

The only way is forward



By working for cleaner traffic and transport,
Neste Oil is helping everyone stay on
the move – today and tomorrow.



NESTE OIL

Annual Report 2012 / Financial Statements

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Financial statements

Financial statements



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A vision of traffic in 2030

"I would like to see a completely new way of transportation. Teleportation, for example."

Woman age of 36-55, Russia.

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Group Financials

MEUR	2012	2011
Revenue	17,853	15,420
Comparable EBITDA	684	493
Comparable Operating Profit	352	178
Oil Products	396	271
Renewable Fuels	-56	-163
Oil Retail	58	57
Others (incl. Eliminations)	-46	13
IFRS Operating Profit	321	273
Net Cash from Operations	468	197
Earnings per share, EUR	0.61	0.62
Leverage, %	42.9	45.7
ROACE, %	4.9	2.6

Key financial indicators

		2012	2011	2010
Income statement				
Revenue	EUR million	17,853	15,420	11,892
Operating profit	EUR million	321	273	323
- of revenue	%	1.8	1.8	2.7
Comparable operating profit	EUR million	352	178	240
Profit before income taxes	EUR million	233	206	296
- of revenue	%	1.3	1.3	2.5
Profitability				
Return on equity (ROE)	%	6.3	6.6	9.9
Return on capital employed, pre-tax (ROCE)	%	6.5	5.9	7.7
Return on average capital employed, after tax (ROACE)	%	4.9	2.6	4.6
Financing and financial position				
Interest-bearing net debt	EUR million	1,935	2,080	1,801
Leverage ratio	%	42.9	45.7	42.6
Gearing	%	75.1	84.3	74.3
Equity-to-assets ratio	%	35.0	34.0	36.5
Other indicators				
Capital employed	EUR million	4,923	4,850	4,607
Capital expenditure and investments in shares	EUR million	292	364	943
- of revenue	%	1.6	2.4	7.9
Research and development expenditure	EUR million	42	42	41
- of revenue	%	0.2	0.3	0.3
Average number of personnel		5,031	4,926	5,030

Share-related indicators				
Earnings per share (EPS)	EUR	0.61	0.62	0.89
Equity per share	EUR	10.01	9.58	9.43
Cash flow per share	EUR	1.83	0.77	4.32
Price/earnings ratio (P/E)		15.96	12.61	13.38
Dividend per share	EUR	0.38 ¹⁾	0.35	0.35
Dividend payout ratio	%	62.1 ¹⁾	56.5	39.2
Dividend yield	%	3.9 ¹⁾	4.5	2.9
Share prices				
At the end of the period	EUR	9.77	7.81	11.95
Average share price	EUR	9.08	10.22	11.86
Lowest share price	EUR	7.28	6.19	10.45
Highest share price	EUR	11.11	14.70	13.77
Market capitalization at the end of the period	EUR million	2,505	2,003	3,064
Trading volumes				
Number of shares traded	1,000	259,007	285,178	242,190
In relation to weighted average number of shares	%	101	111	95
Average number of shares		255,918,686	255,918,686	255,913,809
Number of shares at the end of the period		255,918,686	255,918,686	255,918,686

¹⁾ 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 x	$\frac{\text{Profit before taxes - taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	= 100 x	$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	= 100 x	$\frac{\text{Profit for the period (adjusted for inventory gains/losses, gains/losses from sale of shares and non-financial assets and unrealized gains/losses on oil and freight derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
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	$\frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt + total equity}}$
Gearing, %	= 100 x	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	= 100 x	$\frac{\text{Total equity}}{\text{Total assets - advances received}}$

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 x	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield, %	= 100 x	$\frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$
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

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Revenue	4, 7	17,853	15,420
Other income	8	98	36
Share of profit (loss) of associates and joint ventures	19	-3	26
Materials and services	9	-16,186	-13,962
Employee benefit costs	10	-342	-316
Depreciation, amortization and impairments	11	-332	-315
Other expenses	12	-767	-616
Operating profit		321	273
Financial income and expenses	13		
Financial income		3	4
Financial expenses		-84	-72
Exchange rate and fair value gains and losses		-7	1
Total financial income and expenses		-88	-67
Profit before income taxes		233	206
Income tax expense	14	-74	-46
Profit for the period		159	160
Attributable to:			
Owners of the parent		157	158
Non-controlling interests		2	2
		159	160
Earnings per share from profit attributable to owners of the parent (in EUR per share)	15		
Basic		0.61	0.62
Diluted		0.61	0.62

Consolidated statement of comprehensive income

MEUR	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Profit for the period	159	160
Other comprehensive income for the period, net of tax:		
Translation differences and other changes	10	-1
Cash flow hedges		
recorded in equity	-50	-10
transferred to income statement	84	-19
Net investment hedges	-1	-1
Hedging reserves in associates and joint ventures	-1	1
Other comprehensive income for the period, net of tax	42	-30
Total comprehensive income for the period	201	130
Attributable to:		
Owners of the parent	199	128
Non-controlling interests	2	2
	201	130

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

Consolidated balance sheet

MEUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	18	61	55
Property, plant and equipment	17	3,869	3,968
Investments in associates and joint ventures	19	242	239
Non-current receivables	20, 21	3	16
Pension assets	30	0	0
Deferred tax assets	28	33	50
Derivative financial instruments	20, 25	37	19
Available-for-sale financial assets	20, 21	4	4
Total non-current assets		4,249	4,351
Current assets			
Inventories	22	1,464	1,457
Trade and other receivables	20, 23	1,154	1,045
Derivative financial instruments	20, 25	57	59
Cash and cash equivalents	24	409	304
Total current assets		3,084	2,865
Assets classified as held for sale	5	52	56
Total assets		7,385	7,272
EQUITY			
Capital and reserves attributable to owners of the parent	26		
Share capital		40	40
Other equity		2,522	2,413
Total		2,562	2,453
Non-controlling interests		16	14
Total equity		2,578	2,467

LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	20, 27	1,977	1,891
Deferred tax liabilities	28	340	331
Provisions	29	27	22
Pension liabilities	30	48	46
Derivative financial instruments	20, 25	6	12
Other non-current liabilities	20, 27	7	9
Total non-current liabilities		2,405	2,311
Current liabilities			
Interest-bearing liabilities	20, 27	357	493
Current tax liabilities	20, 27	40	26
Derivative financial instruments	20, 25	47	88
Trade and other payables	20, 27	1,925	1,872
Total current liabilities		2,369	2,479
Liabilities related to assets held for sale	5	33	15
Total liabilities		4,807	4,805
Total equity and liabilities		7,385	7,272

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

Consolidated cash flow statement

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Cash flows from operating activities			
Profit for the period		159	160
Adjustments for			
Income tax	14	74	46
Share of profit (loss) of associates and joint ventures	19	3	-26
Depreciation and amortization	11	332	315
Other non-cash income and expenses		43	0
Financial expenses - net	13	88	67
Profit/loss from disposal of fixed assets and shares	8	-46	-12
		653	550
Change in working capital			
Decrease (+)/increase (-) in trade and other receivables		-106	-166
Decrease (+)/increase (-) in inventories		13	-404
Decrease (-)/increase (+) in trade and other payables		49	348
Change in working capital		-44	-222
		609	328
Interest and other finance cost paid		-83	-68
Interest income received		0	5
Dividends received		0	0
Realized foreign exchange gains and losses		-20	19
Income taxes paid		-38	-87
		-141	-131
Net cash generated from operating activities		468	197

