

# Pro Motion

The world is in continuous motion, and we need to be too. We offer sustainable solutions that enable people to move with a clear conscience.



**NESTE OIL**

Annual Report 2011  
Financial Statements

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## Key financial indicators

		2011	2010	2009
<b>Income statement</b>				
Revenue	EUR million	<b>15,420</b>	11,892	9,636
Operating profit	EUR million	<b>273</b>	323	335
- of revenue	%	<b>1.8</b>	2.7	3.5
Comparable operating profit	EUR million	<b>156</b>	240	116
Profit before income taxes	EUR million	<b>206</b>	296	296
- of revenue	%	<b>1.3</b>	2.5	3.1
<b>Profitability</b>				
Return on equity (ROE)	%	<b>6.6</b>	9.9	10.2
Return on capital employed, pre-tax (ROCE)	%	<b>5.9</b>	7.7	9.0
Return on average capital employed, after tax (ROACE)	%	<b>2.6</b>	4.6	2.5
<b>Financing and financial position</b>				
Interest-bearing net debt	EUR million	<b>2,080</b>	1,801	1,918
Leverage ratio	%	<b>45.7</b>	42.6	46.3
Gearing	%	<b>84.3</b>	74.3	86.3
Equity-to-assets ratio	%	<b>34.0</b>	36.5	39.1
<b>Other indicators</b>				
Capital employed	EUR million	<b>4,850</b>	4,607	4,257
Capital expenditure and investments in shares	EUR million	<b>364</b>	943	863
- of revenue	%	<b>2.4</b>	7.9	9.0
Research and development expenditure	EUR million	<b>42</b>	41	37
- of revenue	%	<b>0.3</b>	0.3	0.4
Average number of personnel		<b>4,926</b>	5,030	5,286

<b>Share-related indicators</b>				
Earnings per share (EPS)	EUR	<b>0.62</b>	0.89	0.86
Equity per share	EUR	<b>9.58</b>	9.43	8.64
Cash flow per share	EUR	<b>0.77</b>	4.32	0.69
Price/earnings ratio (P/E)		<b>12.61</b>	13.38	14.42
Dividend per share	EUR	<b>0.35</b> <sup>1)</sup>	0.35	0.25
Dividend payout ratio	%	<b>56.5</b> <sup>1)</sup>	39.2	29.0
Dividend yield	%	<b>4.5</b> <sup>1)</sup>	2.9	2.0
Share prices				
At the end of the period	EUR	<b>7.81</b>	11.95	12.42
Average share price	EUR	<b>10.22</b>	11.86	10.85
Lowest share price	EUR	<b>6.19</b>	10.45	8.80
Highest share price	EUR	<b>14.70</b>	13.77	13.44
Market capitalization at the end of the period	EUR million	<b>2,003</b>	3,064	3,185
Trading volumes				
Number of shares traded	1,000	<b>285,178</b>	242,190	269,159
In relation to weighted average number of shares	%	<b>111</b>	95	105
Average number of shares		<b>255,918,686</b>	255,913,809	255,903,960
Number of shares at the end of the period		<b>255,918,686</b>	255,918,686	255,913,686

<sup>1)</sup> Board of Directors' proposal to the Annual General Meeting

## Calculations of key financial indicators

### Calculation of key financial indicators

Operating profit	=	Operating profit includes the revenue from the sale of goods and services, other income such as gain from sale of shares or non-financial assets, share of profit (loss) of associates and joint ventures, less losses from sale of shares or non-financial assets, as well as expenses related to production, marketing and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in operating profit.
Comparable operating profit	=	Operating profit +/- inventory gains/losses +/- gains/losses from sale of shares and non-financial assets - unrealized change in fair value of oil and freight derivative contracts. Inventory gains/losses include the change in fair value of all trading inventories.
Return on equity, (ROE) %	=	$100 \times \frac{\text{Profit before taxes} - \text{taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	=	$100 \times \frac{\text{Profit before taxes} + \text{interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	=	$100 \times \frac{\text{Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
Capital employed	=	Total assets - interest-free liabilities - deferred tax liabilities - provisions

Interest-bearing net debt	=	Interest-bearing liabilities - cash and cash equivalents
Leverage ratio, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Interest-bearing net debt} + \text{total equity}}$
Gearing, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	= 100 x	$\frac{\text{Total equity}}{\text{Total assets} - \text{advances received}}$
Return on net assets, %	= 100 x	$\frac{\text{Segment operating profit}}{\text{Average segment net assets}}$
Comparable return on net assets, %	= 100 x	$\frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$
Segment net assets	=	Property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment, provisions and pension liabilities.
Research and development expenditure	=	Research and development expenditure comprise of the expenses of the Research & Technology unit serving all business areas of the Group, as well as research and technology expenses incurred in business areas, which are included in the consolidated income statement. Depreciation and amortization are included in the figure. The expenses are presented as gross, before deducting grants received.

**Calculation of share-related indicators**

Earnings per share (EPS)	=	$\frac{\text{Profit for the period attributable to the equity holders of the company}}{\text{Adjusted average number of shares during the period}}$
Equity per share	=	$\frac{\text{Shareholder's equity attributable to the equity holders of the company}}{\text{Adjusted average number of shares at the end of the period}}$
Cash flow per share	=	$\frac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$
Price / earnings ratio (P/E)	=	$\frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$
Dividend payout ratio, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	=	$100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
Average share price	=	$\frac{\text{Amount traded in euros during the period}}{\text{Number of shares traded during the period}}$
Market capitalization at the end of the period	=	Number of shares at the end of the period x share price at the end of the period
Trading volume	=	Number of shares traded during the period, and number of shares traded during the period in relation to the weighted average number of shares during the period



## Consolidated income statement and Consolidated statement of comprehensive income

### Consolidated income statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
<b>Revenue</b>	4 7	<b>15,420</b>	11,892
Other income	8	36	81
Share of profit (loss) of associates and joint ventures	19	26	15
Materials and services	9	-13,962	-10,493
Employee benefit costs	10	-316	-392
Depreciation, amortization and impairments	11	-315	-259
Other expenses	12	-616	-521
<b>Operating profit</b>		<b>273</b>	323
<b>Financial income and expenses</b>	13		
Financial income		4	4
Financial expenses		-72	-34
Exchange rate and fair value gains and losses		1	3
<b>Total financial income and expenses</b>		<b>-67</b>	-27
<b>Profit before income taxes</b>		<b>206</b>	296
Income tax expense	14	-46	-65
<b>Profit for the period</b>		<b>160</b>	231
<b>Attributable to:</b>			
Owners of the parent		158	229
Non-controlling interests		2	2
		<b>160</b>	231
<b>Earnings per share from profit attributable to owners of the parent basic and diluted (in euro per share)</b>	15	<b>0.62</b>	0.89



## Consolidated statement of comprehensive income

MEUR	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
<b>Profit for the period</b>	<b>160</b>	<b>231</b>
<b>Other comprehensive income for the period, net of tax:</b>		
Translation differences and other changes	-1	43
Cash flow hedges		
recorded in equity	-10	-18
transferred to income statement	-19	19
Net investment hedges	-1	-3
Hedging reserves in associates and joint ventures	1	1
<b>Other comprehensive income for the period, net of tax</b>	<b>-30</b>	<b>42</b>
<b>Total comprehensive income for the period</b>	<b>130</b>	<b>273</b>
<b>Attributable to:</b>		
Owners of the parent	128	271
Non-controlling interests	2	2
	<b>130</b>	<b>273</b>

The notes are an integral part of the consolidated financial statements.

## Consolidated balance sheet

MEUR	Note	Dec 31 2011	Dec 31 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	18	55	43
Property, plant and equipment	17	3,968	3,979
Investments in associates and joint ventures	19	239	214
Non-current receivables	20, 21	16	8
Pension assets	30	0	0
Deferred tax assets	28	50	31
Derivative financial instruments	20, 25	19	18
Available-for-sale financial assets	20, 21	4	4
<b>Total non-current assets</b>		<b>4,351</b>	<b>4,297</b>
<b>Current assets</b>			
Inventories	22	1,457	1,079
Trade and other receivables	20, 23	1,045	866
Derivative financial instruments	20, 25	59	42
Cash and cash equivalents	24	304	380
<b>Total current assets</b>		<b>2,865</b>	<b>2,367</b>
<b>Assets classified as held for sale</b>	5	<b>56</b>	<b>-</b>
<b>Total assets</b>		<b>7,272</b>	<b>6,664</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Share capital		40	40
Other equity		2,413	2,374
<b>Total</b>		<b>2,453</b>	<b>2,414</b>
<b>Non-controlling interests</b>		<b>14</b>	<b>12</b>
<b>Total equity</b>		<b>2,467</b>	<b>2,426</b>

<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20, 27	1,891	1,882
Deferred tax liabilities	28	331	347
Provisions	29	22	20
Pension liabilities	30	46	47
Derivative financial instruments	20, 25	12	23
Other non-current liabilities	20, 27	9	1
<b>Total non-current liabilities</b>		<b>2,311</b>	2,320
<b>Current liabilities</b>			
Interest-bearing liabilities	20, 27	493	299
Current tax liabilities	20, 27	26	38
Derivative financial instruments	20, 25	88	34
Trade and other payables	20, 27	1,872	1,547
<b>Total current liabilities</b>		<b>2,479</b>	1,918
<b>Liabilities related to assets held for sale</b>	5	15	-
<b>Total liabilities</b>		<b>4,805</b>	4,238
<b>Total equity and liabilities</b>		<b>7,272</b>	6,664

The notes are an integral part of the consolidated financial statements.

## Consolidated cash flow statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
<b>Cash flows from operating activities</b>			
Profit for the period		160	231
Adjustments for			
Income tax	14	46	65
Share of profit (loss) of associates and joint ventures	19	-26	-15
Depreciation and amortization	11	315	259
Other non-cash income and expenses		0	131
Financial expenses - net	13	67	27
Profit/loss from disposal of fixed assets and shares	8	-12	-7
		550	691
<b>Change in working capital</b>			
Decrease (+)/increase (-) in trade and other receivables		-166	-148
Decrease (+)/increase (-) in inventories		-404	76
Decrease (-)/increase (+) in trade and other payables		348	558
Change in working capital		-222	486
		328	1,177
Interest and other finance cost paid		-68	-29
Interest income received		5	4
Dividends received		0	0
Realized foreign exchange gains and losses		19	-14
Income taxes paid		-87	-33
		-131	-72
<b>Net cash generated from operating activities</b>		<b>197</b>	<b>1,105</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	17	-341	-924
Purchases of intangible assets	18	-23	-8
Purchases of subsidiaries, net of cash acquired	6	-	-8
Purchases of associates and joint ventures	19	-	0
Purchases of other shares		0	-3
Proceeds from sale of subsidiaries, net of cash disposed	6	2	6
Proceeds from sale of property, plant and equipment		22	4
Proceeds from sale of other shares		0	0

Changes in non-current receivables	-25	19
<b>Net cash used in investing activities</b>	<b>-365</b>	<b>-914</b>
<b>Cash flow before financing activities</b>	<b>-168</b>	<b>191</b>
<b>Cash flows from financing activities</b>		
Payment of (-) / proceeds from (+) current interest-bearing liabilities	47	-142
Proceeds from non-current interest-bearing liabilities	457	1,171
Repayments of non-current interest-bearing liabilities	-324	-893
Dividends paid to the owners of the parent	-90	-64
Dividends paid to non-controlling interests	-	-2
Other financing activities	0	0
<b>Net cash used in financing activities</b>	<b>90</b>	<b>70</b>
<b>Net decrease (-)/increase (+) in cash and cash equivalents</b>	<b>-78</b>	<b>261</b>
Cash and cash equivalents at the beginning of the period	380	117
Exchange gains (+)/losses (-) on cash and cash equivalents	2	2
<b>Cash and cash equivalents at the end of the period</b>	<b>304</b>	<b>380</b>

The notes are an integral part of the consolidated financial statements.

## Consolidated statement of changes in equity

MEUR	Attributable to owners of the parent					Non-controlling interests	Total equity
	Share Note	Reserve capital	Fair value and other reserves	Translation differences	Retained earnings		
<b>Total equity at January 1 2010</b>		40	11	9	-45	2,195	12 2,222
Dividend paid						-64	-2 -66
Share-based compensation						-3	-3
Transfer from retained earnings			1	-5		4	0
Total comprehensive income for the year			1	2	39	229	2 273
<b>Total equity at December 31 2010</b>	26	40	13	6	-6	2,361	12 2,426
<b>Total equity at January 1 2011</b>		40	13	6	-6	2,361	12 2,426
Dividend paid						-90	-90
Share-based compensation						1	1
Transfer from retained earnings			2			-2	0
Total comprehensive income for the year				-29	-1	158	2 130
<b>Total equity at December 31 2011</b>	26	40	15	-23	-7	2,428	14 2,467

The notes are an integral part of the consolidated financial statements.

## 1 General information

Neste Oil Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The Company is listed on the NASDAQ OMX Helsinki.

Neste Oil Corporation and its subsidiaries (together referred to as the Neste Oil Group) is a refining and marketing company focused on advanced, cleaner traffic fuels. The Group's refineries and other production facilities, together with its network of service stations and other retail outlets in Finland and the Baltic Rim area, supply both domestic and export markets with gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas, bitumen and NExBTL renewable diesel based on Neste Oil's proprietary technology. Neste Oil's supply and distribution chain includes a tanker fleet for carrying crude oil and other feedstock imports and refined product exports. As an oil refiner, Neste Oil is a leading manufacturer of environmentally benign petroleum products.

The Board of Directors has approved the consolidated financial statements for issue on February 2 2012.



## 2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adopted by the European Union. The notes to the consolidated financial statements also include compliance with the Finnish accounting and corporate legislation. The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through the income statement. The consolidated financial statements are presented in millions of euros unless otherwise stated.

The Group applies the following amendment:

- IAS 24 Related Party Transactions (effective January 1 2011)

The amendments to IAS 24 clarifies and simplifies the definitions of a related party. The revised IAS 24 removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. From January 1, 2010 onwards the Group has early adapted the IAS 24.

The following interpretations or amendments to existing standards are mandatory for accounting periods beginning on or after January 1 2011 but do not have a material impact on the consolidated financial statements:

- Annual improvements 2010
- Amendments to IAS 32 Financial Instruments: Classification of rights issues (effective February 1 2010)
- Amendments to IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective January 1 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective July 1 2010)

Certain new interpretations, amendments to existing standards or new standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1 2012. The Group intends to adopt these standards when they become effective:

- Annual improvements 2011

- Amendments to IFRS 7 Financial Instruments: Disclosure - Enhance Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. The amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1 2011.

- Amendments to IAS 12 Income Taxes - Deferred Taxes: Recovery of Underlying Assets

The amendment provides a practical approach for measuring deferred tax assets and liabilities when investment property is fair valued under IAS 40. The Group does not have investment properties and therefore the amendment is not expected to have an impact on the Group's consolidated financial statements. The amendment becomes effective for annual periods beginning on or after January 1 2012. The amendment is still subject to endorsement by the EU.

- IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- IFRS 9 Financial Instruments - Classification and Measurement

The standard is issued to reflect the first phase of the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1 2013. The completion of this replacement project is expected over the first half of 2012. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The amendment is still subject to endorsement by the EU.

- IFRS 10 Consolidated Financial Statement

The standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. The new standard establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- IFRS 11 Joint Arrangements

The standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. The new standard changes accounting treatment of jointly controlled entities. Jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method only. The Group's joint ventures are accounted for by using the equity method of accounting and therefore this has no impact on the Group's financial position. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- IFRS 12 Disclosure of Interests in Other Entities

The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- IFRS 13 Fair Value Measurement

The standard establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The standard becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

- Amendment to IAS 19 Employee Benefits

There are numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan asset to simple clarifications. The amendments are expected to have an impact to the Group's financial position. The amendment becomes effective for annual periods beginning on or after January 1 2013. The amendment is still subject to endorsement by the EU.

**Use of estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates include the expected useful lifetimes of tangible and intangible assets, the amount of income taxes recognized as expense and deferred tax assets or liabilities, actuarial assumptions applied in the calculation of defined benefit obligations, and assumptions made in the recognition of provisions or valuation of receivables. Actual results may differ from these estimates.

**Consolidation***Subsidiaries*

The consolidated financial statements cover the parent company, Neste Oil Corporation, and all those companies in which Neste Oil Corporation has the power to govern financial and operating policies and holds, directly or indirectly, more than 50% of voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when that control ceases.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances, and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, subsidiaries' accounting policies have been modified to ensure consistency with Group policies.

*Associates, joint ventures, and jointly controlled assets*

Associated companies are entities over which the Group has significant influence but not control, and generally involve a shareholding of between 20% and 50% of voting rights. Joint ventures are entities over which the Group has contractually agreed to share the power to govern the financial and operating policies of that entity with another company or companies. The Group's interests in associates and joint ventures are accounted for by the equity method of accounting.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the investment in associates and joint ventures are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the joint venture acquired, the difference is recognized directly in the income statement.

The Group's share of the post-acquisition profits or losses after tax of its associates and joint ventures is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In respect of interest of jointly controlled assets the Group recognises its share of the jointly controlled assets and liabilities as well as its part of any income or expenses incurred. Because the assets, liabilities, income and expenses are recognised in the financial statements of the Group, no adjustments of other consolidation procedures are required.

### **Segment reporting**

Until December 20 2010 the reportable segments of the Group were presented in line with the Company's internal organisational and reporting structure adopted as of April 1 2009. At the time business areas also represented the reporting segments. On December 20 2010 the Group reorganised its operations so that the Oil Products and Renewable Fuels business areas were merged to create one business area Oil Products and Renewables. Financial reporting has remained unchanged, and Oil Products and Renewable Fuels are continuing to form separate reporting segments.

### **Non-current assets and disposal groups held for sale**

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value, less costs to sell, if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

### **Foreign currency translation**

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') or the functional currency of the Group. The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

*(c) Group companies*

The results and financial position of all Group entities (none of which uses a hyperinflationary economy currency) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate quoted on the relevant balance sheet date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and currency instruments designated as hedges of such investments, are booked to shareholders' equity. When a foreign operation is sold, exchange differences are recognized in the income statement as part of the gain or loss on the sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the entity in question and translated at the closing rate.

