
Diluted earnings per share		**0.50**	0.95	**3.03**	3.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Profit for the period	**130**	244	**779**	914
Other comprehensive income net of tax:				
Items that will not be reclassified to profit or loss				
Remeasurements on defined benefit plans	**3**	0	**4**	2
Items that may be reclassified subsequently to profit or loss				
Translation differences	**-1**	-6	**-16**	-15
Cash flow hedges				
recorded in equity	**-18**	0	**-53**	69
transferred to income statement	**17**	-13	**7**	-15
Share of other comprehensive income of investments accounted for using the equity method	**4**	-8	**-4**	2
Total	**2**	-28	**-65**	40
Other comprehensive income for the period, net of tax	**5**	-27	**-61**	42
Total comprehensive income for the period	**135**	217	**718**	956
Total comprehensive income attributable to:				
Owners of the parent	**135**	217	**717**	952
Non-controlling interests	**0**	0	**0**	3
	135	217	**718**	956

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	7	**124**	100
Property, plant and equipment	7	**3,737**	3,856
Investments in joint ventures	8	**106**	213
Non-current receivables		**87**	51
Deferred tax assets		**34**	35
Derivative financial instruments	10	**3**	4
Other financial assets		**5**	5
Total non-current assets		**4,095**	4,262
Current assets			
Inventories		**1,482**	1,563
Trade and other receivables		**1,231**	1,097
Derivative financial instruments	10	**206**	86
Current investments		**74**	0
Cash and cash equivalents		**1,136**	783
Total current assets		**4,129**	3,530
Total assets		**8,224**	7,793
EQUITY			
Capital and reserves attributable to the owners of the parent			
Share capital		**40**	40
Other equity		**4,588**	4,298
Total		**4,628**	4,338
Non-controlling interests		**2**	0
Total equity		**4,630**	4,338
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities		**849**	1,032
Deferred tax liabilities		**260**	269
Provisions		**100**	55
Pension liabilities		**124**	131
Derivative financial instruments	10	**0**	0
Other non-current liabilities		**14**	17
Total non-current liabilities		**1,347**	1,504
Current liabilities			
Interest-bearing liabilities		**291**	163
Current tax liabilities		**59**	36
Derivative financial instruments	10	**149**	72
Trade and other payables		**1,749**	1,679
Total current liabilities		**2,247**	1,951
Total liabilities		**3,594**	3,455
Total equity and liabilities		**8,224**	7,793

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR million	Note	10-12/2018	10-12/2017	1-12/2018	1-12/2017
Cash flows from operating activities					
Profit before income taxes		**171**	287	**951**	1,094
Adjustments, total		**36**	77	**590**	363
Change in net working capital		**355**	145	**99**	-104
Cash generated from operations		**562**	508	**1,640**	1,353
Finance cost, net		**-6**	-9	**-37**	-90
Income taxes paid		**-29**	-55	**-151**	-169
Net cash generated from operating activities		**528**	445	**1,452**	1,094
Cash flows from investing activities					
Capital expenditure		**-110**	-164	**-380**	-475
Acquisitions of subsidiaries, net of cash acquired	6	**0**	0	**-15**	0
Transactions with non-controlling interests		**0**	0	**0**	-27
Proceeds from sales of property, plant and equipment		**1**	1	**2**	5
Proceeds from sales of shares in joint arrangements		**0**	0	**2**	0
Changes in long-term receivables and other investments		**-30**	7	**-191**	31
Cash flows from investing activities		**-139**	-157	**-583**	-467
Cash flow before financing activities		**389**	287	**870**	628
Cash flows from financing activities					
Net change in loans and other financing activities		**-13**	1	**-82**	-283
Dividends paid to the owners of the parent		**-217**	0	**-435**	-332
Dividends paid to non-controlling interests		**0**	0	**0**	-15
Cash flows from financing activities		**-230**	1	**-517**	-631
Net increase (+) / decrease (-) in cash and cash equivalents		**159**	288	**353**	-3
Cash and cash equivalents at the beginning of the period		**979**	496	**783**	788
Exchange gains (+) / losses (-) on cash and cash equivalents		**-1**	-1	**0**	-2
Cash and cash equivalents at the end of the period		**1,136**	783	**1,136**	783

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

EUR million	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 Jan 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		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 Dec 2017	40	20	7	-9	-6	-73	-68	4,428	4,338	0	4,338

EUR million	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 Jan 2018	**40**	**20**	**7**	**-9**	**-6**	**-73**	**-68**	**4,428**	**4,338**	**0**	**4,338**
Change in accounting policy, IFRS 2								**6**	**6**		**6**
Change in accounting policy, IFRS 9					**1**			**-2**	**-1**		**-1**
Change in accounting policy, IFRS 15								**0**	**0**		**0**
Restated total equity at 1 Jan 2018	**40**	**20**	**7**	**-9**	**-5**	**-73**	**-68**	**4,432**	**4,343**	**0**	**4,343**
Profit for the period								**778**	**778**	**0**	**779**
Other comprehensive income for the period, net of tax					**-49**	**4**	**-16**		**-61**	**0**	**-61**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**-49**	**4**	**-16**	**778**	**717**	**0**	**718**
Transactions with the owners in their capacity as owners											
Dividend decision								**-435**	**-435**		**-435**
Transactions with non-controlling interests									**0**	**2**	**2**
Share-based compensation			**3**	**1**				**-1**	**2**		**2**
Transfer from retained earnings		**0**					**0**	**0**	**0**		**0**
Total equity at 31 Dec 2018	**40**	**19**	**10**	**-9**	**-55**	**-69**	**-84**	**4,774**	**4,628**	**2**	**4,630**