Cash flows from investing activities			
Purchases of property, plant and equipment	17	-269	-341
Purchases of intangible assets	18	-22	-23
Purchases of other shares		-1	0
Proceeds from sale of subsidiaries, net of cash disposed	6	-	2
Proceeds from capital repayments in associates and joint ventures	19	2	-
Proceeds from sale of property, plant and equipment		79	22
Proceeds from sale of other shares		0	0
Changes in non-current receivables		3	-25
Net cash used in investing activities		-208	-365
Cash flow before financing activities			
		260	-168
Cash flows from financing activities			
Payment of (-) / proceeds from (+) current interest-bearing liabilities		-173	47
Proceeds from non-current interest-bearing liabilities		1,022	457
Repayments of non-current interest-bearing liabilities		-914	-324
Dividends paid to the owners of the parent		-90	-90
Dividends paid to non-controlling interests		0	-
Other financing activities		-	0
Net cash used in financing activities		-155	90
Net decrease (-)/increase (+) in cash and cash equivalents		105	-78
Cash and cash equivalents at beginning of the period		304	380
Exchange gains (+)/losses (-) on cash and cash equivalents		1	2
Cash and cash equivalents at end of the period	24	410	304

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

Consolidated statement of changes in equity

MEUR	Note	Share capital	Reserve fund	Fair value and other reserves	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
Total equity at 1 January 2011		40	13	6	-6	2,361	2,414	12	2,426
Dividend paid						-90	-90		-90
Share-based compensation						1	1		1
Transfer from retained earnings			2			-2	0		0
Total comprehensive income for the year				-29	-1	158	128	2	130
Total equity at 31 December 2011	26	40	15	-23	-7	2,428	2,453	14	2,467

Total equity at 1 January 2012		40	15	-23	-7	2,428	2,453	14	2,467
Dividend paid						-90	-90	0	-90
Share-based compensation							0		0
Transfer from retained earnings			3			-3	0		0
Total comprehensive income for the year				33	9	157	199	2	201
Total equity at 31 December 2012	26	40	18	10	2	2,492	2,562	16	2,578

The notes are an integral part of these 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 these consolidated financial statements for issue on 4 February 2013.

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.

New Standards and amendments to existing standards

The following interpretations or amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2012 but do not have a material impact on the Group consolidated financial statements:

- Amendment to IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards, if applicable, on 1 January 2013 or when they become effective.

Amendments to 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 effects 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 1 July 2012.

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 1 January 2012.

IAS 19 Employee Benefits (Revised)

There are numerous amendments to IAS 19. According the amended standard actuarial gains and losses relating to defined benefit obligations and past service costs will be recognized as they occur. The Group has applied the corridor method for recognize actuarial gains and losses. This change will increase the Group's reported defined benefit liability from EUR 48 million to EUR 99 million as at December 31, 2012. Change in

equity will be EUR -47 million. Net interest cost will replace interest expense and expected return on plan assets. Impact to the Group reported net income will not be material. The amendment becomes effective for annual periods beginning on or after 1 January 2013, retrospective application.

IAS 28 Investments in Associates and Joint Ventures (as revised 2011)

As a consequence of the new IFRS 11 'Joint Arrangements', and IFRS 12 'Disclosure of Interests in Other Entities', IAS 28 'Investments in Associates', has been renamed IAS 28 'Investments in Associates and Joint Ventures', and describes the application of the equity method to investments in joint ventures in addition to associates. From 1 January 2011 onwards the group has early adapted the IAS 28. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify when an entity has a legally enforceable right to set-off posted amounts and when setting-off happens enough simultaneously so that an asset and a liability can be netted. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Amendments to IFRS 1 Government Loans

These amendments require first-time adopters to apply the requirements of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance', prospectively to government loans existing at the date of transition to IFRS. The amendment is effective for annual periods on or after 1 January 2013. The amendment is still subject to endorsement by the EU.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements. The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 'Financial Instruments: Presentation'. The disclosures also apply the recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. The adoption of the first phase of IFRS 9 will have an impact on classification and measurements of the Group's financial instruments. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. 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 1 January 2014.

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 1 January 2014.

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 1 January 2014.

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 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation will not have an impact on the Group. The interpretation is effective for annual periods beginning on or after 1 January 2013.

*Annual improvements to IFRS.***Use of estimates**

The preparation of 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. Non-controlling interests are presented in the consolidated balance sheets within equity, separate from the equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statements of income. 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

The Group's operations are divided into four operating segments: Oil Productions, 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 resources.

Until 20 December 2010 the reportable segments of the Group were presented in line with the Company's internal organisational and reporting structure adopted as of 1 April 2009. At the time business areas also represented the reporting segments. On 20 December 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.

The segments' operating results are measured based on comparable operating profit and return on comparable net assets. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses. Comparative figures in 2011 financial statements have been reclassified.

The accounting policies applicable to the segment reporting are the same as those used for establishing the Group consolidated financial statements.

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.

The assets are not depreciated.

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 recognised when the risks and rewards are transferred to the buyer.

Revenue will be recognised 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.

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as capital gains on disposal of other non-current assets and rental income.

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. Management judgment is required in determining the provision for income taxes and the deferred tax assets.

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, which are purchased to cover future periods deficit 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.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances 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. bank. The sale of the receivables essentially transfers ownership of the receivables to the bank, indicating it to obtain 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 reduction of the outstanding liability and finance charges. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities according to their maturities. 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 recognised 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's group companies operate various pension schemes. These schemes are generally funded through insurance companies. The Group has both defined benefit and defined contribution plans.

Contributions to the defined contribution plans are charged directly to the statement of income in the year to which these contributions relate. In defined contribution plans, the Group has no legal or contractive obligations to pay further contributions in case the payment recipient is unable to pay the retirement benefits.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The pension obligation represents the present value of future cash flows from payable benefits. The present value of pension obligations has been calculated using the Project Unit Credit Method. Pension costs are expensed during employee's service lives based on actuarial calculations. The discount rate assumed in calculating the present value of the pension obligations is the market yield of high-quality corporate bonds (AA-rated) 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 with adjustment for unrecognised actuarial gains and losses and past service costs.

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 compensating the effect. 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. In 2012 the Group updated the method used to calculate its comparable operating profit to provide a better reflection of operational performance in its Oil Products business, by switching from a monthly average pricing method to a daily based pricing method when adjusting calculated inventory gains and losses.

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.

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 proprietary 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 practices 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, 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 target hedge ratios are typically higher due to greater margin fluctuation. In the renewable business hedge ratio is measured as a percentage of the committed sales volumes for the rolling 6 months.

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.

The exposure to open positions of oil derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

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 is hedging its Malaysian ringgit (MYR) based raw material purchases. 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 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 2012, the daily balance sheet exposure fluctuated between approximately EUR 179 million and 1,372 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 2012 and 2011, in millions of euros.

MEUR	2012	2011
EUR	2,181	2,183
SGD	86	97
USD	67	93
Other	-	11
	2,334	2,384

The nominal and fair values of outstanding foreign exchange derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

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 500 million as of 31 December 2012 (2011: EUR 463 million), and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2012			2011		
MEUR	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
USD	61	-	0 %	60	-	0 %
SEK	222	-	0 %	196	-	0 %
CAD	80	-	0 %	73	73	100%
PLN	-	-	0 %	15	-	0 %
RUB	77	-	0 %	68	-	0 %
EEK	-	-	0 %	-	-	0 %
LTL	34	-	0 %	31	-	0 %
BHD	-	-	0 %	-	-	0 %
Other	26	-	0 %	20	-	0 %
	500	-	0 %	463	73	16%

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 six 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. The nominal and fair values of outstanding interest rate derivative contracts as of 31 December 2012 (2011) is summarized in Note 25.