**Revenue recognition**

Revenue from the sale of goods is recorded in the income statement when the significant risks and rewards related to the ownership of the goods have been transferred to the buyer. Revenue from services is recorded when services have been provided. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged. Sales under fixed price engineering and construction contracts are recorded on a percentage-of-completion basis by recognizing the revenue according to the work hours incurred. Provisions for losses are made when identified and the amounts can be reliably estimated. Sales of technology licences are recognized when the risks and rewards are transferred to the buyer.

Revenue will be recognized as gross method when an entity is acting as a principal and it has exposure to the significant risks and rewards associated with the sale of goods. The amounts collected on behalf of the principal are not revenue; instead, revenue is the amount of commission.

Revenue includes sales from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. Where forward sale and purchase contracts for crude oil or oil products have been determined to be for trading purposes, the associated sales and purchases are reported net within sales whether or not physical delivery has occurred. Excise taxes included in the retail price of petroleum products according to prevailing legislation in some countries are included in product sales. The corresponding amount is included in the purchase price of petroleum products and included in 'Materials and services' in the income statement.

**Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement in 'Other income' over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant, and equipment are deducted from the acquisition cost of the asset and recognized as income by reducing the depreciation charge of the asset they relate to.

**Borrowing costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except if they are directly attributable to the construction of an asset that meets the determined criteria, in which case they are capitalized as part of the cost of that asset. These criteria are that the borrowing costs incurred for the construction of a major initial investment, such as a new production facility.

**Income taxes**

The Group's income tax expenses include taxes of Group companies calculated on the basis of the taxable profit for the period, with adjustments for previous periods, as well as the change in deferred income taxes. For items recognized directly in equity, the income tax effect is similarly recognized.

Deferred income taxes are stated using the balance sheet liability method, to reflect the net tax effect of temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, the fair valuation of derivative financial instruments, pension liabilities recognized in the balance sheet, provisions and tax losses carried forward. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates that are in force at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

**Research and development**

Research expenditure is recognized as an expense as incurred and included in other operating expenses in the consolidated financial statements. Expenditure on development activities is capitalized only when it relates to new products that are technically and commercially feasible. The majority of the Group's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

**Property, plant and equipment**

Property, plant, and equipment mainly comprise oil refineries and other production plants and storage tanks, marine fleet, and retail station network infrastructure and equipment. Property, plant, and equipment are stated at historical cost in the balance sheet, less depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items in question. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges related to foreign currency purchases of property, plant, and equipment. Assets acquired through the acquisition of a new subsidiary are stated at their fair value at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs for major periodic overhauls at oil refineries and other production plants on a 3-5 year cycle are capitalized when they occur and then depreciated during the shutdown cycle, i.e. the time between shutdowns. The same principle is applied to the costs incurred for compulsory periodic docking of ships. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land areas are not depreciated. The bottom of crude oil rock inventory is included in other tangible assets and is depreciated according to possible usage of the crude oil. Depreciation on tangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and structures, including terminals	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Marine fleet	15–20 years
Retail station network infrastructure and equipment	5–15 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years

The residual values and useful lives of assets are reviewed, and adjusted where appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the former amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in 'Other income' or 'Other expenses' in the consolidated income statement.

### **Intangible assets**

Intangible assets are stated at historical cost and amortized on a straight-line method over expected useful lives. Intangible assets comprise the following:

#### *Computer software*

Computer software licences are capitalized on the basis of the costs incurred to acquire and introduce the software in question. Costs are amortized over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognized as an expense.

#### *Trademarks and licences*

Trademarks and licences have a definite useful life and are carried at cost less accumulated amortization. They are amortized over their estimated useful lives (three to ten years).



### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognized goodwill is tested annually for impairment and carried at cost, less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing, using those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

### *Emission allowances*

Emission allowances purchased are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero. An impairment charge is recognized in the income statement if the fair value is lower than the carrying amount.

A provision is recognized to cover the obligation to return emission allowances if emission allowances received free of charge do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as any change in the probable amount of the provision, are reflected in the operating profit.

### **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the income statement to the extent that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### **Financial assets**

The Group classifies financial assets in the following categories: financial assets at fair value through income statement, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are recognized on the date on which the Group commits to purchase or sell the asset known as the trade date. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through income statement are subsequently carried at fair value. Unlisted equity securities, for which fair value cannot be measured reliably, are recognized at cost less impairment. Loans and receivables are carried at amortized cost, using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of assets in 'financial assets at fair value through income statement' category are included in the income statement in the period in which they arise. The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

#### *Financial assets at fair value through income statement*

The assets in this category are financial assets held for trading, and include derivative financial instruments, if they are held for trading or do not meet the criteria for hedge accounting as defined under IAS 39. Assets in this category are classified as current assets if they are held for trading or are expected to be realized within 12 months of the balance sheet date.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in 'Trade and other receivables' in the balance sheet.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default in payments are considered as indicators that a trade receivable is impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted the effective interest rate. The amount of the loss is recognized in the income statement within 'Other expenses'.

The Group could reduce its counterparty risks by selling trade receivables to the third party e.g. a bank. The sale of the receivables essentially transfers ownership of the receivables to the bank, indicating it to obtains all of the rights associated with the receivables. The Group receives the advance from the bank at the time of sale. Fees and other expenses are deducted from the advance.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date. Gains or losses on the sale of available-for-sale financial assets are included in 'Other income' or 'Other expenses'.

## Leases

### *Finance leases*

Lease arrangements that transfer substantially all the risks and rewards related to a leased asset to the lessee are classified as finance lease. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the present value of the minimum lease payments, as determined at the inception of the lease. Lease payments are allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. The interest element of the finance cost is charged to the income statement over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease term, whichever is the shortest.

An arrangement that does not take the legal form of a lease but conveys a right to use an asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. Determining whether an arrangement is, or contains, a lease are based on IFRIC interpretation 4.

### *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## Inventories

Inventories are stated at either cost or net realizable value, whichever is the lowest. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories held for trading purposes are measured at fair value less selling expenses. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

## Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

## Provisions

A provision is recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the obligation will result in payment, and the amount of payment can be estimated reliably. Provisions can arise from environmental risks, litigation, restructuring plans or onerous contracts. Environmental provisions are recorded based on current interpretations of environmental laws and regulations when the conditions referred to above are met.

**Financial liabilities**

Financial liabilities are recognized initially as net proceeds less any transaction costs incurred, and subsequently at amortized cost. Any difference between net proceeds and redemption value is recognized as interest cost over the period of the borrowing, using the effective interest method. Bank overdrafts are shown in current liabilities on the balance sheet. Derivative financial instruments are categorized as held for trading and included in financial liabilities at fair value through income statement, unless they are designated as hedges as defined in IAS 39. Liabilities are included in non-current liabilities, except for items with maturities less than 12 months after the balance sheet date.

**Employee benefits***Pension obligations*

Neste Oil has a number of pension plans in accordance with local practices in the countries where it operates. These plans are generally funded through insurance companies. The Group has both defined benefit and defined contribution plans.

The Group's contributions to defined contribution plans are charged to the income statement in the period when they fall due.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is charged to the income statement in order to spread the cost over the service lives of employees. The defined benefit obligation is measured as present value of the estimated future cash flows, using interest rates of high-quality corporate bonds that have similar maturity terms to those of the related pension liability. The liability or asset recognized in the balance sheet is the defined benefit obligation at the balance sheet date less the fair value of plan assets.

Actuarial gains and losses exceeding 10% of total defined benefit obligations or the present value of plan assets, whichever is higher, are recorded in the income statement over the expected average remaining working lives of employees. The interest cost is included in employee benefit expenses.

**Share-based payments**

Expenses related to share-based payments are recorded in the income statement and a respective liability is recognized in the balance sheet for share-based payments settled in cash. The liability recognized in the balance sheet is measured at fair value at each reporting date. For transactions settled in equity, an increase corresponding to the expense in the income statement is entered in shareholders' equity.

**Derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognized at fair value on the date a contract is entered into and are subsequently re-measured at their fair value. The method of recognizing any resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivative financial instruments as either: (1) hedges of highly probable forecast transactions (cash flow hedges); (2) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (3) hedges of net investments in foreign operations. The Group documents at the inception of the transaction the

relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting for each type of hedge is described in more detail in Note 3.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity/other comprehensive income. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. for example when a forecasted sale, that is being hedged, takes place. The gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within revenue. When the forecast transaction that is being hedged results in the recognition of a property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within 'financial expenses', and the change in fair value of the hedging instrument is accumulated in equity/other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement in 'financial income and expenses', together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If derivative financial instruments do not qualify for hedge accounting, any movement in fair value is recognized in the income statement.

#### *Derivative financial instruments that do not qualify for hedge accounting*

Some oil and freight derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Oil derivative contracts are also held for trading purposes. Certain currency and interest rate derivative contracts also do not qualify for hedge accounting. For derivative financial instruments that do not qualify for hedge accounting, any movement in fair value is recognized in the income statement in operating profit for oil and freight derivative contracts and in 'financial income and expenses' concerning derivative financial instruments related to financing activities.

### **Definitions**

#### *Operating profit*

Operating profit includes the revenue from the sale of goods and services, other income such as gains on sale of shares or non-financial assets, less losses from the sale of shares or non-financial assets, as well as expenses related to production, marketing, and selling activities, administration, depreciation, amortization, and impairment charges. Realized and unrealized gains or losses on oil and freight derivative contracts together with realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement, are also included in the operating profit.

*Comparable operating profit*

Comparable operating profit is calculated by excluding inventory gains/losses, gains/losses from sale of shares and non-financial assets, and unrealized changes in the fair value of oil and freight derivative contracts from the reported operating profit. Inventory gains/losses include the change in fair value of all trading inventories.

*Segment net assets*

Segment net assets include property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, pension assets, inventories and interest-free receivables and liabilities allocated to the business segment as well as provisions and pension liabilities.

*Return on net assets, %*

Return on net assets is calculated by dividing segment operating profit with average segment net assets.

*Comparable return on net assets, %*

Comparable return on net assets is calculated by dividing segment comparable operating profit with average segment net assets.

### 3 Financial risk management

#### Risk management principles

Neste Oil recognizes that risk is an integral and unavoidable component of its business and is characterized by both threat and opportunity. Risks are generally managed at source, within the Group's business areas and common functions. A number of risk management strategies have been developed to address the impact of the risks related to Neste Oil's business activities. The Neste Oil Corporate Risk Management Policy with the related Corporate Risk Management Principles, approved by the Board of Directors, defines risk management governance, responsibilities and processes for communicating and reporting risks and risk management.

The documents define detailed principles covering strategic risks, market risks, including counterparty risks, operational and functional risks, including risks involving human safety, and legal liabilities. The Corporate Risk Management Policy and Principles complement Neste Oil's other management principles and instructions. The Treasury Principles and the Credit and Counterparty Risk Management Principles are also approved by the Board of Directors. The Board of Directors' Audit Committee regularly reviews and monitors financial risk management policy, principles, risk limits, and other risk management activities.

The management of financially related risks aims to reduce the volatility in earnings, the balance sheet, and cash flow, while securing effective and competitive financing for the Group.

#### Risk management organization

The Corporate Risk Management and risk management professionals in business areas and common functions are responsible for controlling special risk disciplines, consulting and facilitating risk management processes and developing risk management systems.

Neste Oil's Group Treasury is responsible for managing foreign exchange, credit and counterparty, interest rate, liquidity, and refinancing risks as well as insurance management. The price risk management i.e. hedging of the Group's refining margin and refinery inventory price risk is also organized in Group Treasury. In addition, Group Treasury coordinates the management of the price risk associated with utilities and the obligation to return emission allowances, and provides price hedging services to internal and external counterparties.

The Corporate Risk Management and Group Treasury units are organized within Neste Oil's Finance function, headed by the Chief Financial Officer and both units work in close cooperation with the Group's business areas.

Oil Products and Renewables business area and other functions to a smaller degree, enter into derivative contracts to limit the price risk associated with certain physical oil and freight contracts. Oil Products and Renewables business area also enters into derivative transactions for trading purposes within authorized risk limits.



Risk Management Committee monitors the risk management process and compliance. Neste Oil's risk management reporting is coordinated by the Chief Financial Officer. Major Group-level risks are reported to the Board of Directors, the Audit Committee, the Risk Management Committee, the President & Chief Executive Officer, and other corporate management as part of the strategy and planning process. A report on the market and financing risks of reporting segments and the Group is included in the monthly management report.

## **Market risks**

### **1. Commodity price risks**

The main commodity price risks Neste Oil faces on its businesses are related to market prices for crude oil, renewable feedstocks and other feedstocks, as well as refined petroleum and renewable products. These prices are subject to significant fluctuations resulting from a variety of factors affecting demand and supply globally.

Neste Oil's results of operations in any given period are principally driven by the demand for and prices of refined fossil fuel or renewable products relative to the supply and cost of raw materials. These factors, combined with Neste Oil's own consumption of crude oil, renewable feedstocks, other feedstocks and output of refined products, drive operational performance and cash flows in Oil Products and Renewables, which is Neste Oil's largest business area in terms of revenue, profits and net assets.

Neste Oil divides the commodity price risks affecting Neste Oil's revenue, profits and net assets into two main categories; inventory price risk and refining margin risk.

#### *Inventory price risk*

From a risk management perspective, Neste Oil's refinery inventory consists of two components. The first and largest component remains relatively constant over time and is referred to as the 'base' inventory, which includes the minimum level of stocks that Neste Oil is required to maintain under Finnish laws and regulations.

In fossil fuel refining business the base inventory comprises the minimum level of stocks along with which can reasonably be assured that the refineries can be kept in operation. The fossil fuel base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

In renewable refining business the price risk related base inventory is higher than the physical inventory and is approximately one third of the annual renewable refining capacity used. This is mainly resulting from feedstock market practises and logistics involved. The base inventory creates a risk in Neste Oil's income statement and balance sheet inasmuch as Neste Oil applies the FIFO method for measuring the cost of goods sold, raw materials and inventories. Hedging operations related to price risk do not target the base inventory. Instead, Neste Oil's inventory risk management policies target inventories in excess of the 'base inventory' inasmuch as these stocks create cash flow risks depending on the relationships between feedstock purchases, refinery production and refined petroleum product sales over any given period.

The amount of inventories in excess of the base inventory at Neste Oil is called 'transaction position'. According to the Neste Oil risk management principle any open exposures of the transaction position are hedged without delay.

*Refining margin risk*

As the total refining margin is an important determinant of Oil Products and Renewables business area's earnings, its fluctuations constitute a significant risk.

In the fossil fuel refining business the refining margin at risk is a function of the sales price of the refined fossil products and the fossil feedstocks used to produce them. Neste Oil's exposure to low fossil refining margins is partly offset by its high conversion refineries.

In Renewable business the refining margin is mainly a function of the NExBTL sale price received and feedstocks used. The underlying indices used in the NExBTL pricing are primarily oil products or conventional biodiesel related, while the price of feedstocks used derive from different vegetable oils and fats. As a result, Neste Oil is exposed to greater margin volatility in the Renewable business compared to that in the fossil fuel refining.

With the aim of securing its margin per barrel, Neste Oil has defined margin hedging principles for its main refining businesses. In the fossil fuel refining business the hedging ratios used, measured as percentage of annual production volume, are typically moderate. In the renewable business higher hedging ratios measured as a percentage of the committed sales volumes for the rolling 12 months, are typically targeted.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste Oil's total refining margin, based on its forecasted or committed sales and refinery production, which are exposed to international market price fluctuations. Because of the differences between the qualities of the underlying feedstock and refined petroleum products for which derivative financial instruments can be sold and purchased, and the actual quality of Neste Oil's feedstock and refined petroleum products in any given period, the business will remain exposed to some degree of basis risk.

Note 25 summarizes the exposure to open positions of oil derivative contracts as of December 31 2011 (2010).

## 2. Foreign exchange risk

As the pricing currency used in the oil industry is the U.S. dollar and Neste Oil operates and reports in euro, this factor, among others, exposes Neste Oil's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste Oil is to limit the uncertainty created by changes in foreign exchange rates on the future value of cash flows and earnings, and in the Group's balance sheet. Generally, this is done by hedging currency risks in contracted and forecasted cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-euro zone subsidiaries (referred to as translation exposure).

*Transaction exposure*

In general, all business areas hedge their transaction exposure related to highly probable future cash flows. Net foreign currency cash flows are forecasted over a 12-month period on a rolling basis, and hedged on average 80% for the first six months and 40% for the following six months for the fossil fuel businesses and on average 60% for the first six months and 25% of the next three months for the renewable business. Deviations from this risk-neutral benchmark position are subject to separate approvals set by the Treasury Principles. The most important hedged currency is the U.S. dollar. The company started to hedge its Malaysian ringgit (MYR) based raw material purchases during the latter part of 2011. The Group's net exposure is managed through the use of forward contracts and options. All transactions are made for hedging purposes and the majority is also hedge accounted for according to IFRS. Business areas are responsible for forecasting net foreign currency cash flows, while Group Treasury is responsible for implementing hedging transactions.

Neste Oil has several currency-denominated assets and liabilities in its balance sheet, such as foreign currency loans, deposits, net working capital and cash in other currencies than the home currency. The principle is to hedge this balance sheet exposure fully using forward contracts and options. Open exposures are allowed based on risk limits set by the Treasury Principles. The largest and most volatile item in terms of balance sheet exposure is net working capital. Since many of the Group's business transactions, sales of products and services and purchases of crude oil and other feedstock are linked to the U.S. dollar, the daily exposure of net working capital is hedged as part of the balance sheet hedge in order to neutralize the effect of volatility in EUR/USD exchange rate. During 2011, the daily balance sheet exposure fluctuated between approximately EUR 113 million and 689 million. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess the base inventory. Group Treasury is responsible for consolidating various balance sheet items and carrying out hedging transactions. Foreign exchange risk is estimated by measuring the impact of currency rate changes based on historical volatility.

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2011 and 2010.

MEUR	2011	2010
EUR	2,183	1,997
SGD	97	82
USD	93	101
Other	11	1
	2,384	2,181

Note 25 summarizes the nominal and fair values of outstanding foreign exchange derivative contracts as of December 31 2011 (2010).

