

## CEO's review



### Dear reader,

the longer I have served as Neste Oil's President & CEO, the more I have come to understand the extent of our people's commitment to continuous improvement. Following the economic downturn that set in during 2008, we have systematically developed our operations, and in 2013 we were able to enjoy some of the fruits of this work. The success of Renewable Fuels in making its business profitable was one of our key achievements during the year.

### Hard work by Renewable Fuels has paid off

The progress made by our Renewable Fuels business enabled us to concentrate on the markets and the customers that most valued our products and solutions during 2013. To reach this point had called for more focused sales, a better understanding of the ground rules shaping different markets, and well-timed advocacy work in the regulatory arena. A fundamental advantage that we have also been able to draw on is the fact that we can use more than 10 different inputs in our NExBTL process.

Neste Oil is a sustainable and responsible company in all its operations, and sustainability is particularly important when it comes to renewable fuels. We must be able to show that the feedstocks we use have been produced sustainably and that production does not result in any additional emissions, destroy the environment, or undermine anyone's livelihood. We published the Neste Oil No-Deforestation and Responsible Sourcing Guidelines in spring 2013 to further underline our commitment to avoiding bad practices. Wherever our partners have allowed, we have also published the names of our suppliers that would otherwise be covered by the confidentiality clauses of the supply contracts that we have with them. The certification target for crude palm oil was achieved two years in advance. 100% of the crude palm oil we

use, is certified and traced. We started collaboration with TFT, a non-profit organization focused on preventing deforestation, and we have opened up all the non-commercial information related to our supply chain to them so that they can evaluate how our supply chain operates.

The acceptability of feedstocks, together with their price and availability, are very decisive for our Renewable Fuels business. Waste and residues account for an increasing proportion of the renewable inputs we use, and Neste Oil is now the world's largest buyer of waste animal fat, for example, which we source from five continents. In fact, waste and residues accounted for more than half of our entire usage of renewable feedstocks in 2013. This means that we produced enough NExBTL renewable diesel from waste and residues during 2013 to power over a million cars for an entire year. We are now both the world's largest producer of renewable diesel and the world's largest producer of biofuels refined from waste and residues.

With the rise in the priority given to resource efficiency generally, waste and residues have begun to interest a growing number of industries and has resulted in increasing competition for these materials. Legislators are also being called on to decide what is the best use for these materials. Our hope is that they realize the added value that advanced renewable fuel production represents, especially as fuels play such an important role in a world where people's need to stay on the move and society's need to move goods is growing all the time.

The profitability of our Renewable Fuels business has been the outcome of a number of factors. One of these is that we have increased our sales to North America significantly; around half of our NExBTL renewable diesel output went there in 2013. We would not have succeeded here if we had not put in extensive work over a number of years to prepare ourselves for breaking into this market. When the opportunity came, we had the customer base, the capacity and the approved feedstock chain in place to meet the market's requirements.

### Petroleum product market under pressure

The high price of crude oil and petroleum products, together with the increased use of renewable fuels and the improvements that have been made in vehicles' fuel efficiency, have combined to depress demand for fossil traffic fuels in Western Europe for a number of years. Parallel to this, new competitive refining capacity has come on stream elsewhere, such as in the Middle East and Asia, and some of the output from these new facilities has ended up in Europe. The rapid growth in shale gas and tight oil in the US has also increased competition in Europe. The situation facing the European oil refining industry can only be resolved by shuttering capacity. Little has been done in this area, however, to such an extent, in fact, that even the European Commission has become concerned about the fundamentals underpinning the future of the industry in Europe.

All the same, Neste Oil's petroleum product operations performed well in 2013. Our refineries operated virtually without any outages, particularly during the second half of the year, something that is essential at a time of low product margins to maintain profitability. In addition, we succeeded in defending our market in the Baltic area by offering value-added solutions to customers.

Faced with increasing competition, our Base Oils business has focused on identifying new markets. Efforts here have been helped by the fact that our products have an extensive range of approvals from automotive manufacturers, including many of the industry's most prestigious brands.

## Oil Retail recorded its best result ever

Oil Retail recorded its best result ever in 2013. The key contributors here included effective product pricing, comprehensive cost monitoring, and successful marketing. I was particularly satisfied to see the success that Neste Pro Diesel, a truly premium-quality fuel launched in fall 2012, has had on the Finnish market.

## Cash flow is important

Strong cash flow is one of the best foundations that a company can rely on, and is generated not only by active sales but also by managing working capital effectively. We succeeded well in the latter area in 2013.

We invested less than we originally planned in 2013. Some investments were postponed and we also concentrated more on learning how to manage our investment needs more effectively. The largest capital project under way at the moment is a new isomerization unit at the Porvoo refinery, which, when complete, will enable us to increase our output of higher-value gasoline fractions.

Our solution aimed at enabling us to exit the shipping business also reflects Neste Oil's commitment to profitability and a better balance sheet structure. Our transportation needs have changed because our business is changing, and new capacity has also become available from other shipping companies. In a situation like this, it is difficult to achieve sufficient profitability from an in-house fleet. I am pleased that our solution has enabled our key vessels to transfer to stable Finnish owners.

## Strategic projects

The core of Neste Oil's strategy has remained essentially unchanged for some time: we want to be our customers' preferred partner for cleaner traffic solutions. Everyone at Neste Oil has a part to play in implementing our strategy. We have brought our main strategic projects under the umbrella of four Value Creation programs: Profitable Growth, Productivity, Renewable Feedstock, and Customer Focus. By working through these, we have been able to change our business in a significant way over the last few years. Setting challenging and measurable targets has generated results.

The changes we are making are all linked to our aim of becoming our customers' best partner and being a profitable investment for our owners. The Way Forward initiative is helping us here, to change the way we work and smooth our path to achieving our strategic goals.

As part of the Productivity Value Creation program, we have an internal change program focusing on improving safety. We have enhanced our occupational and process safety performance significantly over the last 10 years, but now we want to take a major leap forward and become one of the safest companies in the industry. Safety is all about actions, and as professionals we are committed to making this happen.

2013 was a good year for Neste Oil. For that, I would like to thank our customers and our personnel. We will do our utmost to ensure that Neste Oil continues to be a good partner and a good employer as we go forward.

Matti Lievonen  
President & CEO