

1. Neste Responsible Sourcing Commitment

Neste has a responsibility to proactively promote positive environmental and social impacts throughout its business operations and values chains. Neste expects its suppliers to have the same commitment to promote positive impacts and prevent habitat conversion. Through our business operations and program interventions, Neste shall work to eliminate deforestation, habitat conversion, and other social and environment negative impacts.

Neste operates in line with the European Union's regulatory requirements, following the Renewable Energy Directive²; the Fuel Quality Directive³ and the Directive to reduce indirect land use change for biofuels and bioliquids⁴; the European Grasslands Directive⁵ and the Renewable Fuel Standard⁶ of the USA and other international regulations relevant for our markets. In line with the UN Guiding Principles on Business and Human Rights, Neste respects the rights and values of people in its supply chains. Neste requires compliance with all applicable laws and aspires for international best practice. In addition, Neste obliges suppliers to meet or exceed the additional requirements that are specified in this document. Where national law and Neste requirements differ, Neste will follow the higher standard.

Neste demonstrates its commitment and addresses its environmental and social impacts by carrying out sustainability due diligence in its supply base. Neste actively engages with suppliers and other relevant stakeholders to seek collaboration for jointly developing innovative solutions for continuous improvement and to resolve grievances where they arise.

Neste commits to source traceable and sustainable feedstocks that either meet credible third-party certification or will be verified in accordance with Neste's own policies and principles for sustainability as well as the legislation of the country in which it is produced and to which it will be supplied.

2. Neste Responsible Sourcing Principle

The following defines Neste's conduct and business decisions on responsible sourcing. Neste expects its suppliers to comply with and share Neste's ambition and commitments with regards to this principle. For suppliers, these principles, where applicable, are to be read by replacing "Neste" with "suppliers" and applying them to their own production processes and relevant suppliers. These principles are applicable to all renewable feedstocks used by Neste⁷.

Feedstock for biofuels, bioliquids, and other bio-based materials shall be efficiently and responsibly produced, minimizing harm.

2.1 Legality

Neste adheres to all applicable laws, regulations or industry standards, whichever may be more stringent, relating to the production of feedstocks supplying its operations.

2.2 Traceability to the point of origin

Neste is committed to fulfilling the regulatory requirements for traceability and where possible go beyond and strive for full traceability to the point of origin for its feedstock.

2.2.1 Waste and residues

Waste and residues⁹ are traced to the point of creation, i.e. where the waste or residue is separated from the primary material(s) or is collected.

1. Post-consumer waste will be traced to the collection point¹⁰.
2. Industry based waste will be traced to the point of creation¹¹, i.e. where it is separated from the primary material.

2.2.2 Primary land use crops

Origin for primary land use crops¹² means traceable to cultivation and sourcing area¹³.

2.3 Land Use Change

Neste recognizes the potential negative effects on the environment and on people from land use change caused by biomass production.

2.3.1 Land Use Change

Neste commits to not source from areas where renewable feedstock production has led to adverse land use change and habitat conversion after 19 December 2007¹⁴¹⁵. Such land use change can be the conversion of forested areas, wetlands or grasslands into cultivation areas; and other natural eco-systems where High Conservation Values (HCV) or High Carbon Stock (HCS) are present, or where the Free, Prior and Informed Consent (FPIC)¹⁶¹⁷ of local communities and traditional land rights holders have not been given.

- i. Forests - Neste does not accept the conversion of forested land to biomass production where HCV and HCS values are found.
- ii. Wetlands or peatlands - Neste does not accept new development of wetlands or peatlands immaterial of size and depth of organic substrates. Neste requires that current cultivation areas on wetlands and peatlands are responsibly managed, safeguarding HCV and HCS values. Neste encourages, and will monitor, peat restoration where it is feasible or required.
- iii. Grasslands - Neste will not source feedstocks originating from areas where HCV and HCS values are found or that have been converted from highly biodiverse natural grasslands after 19 December 2007¹⁸¹⁹.

2.3.2 Biodiversity

Neste is committed to avoid conversion of habitats with valuable biodiversity for biomass production. Neste encourages the strengthening of protection of biodiversity and high conservation value areas and promotes and supports the resiliency of their natural values.

Neste encourages any future development of biomass production to take place on degraded lands, or lands where cultivation increases the carbon stock of those areas.

2.3.3 Community Land Rights

Neste is committed to ensure that land use for biomass production shall be conducted with respect to communal and customary land rights and where local and indigenous peoples have given consent to use land through a credible and documented FPIC²⁰²¹ process. Neste requires suppliers to assess, monitor and mitigate any social and environmental impacts from their operations.

2.3.4 Food Security

Where indigenous and local communities are influenced and impacted by land use change, Neste's suppliers are required to ensure food security and secure that sustainable livelihood options are respected. Through FPIC processes with participatory Social Impact Assessments and land use planning, communities' food security is preserved or strengthened in order to assure their land use choice and future food security options.

2.4 Use of fire

Neste does not accept use of fire or burning for land preparation and clearing during planting, replanting, for pest and weed management, and other biomass production activities.