KEY FIGURES

	31 Dec 2018	31 Dec 2017
EBITDA, EUR million	**1,639**	1,542
Capital employed, EUR million	**5,770**	5,533
Interest-bearing net debt, EUR million	**-70**	412
Capital expenditure and investment in shares, EUR million	**438**	536
Return on average capital employed, after tax, (ROACE) %	**21.1**	17.5
Return on equity, (ROE) %	**17.3**	22.7
Equity per share, EUR	**18.09**	16.96
Cash flow per share, EUR	**5.68**	4.28
Price/earnings ratio (P/E)	**22.15**	14.99
Earnings per share (EPS), EUR	**3.04**	3.56
Comparable earnings per share, EUR	**4.50**	3.33
Comparable net profit	**1,150**	851
Equity-to-assets ratio, %	**56.5**	55.8
Leverage ratio, %	**-1.5**	8.7
Gearing, %	**-1.5**	9.5
Dividend per share	**2.28** [1)]	1.70
Dividend payout ratio, %	**75.0** [1)]	47.8
Dividend yield, %	**3.4** [1)]	3.2
Weighted average number of shares outstanding	**255,822,047**	255,775,535
Number of shares outstanding at the end of the period	**255,830,024**	255,790,141
Average number of personnel	**5,468**	5,297

[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* . The condensed interim report should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017. The accounting policies where they are different to those applied in prior periods are presented below and in Note 13 *Changes in accounting policies* . Otherwise accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended 31 December 2017. 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 condensed interim report is presented in million of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

The following new IFRS standards and amendments was adopted by the Group as of 1 January 2018:
- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- Amendments to IFRS 2 Share-based payments

None of the new standards had a material impact on Neste's consolidated financial statements. See Note 13 *Changes in accounting policies* for more detailed explanation of the impacts.

2. TREASURY SHARES

On 15 March 2018 a total of 39,883 treasury shares of Neste Corporation has been conveyed without consideration to the key persons participating in the Long-term Incentive 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 1 April 2015. The number of treasury shares was 573,662 shares on 31 December 2018.

3. REVENUE

REVENUE BY CATEGORY

External revenue	10-12/2018 Renewable Products	Oil Products	Marketing & Services	Others	Total	10-12/2017 Renewable Products	Oil Products	Marketing & Services	Others	Total
Fuels [1]	**732**	**1,531**	**1,092**	**0**	**3,355**	793	1,328	985	0	3,106
Light distillates	**41**	**589**	**273**	**0**	**903**	43	560	265	0	868
Middle distillates	**691**	**812**	**818**	**0**	**2,321**	751	640	706	0	2,097
Heavy fuel oil	**0**	**131**	**1**	**0**	**132**	0	128	14	0	142
Other products	**2**	**202**	**31**	**0**	**235**	2	410	29	3	444
Other services	**0**	**52**	**3**	**15**	**71**	1	50	3	33	87
Total	**734**	**1,785**	**1,126**	**15**	**3,661**	796	1,788	1,017	36	3,636

External revenue	1-12/2018 Renewable Products	Oil Products	Marketing & Services	Others	Total	1-12/2017 Renewable Products	Oil Products	Marketing & Services	Others	Total
Fuels [1]	**2,942**	**6,691**	**4,147**	**0**	**13,779**	2,862	5,396	3,752	0	12,010
Light distillates	**130**	**2,930**	**1,110**	**0**	**4,170**	113	2,370	1,106	0	3,589
Middle distillates	**2,812**	**3,227**	**3,032**	**0**	**9,071**	2,749	2,688	2,628	0	8,065
Heavy fuel oil	**0**	**534**	**5**	**0**	**539**	0	338	18	0	356
Other products	**2**	**790**	**119**	**0**	**911**	2	919	116	3	1,040
Other services	**0**	**121**	**12**	**95**	**228**	1	69	11	86	167
Total	**2,943**	**7,601**	**4,279**	**95**	**14,918**	2,865	6,384	3,879	89	13,217

[1] Light distillates comprise motor gasoline, gasoline components, LPG, renewable naphtha and biopropane. Middle distillates comprise diesel, jet fuels, low sulphur marine fuels, heating oil, renewable fuels and renewable jet fuels. RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) are included in the corresponding fuel categories.

TIMING OF REVENUE RECOGNITION

External revenue	10-12/2018 Renewable Products	Oil Products	Marketing & Services	Others	Total	10-12/2017 Renewable Products	Oil Products	Marketing & Services	Others	Total
Goods transferred at point in time	**734**	**1,733**	**1,123**	**0**	**3,590**	795	1,738	1,014	3	3,550
Services transferred at point in time	**0**	**52**	**3**	**1**	**56**	1	50	3	5	58
Services transferred over time	**0**	**0**	**0**	**15**	**15**	0	0	0	28	28
Total	**734**	**1,785**	**1,126**	**15**	**3,661**	796	1,788	1,017	36	3,636