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
Financial instruments with floating interest rate				
Financial liabilities				
Loans from financial institutions	841	0	0	841
Finance lease liabilities	6	64	0	70
Bonds	0	0	0	0
Effect of interest rate swaps	650	-500	-150	0
Financial instruments with fixed interest rate				
Bonds	0	882	448	1,330
Finance lease liabilities	-	-	93	93
	1,497	446	391	2,334

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 2013 (2012), 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 ¹⁾

		2013	2012
+/- 10% in the EUR/USD exchange rate	EUR million	- 98 / + 120	- 120 / + 150
+/- USD 1.00/barrel in total refining margin	USD million	+/- 105	+/- 110
+/- USD 10/barrel in crude oil price	USD million	+/- 100	+/- 100
+/- USD 100/t in palm oil price	USD million	+/- 55	+/- 50
+/- USD 50/t in Renewable Fuels refining margin	USD million	+/- 100	+/- 100

¹⁾ 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 2012 (2011). 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, refined oil products and vegetable oil 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

		2012		2011	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price ¹⁾	EUR million	+/- 9	-/+ 7	-/+ 14	-/+ 4
+/- 10% change in EUR/USD exchange rate	EUR million	+ 63 / - 79	+ 42 / - 39	+ 70 / - 80	+ 45 / - 55
1% parallel shift in interest rates	EUR million	+/- 9	+/- 0	+/- 11	+/- 0
+/- 10% change in USD/MYR exchange rate	EUR million	+ 8 / - 8	+/- 0	+ 11 / - 11	+/- 0

¹⁾ 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 may hedge 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 certain commodity derivative contracts hedging refining margin, 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 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 2012 and 2011 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, which 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 compensating the effect. The ineffective portion is also recognized in the income statement.

Items recognized in the income statement

MEUR	2012	2011
gain or loss on the hedging instrument	18	17
gain or loss on the hedged item	-18	-16

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/ other comprehensive income, 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 31 December 2012 was 3.9 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 31 December 2012, the Company had cash and cash equivalents and committed, unutilized credit facilities totalling EUR 2,135 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities

MEUR	2012	2011
Floating rate		
– cash and cash equivalents	410	304
– overdraft facilities, expiring within one year	150	150
– revolving credit facility, expiring within one year	75	-
– revolving credit facility, expiring beyond one year	1,500	1,175
	2,135	1,629

The contractual maturity of interest-bearing liabilities as of 31 December 2012 is presented in the following table.

MEUR	2013 ¹⁾	2014	2015	2016	2017	2018-	Total
Bonds and debentures	59	60	359	345	277	482	1,582
- less finance charges	59	60	59	45	27	32	282
Repayment of bonds and debentures	0	0	300	300	250	450	1,300
Loans from financial institutions	359	372	52	8	48	24	863
- less finance charges	5	8	1	1	1	1	17
Repayment of loans from financial institutions	354	364	51	7	47	23	846
Finance lease liabilities	21	22	42	39	16	223	363
- less finance charges	15	15	14	13	13	130	200
Repayment of finance lease liabilities	6	7	28	26	3	93	163
Interest rate swaps							
- less finance charges	-3	-9	-10	-8	-2	-2	-34

¹⁾ Repayments in 2013 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 2011 is presented in the following table.

MEUR	2012 ¹⁾	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

¹⁾ Repayments in 2012 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 framework agreements 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 and termination events. 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 has a large number of different 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 2012/2013.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure as at 31 December 2012, approximately 92% 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 31 December 2012 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. 39% of the trade receivables portfolio exposure is from counterparties or their parent companies having credit rating BBB- (S&P) minimum. 61% 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 31 December 2012 that the counterparties would not meet their obligations.

Analysis of trade receivables by age

MEUR	2012	2011
Undue trade receivables	961	845
Trade receivables 1-30 days overdue	47	42
Trade receivables 31-60 days overdue	0	0
Trade receivables more than 60 days overdue	0	0
	1,008	887

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 credit rating, the Group's target is to have a capital structure equivalent to that of other oil refining and marketing 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 2012 and 2011 was as follows:

MEUR	2012	2011
Total interest-bearing liabilities ¹⁾	2,345	2,384
Cash and cash equivalents ²⁾	410	304
Interest-bearing net debt	1,935	2,080
Total equity	2,578	2,467
Interest-bearing net debt and total equity	4,513	4,547
Leverage ratio	42.9 %	45.7 %

¹⁾ Includes EUR 11 million of interest-bearing liabilities related to Assets held for sale as disclosed in Note 5.

²⁾ Includes EUR 1 million of cash and cash equivalents related to Assets held for sale as disclosed in Note 5.

4 Segment information

Neste Oil's business structure

The Group's operations are built around two business areas and eight 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, Strategy, Human Resources, Sustainability and HSEQ, Technology, Communications, Marketing and Public Affairs, 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.

Operating segments

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, liquefied petroleum gas and other oil products and services which are related to them 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.

Operating segments presented above don't include 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, research, 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 2012 and 2011 did not result in any major concentration in any given geographical area or operating segment.

Information about the Group's operating segments as of and for the years ended 31 December 2012 and 2011 is presented in the following tables:

MEUR

2012	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
External revenue	10,991	1,938	4,888	36	-	17,853	
Internal revenue	2,773	225	7	163	-3,168	0	
Total revenue	13,764	2,163	4,895	199	-3,168	17,853	7
Other income	70	18	5	23	-18	98	8
Share of profit of associates and joint ventures	3	-	0	-6	-	-3	19
Materials and services	-12,455	-2,005	-4,627	-21	2,922	-16,186	9
Employee benefit costs	-166	-26	-34	-118	2	-342	10
Depreciation, amortization and impairments	-187	-99	-33	-13	0	-332	11
Other expenses	-538	-234	-148	-109	262	-767	12
Operating profit ¹⁾	491	-183	58	-45	0	321	
Financial income and expense						-88	13
Profit before taxes						233	
Income taxes						-74	14
Profit for the period						159	
Comparable operating profit	396	-56	58	-46	0	352	
Changes in the fair value of open oil and freight derivative positions	6	-22	0	1	-	-15	
Inventory gains/losses	44	-105	-	-	-	-61	
Sales gains/losses	45	-	0	0	-	45	
Operating profit ¹⁾	491	-183	58	-45	0	321	
Capital expenditure and investments in shares	180	51	36	25	-	292	17, 18
Segment operating assets	3,819	2,134	676	204	-286	6,547	
Investment in associates and joint ventures	28	-	1	213	-	242	19
Deferred tax assets						35	28
Unallocated assets						561	
Total assets	3,847	2,134	677	417	-286	7,385	
Segment operating liabilities	1,595	274	332	106	-283	2,024	
Deferred tax liabilities						340	28
Unallocated liabilities						2,443	
Total liabilities	1,595	274	332	106	-283	4,807	
Segment net assets	2,252	1,860	345	311	-3	4,765	
Return on net assets, %	20.6	-9.3	17.3	-15.3			
Comparable return on net assets, %	16.6	-2.8	17.3	-15.7			

¹⁾ The operating profit of Others segment includes a write-off related to an IT project amounting to EUR 14 million.