2.5 Greenhouse Gases (GHG)

Where applicable, Neste's suppliers are required to have GHG management plans and monitoring in place, with policies specifying their ambitions to control, and where possible reduce GHG emissions at production, processing and transportation stages, including the use of carbon emission reduction technologies.

2.6 Best management practices

Neste's suppliers are required to strive for continued improvements in all their operations with regards to resource efficiency and waste reduction, management and recycling.

The use of good agricultural practices is a requisite to prevent or minimize land, air and water pollution, through the reduced use of agrichemical inputs, management of soil erosion and degradation.

2.7 Water

Neste recognizes the growing pressures on global water supplies caused by land use change, crop production and global climate change. Neste monitors its supply chain's water scarcity, consumption and related risks. Neste suppliers are required to develop water management and monitoring plans that will include actions and targets for reducing impacts on water quality and water consumption.

2.8 Human Rights

Human rights are rights inherent to all humans, such as freedom of association, decent working and living conditions, health and safety at the workplace, no child, slave, forced, or bonded labour. Neste is committed to respect human rights of all workers and communities in their supply base and is committed to proactively prevent adverse human rights impacts throughout its business operations and value chains.

The minimum human rights requirements for Neste business partners - including suppliers, contractors and service providers - are set out in the Neste Supplier Code of Conduct¹. Neste encourages and supports its business partners to continually improve and develop their practices beyond such minimum requirements, to reach the human rights standards and expectations set out in the Neste Human Rights Principle²².

2.9 Smallholders

Neste recognizes the importance of smallholders as producers of feedstocks sourced and processed in its operations, and work to enable small-scale farmers to overcome challenges through a policy of inclusion and engagement of producers.

Neste will collaborate with suppliers and other stakeholders to promote improved livelihoods, sustainable production practices, increased yields, and to encourage positive environmental and social outcomes in the landscapes where Neste and its suppliers operate.

3. Acting on the Principle

Recognizing that Neste's business activities and those of its suppliers carry risk of causing negative environmental and social impacts, Neste established an approach to manage risk across its business. This includes building an understanding of where and how responsible production may arise and then taking appropriate action to mitigate such risk.

Neste's Responsible Sourcing Principle is part of a comprehensive management system, with the following framework.

3.1 Implementation guidance

Neste uses a wide range of feedstocks with different origins. These principles apply to all current and future renewable feedstocks used by Neste. Separate Guidance Documents contains specific directions suited to each individual feedstock. The Guidance Documents specify the relevant tools and methodologies to be used to ensure the implementation of these principles across the Neste supply base for each feedstock. The Guidance Documents will continuously be updated according to best practice and to ensure compliance with the EU RED and relevant legislation in the markets where Neste operates.

3.2 Sustainability Due Diligence

3.2.1 Due Diligence

All Neste suppliers that supply feedstock and residues for bio-based products are required to provide comprehensive information and submit to a regular due diligence process. This enables Neste to strengthen its understanding of positive and negative impacts linked to its activities and those of its suppliers. Key priorities and critical issues are identified from this continuous evaluation, informing priorities for engagement and action.

3.2.2 Mitigation actions

Neste continuously strengthens practices and puts in place processes to identify and engage with suppliers to mitigate the risk of environmental and social impacts in their supply chains. The selection of new suppliers, as well as decisions to continue existing business relationships, is influenced by results of these efforts to take mitigating actions.

3.2.3 Remediation plans

Neste acts upon findings from its due diligence and mitigation work with suppliers to remedy where impacts are found to occur. In the case of non-responsiveness from the supplier, and as a last resort, Neste will terminate a commercial relationship where remediation cannot be achieved.

3.3 Advancing responsible sourcing

3.3.1 Engaging suppliers and their supply base

Respecting this Principle of Responsible Sourcing is a requirement for all suppliers of renewable feedstocks in Neste's supply chain. To ensure this Principle is respected, Neste implements the due diligence process, monitoring and engagement programs described above.

3.3.2 Suppliers' awareness and capacity building and communication

Neste commits to building capacity of its suppliers for them to understand and implement these principles through workshops, training and outreach and tailored engagements with its suppliers and their third-party suppliers, as needed.

3.3.3 Engagement with external stakeholders

Neste strives for open and active dialogue with all relevant stakeholder groups to address deforestation and other potential adverse environmental and social impacts linked to its operations.

Neste communicates publicly on its efforts via its dashboard and through a wide range of public sustainability platforms and forums.

3.3.4 Landscapes and jurisdictional initiatives

Neste aims to pursue implementation of its commitments in a manner that delivers transformational impact, alongside actions to strengthen the performance of their suppliers. This reflects the understanding that achieving the commitments requires industry wide transformation. Neste believes such transformation can be facilitated through landscape level engagement in regions where the suppliers are concentrated.

Delivering landscape transformation in practice requires a critical mass of actors working towards a common goal. Where possible, Neste will identify and pursue opportunities for collaborating with suppliers and other stakeholders to design and implement collaborative approaches to achieve landscape or jurisdictional wide improvements that will advance Neste's commitments at scale.