### Translation exposure

Group Treasury is responsible for managing Neste Oil's translation exposure. This consists of net investments in foreign subsidiaries, joint ventures, and associated companies. Although the main principle is to leave translation exposure unhedged, Neste Oil may seek to reduce the volatility in equity in the consolidated balance sheet through hedging transactions. Forward contracts are used to hedge translation exposure. Any hedging decisions are made by Group Treasury. The total non-euro-denominated equity of the Group's subsidiaries and associated companies was EUR 463 million as of December 31 2011 (2010: EUR 509 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2011			2010		
MEUR	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
USD	60	-	0 %	57	-	0 %
SEK	196	-	0 %	171	33	19 %
CAD	73	73	100 %	72	-	0 %
PLN	15	-	0 %	17	-	0 %
RUB	68	-	0 %	58	-	0 %
EEK	-	-	0 %	61	-	0 %
LTL	31	-	0 %	29	-	0 %
BHD	-	-	0 %	25	-	0 %
Other	20	-	0 %	19	-	0 %
	463	73	16 %	509	33	7 %

### 3. Interest rate risk

Neste Oil is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Company's interest rate risk management is to limit the volatility of interest expenses in the income statement. The risk-neutral benchmark duration for the net debt portfolio is 12 months, and duration can vary between 6 and 36 months. Interest rate derivatives have been used to adjust the duration of the net debt portfolio. The Group's interest rate risk management is handled by Group Treasury. Note 25 summarizes the nominal and fair values of outstanding interest rate derivative contracts as of December 31 2011 (2010).

The following table summarizes the re-pricing of the Group's interest-bearing debt.

**MEUR**

Period in which re-pricing occurs	within 1 year	1 year - 5 years	> 5 years	Total
<b>Financial instruments with floating interest rate</b>				
Financial liabilities				
Loans from financial institutions	1,424	-	-	1,424
Finance lease liabilities	37	34	-	71
Bonds	50	-	-	50
Effect of interest rate swaps	120	-170	50	0
<b>Financial instruments with fixed interest rate</b>				
Bonds	120	616	-	736
Finance lease liabilities	-	-	103	103
	1,751	480	153	2,384

**4. Key sensitivities to market risks**
*Sensitivity of operating profit to market risks arising from the Group's operations*

Due to the nature of its operations, the Group's financial performance is sensitive to the market risks described above. The following table details the approximate impact that movements in the Group's key price and currency exposures would have on its operating profit for 2012 (2011), based on assumptions regarding the Group's reference market and operating conditions, but excluding the impact of hedge transactions.

**Approximate impact on operating profit (IFRS), excluding hedges <sup>1)</sup>**

		2012	2011
+/- 10% in the EUR/USD exchange rate	EUR million	-120/+150	-90/+110
+/- USD 1.00/barrel in total refining margin	USD million	+/-110	+/-110
+/- USD 10/barrel in crude oil price	USD million	+/-100	+/-100
+/- USD 100/t in palm oil price	USD million	+/-50	+/-15
+/- USD 50/t in Renewable Fuels refining margin	USD million	+/-100	+/-75

<sup>1)</sup> Inventory gains/losses excluded from comparable operating profit

*Sensitivity to market risks arising from financial instruments as required by IFRS 7*

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity of the Group's profit for the period and equity to changes in oil prices, the EUR/USD exchange rate, and interest rates, resulting from financial instruments, such as financial assets and liabilities and derivative financial instruments, as defined by IFRS, included in the balance sheet as of 31 December 2011 (2010). Financial instruments affected by the above market risks include working capital items, such as trade and other receivables and trade and other payables, interest-bearing liabilities, deposits, cash and cash equivalents, and derivative financial instruments. When cash flow hedge accounting is applied, the change in the fair value of derivative financial instruments is assumed to be recorded fully in equity.

The following assumptions were made when calculating the sensitivity to the change in oil prices:

- the flat price variation for oil derivative contracts of crude oil and refined oil products is assumed to be +/- 10%
- the sensitivity related to oil derivative contracts held for hedging refinery oil inventory position is included; the underlying physical oil inventory position is excluded from the calculation, since inventory is not a financial instrument
- the sensitivity related to oil derivative contracts held for hedging expected future refining margin is included; the underlying expected refining margin position is excluded from the calculation
- the sensitivity related to oil derivative contracts for the price difference between various petroleum product qualities is excluded from the calculation, as the price variation of these contracts is assumed to be zero
- the sensitivity related to oil derivative contracts for the time spread of crude oil and petroleum products is excluded from the calculation, as the price variation of these contracts is assumed to be zero

The following assumptions were made when calculating the sensitivity to changes in the EUR/USD exchange rate:

- the variation in EUR/USD-rate is assumed to be +/- 10%
- the position includes USD-denominated financial assets and liabilities, such as interest-bearing liabilities, deposits, trade and other receivables, trade and other liabilities, and cash and cash equivalents, as well as derivative financial instruments
- the position excludes USD-denominated future cash flows

The following assumptions were made when calculating the sensitivity to changes in the USD/MYR exchange rate:

- the variation in USD/MYR-rate is assumed to be +/- 10%
- the position includes MYR-denominated derivative financial instruments
- the position excludes MYR-denominated future cash flows

The following assumptions were applied when calculating the sensitivity to changes in interest rates:

- the variation of interest rate is assumed to be a 1% parallel shift in the interest rate curve
- the interest rate risk position includes interest-bearing liabilities, interest-bearing receivables, and interest rate swaps
- the income statement is affected by changes in the interest rates of floating-rate financial instruments, excluding those derivative financial instruments that are designated as and qualifying for cash flow hedges, which are recorded directly in equity

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from other balance sheet items than financial instruments, such as inventories. As the sensitivity analysis does not take into account future cash flows, which the Group hedges in significant volumes, it only reflects the change in fair value of hedging instruments. In addition, the size of the exposure sensitive to changes in the EUR/USD exchange rate varies significantly, so the position on the balance sheet date may not be representative for the financial period on average. Equity in the following table includes items recorded directly in equity. Items affecting the income statement are not included in equity.

**Sensitivity to market risks arising from financial instruments as required by IFRS 7**

		2011		2010	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price <sup>1)</sup>	EUR million	-/+14	-/+4	-/+10	-/+4
+/- 10% change in EUR/ USD exchange rate	EUR million	+70/-80	+45/-55	+61/-75	+52/-51
1% parallel shift in interest rates	EUR million	+/-11	+/-0	+/-10	+/-0
+/- 10% change in USD/ MYR exchange rate	EUR million	0	+11/-11	-	-

<sup>1)</sup> includes crude oil, refined oil products and vegetable oil derivatives

**5. Hedge accounting**

The Group uses foreign currency derivative contracts to reduce the uncertainty created by changes in foreign exchange rates on the future cash flows of forecasted future sales and earnings, as well as in Neste Oil's balance sheet. Foreign exchange derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, net investment hedges, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses foreign exchange forward contracts and options as hedging instruments.

With the aim of securing a certain refining margin per barrel, the Group hedges its refining margin using commodity derivative contracts. Certain commodity derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges.

The Group uses interest rate derivatives and its variations e.g. callable swaps to reduce the volatility of interest expenses in the income statement and by adjusting the duration of the debt portfolio. Interest rate derivative contracts have been designated as hedges of forecasted transactions, e.g. cash flow hedges, hedges of the fair value of recognized assets or liabilities, or as derivative financial instruments not meeting hedge accounting criteria. The Group uses interest rate swaps as hedging instruments.

**Cash flow hedges**

Derivative financial contracts that meet the qualifications for hedge accounting are designated as cash flow hedges. Such contracts are foreign currency derivative contracts hedging USD-sales, feedstock purchases priced in MYR or capital expenditure denominated in foreign currencies for the next twelve months, and interest rate swaps directly linked to underlying variable interest funding transactions maturing in 2012 and 2018.

The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity/other comprehensive income. However, changes in the time value of foreign currency options are booked in the income statement. Any gain or loss relating to the ineffective portion is recognized immediately in the income statement. In 2011 and 2010 the ineffective portion has been immaterial. Retrospective testing is conducted on a quarterly basis to review the effectiveness of hedging transactions.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement, e.g. when a forecasted sale, that is being hedged, takes place. The



gain or loss relating to the effective portion of the foreign exchange derivative contracts hedging of the future USD-sales are recorded within sales. This is expected to take place within the next 12 months from the balance sheet date. The gain or loss to the effective portion of the foreign exchange derivative contracts hedging of the MYR based purchases are booked into equity/other comprehensive income until transferred to the Inventory as part of raw-material purchase costs according to IAS 2. When the forecast transaction that is being hedged results in the recognition of property, plant and equipment, the gain or loss is included in the cost of the asset. The amounts are ultimately recognized in depreciation in the income statement. Interest element of interest rate swaps hedging variable rate interest-bearing liabilities is recognized in the income statement within finance costs, and the change in fair value of the hedging instrument is accumulated in equity/ other comprehensive income. Movements in hedging reserve are presented in the statement of comprehensive income.

#### *Fair value hedges*

Certain interest rate swaps are designated as fair value hedges. Changes in the fair value of the derivative financial instruments designated and qualifying as fair value hedges, and which are highly effective, are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. The ineffective portion is also recognized in the income statement.

#### **Items recognized in the income statement**

MEUR	2011	2010
gain or loss on the hedging instrument	17	2
gain or loss on the hedged item	-16	-3

#### *Hedges of net investments in foreign entities*

Hedges of the net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity, while any gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity/other comprehensive income are included in the income statement when the foreign operation is disposed of.

#### **Liquidity and refinancing risks**

Liquidity risk is defined as financial distress or extraordinarily high financing costs arising due to a shortage of liquid funds in a situation where business conditions unexpectedly deteriorate and require financing. The objective of liquidity risk management is to maintain sufficient liquidity and to ensure that it is available fast enough to avoid uncertainty related to financial distress at all times.

Neste Oil's principal source of liquidity is expected to be cash generated from operations. In addition, the Group seeks to reduce liquidity and refinancing risks by maintaining a diversified maturity profile in its loan portfolio. Certain other limits have also been set to minimize liquidity and refinancing risks. The Group must always have access to unutilized, committed credit facilities to cover all loans maturing within the next 12 months and any potential forecasted negative cash flows after investment activities. Unutilized committed credit facilities must always amount to at least EUR 500 million. In addition, total short-term financing shall not account for more than 30% of the total interest-bearing liabilities.

The average loan maturity as of December 31 2011 was 3.7 years. The most important financing programs in place are:

- Revolving multicurrency credit facility (committed), EUR 1,500 million
- Overdraft facilities (committed), EUR 150 million
- Revolving credit facility (committed), EUR 75 million
- Domestic commercial paper program (uncommitted), EUR 400 million.

As of December 31 2011, the Company had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 1,629 million at its disposal.

#### Cash and cash equivalents and committed unutilized credit facilities

MEUR	2011	2010
Floating rate		
– cash and cash equivalents	304	380
– overdraft facilities, expiring within one year	150	150
– revolving credit facilities, expiring beyond one year	1,175	1,215
	1,629	1,745

The contractual maturity of interest-bearing liabilities as of December 31 2011 is presented in the following table.

MEUR	2012 <sup>1)</sup>	2013	2014	2015	2016	2017–	Total
Bonds and debentures	158	34	34	334	319	52	931
- less finance charges	38	34	34	34	19	2	161
Repayment of bonds and debentures	120	-	-	300	300	50	770
Loans from financial institutions	342	218	384	54	439	73	1,510
- less finance charges	10	11	19	3	33	3	79
Repayment of loans from financial institutions	332	207	365	51	406	70	1,431
Finance lease liabilities	56	47	15	15	16	230	379
- less finance charges	14	14	13	13	13	138	205
Repayment of finance lease liabilities	42	33	2	2	3	92	174
Interest rate swaps							
- less finance charges	2	1	-3	-3	-2	2	-3

<sup>1)</sup> Repayments in 2012 are included in current liabilities in the balance sheet

Finance charges are primarily interest expenses. The contractual maturities of derivative financial instruments are included in Note 25.

The contractual maturity of interest-bearing liabilities as of 31 December 2010 is presented in the following table.

MEUR	2011 <sup>1)</sup>	2012	2013	2014	2015	2016–	Total
Bonds and debentures	36	157	32	33	333	318	909
- less finance charges	36	37	32	33	33	18	189
Repayment of bonds and debentures	-	120	-	-	300	300	720
Loans from financial institutions	299	13	217	377	45	430	1,381
- less finance charges	6	5	9	19	1	30	70
Repayment of loans from financial institutions	293	8	208	358	44	400	1,311
Finance lease liabilities	18	19	50	42	12	217	358
- less finance charges	13	13	12	12	11	140	201
Repayment of finance lease liabilities	5	6	38	30	1	77	157
Interest rate swaps							
- less finance charges	0	0	-1	-6	-6	-5	-18

<sup>1)</sup> Repayments in 2011 are included in current liabilities in the balance sheet

### Credit and counterparty risk

Credit and counterparty risk arises from sales, hedging and trading transactions as well as from cash investments. The risk arises from the potential failure of counterparty to meet its contractual payment obligations, and the risk depends on the creditworthiness of the counterparty as well as the size of the exposure. The objective of credit and counterparty risk management is to minimize the losses incurred as a result of a counterparty not fulfilling its obligations. The management principles for credit and counterparty risk are covered in the Neste Oil Credit and Counterparty Risk Management Principles approved by the Board of Directors.

The amount of risk is quantified as the expected loss to Neste Oil in the event of a default by counterparty. Credit risk limits are set at the Group level, designated by different levels of authorization and delegated to Neste Oil's business areas, which are responsible for counterparty risk management within these limits. When determining the credit lines for sales contracts for oil deliveries, counterparties are screened and evaluated vis-à-vis their creditworthiness to decide whether an open credit line is acceptable or collateral or other credit enhancements such as letter of credit, bank guarantee or parent company guarantee have to be posted. In the event, that a collateral is required the credit risk is evaluated based on a financial evaluation of the party posting the collateral. If appropriate in terms of the potential credit risk associated with a specific customer, advance payment is required before delivery of products or services. In addition, Neste Oil may reduce its counterparty risk by e.g selling trade receivables.

The credit lines for counterparties are divided into two categories according to contract type: physical sales contracts and derivative contracts. Credit lines are restricted in terms of the time horizon associated with the payment and credit exposure risk. In determining counterparty credit limits, two levels of delegation are used: authority mandates to the rated counterparties by the general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste Oil has negotiated a framework agreement in the form of an ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement with the main counterparties concerning commodity, currency and interest rate derivative financial instruments. These contracts permit netting and allow for termination of the contract on the occurrence of certain events of defaults. Some of these agreements concerning commodity derivatives include Credit Support Annexes with the aim of reducing credit and counterparty risk by requiring margin call deposits in the form of cash or letter of credit for balances exceeding the mutually agreed limit.

Neste Oil reduces credit risk by executing treasury transactions only with approved counterparties. All counterparties are rated with the minimum counterparty credit rating requirement being BBB (S&P). Foreign subsidiaries may have bank accounts in unrated financial institutions. In order to decrease credit risk associated with local banks used by subsidiaries in foreign countries, the subsidiaries are required to deposit their excess cash balances with the Group Treasury on an ongoing basis.

As to counterparty risk management vis-à-vis insurance companies for Neste Oil Group, the minimum credit rating requirement for the insurers and/or reinsurers is A- (S&P).

As of the balance sheet date, the biggest receivable balances were from the customers in the Scandinavian wholesale markets. In addition the Group also has a large number of different customers and counterparties on the international markets. As to the range of the counterparties, the most significant types are mainly large international oil companies and financial institutions. However, the Group's exposure to unexpected credit losses within one reporting segment may increase with the concentration of credit risk through a number of counterparties operating in the same industry sector or geographical area, which may be adversely affected by changes in economic, political or other conditions. These risks are reduced by taking geographical risks into consideration in decisions on creditworthiness.

The Group follows the credit and counterparty guidelines in review and follow-up process of the credit limits daily. The impact of the financial market conditions to the Group's counterparties with regard to the associated credit risk are also assessed in the process, by taking into account all available information about counterparties, their financial situation and business activities. Balances due from a single sales transaction to a counterparty with open credit line may amount to approximately EUR 7.5-8 million due to the nature of the oil business, where cargoes including large volumes of refined oil products, for example 10,000 tons, are sold as one transaction. For this example, oil product price is based on a crude oil price of USD 110/barrel representing the price level prevailing at the turn of the financial period 2011/2012.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure as at December 31 2011, approximately 89% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from Standard & Poor's, Moody's or Fitch. Respectively, Group Treasury had an exposure for currency and interest rate derivative contracts as at December 31 2011 with banks, of which all have investment grade rating at a minimum. Derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. 30% of the trade receivables portfolio exposure is from counterparties or their parent companies having credit rating BBB- (S&P) minimum. 70%

consists of trade receivables from the counterparties not having credit rating, most of it comprising from a large number of corporate and private customers. With respect to undue trade receivables, there were no indications as of December 31 2011 that the counterparties would not meet their obligations.

#### Analysis of trade receivables by age

MEUR	2011	2010
Undue trade receivables	845	709
Trade receivables 1–30 days overdue	42	38
Trade receivables 31–60 days overdue	0	1
Trade receivables more than 60 days overdue	0	0
	887	748

#### Capital risk management

The Group's objective when managing capital is to secure a capital structure that ensures access to capital markets at all times despite the volatile nature of the industry in which Neste Oil operates. Despite the fact that the Group does not have a public rating, the Group's target is to have a capital structure equivalent to that of other oil refining companies with a public investment grade rating. The capital structure of the Group is reviewed by the Board of Directors on a regular basis.

The Group monitors its capital on the basis of leverage ratio, the ratio of interest-bearing net debt to interest-bearing net debt plus total equity. Interest-bearing net debt is calculated as interest-bearing liabilities less cash and cash equivalents.

Over the cycle, the Group's leverage ratio is likely to fluctuate, and it is the Group's objective to maintain the leverage ratio within the range of 25–50%. The leverage ratio as of 31 December 2011 and 2010 was as follows:

MEUR	2011	2010
Total interest-bearing liabilities	2,384	2,181
Cash and cash equivalents	304	380
Interest-bearing net debt	2,080	1,801
Total equity	2,467	2,426
Interest-bearing net debt and total equity	4,547	4,227
Leverage ratio	45.7%	42.6%

## 4 Segment information

### Operating segments

The Group's operations are now built around two business areas and seven common functions. Business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products and Renewables, and Oil Retail. The common functions are: Production & Logistics, Finance, Human Resources, HSE, Technology & Strategy, Communications, and Legal Affairs. Production & Logistics is responsible for operating the production facilities of Oil Products and Renewables. The result and net assets of Production & Logistics are accounted within reporting segments Oil Products and Renewable Fuels.