MEUR

2011	Oil Products	Renewable Fuels	Oil Retail	Others	Eliminations	Group	Note
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	7
Other income	28	0	4	18	-14	36	8
Share of profit of associates and joint ventures	10	-	-	16	-	26	19
Materials and services	-11,517	-960	-4,037	-12	2,564	-13,962	9
Employee benefit costs	-158	-23	-32	-105	2	-316	10
Depreciation, amortization and impairments	-192	-78	-32	-13	-	-315	11
Other expenses	-442	-135	-143	-87	191	-616	12
Operating profit	373	-170	58	8	4	273	
Financial income and expense						-67	13
Profit before taxes						206	
Income taxes						-46	14
Profit for the period						160	
Comparable operating profit	271	-163	57	9	4	178	
Changes in the fair value of open oil and freight derivative positions	1	4	0	-	-	5	
Inventory gains/losses	90	-11	-	-	-	79	
Sales gains/losses	11	-	1	-1	-	11	
Operating profit	373	-170	58	8	4	273	
Capital expenditure and investments in shares	131	190	34	9	-	364	17, 18
Segment operating assets	3,864	2,167	648	182	-306	6,555	
Investment in associates and joint ventures	25	-	1	213	-	239	19
Deferred tax assets						50	28
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	28
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, %	11.4	-8.7	17.6	3.0			

Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and 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

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
2012								
Revenue by destination	7,524	2,687	1,844	3,952	1,465	381	0	17,853
Non-current assets	2,402	213	180	707	0	709	0	4,211
Capital expenditure	226	0	25	32	0	9	0	292

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Eliminations	Group
2011								
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

5 Assets held for sale

The assets and liabilities held for sale relate to Neste Oil's operating activities in Poland. In December 2012 Neste Oil signed an agreement that Shell Polska Sp. z o.o. will buy Neste Oil's station network (Neste Polska Sp. z o.o.) in Poland. The transaction is expected to be closed during the first half of 2013. The operations are part of the Oil Retail segment.

In 2011, 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	2012	2011
Property, plant and equipment	39	27
Other assets	12	29
Cash and cash equivalents	1	-
Total	52	56

Liabilities related to assets held for sale

MEUR	2012	2011
Interest-bearing liabilities	11	-
Other liabilities	22	15
Total	33	15

6 Acquisitions and disposals

Acquisitions

No acquisitions took place in financial periods 2012 and 2011.

Disposals

On January 19, 2012 Neste Oil sold its 50% holding in an iso-octane production plant in Edmonton, Canada to Canadian-based Keyera Corporation. A capital gain amounting to EUR 45 million resulting from the transaction has been included in the consolidated financial statements.

Assets and Liabilities of Neste Oil's 50 % Holding in Iso-Octane production plant.

MEUR	19 January 2012
Property, plant and equipment	28
Shares in subsidiaries and associates	-
Inventories	27
Trade and other receivables	3
Cash and cash equivalents	0
Total assets	58
Trade and other payables	9
Total liabilities	9
Sold net assets	49
Gain on disposal	45
Total consideration	94
Cash consideration received	94
Cash and cash equivalents disposed of	-
Cash inflow arising from disposal	94

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

7 Analysis of revenue by category

MEUR	2012	2011
Sale of goods	17,676	15,202
Revenue from services	158	172
Royalty income	1	0
Other	18	46
	17,853	15,420

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 1,446 million (2011: EUR 1,210 million) are included in product sales. The corresponding amount is included in 'Materials and services', Note 9.

Oil trading included in Sale of goods comprise 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, which is included in the Others segment.

Revenue from product exchanges included in 'Sale of goods' amounted to EUR 204 million (2011: EUR 178 million).

8 Other income

MEUR	2012	2011
Gain on sale of subsidiaries	-	0
Capital gains on disposal of other non-current assets	46	12
Rental income	5	7
Government grants	8	11
Other	39	6
	98	36

Government grants relate mainly to the shipping operations, which is entitled to apply for certain grants based on Finnish legislation. EUR 4 million (2011: 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 31 December 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.

In 2012 other income includes compensation for production losses amounting to EUR 22 million.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 9 Materials and services

9 Materials and services

MEUR	2012	2011
Change in product inventories	-5	-253
Materials and supplies		
Purchases	16,137	14,327
Change in inventories	25	-127
External services	29	15
	16,186	13,962

Purchases include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,446 million (2011: EUR 1,210 million). The corresponding amount is included in 'Revenue', Note 7.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 10 Employee benefit costs

10 Employee benefit costs

MEUR	2012	2011
Wages, salaries	253	240
Social security costs	23	21
Pension costs-defined contribution plans	39	39
Pension costs-defined benefit plans	17	7
Other costs	10	9
	342	316

Number of personnel (average)

	2012	2011
Oil Products	2,085	2,060
Renewable Fuels	260	258
Oil Retail	1,316	1,263
Others	1,370	1,345
	5,031	4,926

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 11 Depreciation, amortization, and impairment charges

11 Depreciation, amortization and impairment charges

MEUR	2012	2011
Depreciation of property, plant, and equipment		
Buildings and structures	65	66
Machinery and equipment	239	223
Other tangible assets	19	16
	323	305
Amortization of intangible assets	9	10
Depreciation, amortization and impairment charges total	332	315

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 12 Other expenses

12 Other expenses

MEUR	2012	2011
Operating leases and other property costs	102	100
Freights relating to sales	242	152
Repairs and maintenance	117	116
Services	83	72
Other	223	176
	767	616

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. A write-off related to an IT project amounting to EUR 14 million is included in services and other costs in 2012.

Fees charged by the statutory auditor

EUR thousands	2012	2011
Audit fees	1,077	1,044
Auditor's mandatory opinions	7	13
Tax advisory	14	44
Other advisory services	331	628
	1,429	1,729

13 Financial income and expenses

MEUR	2012	2011
Financial income		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	3	4
Other financial income	0	0
	3	4
Financial expenses		
Interest expenses for financial liabilities at amortized cost	-81	-68
Interest rate derivatives, hedge accounted	0	0
Interest rate derivatives, non-hedge accounted	4	2
Other financial expenses	-7	-6
	-84	-72
Exchange rate and fair value gains and losses		
Loans and receivables	0	-8
Other	-6	3
Foreign exchange derivatives, non-hedge accounted	-1	6
	-7	1
Financial cost - net	-88	-67

Net gains/losses on financial instruments included in operating profit

MEUR	2012	2011
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	-108	23
Non-hedge accounted foreign exchange rate, oil and freight derivative instruments	-27	-58
	-135	-35

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 (2011: EUR -58 million), and transactions entered into for trading purposes amounting to EUR 5 million (2011: EUR 0 million).

Aggregate exchange differences charged/credited to the income statement

MEUR	2012	2011
Revenue	8	11
Materials and services	-2	-3
	6	8

14 Income tax expense

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

MEUR	2012	2011
Current tax expense	53	70
Adjustments recognized for current tax for prior periods	6	3
Change in deferred taxes	15	-27
	74	46

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	2012	2011
Profit before tax	233	206
Hypothetical income tax calculated at Finnish tax rate 24.5% (2011: 26%)	-57	-54
Effect of different tax rates of foreign subsidiaries	6	7
Tax exempt income	4	13
Non-deductible expense	-19	-32
Taxes for prior periods	-3	-4
Net results of associated companies	-1	7
Tax losses without deferred tax asset	-1	-
Effect of change of Finnish income tax rate	-	19
Tax losses for prior periods without deferred tax asset	-2	-
Adjustment to deferred tax liabilities	2	-
Other	-3	-2
Tax charge in the consolidated income statement	-74	-46

The Group's effective income tax rate was 31.91% (2011: 22.31%). The effective tax rate is higher than the Finnish corporate tax rate of 24.5%. Non-deductible expenses, losses as well as the share of losses of associates and joint ventures increased the effective tax rate.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 15 Earnings per share

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 (2011: 485,000), as described in note 26.