3.4 Grievances

Neste is committed to work with all parties involved in grievances to resolve the complaints and conflicts in their supply chain, through an open, transparent and consultative process. Neste and its suppliers shall ensure access to judicial remedy and to credible grievance mechanisms, without fear of recrimination or dismissal.

Incidents with respect to, or related to, Neste's operations involving a violation of this Principle, can be reported to the whistleblowing system "Ethics Online²³" at Neste's website. The whistleblowing system is available to everyone. Complaints can be submitted online or via phone to Ethics Online. Complaints will be investigated confidentially by Neste. Actions for and progress on grievance resolution will be communicated via the Neste website.

Neste will also rely on established grievance systems where they exist and are deemed to be adequately functional. Where applicable, Neste will rely on such systems as the first recourse for complainants in our supply chain.

3.5 Reporting and transparency

Neste reports regularly on progress of the implementation efforts through annual reporting, the dashboard and participation in public sustainability platforms and forums.

4. Definitions

Bio-based product - product wholly or partly derived from biomass²⁴.

Biofuels – liquid or gaseous fuel for transport produced from renewable feedstocks.

Bioliquids – liquid fuel for energy purposes other than for transport, including electricity, heating and cooling, produced from biomass.

Biomass - biodegradable fraction of products, waste and residues from biological origin from agriculture (including vegetal and animal substances), forestry and related industries including fisheries and aquaculture, as well as the biodegradable fraction of industrial and municipal waste²⁵.

Degraded land – land that has lost some degree of its natural productivity due to human-caused processes²⁶.

Free Prior and Informed Consent²⁷ (FPIC) - participation and consultation of an Indigenous Population and local communities to give or withhold their consent prior to a development on ancestral, traditional or community lands.

High Conservation Value²⁸ (HCV) areas – are areas whose species diversity, ecosystems and ecosystem services, importance for livelihood needs and cultural values are considered outstandingly significant or critically important, at the regional, national or global level.

Land use change (LUC) – shift from one land cover type to another as a result of human activity, such as forest clearance or degradation for agriculture, afforestation or change of crops. Natural ecosystems affected by LUC are forests, grasslands and wetlands, coastal and marine areas and other types of habitats.

Renewable Feedstock – a feedstock is defined as any renewable, biological material that can be used directly as a fuel or converted to another form of fuel, chemicals or energy product.

Residue – a substance that is not the end-product(s) that a production process directly seeks to produce; a residue is not a primary aim of the production process and the process has not been deliberately modified to produce it.

Supplier - a supply chain actor who supply renewable feedstocks to Neste. They can be producers, traders, refiners or manufacturers.

Supply base - all suppliers, their subsidiaries, and any producers, growers, traders, refiners, that it owns, manage, or invest in, and all third-party suppliers who supply renewable feedstock to Neste.

Third-party supplier – a supplier not directly controlled by Neste or a direct supplier.

Traceability – the ability to track and report the pathway of material flows from one location to another. Levels of resolution vary; where possible provide knowledge on the origin of production or point of creation, to point of processing and/or consumption. For crop-based feedstocks, traceability refers to the ability to track products to the plantation or farm where the crop is grown.

Waste - any substance or object which the holder discards or intends or is required to discard²⁹.

Post-consumer waste - a material or product that has served its intended use as a consumer product and has been diverted or recovered from waste destined for disposal.

Industrial waste - waste produced by industrial activity which includes any material that is rendered useless and materials that are produced as by-products in factories, industries, mills and mining operations.

*For other definitions we refer to the EU RED³⁰

- [1] https://www.neste.com/sites/neste.com/files/new_supplier_code_of_conduct_english.pdf
- [2] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>
- [3] <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0030>
- [4] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L1513&from=EN>
- [5] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R1307&from=EN>
- [6] <https://www.epa.gov/renewable-fuel-standard-program/final-renewable-fuel-standards-2017-and-biomass-based-diesel-volume>
- [7] Vegetable oil processing residue (PFAD), crude palm oil, rapeseed oil, soybean oil, jatropha oil, camelina oil, used cooking oil, animal fat, fish oil, tall oil and any other feedstock coming into production.
- [8] Requirements for other feedstock suppliers, suppliers and service providers can be found in the Neste Supplier Code of Conduct
- [9] Used cooking oil, animal fat and similar feedstocks
- [10] To the point of aggregation of waste, such as collection centers
- [11] Mill, refinery, factory or other processing unit
- [12] Crude palm oil, soybean oil and similar feedstocks
- [13] See feedstock specific guidance documents for details
- [14] <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>
- [15] <https://www.ecfr.gov/current/title-40/chapter-I/subchapter-C/part-80/subpart-M>
- [16] https://www.neste.com/sites/neste.com/files/neste_human_rights_principle_0.pdf
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- [19] <https://www.ecfr.gov/current/title-40/chapter-I/subchapter-C/part-80/subpart-M>
- [20] https://www.neste.com/sites/neste.com/files/neste_human_rights_principle_0.pdf
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- [25] <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>
- [26] <https://www.wri.org/faq/what-degraded-land>
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- [29] <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32008L0098&from=EN>
- [30] <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>