The Group's operations are divided into four operating segments: Oil Products, Renewable Fuels, Oil Retail and Others. The performance of the reporting segments are reviewed regularly by the chief operating decision maker, Neste Oil President & CEO, to assess performance and to decide on allocation of resources.

Operating segments are engaged in following key business activities:

- Oil Products segment markets and sells gasoline, diesel fuel, light and heavy fuel oil, aviation fuel, base oils, gasoline components and liquefied petroleum gas to domestic and international wholesale markets. The Shipping business is included in the Oil Products segment.
- Renewable Fuels segment markets and sells NExBTL renewable diesel based on Neste Oil's proprietary technology to domestic and international wholesale markets.
- Oil Retail segment markets and sells petroleum products and associated services directly to end-users, of which the most important are private motorists, industry, transport companies, farmers, and heating oil customers. Traffic fuels are marketed through Neste Oil's own service station network and direct sales.
- Others segment consists of Group administration, shared service functions, Research and Technology, Neste Jacobs and Nynas AB. NSE Biofuels Oy is also included in the Others segment as of Q2/2010. The comparative figures have been adjusted accordingly.

The operating segments presented above exclude any segments which are formed from aggregating two or more smaller segments.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements as described in 'Summary of significant accounting policies'. All inter-segment transactions are on arm's length basis and are eliminated in consolidation. Segment operating profit include realized gains and losses from foreign currency and oil derivative contracts hedging cash flows of commercial sales and purchases that have been recycled in the income statement. The 'other expenses' included in the income statement for each business segment includes the following major items:

- Oil Products: maintenance, freights, rents, and other property costs and insurance premiums, change in the fair value of open oil derivative positions
- Renewable Fuels: freights, repairs and maintenance, storage charges, rents, other property costs, change in the fair value of open oil derivative positions
- Oil Retail: rents and other property costs and maintenance

Segment operating assets and liabilities comprise of assets and liabilities utilized in the segments' business operations. Assets consist primarily of property, plant and equipment, intangible assets, investment in associates and joint ventures including shareholder loans, inventories and receivables. They exclude deferred taxes, interest-bearing receivables, and derivative financial instruments designated as hedges of forecasted future cash flows. Segment operating liabilities comprise operating liabilities, pension liabilities, and provisions; and exclude items such as current and deferred taxes, interest-bearing liabilities, and derivative financial instruments designated as hedges of forecasted future cash flows.

Group's customer structure in 2011 and 2010 did not result in any major concentration in any given geographical area or reporting segment.

**MEUR**

<b>2011</b>	<b>Oil Products</b>	<b>Renewable Fuels</b>	<b>Oil Retail</b>	<b>Others</b>	<b>Eliminations</b>	<b>Group</b>
External revenue	10,284	811	4,291	34	-	15,420
Internal revenue	2,360	215	7	157	-2,739	0
Total revenue	12,644	1,026	4,298	191	-2,739	15,420
Other income	28	0	4	18	-14	36
Share of profit of associates and joint ventures	10	-	-	16	-	26
Materials and services	-11,517	-960	-4,037	-12	2,564	-13,962
Employee benefit costs	-158	-23	-32	-105	2	-316
Depreciation, amortization and impairments	-192	-78	-32	-13	-	-315
Other expenses	-442	-135	-143	-87	191	-616
Operating profit	373	-170	58	8	4	273
Financial income and expense						-67
Profit before taxes						206
Income taxes						-46
Profit for the period						160
Comparable operating profit	249	-163	57	9	4	156
Changes in the fair value of open oil and freight derivative positions	5	4	0	-	-	9
Inventory gains/losses	108	-11	-	-	-	97
Sales gains/losses	11	-	1	-1	-	11
Operating profit	373	-170	58	8	4	273
Capital expenditure and investment in shares	131	190	34	9	-	364
Segment operating assets	3,864	2,167	648	182	-306	6,555
Investment in associates and joint ventures	25	-	1	213	-	239
Deferred tax assets						50
Unallocated assets						428
Total assets	3,889	2,167	649	395	-306	7,272
Segment operating liabilities	1,660	204	323	79	-301	1,965
Deferred tax liabilities						331
Unallocated liabilities						2,509
Total liabilities	1,660	204	323	79	-301	4,805
Segment net assets	2,228	1,963	326	315	-3	4,829
Return on net assets, %	15.7	-9.0	17.9	2.7		
Comparable return on net assets, %	10.5	-8.7	17.6	3.0		



**MEUR**

<b>2010</b>	<b>Oil Products</b>	<b>Renewable Fuels</b>	<b>Oil Retail</b>	<b>Others</b>	<b>Eliminations</b>	<b>Group</b>
External revenue	8,009	202	3,650	31	-	11,892
Internal revenue	1,780	126	4	138	-2,048	0
Total revenue	9,789	328	3,654	169	-2,048	11,892
Other income	25	-	4	64	-12	81
Share of profit of associates and joint ventures	-	-	-	15	-	15
Materials and services	-8,751	-258	-3,394	-7	1,917	-10,493
Employee benefit costs	-163	-20	-34	-175	0	-392
Depreciation, amortization and impairments	-187	-27	-34	-11	-	-259
Other expenses	-380	-62	-135	-79	135	-521
Operating profit	333	-39	61	-24	-8	323
Financial income and expense						-27
Profit before taxes						296
Income taxes						-65
Profit for the period						231
Comparable operating profit	208	-65	60	45	-8	240
Changes in the fair value of open oil and freight derivative positions	18	6	0	-	-	24
Inventory gains/losses	101	20	-	-	-	121
Sales gains/losses	6	-	1	-69	-	-62
Operating profit	333	-39	61	-24	-8	323
Capital expenditure and investments in shares	269	578	33	63	-	943
Segment operating assets	3,606	1,814	595	171	-242	5,944
Investment in associates and joint ventures	15	-	1	198	-	214
Deferred tax assets						31
Unallocated assets						475
Total assets	3,621	1,814	596	369	-242	6,664
Segment operating liabilities	1,361	111	282	93	-233	1,614
Deferred tax liabilities						347
Unallocated liabilities						2,277
Total liabilities	1,361	111	282	93	-233	4,238
Segment net assets	2,260	1,703	315	276	-10	4,544
Return on net assets, %	12.6	-3.0	19.6	-8.8		
Comparable return on net assets, %	7.9	-5.1	19.3	16.5		

## Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and a retail selling network in Finland, North-West Russia, Estonia, Latvia, Lithuania and Poland. The following table provides information of the Group's revenue by geographical area, irrespective of the origin of the goods or services, and non-current assets and capital expenditure by geographical area.

Revenue is allocated based on the country in which the customer is located. Non-current assets and capital expenditure are allocated based on where the assets are located. Non-current assets comprise of intangible assets, property, plant and equipment and investments in associates and joint ventures including shareholder loans. 'Other Nordic countries' include Sweden, Norway, Denmark and Iceland. 'Baltic rim' includes Estonia, Latvia, Lithuania, Russia and Poland. The Group's activities in this geographical area comprise mainly of retail activities in the mentioned countries.

### MEUR

		Other Nordic	Baltic	Other	North and South	Other		
2011	Finland	countries	rim	European	America	countries	Eliminations	Group
Revenue by destination	7,374	2,348	1,425	2,409	1,639	225	0	15,420
Non-current assets	2,415	213	166	722	28	746	0	4,290
Capital expenditure	139	0	22	153	2	48	0	364

		Other Nordic	Baltic	Other	North and South	Other		
2010	Finland	countries	rim	European	America	countries	Eliminations	Group
Revenue by destination	5,699	1,917	1,501	1,707	950	118	0	11,892
Non-current assets	2,507	195	168	592	33	741	0	4,236
Capital expenditure	302	0	23	292	4	322	0	943

## 5 Assets held for sale

The assets and liabilities held for sale relate to district Neste Oil's 50% holding in an iso-octane plant in Edmonton, Canada. In December 2011 Neste Oil signed an agreement to divest the whole asset. Furthermore, Neste Oil will sell the associated product and feedstock inventories at closing. The transaction was closed on January 19, 2012. The operations are part of the Oil Products segment.

### Assets classified as held for sale

MEUR	2011	2010
Property, plant and equipment	27	-
Other assets	29	-
Total	56	-

### Liabilities related to assets held for sale

MEUR	2011	2010
Interest-bearing liabilities	-	-
Other liabilities	15	-
Total	15	-

## 6 Acquisitions and disposals of subsidiaries

### Acquired subsidiaries

In 2011, the Group did not have acquisitions to be accounted for as business combinations.

In May 2010, UAB Neste Lietuva, subsidiary of Neste Oil Group, acquired 100% of the shares and voting rights of UAB Alexela Oil which operates 22 unmanned fuel stations in Lithuania. Neste Oil strengthens its position on the retail market in Lithuania, as the acquisition complements the company's existing network of 37 stations in the country.

The profit of UAB Alexela Oil included in the Neste Oil consolidated income statement January 1–December 31 2010 is immaterial. Also, the management estimates that UAB Alexela Oil's effect on Neste Oil's consolidated revenue or profit for the period would have been immaterial as at December 31 2010, had the acquisition taken place on January 1 2010.

The company was merged into UAB Neste Lietuva on November 1 2010.

### Assets and liabilities of UAB Alexela Oil, 2010

MEUR	Acquired fair value	Acquired book value
Intangible and tangible assets	7	5
Current assets	3	3
Cash and cash equivalents	0	0
<b>Total assets</b>	<b>10</b>	<b>8</b>
Trade and other payables	2	1
<b>Total liabilities</b>	<b>2</b>	<b>1</b>
<b>Acquired net assets</b>	<b>8</b>	<b>7</b>
Purchase consideration		8
<b>Goodwill</b>		<b>0</b>
Purchase consideration settled in cash		8
Cash and cash equivalents in UAB Alexela Oil		0
<b>Cash outflow on acquisition</b>		<b>8</b>

### Disposed subsidiaries

During the financial period 2011, the Group sold its 93.85% interest in its Estonian subsidiary, AS Reola Gaas. The transaction was completed on August 1 2011 and no material capital gain was recognized in the consolidated financial statements. The selling price was not material.

In June 2010 the Group sold its 100% interest in its subsidiary Neste Oil Portugal S.A. A capital gain amounting to EUR 5 million resulting from the transaction has been included in the consolidated financial statements.

**Assets and liabilities of Neste Oil Portugal S.A.**

	<b>Neste Oil Portugal S.A.</b>
<b>MEUR</b>	<b>30 June 2010</b>
Property, plant and equipment	0
Shares in subsidiaries and associates	0
Inventories	0
Trade and other receivables	1
Cash and cash equivalents	0
<b>Total assets</b>	<b>1</b>
Trade and other payables	0
<b>Total liabilities</b>	<b>0</b>
<b>Sold net assets</b>	<b>1</b>
Gain on disposal	5
<b>Total consideration</b>	<b>6</b>
Cash consideration received	6
Cash and cash equivalents disposed of	0
<b>Cash inflow arising from disposal</b>	<b>6</b>

## 7 Analysis of revenue by category

MEUR	2011	2010
Sale of goods	15,202	11,703
Revenue from services	172	166
Royalty income	0	1
Other	46	22
	15,420	11,892

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,210 million (2010: EUR 1,146 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 9.

Oil trading included in Sale of goods comprises of revenue from physical and derivative financial instrument trading activities conducted on international and regional markets by taking delivery of and selling petroleum products and raw materials within a short period of time for the purpose of generating a profit from short term fluctuations in product and raw material prices and margins. Trading mainly involves transactions based on the use of derivative financial instruments.

Revenue from services mainly comprises revenue from the chartering services and Neste Jacobs included in Others segment.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 178 million (2010: EUR 107 million).

## 8 Other income

MEUR	2011	2010
Gain on sale of subsidiaries	0	5
Capital gains on disposal of other non-current assets	12	2
Rental income	7	9
Government grants	11	11
Other	6	54
	<b>36</b>	<b>81</b>

Government grants relate mainly to the shipping operations, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2010: EUR 4 million) of the amount is included in 'Trade and other receivables' in the consolidated balance sheet. This amount relating to operations in the financial period ended December 31 is applied for and received during the following financial period. The Group believes that it has fulfilled all the conditions related to the grants recognized in the income statement.

An insurance compensation of EUR 48 million is included in the line 'Other' in 2010.

## 9 Materials and services

MEUR	2011	2010
Change in product inventories	-253	142
Materials and supplies		
Purchases	14,327	10,408
Change in inventories	-127	-66
External services	15	9
	13,962	10,493

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,210 million (2010: EUR 1,146 million). The corresponding amount is included in 'Revenue', Note 7.



## 10 Employee benefit costs

MEUR	2011	2010
Wages, salaries	240	246
Social security costs	21	20
Pension costs-defined contribution plans	39	57
Pension costs-defined benefit plans	7	62
Other costs	9	7
	316	392

In 2010 EUR 68 million of the pension costs was accounted for by the transfer of the pension liabilities of the Neste Oil Pension Fund to insurance companies. Detailed information concerning pension costs is included in Note 30, 'Retirement benefit obligations'. Key management compensation is included in Note 32, 'Related party transactions'.

### Number of personnel (average)

	2011	2010
Oil Products	2,060	2,125
Renewable Fuels	258	228
Oil Retail	1,263	1,318
Others	1,345	1,359
	4,926	5,030

## 11 Depreciation, amortization, and impairment charges

MEUR	2011	2010
Depreciation of property, plant, and equipment		
Buildings and structures	66	56
Machinery and equipment	223	182
Other tangible assets	16	12
	305	250
Amortization of intangible assets	10	9
Depreciation, amortization, and impairment charges total	315	259

## 12 Other expenses

MEUR	2011	2010
Operating leases and other property costs	100	117
Freights relating to sales	152	95
Repairs and maintenance	116	80
Services	72	66
Other	176	163
	616	521

Operating leases include rents for land, premises, machinery and equipment as well as time charter vessels.

Services include planning and consulting services, IT services and other services.

Other expenses include selling expenses, insurance premiums, and unrealized changes in the fair value of open oil and freight derivative positions when negative. In 2010 other expenses include write-offs of fixed assets in progress amounting to EUR 13 million.

### Fees charged by the statutory auditor

EUR thousands	2011	2010
Audit fees	1,044	995
Auditor's mandatory opinions	13	30
Tax advisory	44	52
Other advisory services	628	256
	1,729	1,333

## 13 Financial income and expenses

MEUR	2011	2010
<b>Financial income</b>		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	4	4
Other financial income	0	0
	4	4
<b>Financial expenses</b>		
Interest expenses for financial liabilities at amortized cost	-68	-31
Interest rate derivatives, hedge accounted	0	-1
Interest rate derivatives, non-hedge accounted	2	1
Other financial expenses	-6	-3
	-72	-34
<b>Exchange rate and fair value gains and losses</b>		
Loans and receivables	-8	-6
Other	3	8
Foreign exchange derivatives, non-hedge accounted	6	1
	1	3
<b>Financial cost - net</b>	<b>-67</b>	<b>-27</b>

### Net gains/losses on financial instruments included in operating profit

MEUR	2011	2010
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	23	-27
Non-hedge accounted foreign exchange rate, oil and freight derivative instruments	-58	-60
	-35	-87

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments. Financial instruments held for trading purposes include also the net result of physical trading transactions for those contracts that meet the criteria specified in IAS 39.5-6. Non-hedge accounted derivative financial instruments include net result of transactions entered into for hedging purposes amounting to EUR -32 million (2010: EUR -64 million), and transactions entered into for trading purposes amounting to EUR 0 million (2010: EUR 3 million).

### Aggregate exchange differences charged/credited to the income statement

MEUR	2011	2010
Revenue	11	8
Materials and services	-3	-8
	8	0

## 14 Income tax expense

The major components of tax expenses are presented in the following table.

MEUR	2011	2010
Current tax expense	70	66
Adjustments recognized for current tax of prior periods	3	-1
Change in deferred taxes	-27	0
	46	65

The difference between income taxes at the statutory tax rate in Finland and income taxes recognized in the consolidated income statement is reconciled in the following table.

MEUR	2011	2010
Profit before tax	206	296
Hypothetical income tax calculated at Finnish tax rate 26%	-54	-77
Effect of different tax rates of foreign subsidiaries	7	7
Tax exempt income	13	12
Non-deductible expense	-32	-2
Taxes for previous periods	-4	1
Net results of associated companies	7	4
Tax losses with no tax benefit	-	-9
Effect of change of Finnish income tax rate	19	-
Other	-2	-1
Tax charge in the consolidated income statement	-46	-65

The Group's effective income tax rate was 22.31% (2010: 22.07%). The effective tax rate is continually being slightly lower than the Finnish corporate tax rate of 26%. The change of the Finnish corporate income tax rate from 26% into 24.5% as of the beginning of 2012 had an effect on income taxes mainly because of the Finnish depreciation difference. Furthermore, tax-exempt items, tax rate differences in other countries as well as the share of profits of associates and joint ventures decreased the effective tax rate.

## 15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Since the Company has not granted any options, there is no dilution. The average number of shares has been adjusted with treasury shares, 485,000 shares (2010: 485,000), as described in note 26.

	2011	2010
Profit attributable to owners of the parent, MEUR	158	229
Weighted average number of ordinary shares in issue (thousands)	255,919	255,914
Earnings per share basic and diluted (euro per share)	0.62	0.89

## 16 Dividend per share

The dividends paid in 2011 were EUR 0.35 per share, totaling EUR 90 million and 2010 EUR 0.25 per share, totaling EUR 64 million. A dividend of EUR 0.35 per share will be proposed at the Annual General Meeting on March 28 2012, corresponding to total dividends of EUR 90 million for 2011. This dividend is not reflected in the financial statements.