	2012	2011
Profit attributable to owners of the parent, MEUR	157	158
Weighted average number of ordinary shares in issue (thousands)	255,919	255,919
Earnings per share basic and diluted (euro per share)	0.61	0.62

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 16 Dividend per share

16 Dividend per share

The dividends paid in 2012 were EUR 0.35 per share, totalling EUR 90 million and 2011 EUR 0.35 per share, totalling EUR 90 million. A dividend of EUR 0.38 per share will be proposed at the Annual General Meeting on 4 April 2013, corresponding to total dividends of EUR 97 million for 2012. 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
2012						
Gross carrying amount at 1 January 2012	94	2,031	3,912	160	150	6,347
Exchange differences	2	8	3	0	0	13
Additions	2	51	138	8	70	269
Disposals	0	-34	-18	0	-5	-57
Reclassifications	-6	68	-34	27	-62	-7
Reclassified as non current asset held for sale	-16	-32	-29	-2	0	-79
Gross carrying amount at 31 December 2012	76	2,092	3,972	193	153	6,486
Accumulated depreciation and impairment losses at 1 January 2012	-	660	1,635	84	-	2,379
Exchange differences	-	3	3	0	-	6
Disposals	-	-33	-18	0	-	-51
Reclassifications	-	1	-1	0	-	0
Depreciation for the period	-	65	239	19	-	323
On non current assets reclassified as held for sale	-	-18	-21	-1	-	-40
Accumulated depreciation and impairment losses at 31 December 2012	-	678	1,837	102	-	2,617
Carrying amount at 1 January 2012	94	1,371	2,277	76	150	3,968
Carrying amount at 31 December 2012	76	1,414	2,135	91	153	3,869

MEUR

	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
2011						
Gross carrying amount at 1 January 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 31 December 2011	94	2,031	3,912	160	150	6,347
Accumulated depreciation and impairment losses at 1 January 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 31 December 2011	-	660	1,635	84	-	2,379
Carrying amount at 1 January 2011	89	1,073	1,972	88	757	3,979
Carrying amount at 31 December 2011	94	1,371	2,277	76	150	3,968

Finance leases

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

	2012	2011
Gross carrying amount	234	249
Accumulated depreciation	68	62
Carrying amount	166	187

Capitalized borrowing costs

Borrowing costs related to investment projects were not capitalized during the financial period 2012. During 2011 borrowing costs amounting to EUR 16 million were capitalized 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% in 2011.

18 Intangible assets

MEUR

2012	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2012	11	143	154
Exchange differences	-	0	0
Additions	-	22	22
Disposals	-	-18	-18
Reclassifications	-	7	7
Reclassified as non current asset held for sale	-	0	0
Gross carrying amount at 31 December 2012	11	154	165
Accumulated amortization and impairment losses at 1 January 2012	-	99	99
Exchange differences	-	0	0
Disposals	-	-4	-4
Reclassifications	-	0	0
Amortization for the period	-	9	9
On non current assets reclassified as held for sale	-	0	0
Accumulated amortization and impairment losses at 31 December 2012	-	104	104
Carrying amount at 1 January 2012	11	44	55
Carrying amount at 31 December 2012	11	50	61

MEUR

	Goodwill	Other intangible assets	Total
2011			
Gross carrying amount at 1 January 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 31 December 2011	11	143	154
Accumulated amortization and impairment losses at 1 January 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 31 December 2011	-	99	99
Carrying amount at 1 January 2011	11	32	43
Carrying amount at 31 December 2011	11	44	55

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, which are purchased to cover future periods deficit 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.

A provision is recognized to cover the obligation to buy emission allowances if emission allowances received free of charge and to cover the deficit of purchased emission allowances 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 31 December 2012 Intangible assets include emission allowances amounting to EUR 6.7 million. The actual amount of CO₂ emissions in 2012 were 3.1 million tons (2011: 3.4 million tons). The Group has purchased emission allowances for 1.4 million tons during the financial period ended 31 December 2012 (2011: 0.4 thousand tons).

Impairment test of goodwill

Goodwill is allocated to 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	2012	2011
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 1 percent nominal growth rate. 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.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 19 Investments in associates and joint ventures

19 Investments in associates and joint ventures

Investments in associates

MEUR	2012	2011
Carrying amount		
At 1 January	2	2
At 31 December	2	2

A complete list of 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	2011
Assets	10
Liabilities	8
Revenue	15
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 (2011).

Investments in joint ventures

MEUR	2012	2011
Carrying amount		
At 1 January	237	212
Share of profits of joint ventures	-3	26
Capital repayments in joint ventures	-2	-
Translation differences	9	-1
Hedging reserves in joint ventures	-1	0
At 31 December	240	237

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

	Country of incorporation	2012 % interest held	2011 % 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 4 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 4 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. The operation of the company in Varkaus has ended in 2012.

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 3.1 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

2012	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
Glacia Limited	38	17	29	3	8	3
Lacus Ltd.	28	8	20	3	6	2
NSE Biofuels Oy Ltd	-	1	-	0	1	2
Terra Ltd.	28	9	20	2	6	2

2011	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Revenue	Profit/loss
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
Nynas AB	437	765	513	271	2,579	35
Terra Ltd.	30	7	22	2	5	1

The financial statements of Nynas AB are not published within the Group's reporting timetable. The share of profits of joint ventures for 2012 is consolidated based on the company's preliminary results for the financial period.

Transactions carried out with associates and joint ventures are disclosed in Note 32.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 20 Carrying amounts of financial assets and liabilities by measurement categories

20 Carrying amounts of financial assets and liabilities by measurement categories

Financial assets and liabilities divided by categories were as follows as of December 31:

MEUR

2012 Balance sheet item	Financial assets/ liabilities at fair value through income statement			Available- for -sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables					
Non-current financial assets								
Non-current receivables	-	-	3	-	-	3	3	21
Derivative financial instruments	37	-	-	-	-	37	37	25
Available-for-sale financial assets	-	-	-	4	-	4	4	21
Current financial assets								
Trade and other receivables	-	-	1,154	-	-	1,154	1,154	23
Derivative financial instruments	30	27	-	-	-	57	57	25
Carrying amount by category	67	27	1,157	4	-	1,255	1,255	
Non-current financial liabilities								
Interest-bearing liabilities	-	-	-	-	1,977	1,977	2,032	27
Derivative financial instruments	6	-	-	-	-	6	6	25
Other non-current liabilities	-	-	-	-	7	7	7	27
Current financial liabilities								
Interest-bearing liabilities	-	-	-	-	357	357	357	27
Current tax liabilities	-	-	-	-	40	40	40	27
Derivative financial instruments	13	34	-	-	-	47	47	25
Trade and other payables	-	-	-	-	1,925	1,925	1,925	27
Carrying amount by category	19	34	-	-	4,306	4,359	4,414	

MEUR

2011 Balance sheet item	Financial assets/ liabilities at fair value through income statement				Available- for -sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables						
Non-current financial assets									
Non-current receivables	-	-	16	-	-	-	16	16	21
Derivative financial instruments	19	-	-	-	-	-	19	19	25
Available-for-sale financial assets	-	-	-	-	4	-	4	4	21
Current financial assets									
Trade and other receivables	-	-	1,045	-	-	-	1,045	1,045	23
Derivative financial instruments	18	41	-	-	-	-	59	59	25
Carrying amount by category	37	41	1,061		4	-	1,143	1,143	
Non-current financial liabilities									
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
Current financial liabilities									
Interest-bearing liabilities	-	-	-	-	-	493	493	493	27
Current tax liabilities	-	-	-	-	-	26	26	26	27
Derivative financial instruments	52	36	-	-	-	-	88	88	25
Trade and other payables	-	-	-	-	-	1,872	1,872	1,872	27
Carrying amount by category	55	45	-		-	4,291	4,391	4,407	

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.

Financial instruments that are measured in the balance sheet at fair value are presented according to following fair value measurement hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted price included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the assets or liability that is not based on observable market data (unobservable inputs).