External revenue	1-12/2018 Renewable Products	Oil Products	Marketing & Services	Others	Total	1-12/2017 Renewable Products	Oil Products	Marketing & Services	Others	Total
Goods transferred at point in time	**2,943**	**7,481**	**4,266**	**0**	**14,691**	2,864	6,315	3,868	3	13,050
Services transferred at point in time	**0**	**121**	**12**	**2**	**134**	1	69	11	17	97
Services transferred over time	**0**	**0**	**0**	**93**	**93**	0	0	0	70	70
Total	**2,943**	**7,601**	**4,279**	**95**	**14,918**	2,865	6,384	3,879	89	13,217

REVENUE BY OPERATING SEGMENT

10-12/2018	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	**734**	**1,785**	**1,126**	**15**	**0**	**3,661**
Internal revenue	**151**	**671**	**9**	**48**	**-878**	**0**
Total revenue	**884**	**2,456**	**1,135**	**64**	**-878**	**3,661**

10-12/2017	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	796	1,788	1,017	36	0	3,636
Internal revenue	128	568	10	32	-737	0
Total revenue	924	2,355	1,027	68	-737	3,636

1-12/2018	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	**2,943**	**7,601**	**4,279**	**95**	**0**	**14,918**
Internal revenue	**298**	**2,504**	**36**	**169**	**-3,007**	**0**
Total revenue	**3,241**	**10,105**	**4,315**	**264**	**-3,007**	**14,918**

1-12/2017	Renewable Products	Oil Products	Marketing & Services	Others	Eliminations	Total
External revenue	2,865	6,384	3,879	89	0	13,217
Internal revenue	379	2,106	33	148	-2,666	0
Total revenue	3,243	8,490	3,912	237	-2,666	13,217

REVENUE BY OPERATING DESTINATION

	10-12/2018					10-12/2017				
External revenue	**Renewable Products**	**Oil Products**	**Marketing & Services**	**Others**	**Total**	Renewable Products	Oil Products	Marketing & Services	Others	Total
Finland	**-3**	**624**	**806**	**9**	**1,436**	0	516	717	29	1,262
Other Nordic countries	**391**	**204**	**9**	**2**	**606**	453	237	8	3	700
Baltic Rim	**0**	**7**	**310**	**0**	**317**	0	32	292	0	324
Other European countries	**115**	**767**	**1**	**3**	**886**	113	659	0	2	774
North and South America	**228**	**90**	**0**	**0**	**318**	227	176	0	0	403
Other countries	**3**	**94**	**0**	**1**	**97**	4	167	0	2	173
Total	**734**	**1,785**	**1,126**	**15**	**3,661**	796	1,788	1,017	36	3,636

	1-12/2018					1-12/2017				
External revenue	**Renewable Products**	**Oil Products**	**Marketing & Services**	**Others**	**Total**	Renewable Products	Oil Products	Marketing & Services	Others	Total
Finland	**1**	**1,983**	**3,069**	**70**	**5,124**	-4	1,738	2,751	60	4,545
Other Nordic countries	**1,642**	**999**	**34**	**10**	**2,685**	1,651	871	27	11	2,561
Baltic Rim	**0**	**95**	**1,173**	**0**	**1,268**	0	128	1,099	0	1,226
Other European countries	**364**	**3,351**	**2**	**9**	**3,726**	368	2,658	2	10	3,038
North and South America	**914**	**698**	**0**	**0**	**1,612**	833	578	0	0	1,411
Other countries	**22**	**476**	**0**	**6**	**503**	17	411	0	8	435
Total	**2,943**	**7,601**	**4,279**	**95**	**14,918**	2,865	6,384	3,879	89	13,217

4. SEGMENT INFORMATION

Neste's operations are grouped into four reporting segments: Renewable Products, Oil Products, Marketing & Services and Others. 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. 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	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
Renewable Products	**884**	924	**3,241**	3,243
Oil Products	**2,456**	2,355	**10,105**	8,490
Marketing & Services	**1,135**	1,027	**4,315**	3,912
Others	**64**	68	**264**	237
Eliminations	**-878**	-737	**-3,007**	-2,666
Total	**3,661**	3,636	**14,918**	13,217

OPERATING PROFIT	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
Renewable Products	**400**	144	**899**	476
Oil Products	**-224**	140	**170**	650
Marketing & Services	**19**	11	**77**	69
Others	**-12**	0	**-122**	-24
Eliminations	**1**	1	**2**	0
Total	**183**	296	**1,025**	1,171

COMPARABLE OPERATING PROFIT	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
Renewable Products	**281**	209	**983**	561
Oil Products	**60**	89	**397**	495
Marketing & Services	**19**	11	**77**	68
Others	**-12**	0	**-36**	-24
Eliminations	**1**	1	**2**	0
Total	**349**	311	**1,422**	1,101

DEPRECIATION, AMORTIZATION AND IMPAIRMENTS	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
Renewable Products	**33**	28	**128**	110
Oil Products [1)]	**171**	57	**345**	213
Marketing & Services	**7**	6	**25**	25
Others [2)]	**8**	7	**116**	24
Eliminations	**0**	0	**0**	0
Total	**218**	98	**614**	371

[1)] Neste Oil Bahrain W.L.L.'s assets EUR 112 million were written down due to a disadvantageous tax judgement in December 2018.