## 17 Property, plant and equipment

MEUR

	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
<b>2011</b>						
Gross carrying amount at January 1 2011	89	1,830	3,447	159	757	6,282
Exchange differences	-2	-3	-4	0	-1	-10
Additions	4	33	52	3	249	341
Disposals	-2	-18	-56	-3	-4	-83
Reclassifications	6	356	485	1	-848	0
Reclassified as non current asset held for sale	-1	-167	-12	-	-3	-183
Gross carrying amount at December 31 2011	94	2,031	3,912	160	150	6,347
Accumulated depreciation and impairment losses at January 1 2011	-	757	1,475	71	-	2,303
Exchange differences	-	-1	-2	0	-	-3
Disposals	-	-16	-51	-3	-	-70
Reclassifications	-	0	0	-	-	0
Depreciation for the period	-	66	223	16	-	305
On non current assets reclassified as held for sale	-	-146	-10	-	-	-156
Accumulated depreciation and impairment losses at December 31 2011	-	660	1,635	84	-	2,379
Carrying amount at January 1 2011	89	1,073	1,972	88	757	3,979
Carrying amount at December 31 2011	94	1,371	2,277	76	150	3,968



**MEUR**

		<b>Buildings and Land constructions</b>	<b>Machinery and equipment</b>	<b>Other tangible assets</b>	<b>Assets under construction</b>	<b>Total</b>
<b>2010</b>						
Gross carrying amount at January 1 2010	71	1,491	2,836	123	848	5,369
Exchange differences	1	29	4	1	3	38
Additions	9	100	330	21	464	924
Increases through business combinations	1	3	2	-	-	6
Disposals	0	-6	-90	0	-17	-113
Reclassifications	7	213	365	14	-541	58
Gross carrying amount at December 31 2010	89	1,830	3,447	159	757	6,282
Accumulated depreciation and impairment losses at January 1 2010	-	689	1,385	60	-	2,134
Exchange differences	-	22	2	0	-	24
Disposals	-	-5	-90	0	-	-95
Reclassifications	-	-5	-4	-1	-	-10
Depreciation for the period	-	56	182	12	-	250
Accumulated depreciation and impairment losses at December 31 2010	-	757	1,475	71	-	2,303
Carrying amount at January 1 2010	71	802	1,451	63	848	3,235
Carrying amount at December 31 2010	89	1,073	1,972	88	757	3,979

### Finance leases

Machinery and equipment include assets where the Group is a lessee under a finance lease as specified in the following table.

MEUR	2011	2010
Gross carrying amount	249	227
Accumulated depreciation	62	50
Carrying amount	187	177

### Capitalized borrowing costs

Borrowing costs amounting to EUR 16 million (2010: EUR 22 million) were capitalized during the financial period related to the Renewable Fuels investment projects in Singapore and Rotterdam as well as Oil Products investment project in Bahrain. They are included in 'Property, Plant and Equipment'. The Group's average interest rate of borrowings for each month was applied as the capitalization rate, which resulted in average capitalization rate of 3.38% (2010: 2.53%).

## 18 Intangible assets

### MEUR

		Other intangible assets	Total
2011	Goodwill		
Gross carrying amount at January 1 2011	11	130	141
Exchange differences	-	0	0
Additions	-	23	23
Disposals	-	0	0
Reclassifications	-	0	0
Reclassified as non current asset held for sale	-	-10	-10
Gross carrying amount at December 31 2011	11	143	154
Accumulated amortization and impairment losses at January 1 2011	-	98	98
Exchange differences	-	0	0
Disposals	-	0	0
Reclassifications	-	0	0
Amortization for the period	-	10	10
On non current assets reclassified as held for sale	-	-9	-9
Accumulated amortization and impairment losses at December 31 2011	-	99	99
Carrying amount at January 1 2011	11	32	43
Carrying amount at December 31 2011	11	44	55

### MEUR

		Other intangible assets	Total
2010	Goodwill		
Gross carrying amount at January 1 2010	11	129	140
Exchange differences	-	2	2
Additions	-	8	8
Increases through business combinations	-	1	1
Disposals	-	-4	-4
Reclassifications	-	-6	-6
Gross carrying amount at December 31 2010	11	130	141
Accumulated amortization and impairment losses at January 1 2010	-	92	92
Exchange differences	-	2	2
Disposals	-	-4	-4
Reclassifications	-	-1	-1
Amortization for the period	-	9	9

Accumulated amortization and impairment losses at December 31 2010	-	98	98
Carrying amount at January 1 2010	11	37	48
Carrying amount at December 31 2010	11	32	43

### Emission allowances

Neste Oil's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 16.1 million tons emission allowances for the period 2008-2012. Emission allowances purchased are accounted for as intangible assets and measured at cost, and emission allowances received free of charge are accounted for at nominal value, i.e. at zero. An impairment charge is recognized in the income statement if the fair value is lower than the carrying value.

A provision is recognized to cover the obligation to return emission allowances if emission allowances received free of charge do not cover actual emissions. The provision is measured at its probable settlement amount. The difference between emissions made and emission allowances received, as well as the change in the probable amount of the provision, are reflected in operating profit.

As at December 31 2011 estimated obligation to purchase emission allowances were reflected in the balance sheet of Neste Oil in provisions amounting to EUR 9 million. The actual amount of CO2 emissions in 2011 were 3.4 million tons (2010: 3.4 million tons). The Group has purchased emission allowances for 0.4 thousand tons during the financial period ended December 31 2011 (2010: 50 thousand tons). The Group has exchanged an immaterial amount of emission allowances to Certified Emission Reduction (CER) during the financial period that ended December 31 2011.

### Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's). From 11 identified CGU's goodwill is allocated to the following: Traffic Fuels within Oil Products segment and Neste Jacobs sub-group within Others segment.

A segment-level summary of the goodwill allocation is presented below:

MEUR	2011	2010
Oil Products	2	2
Other	9	9
	11	11

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the management covering a period of three years. The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering services within oil refining, chemicals and biopharma industries, as well as the billability rate.

Cash flows beyond the period are extrapolated for Neste Jacobs Group using a negative nominal growth rate. The negative nominal growth rate is due to goodwill being attributable to the experienced and capable personnel employed by the acquired Rintekno Group. The risk of potential personnel turnover as well as tight market outlook are taken into account in the growth assumption. The discount rate used is 7.0%, representing the WACC specified for the business area in question after tax, which is adjusted by tax effects in connection with the test. The WACC formula inputs are risk-free rate of return, market risk premium, industry-specific beta factor, target capital structure, borrowing cost and country risks.

The key assumptions used in the impairment test in Neste Jacobs are the billability rate affecting the EBITDA, and the discount rate. A reasonably possible change in the key assumptions would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

## 19 Investments in associates and joint ventures

### Investments in associates

MEUR	2011	2010
<b>Carrying amount</b>		
At January 1	2	2
At December 31	2	2

A complete list of the Group's associated companies, countries of incorporation, and interests held is disclosed in Note 33.

Summarized financial information in respect of the Group's associates, all of which are unlisted, is set out below:

MEUR	2010
Assets	10
Liabilities	8
Revenue	17
Profit/loss	0

The financial statements of the Group's associates are not published within the Group's reporting timetable. The summarized financial information presented above, therefore, is from the latest published financial statements of the associates concerned (2010).

### Investments in joint ventures

MEUR	2011	2010
<b>Carrying amount</b>		
At January 1	212	214
Share of profits of joint ventures	26	15
Investments in joint ventures during the financial period	-	0
Translation differences	-1	22
Hedging reserves in joint ventures	0	1
Other reclassifications	-	-40
At December 31	237	212

The Accounting treatment of Bahrain Lube Base Oil Company B.S.C (Closed) has been changed in 2010 from joint venture to jointly controlled assets. Accordingly the assets have been reclassified from investments in joint ventures to property, plant and equipment.

The Group's interest in its principle joint ventures at December 31, all of which are unlisted, are listed in the following table.

	Country of incorporation	2011 % interest held	2010 % interest held
Glacia Limited	Bermuda	50.00	50.00
Lacus Ltd.	Bermuda	50.00	50.00
NSE Biofuels Oy Ltd	Finland	50.00	50.00
Nynas AB	Sweden	49.99	49.99
Terra Ltd.	Bermuda	50.00	50.00

Glacia Limited is a joint venture company owned on a 50/50 basis by Neste Oil and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste Oil fleet in January 2007. Neste Oil has entered into a 10-year time charter contract with the joint venture for the vessel of which 5 years remain.

Lacus Ltd. and Terra Ltd. are two joint venture companies owned on a 50/50 basis by Neste Oil and Concordia Maritime AG (part of the Stena Group). Both companies own one Panamax-size product tankers delivered in January and February 2007. Neste Oil has entered into a 10-year time charter contract with the joint ventures for the vessels of which 5 years remain.

NSE Biofuels Oy Ltd is a joint venture company owned on a 50/50 basis by Neste Oil and Stora Enso. The Company that was established in 2007, has built a demonstration plant that converts wood-based biomass to hydrocarbons in Varkaus, Finland. The technology converting forestry residues to biowax through gasification, purification and Fischer-Tropsch has been successfully demonstrated in 2011. Presently, the facility is drying biomass feedstock and producing synthetic gas to lime kiln.

Nynas AB (formerly AB Nynäs Petroleum) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. The sales volumes, including side products, amounted to 3.2 million tons in total in 2011. Neste Oil Owns 49.99% of the shares of the company. The remaining 50.01% of the shares of Nynas is owned by a subsidiary of a Venezuelan oil company, Petroleos de Venezuela S.A. Nynas AB is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Joint ventures have been consolidated using the equity method.

Summarized financial information in respect of the Group's joint ventures is set out in the following table.

**MEUR**

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
<b>2011</b>						
Glacia Limited	41	15	32	4	8	2
Lacus Ltd.	30	7	22	2	5	1
NSE Biofuels Oy Ltd	3	1	-	1	3	0
Terra Ltd.	30	7	22	2	5	1

	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
<b>2010</b>						
Glacia Limited	43	11	34	3	8	2
Lacus Ltd.	31	5	22	2	5	1
NSE Biofuels Oy Ltd	3	1	-	1	2	-26
Nynas AB	368	626	350	261	2,155	44
Terra Ltd.	31	6	22	2	6	2

The financial statements of Nynas AB are not published within the Group's reporting timetable. The share of profits of joint ventures for 2011 is consolidated based on the company's preliminary results for the financial period.

Bahrain Lube Base Oil Company B.S.C. (Closed) is a joint venture between nogaholding, The Bahrain Petroleum Company (Bapco) and Neste Oil, of which Neste Oil owns 45%. The joint venture plant produces premium quality VHVI (very high viscosity index) Group III base oils for use in blending top-tier lubricants and has a production capacity of 400,000 metric tons. Plant started production during 2011. The company was founded during the financial period 2009. Decision making in the joint venture company is subject to mutual approval by the partners (shareholders). In 2010 the Group changed the accounting treatment from joint venture to jointly controlled assets.



## 20 Carrying amounts of financial assets and liabilities by measurement categories

MEUR

2011 Balance sheet item	Financial assets/ liabilities at fair value through income statement				Financial Carrying liabilities amounts by			Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available- for-sale financial assets	measured at amortized cost	sheet item	balance		
<b>Non-current financial assets</b>									
Non-current receivables	-	-	16	-	-	16	16	21	
Derivative financial instruments	19	-	-	-	-	19	19	25	
Available-for-sale financial assets	-	-	-	4	-	4	4	21	
<b>Current financial assets</b>									
Trade and other receivables	-	-	1,045	-	-	1,045	1,045	23	
Derivative financial instruments	18	41	-	-	-	59	59	25	
<b>Carrying amount by category</b>	<b>37</b>	<b>41</b>	<b>1,061</b>	<b>4</b>	<b>-</b>	<b>1,143</b>	<b>1,143</b>		
<b>Non-current financial liabilities</b>									
Interest-bearing liabilities	-	-	-	-	1,891	1,891	1,907	27	
Derivative financial instruments	3	9	-	-	-	12	12	25	
Other non-current liabilities	-	-	-	-	9	9	9	27	
<b>Current financial liabilities</b>									
Interest-bearing liabilities	-	-	-	-	493	493	493	27	
Current tax liabilities	-	-	-	-	26	26	26	27	
Derivative financial instruments	52	36	-	-	-	88	88	25	

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Trade and other payables	-	-	-	-	1,872	1,872	1,872	27
<b>Carrying amount by category</b>	<b>55</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>4,291</b>	<b>4,391</b>	<b>4,407</b>	

## MEUR

2010 Balance sheet item	Financial assets/liabilities at fair value through income statement				Financial Carrying liabilities amounts by			
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available-for-sale financial assets	measured at amortized cost	by balance sheet item	Fair value	Note
<b>Non-current financial assets</b>								
Non-current receivables	-	-	8	-	-	8	8	21
Derivative financial instruments	7	11	-	-	-	18	18	25
Available-for-sale financial assets	-	-	-	4	-	4	4	21
<b>Current financial assets</b>								
Trade and other receivables	-	-	866	-	-	866	866	23
Derivative financial instruments	22	20	-	-	-	42	42	25
<b>Carrying amount by category</b>	<b>29</b>	<b>31</b>	<b>874</b>	<b>4</b>	<b>-</b>	<b>938</b>	<b>938</b>	
<b>Non-current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	1,882	1,882	1,913	27
Derivative financial instruments	5	18	-	-	-	23	23	25
Other non-current liabilities	-	-	-	-	1	1	1	27
<b>Current financial liabilities</b>								
Interest-bearing liabilities	-	-	-	-	299	299	299	27

Current tax liabilities	-	-	-	-	38	38	38	27
Derivative financial instruments	16	18	-	-	-	34	34	25
Trade and other payables	-	-	-	-	1,547	1,547	1,547	27
<b>Carrying amount by category</b>	<b>21</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>3,767</b>	<b>3,824</b>	<b>3,855</b>	

The fair values of each class of financial assets and financial liabilities are presented in the detailed note for each balance sheet item referred to in the table above.

#### 2011 Fair value hierarchy, MEUR

<b>Financial assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Non-current derivative financial instruments	-	19	-	19
Current derivative financial instruments	6	53	-	59

#### Financial liabilities

Non-current derivative financial instruments	-	12	-	12
Current derivative financial instruments	10	78	-	88

During the financial period 2011 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.

#### 2010 Fair value hierarchy, MEUR

<b>Financial assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Non-current derivative financial instruments	-	18	-	18
Current derivative financial instruments	1	41	-	42

#### Financial liabilities

Non-current derivative financial instruments	-	23	-	23
Current derivative financial instruments	3	31	-	34

During the financial period 2010 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.

## 21 Non-current receivables and available-for-sale financial assets

Non-current receivables	Fair value		Carrying amount	
MEUR	2011	2010	2011	2010
Non-current interest-bearing receivables	1	1	1	1
Other non-current receivables	15	7	15	7
	16	8	16	8

The carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method, and the fair values are determined by using the discounted cash flow method, applying the market interest rate at the balance sheet date. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

### Available-for-sale financial assets

MEUR	2011	2010
At January 1	4	1
Additions	0	3
Disposals	0	0
At December 31	4	4
Investments in unlisted equity instruments	4	4
	4	4

Available-for-sale financial assets are investments in unlisted equity instruments, and are measured at cost, because their fair value cannot be reliably measured in the absence of an active market.

## 22 Inventories

MEUR	2011	2010
Materials and supplies	494	358
Finished products and goods	961	717
Other inventories	2	4
	<b>1,457</b>	1,079

Inventories held for trading purposes are measured at fair value, less selling expenses. They amounted to EUR 0 million as at December 31 2011 (2010: EUR 1 million). Write downs of inventories amounted to EUR 7 million as at December 31 2011 (2010: EUR 0 million).

## 23 Current trade and other receivables

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
Trade receivables	887	748	887	748
Other receivables	118	82	118	82
Advances paid	6	4	6	4
Accrued income and prepaid expenses	34	32	34	32
	1,045	866	1,045	866

The carrying amounts of current receivables are reasonable approximations of their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the trade and other receivables. Impairment of trade receivables amounted to EUR 3 million (2010: EUR 2 million).

Analysis of trade receivables by age is presented in Note 3, Financial risk management, section 'credit and counterparty risk'.

The trade receivables were not sold to the third party e.g. bank during the year 2011.

## 24 Cash and cash equivalents

Cash and cash equivalents include the following:

MEUR	2011	2010
Cash at bank and in hand	293	379
Short term bank deposits	11	1
	304	380

The maximum exposure to credit risk at the reporting date is the carrying amount of the cash and cash equivalents.

## 25 Derivative financial instruments

### Nominal values of interest rate and currency derivative contracts and share forward contracts

MEUR	2011			2010		
	Remaining maturities			Remaining maturities		
	< 1 year	1-7 years	Total	< 1 year	1-6 years	Total
<b>Derivative financial instruments designated as hedges of net investment in foreign operations</b>						
Forward foreign exchange contracts	73	-	73	33	-	33
	73	-	73	33	-	33
<b>Derivative financial instruments designated as cash flow hedges</b>						
Interest rate swaps <sup>1)</sup>	32	50	82	-	33	33
Forward foreign exchange contracts	729	-	729	741	-	741
Currency options						
- Purchased	206	-	206	43	-	43
- Written	193	-	193	36	-	36
	1,160	50	1,210	820	33	853
<b>Derivative financial instruments designated as fair value hedges</b>						
Interest rate swaps <sup>1)</sup>	-	460	460	-	460	460
	-	460	460	-	460	460
<b>Non-hedge accounting derivative financial instruments</b>						
Interest rate swaps <sup>1)</sup>	-	230	230	-	230	230
Forward foreign exchange contracts	611	-	611	700	-	700
	611	230	841	700	230	930

<sup>1)</sup> Interest rate swaps mature in 1-7 years.



**Volumes of commodity derivative contracts**

	2011 Volume million bbl Remaining maturities			2010 Volume million bbl Remaining maturities		
	< 1 year	1-3 years	Total	< 1 year	1-3 years	Total
<b>Commodity derivative contracts designated as cash flow hedges <sup>2)</sup></b>						
Futures and forwards						
- Sales contracts	19	-	19	11	-	11
	19	-	19	11	-	11
<b>Non-hedge accounting commodity derivative contracts <sup>3)</sup></b>						
Futures and forwards						
- Sales contracts	27	-	27	7	1	8
- Purchase contracts	34	-	34	12	-	12
Options						
- Purchased	1	-	1	-	1	1
- Written	1	-	1	-	1	1
	63	-	63	19	3	22

<sup>2)</sup> Commodity derivative contracts with hedge accounting status are oil derivatives.