2012 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments	-	37	-	37
Current derivative financial instruments	8	49	-	57

Financial liabilities

Non-current derivative financial instruments	-	6	-	6
Current derivative financial instruments	3	44	-	47

During the financial period 2012 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.

2011 Fair value hierarchy, MEUR

Financial assets	Level 1	Level 2	Level 3	Total
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.

Financial statements ▶ Consolidated financial statements ▶ Notes to the Consolidated financial statements ▶ 21 Non-current receivables and available-for-sale financial assets

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

Non-current receivables MEUR	Fair value		Carrying amount	
	2012	2011	2012	2011
Non-current interest-bearing receivables	0	1	0	1
Other non-current receivables	3	15	3	15
	3	16	3	16

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	2012	2011
At 1 January	4	4
Additions	0	0
Disposals	0	0
At 31 December	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.

Financial statements ▶ Consolidated financial statements ▶ Notes to the Consolidated financial statements ▶ 22 Inventories

22 Inventories

MEUR	2012	2011
Materials and supplies	488	494
Finished products and goods	969	961
Other inventories	7	2
	1,464	1,457

Write downs of inventories amounted to EUR 40 million as at 31 December 2012 (2011: EUR 7 million).

23 Current trade and other receivables

MEUR	Fair value		Carrying amount	
	2012	2011	2012	2011
Trade receivables	1,008	887	1,008	887
Other receivables	114	118	114	118
Advances paid	6	6	6	6
Accrued income and prepaid expenses	26	34	26	34
	1,154	1,045	1,154	1,045

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 4 million (2011: EUR 3 million).

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

The trade receivables were sold to the third party during the year 2012, but the volume was not substantial.

24 Cash and cash equivalents

Cash and cash equivalents include the following:

MEUR	2012	2011
Cash at bank and in hand	383	293
Short term bank deposits	26	11
Total	409	304
Cash and cash equivalents included in Assets held for sale	1	-
Total	410	304

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	2012			2011		
	Remaining maturities			Remaining maturities		
	< 1 year	1–7 years	Total	< 1 year	1–7 years	Total
Derivative financial instruments designated as hedges of net investment in foreign operations						
Forward foreign exchange contracts	-	-	-	73	-	73
	-	-	-	73	-	73
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps ¹⁾	-	50	50	32	50	82
Forward foreign exchange contracts	646	-	646	729	-	729
Currency options						
- Purchased	113	-	113	206	-	206
- Written	92	-	92	193	-	193
	851	50	901	1,160	50	1,210
Derivative financial instruments designated as fair value hedges						
Interest rate swaps ¹⁾	-	700	700	-	460	460
	-	700	700	-	460	460
Non-hedge accounting derivative financial instruments						
Interest rate swaps ¹⁾	230	50	280	-	230	230
Forward foreign exchange contracts	993	-	993	611	-	611
	1,223	50	1,273	611	230	841

¹⁾ Interest rate swaps mature in 7 years.

Volumes of commodity derivative contracts

	Volume million bbl			Volume million bbl		
	Remaining maturities			Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Commodity derivative contracts designated as cash flow hedges ²⁾						
Futures and forwards						
- Sales contracts	14	-	14	19	-	19
	14	-	14	19	-	19
Non-hedge accounting commodity derivative contracts ³⁾						
Futures and forwards						
- Sales contracts	7	-	7	27	-	27
- Purchase contracts	17	-	17	34	-	34
Options						
- Purchased	0	-	0	1	-	1
- Written	0	-	0	1	-	1
	24	-	24	63	-	63

²⁾ Commodity derivative contracts with hedge accounting status are oil derivatives.

³⁾ 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 2012				Fair value 2011			
	Positive		Negative		Positive		Negative	
	< 1 year	1-7 years	< 1 year	1-7 years	< 1 year	1-7 years	< 1 year	1-7 years
Interest rate and currency derivative contracts and share forward contracts								
Derivative financial instruments designated as hedges of net investment in foreign operations								
Forward foreign exchange contracts	-	-	-	-	-	-	2	-
	-	-	-	-	-	-	2	-
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps ¹⁾	-	-	-	6	-	-	1	3
Forward foreign exchange contracts	18	-	1	-	0	-	32	-
Currency options								
- Purchased	1	-	1	-	0	-	5	-
- Written	1	-	-	-	0	-	3	-
	20	-	2	6	0	-	41	3
Derivative financial instruments designated as fair value hedges								
Interest rate swaps ¹⁾	-	37	-	-	0	19	-	0
	-	37	-	-	0	19	-	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps ¹⁾	-	-	4	0	-	-	-	9
Forward foreign exchange contracts	8	-	5	-	3	-	10	-
	8	-	9	0	3	-	10	9

¹⁾ Interest rate swaps mature in 7 years.

MEUR	Fair value 2012				Fair value 2011			
	Positive		Negative		Positive		Negative	
	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years	< 1 year	1-3 years
Commodity derivative contracts								
Commodity derivative contracts designated as cash flow hedges ²⁾								
Futures and forwards								
- Sales contracts	10	-	11	-	10	-	3	-
	10	-	11	-	10	-	3	-
Non-hedge accounting commodity derivative contracts ³⁾								
Futures and forwards								
- Sales contracts	7	-	7	-	20	-	27	-
- Purchase contracts	12	-	18	-	25	-	4	-
Options								
- Purchased	-	-	-	-	-	-	-	-
- Written	-	-	-	-	1	-	1	-
	19	-	25	-	46	-	32	-

²⁾ Commodity derivative contracts with hedge accounting status are oil derivatives.

³⁾ 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	2012				2011			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Balance sheet reconciliation								
Derivative financial instruments	57	37	47	6	59	19	88	12

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 per 31 December 2012. 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 per 31 December 2012. 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.

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26 Equity

Share capital

Neste Oil's share capital registered with the Trade Register as of 31 December 2012 totalled 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, 1000	Share capital MEUR
Registered at 1 January 2011	256,404	40
Registered at 31 December 2011	256,404	40
Registered at 1 January 2012	256,404	40
Registered at 31 December 2012	256,404	40

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, 2014 and 2015. 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. During financial periods 2012 and 2011 no shares were assigned. As at 31 December 2012 there were 485,000 shares (2011: 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.

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27 Non-current and current liabilities

MEUR	Fair value		Carrying amount	
	2012	2011	2012	2011
Non-current liabilities				
Bonds	1,384	680	1,330	665
Loans from financial institutions	488	1,095	487	1,094
Finance lease liabilities	158	132	158	132
Other loans	2	0	2	0
Other non-current liabilities	5	8	5	8
Accruals and deferred income	2	1	2	1
Non-current liabilities total	2,039	1,916	1,984	1,900
of which interest-bearing			1,977	1,891

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	
	2012	2011	2012	2011
Current liabilities				
Bonds	-	120	-	120
Loans from financial institutions	342	301	342	301
Finance lease liabilities	7	42	7	42
Advances received	13	15	13	15
Trade payables	1,370	1,278	1,370	1,278
Other current liabilities	440	513	440	513
Current tax liabilities	40	26	40	26
Accruals and deferred expenses	110	96	110	96
Current liabilities total	2,322	2,391	2,322	2,391
of which interest-bearing			357	493

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.

Re-pricing periods of the Group's interest-bearing debt is disclosed in Note 3, Financial risk management, section 'Market risk'.

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

MEUR	2012			2011		
	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	20	13	7	45	1	44
Between one and five years	126	58	68	43	-4	47
More than 5 years	201	111	90	86	3	83
Total amounts payable	347	182	165	174	0	174

Finance lease liabilities arise from bareboat agreements on crude oil tankers Tempera and Mastera delivered in 2002 and 2003 that are classified as finance lease agreements under IAS 17. The lease terms are 13 years for both vessels as agreed on the amendment made on year 2012, and in addition the lessee having a call option to purchase the leased assets in the 12th and 13th year of the lease period. Minimum lease payments in each agreement include option prices as terminal payments.