[2)] An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018

CAPITAL EXPENDITURE AND INVESTMENTS IN SHARES	**10-12/2018**	10-12/2017	**1-12/2018**	1-12/2017
Renewable Products	**45**	47	**159**	122
Oil Products	**53**	104	**196**	307
Marketing & Services	**10**	9	**28**	37
Others	**16**	12	**55**	70
Eliminations	**0**	0	**0**	0
Total	**124**	172	**438**	536

TOTAL ASSETS	**31 Dec 2018**	31 Dec 2017
Renewable Products	**2,475**	2,255
Oil Products	**3,750**	3,827
Marketing & Services	**551**	585
Others	**401**	499
Unallocated assets	**1,430**	934
Eliminations	**-384**	-308
Total	**8,224**	7,793

NET ASSETS	31 Dec 2018	31 Dec 2017
Renewable Products	**2,018**	1,863
Oil Products	**2,257**	2,497
Marketing & Services	**249**	280
Others	**186**	292
Eliminations	**-4**	-12
Total	**4,706**	4,920

TOTAL LIABILITIES	31 Dec 2018	31 Dec 2017
Renewable Products	**457**	392
Oil Products	**1,492**	1,330
Marketing & Services	**302**	306
Others	**215**	206
Unallocated liabilities	**1,507**	1,516
Eliminations	**-380**	-295
Total	**3,594**	3,455

RETURN ON NET ASSETS, %	31 Dec 2018	31 Dec 2017
Renewable Products	**48.0**	25.6
Oil Products	**6.7**	25.6
Marketing & Services	**29.1**	28.7

COMPARABLE RETURN ON NET ASSETS, %	31 Dec 2018	31 Dec 2017
Renewable Products	**52.4**	30.2
Oil Products	**15.7**	19.5
Marketing & Services	**29.1**	28.5

QUARTERLY SEGMENT INFORMATION

QUARTERLY REVENUE	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products	**884**	**805**	**793**	**759**	924	793	828	699
Oil Products	**2,456**	**2,661**	**2,534**	**2,453**	2,355	2,045	2,080	2,009
Marketing & Services	**1,135**	**1,123**	**1,061**	**996**	1,027	986	952	948
Others	**64**	**65**	**71**	**65**	68	57	58	55
Eliminations	**-878**	**-771**	**-713**	**-645**	-737	-652	-638	-639
Total	**3,661**	**3,884**	**3,745**	**3,629**	3,636	3,229	3,280	3,071

QUARTERLY OPERATING PROFIT	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products [1)]	**400**	**163**	**56**	**279**	144	119	122	91
Oil Products	**-224**	**151**	**108**	**135**	140	199	130	182
Marketing & Services	**19**	**24**	**20**	**13**	11	27	19	12
Others	**-12**	**-90**	**-11**	**-9**	0	-2	-6	-17
Eliminations	**1**	**1**	**-1**	**2**	1	-4	0	3
Total	**183**	**250**	**172**	**421**	296	339	264	271

[1)] The retroactive US Blender's Tax Credit (BTC) decision for 2017 has a positive impact of EUR 140 million on the Renewable Products' operating profit in Q1 2018.

QUARTERLY COMPARABLE OPERATING PROFIT	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products	**281**	**228**	**177**	**296**	209	171	101	80
Oil Products	**60**	**146**	**92**	**99**	89	158	122	126
Marketing & Services	**19**	**24**	**20**	**13**	11	27	19	11
Others	**-12**	**-4**	**-11**	**-9**	0	-2	-6	-17
Eliminations	**1**	**0**	**-1**	**2**	1	-4	0	3
Total	**349**	**395**	**277**	**401**	311	350	236	204

QUARTERLY DEPRECIATION, AMORTIZATION AND IMPAIRMENTS	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products	**33**	**34**	**32**	**28**	28	27	28	26
Oil Products [2)]	**171**	**60**	**58**	**57**	57	52	52	52
Marketing & Services	**7**	**6**	**6**	**6**	6	6	6	6
Others [3)]	**8**	**94**	**7**	**7**	7	6	6	5
Eliminations	**0**	**0**	**0**	**0**	0	0	0	0
Total	**218**	**195**	**103**	**98**	98	92	92	89

[2)] Neste Oil Bahrain W.L.L.'s assets EUR 112 million were written down due to a disadvantageous tax judgement in December 2018.

[3)] An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018.

QUARTERLY CAPITAL EXPENDITURE AND INVESTMENTS IN SHARES	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products	**45**	**48**	**37**	**28**	47	23	24	28
Oil Products	**53**	**40**	**57**	**46**	104	78	71	55
Marketing & Services	**10**	**7**	**8**	**4**	9	7	13	7
Others	**16**	**18**	**12**	**9**	12	36	14	8
Eliminations	**0**	**0**	**0**	**0**	0	0	0	0
Total	**124**	**113**	**114**	**86**	172	144	122	98

QUARTERLY NET ASSETS	10-12/2018	7-9/2018	4-6/2018	1-3/2018	10-12/2017	7-9/2017	4-6/2017	1-3/2017
Renewable Products	**2,018**	**1,834**	**1,748**	**1,906**	1,863	1,870	1,895	1,844
Oil Products	**2,257**	**2,665**	**2,678**	**2,592**	2,497	2,538	2,597	2,629
Marketing & Services	**249**	**275**	**254**	**259**	280	304	204	212
Others	**186**	**-4**	**65**	**291**	292	293	283	257
Eliminations	**-4**	**-7**	**-8**	**-8**	-12	-14	-10	-11
Total	**4,706**	**4,762**	**4,737**	**5,041**	4,920	4,990	4,968	4,930