<sup>3)</sup> Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

**Fair values of derivative financial instruments**

MEUR	Fair value 2011				Fair value 2010			
	Positive		Negative		Positive		Negative	
Interest rate and currency derivative contracts and share forward contracts	< 1 year	1-7 years	< 1 year	1-7 years	< 1 year	1-6 years	< 1 year	1-6 years
<b>Derivative financial instruments designated as hedges of net investment in foreign operations</b>								
Forward foreign exchange contracts	-	-	2	-	-	-	1	-
	-	-	2	-	-	-	1	-
<b>Derivative financial instruments designated as cash flow hedges</b>								
Interest rate swaps <sup>1)</sup>	-	-	1	3	-	-	-	3
Forward foreign exchange contracts	0	-	32	-	17	-	8	-
Currency options								
- Purchased	0	-	5	-	0	-	0	-
- Written	0	-	3	-	1	-	-	-
	0	-	41	3	18	-	8	3
<b>Derivative financial instruments designated as fair value hedges</b>								
Interest rate swaps <sup>1)</sup>	0	19	-	0	-	7	-	2
	0	19	-	0	-	7	-	2

<b>Non-hedge accounting derivative financial instruments</b>								
Interest rate swaps <sup>1)</sup>	-	-	-	9	-	-	-	11
Forward foreign exchange contracts	3	-	10	-	6	-	4	-
	3	-	10	9	6	-	4	11

<sup>1)</sup> Interest rate swaps mature in 1-7 years.

**MEUR**

	Fair value 2011				Fair value 2010			
	Positive		Negative		Positive		Negative	
	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years
<b>Commodity derivative contracts</b>								
<b>Commodity derivative contracts designated as cash flow hedges <sup>2)</sup></b>								
Futures and forwards								
- Sales contracts	10	-	3	-	4	-	7	-
	10	-	3	-	4	-	7	-
<b>Non-hedge accounting oil derivative contracts <sup>3)</sup></b>								
Futures and forwards								
- Sales contracts	20	-	27	-	8	10	13	6
- Purchase contracts	25	-	4	-	6	-	1	-
Options								
- Purchased	-	-	-	-	-	0	-	1
- Written	1	-	1	-	-	1	-	0
	46	-	32	-	14	11	14	7

<sup>2)</sup> Commodity derivative contracts with hedge accounting status are oil derivatives.

<sup>3)</sup> Commodity derivative contracts with non-hedge accounting status include oil, freight and palm oil derivative contracts. They consist of trading derivative contracts and cash flow hedges without hedge accounting status.

**MEUR**

	2011				2010			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Balance sheet reconciliation</b>								
Derivative financial instruments	59	19	88	12	42	18	34	23

**Fair value estimations**

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. at the amount which could be used if willing parties would make transactions at the balance sheet date. The fair values are determined using a variety of methods and financial valuation techniques, and assumptions are based on market quotations on the relevant balance sheet date.

The fair values of the interest rate swaps and their variations are the present values of the estimated future cash flows. Changes in the fair value of interest rate swaps and their variations are reported either in equity or in the income statement depending on whether they qualify for hedge accounting. Foreign exchange forward contracts are calculated using the valuation model and the market rates at the balance sheet date. The fair value of currency options are calculated using market rates at the balance sheet date and by using the Black and Scholes option valuation model. Changes in the fair value of foreign currency derivative contracts are reported either in equity or in income statement depending on whether they qualify for hedge accounting.

The fair value of exchange traded oil commodity futures and option contracts is determined using the forward exchange market quotations as at December 30 2011. The fair value of over-the-counter oil and freight derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as at December 30 2011. Changes in the fair value of oil commodity derivative contracts are reported either in equity or in the income statement depending on whether they qualify for hedge accounting.

## 26 Equity

### Share capital

Neste Oil's share capital registered with the Trade Register as of December 31 2011 totaled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined.

	Number of shares, 1,000	Share capital MEUR
Registered at January 1 2010	256,404	40
Registered at December 31 2010	256,404	40
Registered at January 1 2011	<b>256,404</b>	<b>40</b>
Registered at December 31 2011	<b>256,404</b>	<b>40</b>

### Treasury shares

Neste Oil has entered into an agreement with a third party service provider concerning the administration of the share-based management share performance arrangement for key management personnel. As part of the agreement, the service provider purchased a total of 500,000 Neste Oil shares in February 2007 in order to hedge part of Neste Oil's cash flow risk in relation to the possible future payment of the rewards, which will take place partly in Neste Oil shares and partly in cash during 2013 and 2014. Despite the legal form of the hedging arrangement, it has been accounted for as if the share purchases had been conducted directly by Neste Oil, as required by IFRS 2, Share based payments and SIC-12, Consolidation - Special purpose entities. The consolidated balance sheet and the consolidated changes in total equity reflect the substance of the arrangement with a deduction amounting to EUR 12 million in equity. This amount represents the consideration paid for the shares by the third party service provider. In 2010 Neste Oil decided to assign 5,000 shares held by the third party service provider. At the date of the transfer, the value of the shares was 60 thousand euros. In 2011 no shares were assigned. As at December 31 2011 there were 485,000 shares (2010: 485,000 shares) accounted for as treasury shares.

### Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement.

Translation differences include exchange differences arising from the translation of the net investment in foreign entities on consolidation, change in the fair value of currency instruments designated as hedges of the net investment, and exchange differences resulting from the translation of income statement of foreign entities at the average exchange rates and balance sheet at the closing rates.

## 27 Non-current and current liabilities

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
<b>Non-current liabilities</b>				
Bonds	680	749	665	721
Loans from financial institutions	1,095	1,013	1,094	1,010
Finance lease liabilities	132	151	132	151
Other non-current liabilities	8	0	8	0
Accruals and deferred income	1	1	1	1
<b>Non-current liabilities total</b>	<b>1,916</b>	<b>1,914</b>	<b>1,900</b>	<b>1,883</b>
of which interest-bearing			1,891	1,882

The carrying amounts of non-current liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date.

MEUR	Fair value		Carrying amount	
	2011	2010	2011	2010
<b>Current liabilities</b>				
Bonds	120	-	120	-
Loans from financial institutions	301	268	301	268
Finance lease liabilities	42	6	42	6
Advances received	15	13	15	13
Trade payables	1,278	1,040	1,278	1,040
Other current liabilities	513	429	513	429
Current tax liabilities	26	38	26	38
Accruals and deferred expenses	96	90	96	90
<b>Current liabilities total</b>	<b>2,391</b>	<b>1,884</b>	<b>2,391</b>	<b>1,884</b>
of which interest-bearing			493	299

The carrying amounts of current interest-free liabilities are reasonable approximations of their fair value. The carrying amounts of current interest-bearing liabilities are measured at amortized cost using the effective interest rate method and the fair values are determined by using the discounted cash flow method employing market interest rates at the balance sheet date.

**The future minimum lease payments of finance lease liabilities and their present value in the balance sheet, MEUR**

	2011			2010		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	45	1	44	7	0	7
Between one and five years	43	-4	47	74	2	72
More than 5 years	86	3	83	76	-3	79
Total amounts payable	174	0	174	157	-1	158

Finance lease liabilities arise from bareboat agreements on the crude oil tankers *Tempera* and *Mastera* delivered in 2002 and 2003, the escort tugs *Ukko* and *Ahti* delivered in 2002 and a leasing agreement made in 2008 on spare parts of *Mastera* that are classified as finance lease agreements under IAS 17. The lease terms are 12 years for all the vessels with the lessor having an option to extend the term with additional 3 years. The bareboat agreements covering the vessels include call options to purchase the leased assets in the 10th and 11th year of the lease period at a value determined at the inception of the lease. Neste Oil has announced it will exercise the call options. The option prices stated in the agreements are used as the residual values for the leased assets. Minimum lease payments in each agreement include these option prices as terminal payments. Contingent rents amounted to EUR 1 million (2010: EUR 1 million).

In addition, finance lease liabilities arise from two finance lease agreements for the Singapore production plant and one finance lease agreement for the Rotterdam production plant. The agreements of Singapore plant are made with two local companies that provide utilities and jetty and storage services that are used by the production facility. The major assets under these agreements are a jetty used for loading and discharging of vessels, a pipeline for off-gas produced as a side product in the production process, and product tanks used for storing of the end product. The leasing contracts are 30 and 15 years long. The agreement of Rotterdam plant is made with a local company that provides utilities that are used by the production facility. The major assets under this agreement consist of pipelines.



## 28 Deferred income taxes

The movement in deferred tax assets and liabilities during 2011:

MEUR	at Jan 1 2011	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at Dec 31 2011
<b>Deferred tax assets</b>					
Tax loss carried forward	7	8	-	-	15
Provisions	4	0	-	-	4
Pensions	12	-1	-	-	11
Cash flow hedges	0	1	10	2	13
Other temporary differences	8	-1	-	-	7
<b>Total deferred tax assets</b>	<b>31</b>	<b>7</b>	<b>10</b>	<b>2</b>	<b>50</b>
<b>Deferred tax liabilities</b>					
Depreciation difference and untaxed reserves	291	-9	-	-	282
Excess of book basis over tax basis of property, plant and equipment	28	-9	-	-	19
Cash flow hedges	-2	-	-	2	0
Finance leases	6	-1	-	-	5
Capitalized interest	16	2	-	-	18
Capitalized fixed costs of inventories	5	-5	-	-	0
Other temporary differences	3	2	2	-	7
<b>Total deferred tax liabilities</b>	<b>347</b>	<b>-20</b>	<b>2</b>	<b>2</b>	<b>331</b>

The movement in deferred tax assets and liabilities during 2010:

MEUR	at Jan 1 2010	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	at Dec 31 2010
<b>Deferred tax assets</b>					
Tax loss carried forward	0	7	-	-	7
Provisions	4	0	-	-	4
Pensions	-	12	-	-	12
Other temporary differences	7	1	-	-	8
<b>Total deferred tax assets</b>	<b>11</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>31</b>

<b>Deferred tax liabilities</b>					
Depreciation difference and untaxed reserves	270	21	-	-	291
Excess of book basis over tax basis of property, plant, and equipment	9	19	-	-	28
Pensions	29	-29	-	-	0
Cash flow hedges	-3	2	-1	-	-2
Finance leases	7	-1	-	-	6
Capitalized interest	12	4	-	-	16
Capitalized fixed costs of inventories	10	-5	-	-	5
Other temporary differences	-6	9	0	-	3
<b>Total deferred tax liabilities</b>	<b>328</b>	<b>20</b>	<b>-1</b>	<b>-</b>	<b>347</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities in the same jurisdictions amounting to EUR 1 million (2010: EUR 4 million) have been netted in the balance sheet.

<b>Deferred tax assets, MEUR</b>	<b>2011</b>	2010
Deferred tax asset to be recovered after more than 12 months	<b>29</b>	25
Deferred tax asset to be recovered within 12 months	<b>21</b>	6
	<b>50</b>	31

<b>Deferred tax liabilities, MEUR</b>	<b>2011</b>	2010
Deferred tax liability to be recovered after more than 12 months	<b>331</b>	341
Deferred tax liability to be recovered within 12 months	<b>0</b>	6
	<b>331</b>	347

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable.

The deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is controlled by the Group, and such distribution, which will realize a relevant tax effect, is not probable within foreseeable future.

The change of the Finnish corporate income tax rate from 26% into 24.5% as of the beginning of 2012 had EUR 19 million effect on deferred tax liabilities. There was no material effect on deferred tax assets.

## 29 Provisions

MEUR

	Environmental provisions	Provision to return emission allowances	Restructuring provisions	Other provisions	Total
<b>At January 1 2011</b>	<b>6</b>	<b>7</b>	<b>2</b>	<b>5</b>	<b>20</b>
Charged to income statement					
Additional provisions	<b>3</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>7</b>
Amounts used during the period	<b>-1</b>	<b>0</b>	<b>-2</b>	<b>-2</b>	<b>-5</b>
<b>At December 31 2011</b>	<b>8</b>	<b>9</b>	<b>0</b>	<b>5</b>	<b>22</b>
				<b>2011</b>	2010
Current provisions				<b>12</b>	6
Non-current provisions				<b>10</b>	14
				<b>22</b>	20

The nature of certain of Neste Oil's businesses exposes Neste Oil to risks of environmental costs and potential contingent liabilities arising from the manufacture, use, storage, disposal and maritime and inland transport as well as sale of materials that may be considered to be contaminants when released into environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

### 30 Retirement benefit obligations

The Group has several pension arrangements in different countries. Pension cover is based on the legislation and agreement in force in each country. Finnish statutory pensions that are managed in a pension insurance company are accounted for as a defined contribution plan in the group financial statements. The Finnish voluntary pension plan is accounted for as a defined benefit plan. The voluntary pension plan grants additional pension benefits in excess of statutory benefits. The plan provides old age pensions, disability pensions, survivors' pensions, and funeral grants. The voluntary pension plan has been closed since January 1 1994.

In 2010 group's own pension fund ceased to provide for pension benefits. At the same time the Finnish statutory pensions and the associated pension portfolio as well as the voluntary pension benefits and the associated pension portfolio in Finland were transferred to insurance companies. In 2010 the group wound up also its defined benefit plan in the UK and the transfer of the associated pension portfolio to an insurance company by means of purchase of annuities.

The above mentioned changes in the Group's defined benefit plans have been accounted for as settlements of defined benefit plans in the consolidated financial statements. The effect of the settlement has been presented in the notes below. No curtailment of benefits provided by existing plans took place in connection with the transfer to insurance companies.

The Group has defined benefit plans also in Belgium and in Switzerland. As at December 31 2011 the defined benefit plans comprised of the Finnish voluntary pension plans as well as pension plans in Belgium and Switzerland.

#### Defined benefit pension plans

##### Amounts recognized in the income statement

MEUR	2011	2010
Current service cost	5	8
Interest cost	15	20
Expected return on plan assets	-13	-20
Net actuarial gains and losses recognized during the period	0	3
Settlements	0	51
Total included in personnel expenses (Note 10)	7	62

##### Amounts recognized in the balance sheet

MEUR	2011	2010
Present value of funded obligations	334	336
Fair value of plan assets	-277	-289
	57	47
Unrecognized actuarial gains and losses	-11	0
Net liability (+) / asset (-)	46	47

**Movement in the net pension asset/liability recognized in the balance sheet**

MEUR	2011	2010
At the beginning of the period	47	-101
Total expense charged in the income statement	7	62
Refund from the foundation to the employer	0	85
Contributions paid	-8	1
At the end of the period	46	47

**Amounts recognized in the balance sheet**

MEUR	2011	2010
Defined benefit pension obligations	46	47
Defined benefit pension assets	0	0
Net asset (-) / liability (+)	46	47

**Changes in the present value of the defined benefit obligation**

MEUR	2011	2010
Opening defined benefit obligation	336	710
Service cost	5	8
Interest cost	15	20
Actuarial gains / losses	-4	-
Benefits paid	-15	-20
Settlements	-3	-383
Translation differences	-	1
Closing defined benefit obligation	334	336

**Changes in the fair value of plan assets**

MEUR	2011	2010
Opening fair value of plan assets	289	720
Expected return on plan assets	13	20
Actuarial gains/losses	-16	-7
Contributions by employer	8	-1
Refund from the foundation to the employer	-	-85
Benefits paid	-15	-20
Settlements	-2	-339
Translation differences	-	1
Closing fair value of plan assets	277	289

The assets are the responsibility of the insurance company and a part of the insurance company's investment assets. The distribution in categories is not possible to provide.

The actual return on plan assets was EUR -3 million (2010: EUR 15 million).

The following table shows the time series of the present value of the funded defined benefit obligation and the fair value of the plan assets, as well as experience adjustments included in them.

**As at December 31**

MEUR	2011	2010	2009	2008	2007
Present value of funded obligation	334	336	710	627	704
Fair value of plan assets	277	289	720	601	781
Deficit(+)/surplus(-)	57	47	-10	26	-77
Experience adjustments on plan assets	0	-5	74	-225	-10
Experience adjustments on plan liabilities	-4	1	-15	0	12

Contributions amounting to EUR 7 million are expected to be paid to the plan during 2012.

**The principal actuarial assumptions used**
**Finland**

	2011	2010
Discount rate	4.5%	4.5-5.0%
Expected return on plan assets	4.5%	4.5-6.04%
Future salary increases	3.5%	3.5%
Future pension increases	0.0-2.1%	0.0-2.7%

**Other countries**

	2011	2010
Discount rate	2.5-4.5%	2.5-5.0%
Expected return on plan assets	2.5-4.5%	2.5-4.5%
Future salary increases	1.5-2.0%	1.5-2.0%
Future pension increases	3.5%	3.5%

The expected rate of return on plan assets is based on market expectations for returns over the entire life of the related obligation.

## 31 Share-based payments

### Share-based incentive plan as of January 1 2010

In December 2009 the Board of Directors decided to establish a new share-based incentive plan for the Group's key personnel. The aim of the plan is to align the objectives of the owners and key personnel of Neste Oil: e.g. increasing the value of the Company and committing key personnel to the Company by offering them a competitive reward plan based on holding Company shares. The plan includes three three-year earning periods, first one of which started in 2010 and second started in 2011 and the last one will start in 2012. The Board of Directors decides the earnings criteria and targets to be met as well as the maximum level of the payable reward for each earnings period. The earning criteria for the plan 2010-2012 and the plan 2011-2013 are the same, the sales volume at Renewable Fuels and total shareholder return on Neste Oil share in relation to the Dow Jones Nordic Return Index. The potential reward will be paid partly in Company shares and partly in cash in 2013, 2014, 2015 and 2016.

The maximum level of payable reward may not, during any earnings year, exceed the annual gross salary of the year in question. The portion to be paid in cash will cover taxes and tax-related costs arising from the reward. The plan prohibits the transfer of shares within three years from the end of the earning period, i.e. the length of the plan is six years for each share allocation. Even after this, key personnel must hold 50% of the shares received on the basis of the plan as long as the value of the shares held in total corresponds to their annual gross salary. This obligation to own shares is valid as long as the employment or service in the Group continues.

The maximum amount of reward for key personnel for the plan 2011–2013 equals the value of 842,000 Neste Oil shares, of which 802,000 shares were allocated as at December 31 2011. The maximum reward for the members of the Neste Executive Board equaled the value of 335,000 shares, of which the maximum reward for the President & CEO equaled the value of 80,000 shares.

The maximum amount of reward for key personnel for the plan 2010–2012 equals the value of 809,000 Neste Oil shares, of which 696,000 shares were allocated as at December 31 2011. The maximum reward for the members of the Neste Executive Board equaled the value of 335,000 shares, of which the maximum reward for the President & CEO equaled the value of 75,000 shares.

The following tables summarize the terms and the assumptions used in accounting for the performance share plan.