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 2012:

MEUR	at 1 Jan 2012	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2012
Deferred tax assets						
Tax loss carried forward	15	-6	-	-	-	9
Provisions	4	-1	-	-	-1	2
Pensions	11	1	-	-	-	12
Cash flow hedges	13	-3	-10	-	-	0
Other temporary differences	7	5	-	-1	-1	10
Total deferred tax assets	50	-4	-10	-1	-2	33
Deferred tax liabilities						
Depreciation difference and untaxed reserves	282	4	-	-	-	286
Excess of book basis over tax basis of property, plant and equipment	19	2	-	-	-	21
Finance leases	5	0	-	-	-	5
Capitalized interest	18	-1	-	-	-	17
Other temporary differences	7	6	-2	-	-	11
Total deferred tax liabilities	331	11	-2	-	-	340

The movement in deferred tax assets and liabilities during 2011:

MEUR	at 1 Jan 2011	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2011
Deferred tax assets						
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
Total deferred tax assets	31	7	10	2	-	50
Deferred tax liabilities						
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
Total deferred tax liabilities	347	-20	2	2	-	331

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 2 million (2011: EUR 1 million) have been netted in the balance sheet.

Deferred tax assets, MEUR	2012	2011
Deferred tax asset to be recovered after more than 12 months	15	29
Deferred tax asset to be recovered within 12 months	18	21
	33	50
Deferred tax liabilities, MEUR	2012	2011
Deferred tax liability to be recovered after more than 12 months	331	331
Deferred tax liability to be recovered within 12 months	9	0
	340	331

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.

29 Provisions

MEUR	Environmental provisions	Provision to return emission allowances	Restructuring provisions	Other provisions	Total
At 1 January 2012	8	9	0	5	22
Charged to income statement					
Additional provisions	2	-	0	9	11
Amounts used during the period	-1	-9	0	0	-10
Reversed unused provisions	0	-	-	6	6
Reclassified as non-current liability related to assets held for sale	-2	-	-	-	-2
At 31 December 2012	7	0	0	20	27
				2012	2011
Current provisions				9	12
Non-current provisions				18	10
				27	22

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 to be accounted for as a defined benefit plan and are managed in a life insurance companies. The Group uses December 31 as measurement date for its defined benefit arrangements. 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 1 January 1994.

The benefits include, in addition to pension payments, payments for other long-service benefits which are unfunded.

The Group has defined benefit plans also in Belgium and in Switzerland. As at 31 December 2012 the defined benefit plans comprised of the Finnish voluntary pension plans as well as pension plans in Belgium and Switzerland.

Defined benefit plans
Amounts recognized in the income statement

MEUR	2012	2011
Current service cost	14	5
Interest cost	15	15
Expected return on plan assets	-12	-13
Net actuarial gains and losses recognized during the period	0	0
Settlements	0	0
Total included in personnel expenses (Note 10)	17	7

Amounts recognized in the balance sheet

MEUR	2012	2011
Present value of funded obligations	435	334
Present value of unfunded obligations	8	-
Fair value of plan assets	-345	-277
	98	57
Unrecognized actuarial gains and losses	-50	-11
Net liability (+) / asset (-)	48	46

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

MEUR	2012	2011
At the beginning of the period	46	47
Total expense charged in the income statement	17	7
Refund from the foundation to the employer	-	0
Contributions paid	-15	-8
At the end of the period	48	46

Amounts recognized in the balance sheet

MEUR	2012	2011
Defined benefit obligations	48	46
Defined benefit assets	0	0
Net asset (-) / liability (+)	48	46

Changes in the present value of the defined benefit obligation

MEUR	2012	2011
Opening defined benefit obligation	334	336
Service cost	14	5
Interest cost	15	15
Actuarial gains / losses	96	-4
Benefits paid	-16	-15
Settlements	0	-3
Closing defined benefit obligation	443	334

Changes in the fair value of plan assets

MEUR	2012	2011
Opening fair value of plan assets	277	289
Expected return on plan assets	12	13
Actuarial gains/losses	57	-16
Contributions by employer	15	8
Benefits paid	-16	-15
Settlements	0	-2
Translation differences	0	-
Closing fair value of plan assets	345	277

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 69 million (2011: EUR -3 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 31 December

MEUR	2012	2011	2010	2009	2008
Present value of funded und unfunded obligation	443	334	336	710	627
Fair value of plan assets	345	277	289	720	601
Deficit(+)/surplus(-)	98	57	47	-10	26
Experience adjustments on plan assets	57	0	-5	74	-225
Experience adjustments on plan liabilities	0	-4	1	-15	0

Contributions amounting to EUR 11 million are expected to be paid to the plan during 2013.

The principal actuarial assumptions used

Finland	2012	2011
Discount rate	2.4-2.7 %	4.5 %
Expected return on plan assets	2.7 %	4.5 %
Future salary increases	3.5 %	3.5 %
Future pension increases	0.0-2.1 %	0.0-2.1%
Other countries	2012	2011
Discount rate	2.0-3.0 %	2.5-4.5 %
Expected return on plan assets	2.5-3.0 %	2.5-4.5 %
Future salary increases	1.5-2.5 %	1.5-2.0 %
Future pension increases	0.0 %	3.5 %

31 Share-based payments

Share-based incentive plan as of 1 January 2010

The Board of Directors decided in December 2009 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 in 2011 and the last one 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 plans is 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 and 2015. 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 Plan 2012-2014 equals the value of 1,098,000 Neste Oil shares, of which 1,018,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 425,000 shares, of which the maximum reward for the President & CEO equaled the value of 100,000 shares.

The maximum amount of reward for key personnel for Plan 2011-2013 equals the value of 842,000 Neste Oil shares, of which 740,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 320,000 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 Plan 2010-2012 equals the value of 809,000 Neste Oil shares, of which 630,000 shares were allocated as at 31 December 2012. The maximum reward for the members of the Neste Executive Board equaled the value of 305,000 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	Plan	Plan
Grant dates and prices	2012-2014	2011-2013	2010-2012
Grant dates	2 Jan 2012	3 Jan 2011	4 Jan 2010
Grant prices, euros	6.70	10.81	11.50
Share price as at grant date, euros	8.10	12.21	12.70

	Plan	Plan	Plan
Term of the plan	2012-2014	2011-2013	2010-2012
Beginning of earnings period	1 Jan 2012	1 Jan 2011	1 Jan 2010
End of earnings period	31 Dec 2014	31 Dec 2013	31 Dec 2012
End of restriction period	1 Jan 2018	1 Jan 2017	1 Jan 2016

Assumptions used in calculating the value of the reward	Plan 2012-2014	Plan 2011-2013	Plan 2010-2012
Amount of granted shares at the beginning of the period, maximum reward	-	802,000	696,000
Amount of shares granted during the period, maximum reward	1,098,000	-	-
Adjustments to the amount of shares	-80,000	-62,000	-66,000
Amount of granted shares at the end of the period, maximum reward	1,018,000	740,000	630,000
Number of participants at the end of the financial period	68	54	35
Share price at the end of the financial period, euros	9.77	9.77	9.77
Estimated rate of realization of the earnings criteria, %	55 %	55 %	20 %
Estimated termination rate before the end of the restriction period, %	6.7 %	10.0 %	7.5 %

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.

Accounting treatment

The Share-based incentive plans described earlier in this note 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	2012	2011
Expense recognized in the income statement	0	0
Change in fair value of the liability recognized in the balance sheet	1	1
Total expense charged to the income statement	1	1
Change in fair value of the hedging instrument	0	0
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 2 million (2011: EUR 1 million). The expense to be recognized during the financial periods 2013-2016 is estimated as 31 December 2012 to amount to 10 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.