5. RECONCILIATION OF KEY FIGURES TO IFRS FINANCIAL STATEMENTS

RECONCILIATION BETWEEN COMPARABLE OPERATING PROFIT AND OPERATING PROFIT

Group	10-12/2018	10-12/2017	7-9/2018	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**349**	311	395	**1,422**	1,101
inventory valuation gains/losses	**-231**	-1	-8	**-269**	31
changes in the fair value of open commodity and currency derivatives	**216**	-13	-49	**117**	24
capital gains and losses	**0**	0	0	**2**	3
insurance and other compensations	**0**	0	0	**0**	0
impairments	**-112**	0	-86	**-198**	0
other adjustments	**-38**	-1	-3	**-48**	12
OPERATING PROFIT	**183**	296	250	**1,025**	1,171

Renewable Products	10-12/2018	10-12/2017	7-9/2018	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**281**	209	228	**983**	561
inventory valuation gains/losses	**-60**	-31	-25	**-162**	-80
changes in the fair value of open commodity and currency derivatives	**179**	-35	-40	**82**	-5
capital gains and losses	**0**	0	0	**0**	0
insurance and other compensations	**0**	0	0	**0**	0
impairments	**0**	0	0	**0**	0
other adjustments	**0**	0	0	**-4**	0
OPERATING PROFIT	**400**	144	163	**899**	476

Oil Products	10-12/2018	10-12/2017	7-9/2018	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**60**	89	146	**397**	495
inventory valuation gains/losses	**-171**	30	18	**-108**	111
changes in the fair value of open commodity and currency derivatives	**36**	22	-9	**35**	29
capital gains and losses	**0**	0	0	**2**	3
insurance and other compensations	**0**	0	0	**0**	0
impairments [1)]	**-112**	0	0	**-112**	0
other adjustments [2)]	**-38**	-1	-3	**-44**	12
OPERATING PROFIT	**-224**	140	151	**170**	650

[1)] Neste Oil Bahrain W.L.L.'s assets EUR 112 million were written down due to a disadvantageous tax judgement in December 2018.
[2)] Includes provisions for legal proceedings

Marketing & Services	10-12/2018	10-12/2017	7-9/2018	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**19**	11	24	**77**	68
inventory valuation 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
impairments	**0**	0	0	**0**	0
other adjustments	**0**	0	0	**0**	0
OPERATING PROFIT	**19**	11	24	**77**	69

Others	10-12/2018	10-12/2017	7-9/2018	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**-12**	0	-4	**-36**	-24
inventory valuation 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
impairments [3)]	**0**	0	-86	**-86**	0
other adjustments	**0**	0	0	**0**	0
OPERATING PROFIT	**-12**	0	-90	**-122**	-24

[3)] An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018.

RECONCILIATION BETWEEN COMPARABLE OPERATING PROFIT AND COMPARABLE NET PROFIT

	10-12/2018	10-12/2017	1-12/2018	1-12/2017
COMPARABLE OPERATING PROFIT	**349**	311	**1,422**	1,101
total financial income and expenses	**-12**	-9	**-75**	-77
income tax expense	**-41**	-42	**-172**	-180
non-controlling interests	**0**	0	**0**	-3
tax on items affecting comparability	**-3**	-2	**-25**	11
COMPARABLE NET PROFIT	**292**	257	**1,150**	851

RECONCILIATION OF RETURN ON AVERAGE CAPITAL EMPLOYED, AFTER TAX (ROACE), %	31 Dec 2018	31 Dec 2017
COMPARABLE OPERATING PROFIT, LAST 12 MONTHS	**1,422**	1,101
financial income	**7**	4
exchange rate and fair value gains and losses	**-34**	-2
income tax expense	**-172**	-180
tax on other items affecting ROACE	**-32**	-1
Comparable net profit, net of tax	**1,191**	921
Capital employed average	**5,657**	5,266
RETURN ON AVERAGE CAPITAL EMPLOYED, AFTER TAX (ROACE), %	**21.1**	17.5

RECONCILIATION OF EQUITY-TO-ASSETS RATIO, %	31 Dec 2018	31 Dec 2017
Total equity	**4,630**	4,338
Total assets	**8,224**	7,793
Advances received	**-28**	-21
EQUITY-TO-ASSETS RATIO, %	**56.5**	55.8

RECONCILIATION OF NET WORKING CAPITAL IN DAYS OUTSTANDING	31 Dec 2018	31 Dec 2017
Operative receivables	**1,140**	1,093
Inventories	**1,482**	1,563
Operative liabilities	**-1,750**	-1,683
Net working capital	**873**	973
Revenue, last 12 months	**14,918**	13,217
NET WORKING CAPITAL IN DAYS OUTSTANDING	**21.4**	26.9

6. ACQUISITIONS

In May 2018 Neste and Demeter Holding B.V. agreed that Neste acquires sole control and 51 % of the shares of the Dutch animal fats and proteins trader IH Demeter B.V. (Internationale Handelmaatschappij 'Demeter' B.V.), making Neste the controlling shareholder. The acquisition was closed on 31 August 2018 after regulatory approvals. The previous owners remained as co-owners with non-controlling interest, which have been measured at proportionate share of the net assets. The new company is called Neste Demeter B.V. and has been consolidated into Renewable Products segment.

The acquisition is an important step for Neste in its strategy of building a global waste and residue raw material platform to secure raw material availability and competitiveness. IH Demeter B.V. has a long history, and a solid track record of cooperating with Neste. With an efficient European-wide logistical setup, the company is well-positioned to serve Neste in delivering future raw material volumes to Neste's renewable product refineries.