	Plan 2011–2013	Plan 2010–2012
<b>Grant dates and prices</b>		
Grant dates	Jan 3 2011	Jan 4 2010
Grant prices, euros	10.81	11.50
Share price as at grant date, euros	12.21	12.70

	Plan 2011–2013	Plan 2010–2012
<b>Term of the plan</b>		
Beginning of earnings period	Jan 1 2011	Jan 1 2010
End of earnings period	Dec 31 2013	Dec 31 2012
End of restriction period	Dec 31 2016	Dec 31 2015

**Assumptions used in calculating the value of the reward**

	<b>Plan 2011–2013</b>	<b>Plan 2010–2012</b>
Amount of granted shares at the beginning of the period, maximum reward	-	809,000
Amount of shares granted during the period, maximum reward	842,000	-
Adjustments to the amount of shares	-40,000	-113,000
Amount of granted shares at the end of the period, maximum reward	802,000	696,000
Number of participants at the end of the financial period	60	40
Share price at the end of the financial period, euros	7.81	7.81
Estimated rate of realization of the earnings criteria, %	55%	55%
Estimated termination rate before the end of the restriction period, %	10%	10%

The grant price, i.e. fair value at grant date, has been determined as follows: grant price equals the share price as at grant date deducted by expected dividends payable during the three year earnings period 2010-2012 and 2011-2013.

**Management Performance Share Arrangement in place during the financial periods 2007–2009**

Neste Oil had a Management Performance Share Arrangement for senior management and other key personnel in place during the financial periods 2007-2009. The Board of Directors established the scheme in 2006, which was launched at the beginning of the financial period ending December 31 2007. Based on the earnings criteria, no reward was earned during the earnings period 2007-2009. In December 2009 the Board of Directors decided to establish a new share-based incentive plan for the Group key personnel. This plan has been described earlier in this note. At the same time, the Board of Directors decided that the previous Management Performance Share Arrangement will not be continued with a new earnings period.

The President and CEO was paid a reward equaling the amount of 10,000 shares in December 2010 based on shares granted in 2009. The President & CEO received 5,000 shares and the rest of the reward was paid in cash to cover the relevant taxes and similar payments.

**Management Performance Share Arrangement in place during previous accounting periods**

The previous Management Performance Share Arrangement was in force during the financial period ended December 31 2006 and previous financial periods.

Delivery of shares to the participants based on this arrangement took place in February 2010, 2009 and 2008. A reward equaling the gross amount of 276,747 shares, or EUR 3 million, was paid in 2010. The net amount shares delivered to the participants totaled 157,536 shares and the rest of the reward was paid in cash to cover taxes and other charges payable by the participants. The fair value of the share as at delivery date was 10.50 euros. The members of Neste Executive Board received a reward equaling the gross amount of 55,234 shares. The share delivery that took place in February 2010 was the last one based on this Management Performance Share Arrangement.



## Accounting treatment

The Share-based incentive plans described above are accounted for as a share based transaction with cash alternative. The portion of the earned reward (approximately 50%) for which the participants will receive shares of Neste Oil is accounted for as an equity settled transaction, and the portion of the earned reward to be settled in cash to cover tax and other charges payable by the participants (approximately 50%), is accounted for as a cash settled transaction. The earned reward is entered into the income statement spread over the earnings period and restriction period. In respect of the equity settled portion, the amounts recognized in the income statement are accumulated in equity; and in respect of the cash settled portion, a respective liability is entered into the balance sheet. The liability is measured at fair value at each reporting date, and the respective change in the fair value is reflected in operating profit in the income statement.

The expense included in the income statement is specified in the following table.

MEUR	2011	2010
Expense recognized in the income statement	0	4
Change in fair value of the liability recognized in the balance sheet	1	-4
Total expense charged to the income statement	1	0
Change in fair value of the hedging instrument	0	1
Net effect of share based payments in the income statement	1	1

The liability recognized in the balance sheet related to share based payments amounted to EUR 1 million (2010: EUR 1 million). The expense to be recognized during the financial periods 2012–2016 is estimated as at December 31 2011 to amount to 5 million. The actual amount may differ from this estimate.

## Hedging

The Group hedges its exposure to the share price development during the time period between the grant date and the delivery date. The hedging arrangement is accounted for as treasury shares and has been described in detail in Note 26.

The previous Management Performance Share Arrangement was hedged using a net cash settled share forward. The hedge covered both the equity settled and the cash settled portions of the earned reward. The hedging instrument was measured at fair value at each reporting date and the change in the fair value of the hedging instrument was recognized in the income statement to offset the change in the fair value of the liability.

## 32 Related party transaction

The Group is controlled by the State of Finland, which owns 50.1% of the Company's shares. The remaining 49.9% of shares are widely held.

The group has a related party relationship with its subsidiaries, associates, joint ventures (Note 33) and with 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.

The parent company of the Group is Neste Oil 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 transactions between Neste Oil and other companies controlled by the State of Finland are on an arm's length basis.

### Transactions carried out with related parties, MEUR

<b>2011</b>	<b>Sales of goods and services</b>	<b>Purchases of goods and services</b>	<b>Receivables</b>	<b>Financial income and expense</b>	<b>Liabilities</b>
Associates	1	15	3	0	16
Joint ventures	115	57	4	0	0
Key management persons and entities controlled by them	-	-	-	-	-
Pension fund	-	-	-	-	-
	<b>116</b>	<b>72</b>	<b>7</b>	<b>0</b>	<b>16</b>

<b>2010</b>	<b>Sales of goods and services</b>	<b>Purchases of goods and services</b>	<b>Receivables</b>	<b>Financial income and expense</b>	<b>Liabilities</b>
Associates	1	7	2	0	2
Joint ventures	91	52	3	0	0
Key management persons and entities controlled by them	0	2	-	-	-
Pension fund	1	2	-	-	-
	<b>93</b>	<b>63</b>	<b>5</b>	<b>0</b>	<b>2</b>

The major part of business between Neste Oil and its joint venture, Nynas, comprises sales of bitumen production from the Naantali refinery to Nynas based on a long term agreement. Process oils were sold from the Porvoo refinery to Nynas. In 2010 the transactions with Key management persons and entities controlled by them consists of purchases relating to maintenance work.

In 2010 all the pension liabilities were transferred from Pension fund to insurance companies. Consequently the overfunding was returned to the companies, part of the amount consisted of shares in

Keilaranta 21. In 2010 purchases from pension fund have been rents for the buildings occupied by the Group.

#### Key management compensation

EUR thousand	2011	2010
Salaries and other short-term employee benefits	2,899	2,813
Share-based payments	-	700
	2,899	3,513

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Board. There were no outstanding loan receivables from key management on Dec 31 2011 or Dec 31 2010.

The amounts of share participations granted to the President and CEO and other members of the Neste Executive Board based on Management Performance Share Arrangements have been disclosed in Note 31, Share based payments.

#### Compensation to President and CEO, Board of Directors and Supervisory Board

EUR thousand	2011	2010
Matti Lievonen, President and CEO	860	772
Board of Directors		
Timo Peltola, chairman	76	74
Jorma Eloranta, vice chairman	46	-
Mikael von Frenckell	8	58
Michiel Boersma	55	52
Maija-Liisa Friman	46	35
Ainomaija Haarla	11	43
Nina Linander	57	55
Laura Raitio	35	-
Hannu Ryöppönen	57	55
Markku Tapio	46	45
Maarit Toivanen-Koivisto	-	10
Board of Directors, all members total	437	427
Supervisory Board, all members total	12	58

Compensation to the Board of Directors include annual remuneration and meeting fee paid to each member of the Board for each meeting attended as well as for any meetings of the Board committees attended.

The Supervisory Board was abolished in May, 2011.

In the event the Company decides to give notice of termination to the President and Chief Executive Officer, he will be entitled to compensation equalling 24 months' salary. The retirement age of the President and CEO is 60, and the pension paid is 60% of his retirement salary.

### 33 Group companies on 31 December 2011

Subsidiaries	Group holding %	Country of incorporation
Kide Automaatit Oy	100%	Finland
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
LLC NSPb <sup>1)</sup>	100.00%	Russia
Neste Canada Inc.	100.00%	Canada
Neste Eesti AS	100.00%	Estonia
Neste Jacobs Aktiebolag	100.00%	Sweden
Neste Jacobs Oy	60.00%	Finland
Neste LPG AB	100.00%	Sweden
Neste Markkinointi Oy	100.00%	Finland
Neste Oil AB	100.00%	Sweden
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Oil BR Ltd	100.00%	Belarus
Neste Oil Components Finance B.V.	100.00%	The Netherlands
Neste Oil Finance B.V.	100.00%	The Netherlands
Neste Oil Holding (U.S.A.), Inc.	100.00%	USA
Neste Oil Insurance Limited	100.00%	Guernsey
Neste Oil Limited	100.00%	Great Britain
Neste Oil Netherlands B.V.	100.00%	The Netherlands
Neste Oil N.V.	100.00%	Belgium
Neste Oil Services, Inc.	100.00%	USA
Neste Oil Singapore Pte. Ltd.	100.00%	Singapore
Neste Oil (Suisse) S.A.	100.00%	Switzerland
Neste Oil US, Inc.	100.00%	USA
Neste Petroleum, Inc.	100.00%	USA
Neste Polska Sp. z o.o.	100.00%	Poland
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Trading (U.S.A.), Inc.	100.00%	USA
Neste USA, L.L.C.	100.00%	USA
SIA Neste Latvija	100.00%	Latvia
UAB Neste Lietuva	100.00%	Lithuania
US Active Oy	100.00%	Finland

<b>Associated companies</b>	<b>Group holding %</b>	<b>Country of incorporation</b>
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	40.00%	Finland
Alberta Envirofuels Inc.	50.00%	Canada
Bahrain Lube Base Oil Company B.S.C (closed) <sup>2)</sup>	45.00%	Bahrain
Nemarc Shipping Oy	50.00%	Finland
Neste Arabia Co. Ltd	48.00%	Saudi-Arabia
Oy Innogas Ab	50.00%	Finland
Porvoon Alueverkko Oy	33.33%	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Finland
Vaskiluodon Kalliovarasto Oy	50.00%	Finland

<b>Joint ventures</b>	<b>Group holding%</b>	<b>Country of incorporation</b>
Glacia Limited	50.00%	Bermuda
Lacus Ltd.	50.00%	Bermuda
NSE Biofuels Oy Ltd	50.00%	Finland
Nynas AB	49.99%	Sweden
Terra Ltd.	50.00%	Bermuda

<sup>1)</sup> Acquired during the financial period

<sup>2)</sup> Bahrain Lube Base Oil Company B.S.C (closed), previously classified as a joint venture, is reported as jointly controlled assets from year 2010 and is therefore classified as an associated company.

## 34 Contingencies and commitments

### Contingent liabilities

MEUR	2011 Value of collateral	2010 Value of collateral
On own behalf for commitments		
Real estate mortgages	26	26
Pledged assets	2	2
Other contingent liabilities	31	43
Total	59	71
On behalf of associates and joint ventures		
Guarantees	2	3
Total	2	3
On behalf of others		
Guarantees	1	14
Other contingent liabilities	2	-
Total	3	14
	64	88

### Operating lease liabilities

MEUR	2011	2010
Due within one year	74	76
Due between one and five years	142	164
Due later than five years	80	108
	296	348

### Operating leases

Lease rental expenses amounting to EUR 76 million (2010: EUR 95 million) relating to the lease (under operating leases) of property, plant, and equipment are included in the income statement in other expenses.

### Commitments

MEUR	2011	2010
Commitments for purchase of property, plant and equipment	24	76
	24	76

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

The Group's take-or-pay contracts relate to hydrogen supply agreements. Agreements include volume based hydrogen purchase obligation. The total fixed fees payable under the agreements during 2011–2026 as at December 31 2011 are presented in the table below.

**Fixed fees payable under take-or-pay contracts**

MEUR	2011
Payable 2011	17
Payable after 2011	222
Total payable	239

**Other contingent liabilities**

Neste Oil Corporation has a collective contingent liability with Fortum Heat and Gas Oy related to liabilities of the demerged Fortum Oil and Gas Oy based on Chapter 17 Paragraph 16.6 of the Finnish Companies Act.

## **35 Disputes and potential litigations**

Some Group companies are involved in legal proceedings or disputes incidental to their business. In the management's opinion, the outcome of these cases is difficult to predict but not likely to have material effect on the Group's financial position.



### 36 Events after the balance sheet date

In January 2012, the competition authorities in the US and Canada approved the sale of Neste Oil's 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation. Neste Oil sold its whole asset and associated product and feedstock inventories at closing to the buyer. The divestment will have EUR 90 million positive impact on Neste Oil's cash flow in 2012 and gain over EUR 20 million will be booked in Q1. The proceeds will be used on general corporate purposes.

## Parent company income statement

MEUR	Note	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
<b>Revenue</b>	<a href="#">2</a>	<b>11,235</b>	8,697
Change in product inventories		<b>174</b>	-188
Other operating income	<a href="#">3</a>	<b>14</b>	68
Materials and services	<a href="#">4</a>	<b>-10,555</b>	-7,719
Personnel expenses	<a href="#">5</a>	<b>-165</b>	-99
Depreciation, amortization and write-downs	<a href="#">6</a>	<b>-140</b>	-138
Other operating expenses	<a href="#">7</a>	<b>-276</b>	-322
<b>Operating profit</b>		<b>287</b>	299
Financial income and expenses	<a href="#">8</a>	<b>-70</b>	-29
<b>Profit before extraordinary items</b>		<b>217</b>	270
Extraordinary items	<a href="#">9</a>	<b>-31</b>	-8
<b>Profit before appropriations and taxes</b>		<b>186</b>	262
Appropriations	<a href="#">10</a>	<b>-16</b>	-55
Income tax expense	<a href="#">11</a>	<b>-49</b>	-50
<b>Profit for the year</b>		<b>121</b>	157

## Parent company balance sheet

MEUR	Note	Dec 31 2011	Dec 31 2010
<b>ASSETS</b>			
<b>Fixed assets and other long-term investments 12, 13</b>			
Intangible assets		25	14
Tangible assets		1,631	1,679
Other long-term investments		2,619	2,387
		4,275	4,080
<b>Current assets</b>			
Inventories	14	852	697
Long-term receivables	15	130	178
Short-term receivables	16	920	720
Cash and cash equivalents		231	282
		2,133	1,877
<b>Total assets</b>		<b>6,408</b>	<b>5,957</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity 17</b>			
Share capital		40	40
Retained earnings		915	848
Profit for the year		121	157
		1,076	1,045
<b>Accumulated appropriations 18</b>		<b>910</b>	<b>893</b>
<b>Provisions for liabilities and charges 19</b>		<b>9</b>	<b>9</b>
<b>Liabilities 20</b>			
Long-term liabilities		2,287	2,191
Short-term liabilities		2,126	1,819
		4,413	4,010
<b>Total equity and liabilities</b>		<b>6,408</b>	<b>5,957</b>

## Parent company cash flow statement

MEUR	Jan 1–Dec 31 2011	Jan 1–Dec 31 2010
<b>Cash flows from operating activities</b>		
Profit before extraordinary items	217	271
Depreciation, amortization and write-downs	140	138
Other non-cash income and expenses	4	0
Financial income and expenses	70	29
Divesting activities, net	0	-1
<b>Operating cash flow before change in working capital</b>	<b>431</b>	<b>437</b>
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	-165	-73
Decrease (+)/increase (-) in inventories	-155	140
Decrease (-)/increase (+) in interest-free liabilities	179	584
Change in working capital	-141	651
<b>Cash generated from operations</b>	<b>290</b>	<b>1,088</b>
Interest and other financial expenses paid, net	-68	-49
Dividends received	3	21
Income taxes paid	-82	-18
Realized foreign exchange gains and losses	8	-10
Group contributions, net	-8	-103
<b>Net cash from operating activities</b>	<b>143</b>	<b>929</b>
<b>Cash flows from investing activities</b>		
Capital expenditure	-94	-83
Proceeds from sale of fixed assets	1	3
Investments in shares in subsidiaries	-830	-755
Investments in shares in other shares	0	-3
Proceeds from shares in subsidiaries	600	-
Change in other investments, increase (-)/decrease (+)	25	-26
<b>Net cash used in investing activities</b>	<b>-298</b>	<b>-864</b>
<b>Cash flow before financing activities</b>	<b>-155</b>	<b>65</b>

<b>Cash flows from financing activities</b>		
Proceeds from long-term liabilities	<b>514</b>	1,204
Payments of long-term liabilities	<b>-308</b>	-888
Change in short-term liabilities	<b>-12</b>	-113
Dividends paid	<b>-90</b>	-64
<b>Cash flow from financing activities</b>	<b>104</b>	139
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	<b>-51</b>	204
Cash and cash equivalents at the beginning of the period	<b>282</b>	78
Cash and cash equivalents at the end of the period	<b>231</b>	282
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	<b>-51</b>	204

## 1 Accounting policies

The financial statements of Neste Oil Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated.

### Change in accounting policies applied

In the financial year, a share of production overhead costs (based on normal operating capacity) has been recognized in inventory value. The impact of the change has been adjusted in the balance sheet, affecting inventory and retained earnings for the comparison period. The income statement for the comparison period has not been adjusted. The effect on net income for the comparison period is disclosed in Note 17.

### Revenue

Revenue include sales revenues from actual operations and exchange rate differences on trade receivables, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Trading sales include the value of physical deliveries and the net result of derivative financial instruments.

### Other operating income

Other operating income includes gains on the sales of fixed assets and contributions received as well as all other operating income not related to the sales of products or services, such as rents.

### Foreign currency items

Transactions denominated in foreign currencies have been valued using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the balance sheet date have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered in the income statement. Net exchange rate differences relating to financing have been entered in financial income or expenses.

### Derivative financial instruments

Neste Oil uses derivative financial instruments mainly to hedge oil price, foreign exchange and interest rate exposures.

Oil commodity derivative contracts hedging future cash flow are booked once the underlying exposure occurs. Unrealized losses on derivatives held for trading purposes are booked immediately, but gains are booked only at maturity or when the open exposure is closed with a similar instrument.

There are two different types of foreign exchange derivative contracts: hedges for future cash flow and hedges of balance sheet items. Gains or losses on derivative financial instrument that hedge future cash flows are recognized once the underlying income or expense occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables are valued employing the exchange rate quoted on the balance sheet date, and gains or losses are recognized in the income statement. The interest element on all forward contracts is accrued. Option premiums are treated as advances paid or received until the option matures.

Gains or losses for derivative financial instrument used to hedge the interest rate risk exposure are accrued over the period to maturity and are recognized as an adjustment to the interest income or expense of the underlying liabilities.

