Risk relating to Neste Oil's business

The nature of the oil refining industry, regardless of the feedstocks used, exposes Neste Oil to market, counterparty, contractual, and operational risks, as well as other risks in areas such as sustainability, health, safety and the environment, IT and security, and general political and regulatory issues.

In particular, risks related to legislation, technology, and intellectual property rights, as well as feedstock supply, are likely to be of greater significance in renewable fuels than in traditional oil refining. Any of the above risks, either alone or jointly, may have a materially adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Changes in the refining margins of petroleum products and renewable fuels may also have a materially adverse effect on Neste Oil. The company's financial result is primarily affected by the price differential or margin between refined product prices and the price of the crude oil, vegetable oil, and other feedstocks used in refining.

The cost of the feedstocks Neste Oil acquires and the price at which it can ultimately sell its products depend on a variety of factors largely beyond the company's control. Historically, refining margins have been volatile and are likely to continue to remain so in the future. Future volatility in refining margins may have a material adverse effect on Neste Oil's business, financial status, operational result, and future prospects.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Feedstock price	
• The volatility of feedstock prices exposes Neste Oil's inventory value and EBIT to price risks under IFRS accounting. The comparable EBIT that Neste Oil reports is not exposed to this risk, as it is based on current cost valuation.	• From a risk management perspective, Neste Oil's inventory consists of two components; base inventory and transaction position. The latter is hedged using oil and vegetable oil derivatives. See: Financial Statements, Note 3, Commodity price risks.
Feedstock price differences	
• Changes caused by supply and demand related to the price differentials of specific crude grades (such as the price differential between Russian Export Blend and Brent crude). • Crude oil may also be exposed to adverse short-term physical market strength.	• Crude oil exposure is sometimes reduced by 'locking' the following crude oil differentials: between Brent Dated and Brent Future/Forward contract and between Urals and Brent Dated. • Fixed price premiums on supply contracts or use of commodity derivatives.
Margin	
• Uncertainty related to the development of the world economy, which impacts demand for petroleum products generally and diesel fuel in particular. • Development of global oil refining capacity and, in particular, capacity in the products refined by Neste Oil. • Changes in the costs related to alternative ways of fulfilling regulated biomandates. • Fluctuations between crude oil and product prices, as well as price differentials between vegetable oil and renewable fuel prices. • Changes in demand for different base oil product quality groups and changes in global base oil refining capacity.	• Neste Oil hedges the components of its refining margins with derivative transaction instruments. Hedging transactions concentrate on the components of Neste Oil's total refining margin. See: Financial Statements, Note 3, Refining margin risk. • Neste Oil monitors the development of worldwide refining capacity and aims to develop the structure of its own refining capacity. • Neste Oil's research and technology activities develop the company's products and technology and aim to extend the range of raw materials that Neste Oil can use in its processes.
Product price premiums	
• Availability of price arbitrage for refined products between different geographical markets. • Changes in the mandatory product specifications used by the EU and governmental authorities for refined products, such as the EU Fuel Quality Directive. • Pricing and other actions taken by competitors that impact the market.	• Long-term sales contracts • Commodity derivative contracts are used to manage price arbitrage. • Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. • Neste Oil has a strong retail network around the Baltic, which provides a captive market for its refining operations.
Sales volumes	
• Pace of the implementation of renewable fuel legislation, such as the EU Renewable Energy Directive (RED), national regulations, and the United States Renewable Fuel Standard (RFS-2). • Operational availability of Neste Oil's refineries.	• Neste Oil aims to make an active contribution to the development of product specifications and legislation in its key market areas. • High levels of operational availability are promoted through preventive maintenance and safety work at all the Company's refineries.

Major risks and uncertainties related to Neste Oil's business:	Mitigation actions include but are not limited to:
Exchange rate	
• Trading in commodities and refined products mainly takes place in US dollars, which exposes Neste Oil to USD/Euro exchange rate volatility.	• Neste Oil limits the uncertainties resulting from changes in foreign exchange rates by hedging its currency risks in contracted and forecasted cash flows and balance sheet exposures. See: Financial Statements, Note 3, Foreign exchange risk.
Costs	
• Changes in the cost and availability of logistics services for feedstocks and refined products. • Changes in environmental and other regulations that could require Neste Oil to make substantial investments without necessarily increasing the capacity or operational efficiency of its refineries. • Changes in the cost of capital.	• Neste Oil aims to link its environmental investments to productivity investments and cooperates constructively with all its stakeholders. • Neste Oil is exposed to interest rate risk primarily through its interest-bearing net debt. See: Financial Statements, Note 3, Interest rate risk.
Hazard risk	
• Hazard risk is defined as the risk of financial losses arising from events leading to the damage of physical or intellectual assets, business interruption, personnel injuries, or environmental, product, or other liabilities. • Risks in the area of marine transportation may, if realized, have a major cost effect.	• High levels of operational excellence are promoted through instructions and principles covering areas such as process-, product- and personnel safety, security, marine risk management, crisis management, change management, and business continuity management. • In addition to preventive risk management measures, major hazard risks are covered by insurance policies.
Credit and counterparty risk	
• Credit and counterparty risk arises from sales, hedging, and trading transactions, as well as cash investments. Risk is linked to the potential failure of counterparties to meet their contractual payment obligations, and depends on the creditworthiness of counterparties and the size of the exposure concerned.	• Credit risk limits are set at Group level, designated by different levels of authorization and delegated to Neste Oil's business areas. • Counterparties are screened and evaluated in respect of their creditworthiness to decide whether open credit lines are acceptable or whether collateral or other credit enhancements such as letters of credit, bank guarantees, or Parent Company guarantees have to be posted. See: Financial Statements, Note 3, Credit and counterparty risk.

More information on market, foreign exchange, and interest rate risks, and how they are mitigated can be found in the Financial Statements Note 3 section of the Annual Report.

More information on environmental and safety risks can be found in the Sustainability section of the Annual Report.