The fair value of acquired net assets include supplier relations that have been recognized as intangible assets. The goodwill is non-deductible for income tax purposes. Transactions costs of the acquisition have been recognized as other expenses in the consolidated statement of income. The acquisition does not have material impact on Group´s net sales nor result. In Q4/2018 the pension liabilities have been recognized according to IAS 19 which slightly affected to the fair value of the net assets. The purchase price was also fully settled in Q4/2018.

Values of acquired assets and liabilities at time of acquisition:	**Recognized values**
Intangible assets	2
Property, plant and equipment	0
Deferred tax assets	0
Inventories	28
Trade and other receivables	6
Cash and cash equivalents	0
Total assets	**37**
Interest bearing liabilities	12
Deferred tax liabilities	1
Pension liabilities	0
Current tax liabilities	2
Trade and other payables	19
Total liabilities	**33**
Fair value of net assets total	**3**
Consideration transferred	15
Proportionate share of net assets of non-controlling interests	2
Fair value of acquired net assets	-3
Goodwill	**13**

Cash flows of acquisition:	**2018**
Consideration, paid in cash	-15
Cash and cash equivalents in acquired company	0
Transaction costs of the acquisition	-1
Net cash flow on acquisition	-16

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

CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**31 Dec 2018**	31 Dec 2017
Opening balance	**3,955**	3,833
Depreciation, amortization and impairments [1)]	**-498**	-371
Capital expenditure	**422**	509
Disposals	**-27**	-12
Acquisitions	**15**	0
Translation differences	**-7**	-4
Closing balance	**3,861**	3,955

[1)] Property plant & equipment was written down by EUR 82 million in Neste Oil Bahrain W.L.L. in addition to other assets EUR 30 million, totalling an impairment of EUR 112 million in the income statement.

CAPITAL COMMITMENTS	**31 Dec 2018**	31 Dec 2017
Commitments to purchase property, plant and equipment	**138**	32
Total	**138**	32

8. CHANGES IN INVESTMENTS IN JOINT VENTURES

INVESTMENTS IN JOINT VENTURES	**31 Dec 2018**	31 Dec 2017
Opening balance	**213**	216
Share of profit (loss) of joint ventures	**-9**	1
Share of other comprehensive income of investments accounted for using the equity method	**-4**	2
Impairments [2)]	**-86**	0
Translation differences	**-8**	-8
Other changes	**0**	2
Closing balance	**106**	213

[2)] An impairment loss of EUR 86 million from Neste's share in Nynas AB was recognized in September 2018

9. INTEREST-BEARING NET DEBT AND LIQUIDITY

Interest-bearing net debt	**31 Dec 2018**	31 Dec 2017
Short-term interest-bearing liabilities	**291**	163
Long-term interest-bearing liabilities	**849**	1,032
Interest-bearing liabilities	**1,140**	1,195
Current investments	**-74**	0
Cash and cash equivalents	**-1,136**	-783
Liquid funds	**-1,210**	-783
Interest-bearing net debt	**-70**	412

Liquidity, unused committed credit facilities and debt programs	**31 Dec 2018**	31 Dec 2017
Liquid funds	**1,210**	783
Unused committed credit facilities	**1,650**	1,650
Total	**2,860**	2,433
In addition: Unused commercial paper program (uncommitted)	**400**	400

10. 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 2017.

	31 Dec 2018		31 Dec 2017	
Interest rate and currency derivatives	**Nominal value**	**Net fair value**	Nominal value	Net fair value
Interest rate swaps				
Hedge accounting	**74**	**1**	124	1
Non-hedge accounting	**26**	**0**	26	1
Currency derivatives				
Hedge accounting	**2,277**	**-29**	1,392	27
Non-hedge accounting	**1,269**	**2**	1,634	29

	31 Dec 2018			31 Dec 2017		
Commodity derivatives	**Volume GWh**	**Volume million bbl**	**Net fair value**	Volume GWh	Volume million bbl	Net fair value
Sales contracts						
Non-hedge accounting	**0**	**18**	**182**	0	17	-59
Purchase contracts						
Non-hedge accounting	**3,081**	**18**	**-96**	2,865	15	18

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

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.

Financial assets and liabilities by measurement categories and fair value hierarchy as of December 31, 2018

Balance sheet item	**Derivatives, hedge accounting**	**Fair value through profit or loss**	**Amortized cost**	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Non-current financial assets								
Non-current receivables			87	87	87			
Derivative financial instruments	1	2		3	3		3	
Other financial assets		5		5	5			5
Current financial assets								
Trade and other receivables [1)			1,224	1,224	1,224			
Derivative financial instruments	3	203		206	206	11	194	
Current investments			74	74	74			
Cash and cash equivalents			1,136	1,136	1,136			
Financial assets	4	209	2,521	2,735	2,735			
Non-current financial liabilities								
Interest-bearing liabilities			849	849	870	740	130	
Derivative financial instruments	0	0		0	0			
Other non-current liabilities			14	14	14			
Current financial liabilities								
Interest-bearing liabilities			291	291	295	151	143	
Derivative financial instruments	33	116		149	149	1	147	
Trade and other payables			1,749	1,749	1,749			
Financial liabilities	33	116	2,902	3,052	3,076			

[1) excluding non-financial items

Financial instruments that are measured at fair value in the balance sheet and the interest-bearing liabilities are presented according to 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).