### **Fixed assets and depreciation**

The balance sheet value of fixed assets consists of historical costs less depreciation according to plan and other possible write-offs, plus revaluation permitted by local regulations. Fixed assets are depreciated using straight-line depreciation based on the expected useful life of the asset. Land areas are not depreciated. The depreciation is based on the following expected useful lives:

Buildings and structures	20–40 years
Production machinery and equipment, including special spare parts	15–20 years
Other equipment and vehicles	3–15 years
Other tangible assets	20–40 years
Intangible assets	3–10 years

### **Inventories**

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value, taking into account the impact of possible hedging operations. The cost of finished goods and work in progress comprises raw materials, direct labor and other direct costs. A share of production overhead costs (based on normal operating capacity) has been recognized in inventory value in the financial period. Standard spare parts are carried as inventory and recognized in profit or loss as consumed.

### **Research and development**

Research and development expenditures are expensed as incurred with the exception of investments in buildings and equipment.

### **Pension expenses**

The statutory TyEL plan, as well as voluntary pension plans, were funded through pension fund, Neste Oil Eläkesäätiö, until 31 March 2010. The liabilities on pensions granted by the Company itself were entered as a provision in the balance sheet. On 1 April the statutory pensions and the associated pension portfolio as well as the voluntary pension benefits and the associated pension portfolio were transferred to insurance companies. Also the pensions granted by the Company were moved to insurance company. The pension expenses are booked to income statement during the year they occur.

### **Extraordinary items**

Extraordinary items consist of received or given group contributions from or to Neste Oil Group companies.

**Deferred taxes**

Deferred taxes are determined on the basis of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply.

**Provisions**

Foreseeable future expenses and losses that have no corresponding revenue and which Neste Oil Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, restructuring provisions, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.



## 2 Revenue

### Revenue by segment

MEUR	2011	2010
Oil Products	11,181	8,656
Renewable Fuels	6	7
Oil Retail	0	0
Other	117	96
Eliminations	-69	-62
	11,235	8,697

### Revenue by market area

MEUR	2011	2010
Finland	6,367	4,779
Other Nordic countries	1,922	1,600
Baltic countries, Russia and Poland	560	510
Other European countries	1,436	1,188
North and South America	874	536
Other countries	76	84
	11,235	8,697

## 3 Other operating income

MEUR	2011	2010
Rental income	9	13
Gain on sale of intangible and tangible assets	0	1
Insurance compensations	1	50
Government grants	3	3
Other	1	1
	14	68

## 4 Materials and services

MEUR	2011	2010
Materials and supplies		
Purchases during the period	10,522	7,764
Change in inventories	30	-48
	10,552	7,716
External services	3	3
	10,555	7,719

## 5 Personnel expenses

MEUR	2011	2010
Wages, salaries and remunerations	127	138
Indirect employee costs		
Pension costs*)	30	-48
Other indirect employee costs	8	9
	165	99

\*) All the pension plans were moved from pension fund to insurance companies on April 1 2010, pension fund returned the overfunding to the company. The amount is included in the pension costs as an income.

### Salaries and remuneration

Key management compensations are presented in Note 32 in the Neste Oil Group consolidated financial statements.

### Average number of employees

	2011	2010
Oil Products	1,505	1,553
Other	718	704
	2,223	2,257

## 6 Depreciation, amortization and write-downs

MEUR	2011	2010
Depreciation according to plan	140	137
Write-offs	0	1
	140	138

## 7 Other operating expenses

MEUR	2011	2010
Operating leases and other property costs	19	21
Freights relating to sales	73	67
Repairs and maintenance	67	125
Other	117	109
	276	322
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	3	11

### Fees charged by the statutory auditor

EUR thousands	2011	2010
Audit fees	313	306
Auditor's mandatory opinions	8	2
Tax advisory	21	47
Other advisory services	585	39
	927	394

## 8 Financial income and expenses

MEUR	2011	2010
Dividend income		
From Group companies	3	21
From others	0	0
Dividend income total	3	21
Interest income from long-term loans and receivables		
From Group companies	1	0
From others	0	0
Interest income from long-term loans and receivables total	1	0
Other interest and financial income		
From Group companies	6	2
From others	0	0
Other interest and financial income total	6	2
Interest expenses and other financial expenses		
To Group companies	-7	-2
To others	-73	-53
Interest expenses and other financial expenses total	-80	-55
Exchange rate differences	0	3
Financial income and expenses total	-70	-29
<b>Total interest income and expenses</b>		
MEUR	2011	2010
Interest income	7	2
Interest expenses	-73	-53
Net interest expenses	-66	-51

## 9 Extraordinary items

MEUR	2011	2010
Group contributions		
Group contributions received	50	33
Group contributions given	-81	-41
	-31	-8

## 10 Appropriations

### Change in depreciation difference

MEUR	2011	2010
Difference between depreciation according to plan and depreciation in taxation	-16	-55

## 11 Income tax expense

MEUR	2011	2010
Income taxes on regular business operations	57	51
Income taxes on extraordinary items	-8	-2
Change in deferred tax assets	0	1
	49	50

## 12 Fixed assets and long-term investments

### Change in acquisition cost 2011, MEUR

<b>Intangible assets</b>	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
Acquisition cost as of January 1 2011	1	74	75
Increases	-	16	16
Decreases	-	0	0
Transfers between items	-	0	0
Acquisition cost as of December 31 2011	1	90	91
Accumulated depreciation, amortization and write-downs as of January 1 2011	1	60	61
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	0	0
Depreciation, amortization and write downs for the period	-	5	5
Accumulated depreciation, amortization and write-downs as of December 31 2011	1	65	66
Balance sheet value as of December 31 2011	-	25	25
Balance sheet value as of December 31 2010	-	14	14

<b>Tangible assets</b>	<b>Land areas</b>	<b>Buildings and structures</b>	<b>Machinery and equipment</b>	<b>Other tangible assets</b>	<b>Advances paid and construction in progress</b>	<b>Total</b>
Acquisition cost as of January 1 2011	25	1,032	2,052	78	66	3,254
Increases	-	22	31	1	37	90
Decreases	-	0	3	0	4	7
Transfers between items	-	0	0	-	-	0
Acquisition cost as of December 31 2011	25	1,054	2,081	79	99	3,338
Accumulated depreciation, amortization and write-downs as of January 1 2011	0	449	1,126	29	-	1,604
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	0	2	0	-	3
Depreciation, amortization and write-downs for the period	-	31	103	2	-	135

Accumulated depreciation, amortization and write-downs as of December 31 2011	0	479	1,227	30	-	1,737
Revaluations	6	24	-	-	-	30
Balance sheet value as of December 31 2011	31	599	854	48	99	1,631
Balance sheet value as of December 31 2010	31	607	926	50	66	1,680

Balance sheet value of machinery and equipments used in production	819
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Other long-term investments	Shares in group companies	Receivables from group companies	Shares in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost as of January 1 2011	2,349	16	1	0	3	18	2,387
Increases	830	1	-	-	0	5	836
Decreases	600	3	-	0	-	0	603
Acquisition cost as of December 31 2011	2,579	13	1	0	3	23	2,619
Accumulated depreciation, amortization and write-downs as of January 1 2011	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs as of December 31 2011	-	-	-	0	0	0	0
Balance sheet value as of December 31 2011	2,579	13	1	0	3	23	2,619
Balance sheet value as of December 31 2010	2,349	16	1	0	3	18	2,387

**Interest-bearing and interest-free receivables**

MEUR	2011	2010
Interest-bearing receivables	14	16
Interest-free receivables	23	18
	37	34

## 13 Revaluations

MEUR	Revaluations as of			Revaluations as of
	Jan 1 2011	Increases	Decreases	Dec 31 2011
Land areas	6	-	-	6
Buildings	24	-	0	24
	30	-	0	30

### Policies and principles for revaluations and evaluation methods

The revaluations are based on fair values at the moment of revaluation. Deferred taxes have not been booked on revaluations.

## 14 Inventories

MEUR	2011	2010
Raw materials and supplies	242	261
Products/finished goods	610	436
Advance payments on inventories	0	-
	852	697
Replacement value of inventories	854	700
Book value of inventories	852	697
Difference	2	3

The capitalization of production overhead costs increases the amount of products/finished goods by EUR 18 million for the comparison period.

## 15 Long-term receivables

MEUR	2011	2010
Receivables from Group companies		
Other long-term receivables	127	175
Deferred tax assets	3	3
	130	178



## 16 Short-term receivables

MEUR	2011	2010
Trade receivables	450	377
Receivables from Group companies		
Trade receivables	325	230
Other receivables	50	38
Accrued income and prepaid expenses	2	2
Total	377	270
Receivables from associated companies		
Trade receivables	0	1
Other receivables	1	0
Total	1	1
Other receivables	74	56
Accrued income and prepaid expenses	18	16
	920	720

### Short-term accrued income and prepaid expenses

MEUR	2011	2010
Accrued interest	4	5
Accrued taxes	6	0
Other	10	12
	20	17

## 17 Changes in shareholders' equity

MEUR	2011	2010
Share capital at January 1	40	40
Share capital at December 31	40	40
Retained earnings at January 1	1,005	894
Dividends paid	-90	-64
Reversal of revaluation	0	-
Change in accounting policy	-	18
Profit for the year	121	157
Retained earnings at December 31	1,036	1,005
Distributable equity	1,036	1,005

The change in accounting policy is related to the capitalization of production overhead costs. The effect on net income for the comparison period would have been EUR -25 million.

## 18 Accumulated appropriations

MEUR	2011	2010
Depreciation difference	910	893

## 19 Provisions for liabilities and charges

MEUR	Restructuring provisions	Provision for environment	Total
Provisions as at January 1 2011	1	8	9
Increase	0	1	1
Decrease	-1	0	-1
Provisions as at December 31 2011	0	9	9

## 20 Liabilities

### Long-term liabilities

MEUR	2011	2010
Bonds	646	715
Loans from financial institutions	1,093	1,010
Liabilities to Group companies		
Other long-term liabilities	540	465
Other long-term liabilities	6	-
Accruals and deferred income	2	1
	2,287	2,191

### Interest-bearing liabilities due after five years

MEUR	2011	2010
Bonds	49	298
Loans from financial institutions	70	393
Liabilities to Group companies	495	465
	614	1,156

**Short-term liabilities**

MEUR	2011	2010
Bonds	120	-
Loans from financial institutions	292	258
Advances received	2	1
Trade payables	931	820
Liabilities to Group companies		
Advances received	0	0
Trade payables	62	48
Other short-term liabilities	180	189
Accruals and deferred income	0	8
Total	242	245
Liabilities to associated companies		
Trade payables	2	2
Other short-term liabilities	0	0
Total	2	2
Other short-term liabilities	466	402
Accruals and deferred income	71	90
	2,126	1,818

**Short-term accruals and deferred income**

MEUR	2011	2010
Salaries and indirect employee costs	38	40
Accrued interests	21	19
Other short-term accruals and deferred income	12	40
	71	99

**Interest-bearing and interest-free liabilities**

MEUR	2011	2010
Long-term liabilities		
Interest-bearing liabilities	2,279	2,190
Interest-free liabilities	8	1
	2,287	2,191
Short-term liabilities		
Interest-bearing liabilities	540	430
Interest-free liabilities	1,586	1,389
	2,126	1,819

## 21 Contingent liabilities

### Contingent liabilities

MEUR	2011	2010
<b>Operating lease liabilities</b>		
Due within a year	3	3
Due after a year	2	2
	5	5
<b>Contingent liabilities given on own behalf</b>		
Real estate mortgages	24	23
Pledged assets	1	2
Other contingent liabilities	2	3
	27	28
<b>Contingent liabilities given on behalf of Group companies</b>		
Real estate mortgages	2	2
Guarantees	206	202
	208	204
<b>Contingent liabilities given on behalf of associated companies</b>		
Guarantees	2	3
	2	3
<b>Contingent liabilities given on behalf of others</b>		
Guarantees	1	14
	1	14
<b>Contingent liabilities total</b>	<b>243</b>	<b>254</b>

## 22 Derivative financial instruments

### Interest and currency derivative contracts and share forward contracts

MEUR	2011			2010		
	Contract or notional value	Fair value	Not recognized as an income	Contract or notional value	Fair value	Not recognized as an income
Interest rate swaps	772	5	-4	723	-9	-9
Forward foreign exchange contracts	1,756	-33	-27	1,791	2	2
Currency options						
Purchased	206	-5	-5	43	0	0
Written	193	-3	-3	36	1	1
Share forward contracts	0	0	0	0	0	0

### Oil and freight derivative contracts

	2011			2010		
	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	44	-5	-5	14	2	2
Purchase contracts	35	17	17	11	-5	-5

The fair values of foreign exchange currency derivative contracts are based on market values at the balance sheet date. The fair values of interest rate swaps are the present values of the estimated future cash flows and the fair values of currency options are calculated with option valuation model.

The fair value of exchange traded oil commodity futures and option contracts are based on the forward exchange market quotations at the balance sheet date. The fair value of over-the-counter oil commodity derivative contracts is based on the net present value of the forward contracts quoted market prices at the balance sheet date. Physical sales and purchase agreements within trading activities are treated as derivatives and reported in the 'Derivative financial instruments' table.

## 23 Other contingent liabilities

### Real estate investments

The Company is obliged to adjust VAT deductions made from real estate investments if the taxable utilization of real estate will decrease during a 10-year control period.

## 24 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value Dec 31 2011 EUR thousands
<b>Subsidiary shares</b>				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	39,725
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Neste Eesti AS	Estonia	10,000	100.00	5,927
Neste Jacobs Oy	Finland	2,100	60.00	438
Neste Markkinointi Oy	Finland	210,560	100.00	51,467
Neste Oil AB	Sweden	2,000,000	100.00	23,972
Neste Oil BR Ltd	Belarus	1	100.00	-
Neste Oil Components Finance B.V.	The Netherlands	40	100.00	8,022
Neste Oil Finance B.V.	The Netherlands	26,090	100.00	69,177
Neste Oil Holding (U.S.A.), Inc.	USA	1,000	100.00	18,428
Neste Oil Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste Oil Limited	Great Britain	500,100	100.00	1,793
Neste Oil N.V	Belgium	4,405,414	99.99	414,753
Neste Oil (Suisse) S.A.	Switzerland	200	100.00	62
Neste Oil US, Inc.	USA	1,000	100.00	1,100
Neste Renewable Fuels Oy	Finland	200	100.00	1,826,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,578,644
<b>Associated companies</b>				
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Neste Arabia Co. Ltd.	Saudi-Arabia	480	48.00	156
Porvoon Alueverkko Oy	Finland	40	33.33	7
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	490
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	17
				794

<b>Other shares and holdings</b>				
CLEEN Oy	Finland	100		100
East Office of Finnish Industries Oy	Finland	1		10
Ekokem Oy Ab	Finland	75,000	2.13	125
Fine Carbon Fund Ky	Finland	1		1
Kiinteistö Oy Hiekkaharju II	Finland	51		296
Kiinteistö Oy Himoksen Aurinkopaikka	Finland	51		457
Kiinteistö Oy Katinkullan Hiekkaniemi	Finland	102		903
Kiinteistö Oy Katinkultaniemi	Finland	51		398
Kiinteistö Oy Kuusamon Tähti 1	Finland	51		457
Kiinteistö Oy Laavutieva	Finland	51		311
Kiinteistö Oy Lapinniemi IV-X & Osakeyhtiö Lapinniemi XV	Finland	10		125
Nordic Carbon Fund Ky	Finland	1		1
Posintra Oy	Finland	190		34
				3,218
<b>Telephone shares</b>				
Kymen Puhelin Oy	Finland	1		0
Pietarsaaren Seudun Puhelin Oy	Finland	3		1
Osuuskunta PPO	Finland	1		-
Savonlinnan Puhelinosuuskunta SPY	Finland	1		1
				2
<b>Connection fees</b>				65
<b>Total</b>				<b>2,582,723</b>

## Proposal by the Board of Directors

### Proposal for the distribution of earnings and signing of the Review by the Board of Directors and the Financial Statements

The parent company's distributable equity as at December 31 2011 stood at EUR 1,036 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.35 per share for 2011, totaling EUR 90 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 2 February 2012

Timo Peltola   Jorma Eloranta   Michiel Boersma   Maija-Liisa Friman

Nina Linander   Laura Raitio   Hannu Ryöppönen   Markku Tapio

Matti Lievonen

President and CEO



## Auditor's report

### To the Annual General Meeting of Neste Oil Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Neste Oil Corporation for the financial period 1.1. - 31.12.2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Supervisory Board as well as of the Board of Directors of the parent company and the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion on the consolidated financial statements**

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

**Opinion on the company's financial statements and the report of the Board of Directors**

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

**Other opinions**

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the members of the Supervisory Board as well as of the Board of Directors of the parent company and the President and CEO should be discharged from the liability for the financial period audited by us.

Espoo, February 2, 2012

Ernst & Young Oy

Authorized Public Accountant Firm

ANNA-MAIJA SIMOLA

Anna-Maija Simola

Authorized Public Accountant

## Quarterly segment information

### Quarterly segment information

Revenue		2011				2010			
MEUR	10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3	
Oil Products	3,377	3,327	3,070	2,870	2,962	2,491	2,064	2,272	
Renewable Fuels	399	290	144	193	112	120	60	36	
Oil Retail	1,112	1,107	1,058	1,021	1,004	917	884	849	
Others	56	44	47	44	37	38	45	49	
Eliminations	-775	-663	-645	-656	-589	-501	-477	-481	
Total	4,169	4,105	3,674	3,472	3,526	3,065	2,576	2,725	

Operating profit		2011				2010			
MEUR	10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3	
Oil Products	3	56	136	178	170	116	-18	65	
Renewable Fuels	-32	-81	-53	-4	-7	2	-19	-15	
Oil Retail	9	24	13	12	17	24	14	6	
Others	1	15	7	-15	-27	2	-42	43	
Eliminations	-3	1	6	0	-7	-1	2	-2	
Total	-22	15	109	171	146	143	-63	97	

Comparable operating profit		2011				2010			
MEUR	10-12	7-9	4-6	1-3	10-12	7-9	4-6	1-3	
Oil Products	21	84	60	84	108	45	-3	58	
Renewable Fuels	-15	-57	-55	-36	-13	-12	-23	-17	
Oil Retail	9	23	13	12	18	23	13	6	
Others	2	15	8	-16	-16	2	16	43	
Eliminations	-3	1	6	0	-7	-1	2	-2	
Total	14	66	32	44	90	57	5	88	