Interest-bearing liabilities at level 1 consist of listed bonds. Derivative financial instruments at level 1 consist of commodity derivatives which are directly valued based on exchange quatations. The fair value of other financial instruments are not materially different from their carrying amount. Other financial assets in Fair value trough profit and loss -category include unlisted shares of EUR 5 million for which the fair value cannot be reliably determined.

During the reporting period 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. During the financial period there were no financial assets classified in Fair value through other comprehensive income -category.

11. 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 2018**	31 Dec 2017
Sales of goods and services	**263**	191
Purchases of goods and services	**283**	182
Receivables	**167**	84
Financial income and expenses	**3**	1
Liabilities	**6**	4

12. CONTINGENT LIABILITIES

Contingent liabilities	**31 Dec 2018**	31 Dec 2017
On own behalf for commitments		
Real estate mortgages	**26**	17
Pledged assets	**116**	116
Other contingent liabilities	**34**	40
Total	**177**	174
On behalf of joint arrangements		
Pledged assets	**45**	45
Guarantees	**0**	1
Total	**45**	46
On behalf of others		
Guarantees	**1**	1
Total	**1**	1
Total	**223**	221

Operating lease liabilities	**31 Dec 2018**	31 Dec 2017
Due within one year	**81**	74
Due between one and five years	**86**	61
Due later than five years	**68**	71
Total	**235**	206

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

13. CHANGES IN ACCOUNTING POLICIES

Oil Products segment's inventory valuation policy has been amended during the second quarter in 2018. The weighted average method has been applied for determining Oil Products' inventory cost whereas first-in, first-out (FIFO) method was used previously. The change had an immaterial impact on Neste's consolidated financial statements (approximately EUR 1 million).

The impacts of adoption of *IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers* and *Amendments to IFRS 2 Share-based payments* as of 1 January 2018 are explained below.

IFRS 9 Financial instruments

The Group started to apply IFRS 9 from 1 January 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. In accordance with the IFRS 9 transitional provisions, comparative information provided continues to be presented in accordance with the Group's previous accounting policy.

Financial assets are classified in the following measurement categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification depends on used business model for managing the financial assets and the contractual terms of the cash flows. Amortized cost category consist of cash and cash equivalents, trade receivables and loan receivables where the business model is to hold the asset to collect the contractual cash flows which represent only payments of principal and interest. For assets measured at fair value, gains and losses will be recorded either in income statement or other comprehensive income. At the moment Neste does not have any instruments measured through other comprehensive income. Assets at fair value through profit or loss consist of unlisted equity investments and derivatives, which are held for trading or do not meet criteria for hedge accounting. There were no changes relating to classification and measurement of financial liabilities.

For trade receivables Neste applies the simplified expected credit loss model. Every business area uses a specific provision matrix for the trade receivables due to the different nature of the businesses. The general expected credit loss model is used for debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been significant increase in credit risk.

For certain currency derivatives the Group applies cash flow hedge accounting and for certain interest rate derivatives cash flow or fair value hedge accounting. IFRS 9 requires documentation of economic relationship between the hedged item and hedging instrument, and the hedged ratio to be the same as the one management actually uses for risk management purposes. The concrete change for hedge accounting is the time value of foreign exchange options, which is recognized into other comprehensive income in equity together with the options' intrinsic value instead of being recognized directly into income statement. Otherwise the application of hedge accounting within existing hedge accounting relationships (cash flow and fair value hedges within foreign exchange and interest rate derivatives) continues under IFRS 9 as earlier.

On the date of initial application, 1 January 2018, the financial instruments of the company were the following, with any reclassifications noted:

			Carrying Amount		
Balance sheet item	IAS 39 Measurement Category	**IFRS 9 Measurement Category**	**IFRS 9**	IAS 39	Diff.
Non-current financial assets					
Non-current receivables	Loans and receivables	Amortized cost	**51**	51	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**2**	2	
Derivative financial instruments	Assets at fair value through income statement	Fair value through profit or loss	**2**	2	
Other financial assets	Available-for-sale financial assets	Fair value through profit or loss	**5**	5	
Current financial assets					
Trade and other receivables [1]	Loans and receivables	Amortized cost	**1,093**	1,094	1
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**29**	29	
Derivative financial instruments	Assets at fair value through income statement	Fair value through profit or loss	**58**	58	
Cash and cash equivalents	Loans and receivables	Amortized cost	**783**	783	
Non-current financial liabilities					
Interest-bearing liabilities	Financial liabilities measured at amortized cost	Amortized cost	**1,032**	1,032	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**0**	0	
Derivative financial instruments	Liabilities at fair value through income statement	Fair value through profit or loss	**0**	0	
Other non-current liabilities	Financial liabilities measured at amortized cost	Amortized cost	**17**	17	
Current financial liabilities					
Interest-bearing liabilities	Financial liabilities measured at amortized cost	Amortized cost	**163**	163	
Derivative financial instruments	Derivatives, hedge accounting	Derivatives, hedge accounting	**2**	2	
Derivative financial instruments	Liabilities at fair value through income statement	Fair value through profit or loss	**70**	70	
Trade and other payables	Financial liabilities measured at amortized cost	Amortized cost	**1,679**	1,679	

[1] excluding non-financial items

On 1 January 2018 the time value of foreign exchange options EUR 1 million was reclassified from retained earnings to other comprehensive income.

IFRS 15 Revenue from contracts with customers

The Group started to apply IFRS 15 from 1 January 2018, and applies the modified retrospective model. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity´s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces all preceding requirements (IAS 18 Revenue and IAS 11 Construction contracts and related interpretations).

The implementation of IFRS 15 does not have a significant impact on the consolidated financial statements. Management has assessed the IFRS 15 impact on the different agreement types that are used in Neste's business areas. The majority of the Group's net sales comprise of fuel and other product sales which are mostly standard in nature, and the delivery terms have been investigated, with no major impact compared to the revenue recognition prior to the implementation of IFRS 15. Certain storage service contracts, rebates, bonuses, penalties, warranties and other special terms and conditions that deviate from the basic agreement types have also been analyzed in more detail, and these do not have an impact on Neste's revenue recognition compared to the previous accounting policy.

Some of the Group's product sales are under CIF Incoterm conditions, where the total sales price is allocated to the separate performance obligations; the first being the product and the second being the transportation (including other costs, insurance and freight). The sales price allocated to the product is recognized upon shipment, before delivery. The sales price for the transportation is recognized when the latter performance obligation has been fulfilled. However, the allocated sales price for these is a minor part of the total revenue from contracts with customers, and the postponed revenue would have been EUR 0.8 million on 31 December 2017. After the related costs the impact on the opening balance is EUR 0.0 million.

Subsidiary Neste Engineering Solutions' current revenue recognition based on the percentage of completion method is consistent with IFRS 15, as the revenue is already recognized over time.

Renewable products' RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) and other similar separate performance obligations have also been assessed, with no changes to the earlier revenue recognition.

Amendments to IFRS 2 Share-based payments

In June 2016, the IASB made amendments to IFRS 2 *Share-based payments* which clarified the effect of vesting conditions on the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features and the accounting for a modification of the terms and conditions that changes the classification of the transaction from cash-settled to equity-settled. The IFRS 2 amendments were endorsed by EU in February 2018.

The Group started to apply IFRS 2 amendments from 1 January 2018. As permitted by the transitional provisions, the Group has applied the new policy from that date and comparative information provided continues to be presented in accordance with the Group's previous accounting policy.

From 1 January 2018, the entire share-based payment transaction is accounted for as an equity-settled share-based payment transaction. Under the previous accounting policy, the expected tax liability to be paid to the tax authority was measured at fair value at each reporting date and recognized as a liability like a cash-settled share-based payment transaction. Under the new accounting policy, the entire transaction is measured at fair value prevailing at grant date of share-based incentive plan and the difference realized upon the settlement date is recognized in equity. On 1 January 2018 the share-based payments' taxes of EUR 6 million were reclassified from liabilities to Equity: EUR 4 million from 'Other non-current liabilities' and EUR 2 million from 'Trade and other payables'. There were no other changes in Neste Group due to IFRS 2 amendments.

Calculation of key figures

Calculation of key figures

EBITDA	=		Operating profit + depreciation, amortization and impairments
Comparable operating profit [1)]	=		Operating profit -/+ inventory valuation gains/losses -/+ changes in the fair value of open commodity and currency derivatives -/+ capital gains/losses - insurance and other compensations + impairments -/+ other adjustments
Items affecting comparability	=		Inventory valuation gains/losses, changes in the fair value of open commodity and currency derivatives, capital gains/losses, insurance and other compensations, impairments 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), %	=	100 x	Profit before income taxes - income tax expense, last 12 months / Total equity average, 5 quarters end values
Return on average capital employed, after-tax (ROACE), %	=	100 x	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 / 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 - current investments
Leverage ratio, %	=	100 x	Interest-bearing net debt / Interest bearing net debt + total equity
Gearing, %	=	100 x	Interest-bearing net debt / Total equity
Equity-to-assets ratio, %	=	100 x	Total equity / Total assets - advances received
Net working capital in days outstanding	=	365 x	Net working capital / Revenue, last 12 months
Net Debt to EBITDA	=		Interest-bearing net debt / EBITDA, last 12 months
Return on net assets, %	=	100 x	Segment operating profit, last 12 months / Average segment net assets, 5 quarters end values
Comparable return on net assets, %	=	100 x	Segment comparable operating profit, last 12 months / 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

Calculation of share-related indicators

Earnings per share (EPS)	=	Profit for the period attributable to the owners of the parent / Weighted average number of shares outstanding during the period
Comparable earnings per share	=	Comparable net profit / Weighted average number of shares outstanding during the period
Equity per share	=	Shareholder's equity attributable to the owners of the parent / Number of shares outstanding at the end of the period
Cash flow per share	=	Net cash generated from operating activities / Weighted average number of shares outstanding 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	=	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/bbl)	=	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/bbl)	=	Oil Products total refining margin - Oil Products reference margin
Renewable Products reference margin (USD/ton)	=	70% (Europe´s share of sales volume) x (FAME - CPO) [2] + 30% (North America´s share of sales volume) x (SME - CPO + LCFS x 2) [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 valuation 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 net 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 RED seasonal
CPO = Crude Palm Oil Bursa Malaysia 3rd month + USD 70/ton freight to ARA (Amsterdam-Rotterdam-Antwerp)
SME = US Gulf Coast Soy Methyl Ester biodiesel mid-price
LCFS = California Low Carbon Fuel Standard Credit price

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