32 Related party transactions

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.

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

	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
2012					
Associates	0	24	3	0	15
Joint ventures	102	66	3	0	0
Key management persons and entities controlled by them	-	-	-	-	-
	102	90	6	0	15

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

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.

Key management compensation

EUR thousand	2012	2011
Salaries and other short-term employee benefits	3,453	3,336

Key management consists of the members of the Board of Directors, President and CEO and other members of the Neste Executive Board. Key management compensation includes termination benefits. There were no outstanding loan receivables from key management on 31 December 2012 or 31 December 2011.

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	2012	2011
Matti Lievonen, President and CEO	862	860
Board of Directors		
Jorma Eloranta, chairman as of 28 March 2012	73	46
Timo Peltola, chairman until 28 March 2012	19	76
Maija-Liisa Friman, vice chairman as of 28 March 2012	57	46
Mikael von Frenckell	-	8
Michiel Boersma	58	55
Ainomaija Haarla	-	11
Nina Linander	58	57
Laura Raitio	46	35
Hannu Ryöppönen	57	57
Markku Tapio	47	46
Board of Directors, all members total	415	437
Supervisory Board, all members total	-	12

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.

Shareholdings of the Board of Directors, the President & CEO, and Neste Executive Board are presented in Annual report.

33 Group companies on 31 December 2012

Subsidiaries	Group holding %	Country of incorporation
Kide Automaatit Oy	100.00%	Finland
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
LLC Neste Saint-Petersburg	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

Associated companies	Group holding %	Country of incorporation
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	40.00%	Finland
Bahrain Lube Base Oil Company B.S.C. (Closed) ¹⁾	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

Joint ventures	Group holding %	Country of incorporation
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

¹⁾ Bahrain Lube Base Oil Company B.S.C. (Closed), previously classified as a joint venture, is reported as jointly controlled asset and is therefore classified as an associated company.

34 Contingencies and commitments

Contingent liabilities

MEUR	2012 Value of collateral	2011 Value of collateral
On own behalf for commitments		
Real estate mortgages	26	26
Pledged assets	1	2
Other contingent liabilities	12	31
Total	39	59
On behalf of associates and joint ventures		
Guarantees	1	2
Total	1	2
On behalf of others		
Guarantees	1	1
Other contingent liabilities	3	2
Total	4	3
	44	64

Operating lease liabilities

MEUR	2012	2011
Due within one year	69	74
Due between one and five years	116	142
Due later than five years	79	80
	264	296

Operating leases

Lease rental expenses amounting to EUR 76 million (2011: EUR 76 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments

MEUR	2012	2011
Commitments for purchase of property, plant and equipment	10	24
	10	24

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 31 December 2012 are presented in the table below.

Fixed fees payable under take-or-pay contracts

MEUR	2012
Payable 2012	16
Payable after 2012	211
Total payable	227

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.

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 35 Disputes and potential litigations

35 Disputes and potential litigations

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

Financial statements ► Consolidated financial statements ► Notes to the Consolidated financial statements ► 36 Events after the balance sheet date

36 Events after the balance sheet date

On 28 January 2013, Neste Oil announced that Neste Oil's shipping subsidiary, Neste Shipping Oy, will start an efficiency improvement program aimed at improving its profitability and securing the continuity of its operations. As part of the efficiency improvement program, statutory employer-employee negotiations will be started and will cover all of Neste Shipping's land- and sea-based personnel in Finland, around 450 people in total. The negotiations could result in a maximum of 130 people being made redundant. The goal of the efficiency improvement program is to make the business profitable by increasing revenue and reducing costs by a total of around EUR 15 million annually.

On 4 February 2013, Neste Oil announced that it will build an isomerization unit at its Porvoo refinery. The investment valued at approx. EUR 65 million, is intended to increase the output of high-octane gasoline and improve refining flexibility at the site. Neste Oil took the initial decision to make the investment in 2008, but announced in 2009 that it would postpone the project until the market situation improved. Neste Oil believes that the demand for cleaner fuels, such as high-octane, low-sulfur gasoline, is continuing to grow globally.

Financial statements ► Parent company financial statement ► Parent company income statement

Parent company income statement

MEUR	Note	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Revenue	2	11,992	11,235
Change in product inventories		-97	174
Other operating income	3	16	14
Materials and services	4	-10,939	-10,555
Personnel expenses	5	-183	-165
Depreciation, amortization and write-downs	6	-142	-140
Other operating expenses	7	-332	-276
Operating profit		315	287
Financial income and expenses	8	-65	-70
Profit before extraordinary items		250	217
Extraordinary items	9	-130	-31
Profit before appropriations and taxes		120	186
Appropriations	10	-7	-17
Income tax expense	11	-24	-49
Profit for the year		89	121

Parent company balance sheet

MEUR	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Fixed assets and other long-term investments	12, 13		
Intangible assets		39	25
Tangible assets		1,638	1,631
Other long-term investments		2,607	2,619
		4,284	4,275
Current assets			
Inventories	14	823	852
Long-term receivables	15	231	130
Short-term receivables	16	992	920
Cash and cash equivalents		361	231
		2,407	2,133
Total assets		6,691	6,408
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		40	40
Retained earnings		947	915
Profit for the year		89	121
		1,076	1,076
Accumulated appropriations	18	917	910
Provisions for liabilities and charges	19	1	9
Liabilities	20		
Long-term liabilities		2,339	2,287
Short-term liabilities		2,358	2,126
		4,697	4,413
Total equity and liabilities		6,691	6,408

Financial statements ► Parent company financial statement ► Parent company cash flow statement

Parent company cash flow statement

MEUR	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2011
Cash flows from operating activities		
Profit before extraordinary items	250	217
Depreciation, amortization and write-downs	142	140
Other non-cash income and expenses	7	4
Financial income and expenses	65	70
Divesting activities, net	0	0
Operating cash flow before change in working capital	464	431
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	-80	-165
Decrease (+)/increase (-) in inventories	28	-155
Decrease (-)/increase (+) in interest-free liabilities	61	179
Change in working capital	9	-141
Cash generated from operations	473	290
Interest and other financial expenses paid, net	-64	-68
Dividends received	18	3
Income taxes paid	1	-82
Realized foreign exchange gains and losses	-23	8
Group contributions, net	-31	-8
Net cash from operating activities	374	143

Cash flows from investing activities		
Capital expenditure	-183	-94
Proceeds from sale of fixed assets	3	1
Investments in shares in subsidiaries	0	-830
Investments in shares in other shares	-1	0
Proceeds from shares in subsidiaries	0	600
Proceeds from sale of other shares	0	0
Change in other investments, increase (-)/decrease (+)	-94	25
Net cash used in investing activities	-275	-298
Cash flow before financing activities	99	-155
Cash flows from financing activities		
Proceeds from long-term liabilities	1,039	514
Payments of long-term liabilities	-908	-308
Change in short-term liabilities	-11	-12
Dividends paid	-90	-90
Cash flow from financing activities	30	104
Net increase (+)/decrease (-) in cash and cash equivalents	129	-51
Cash and cash equivalents at the beginning of the period	231	282
Cash and cash equivalents at the end of the period	361	231
Net increase (+)/decrease (-) in cash and cash equivalents	130	-51

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 thousands of euros unless otherwise stated.

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

An external pension insurance company manages the pension plan. 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.

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 2 Revenue

2 Revenue

Revenue by segment

MEUR	2012	2011
Oil Products	11,945	11,181
Renewable Fuels	0	6
Oil Retail	0	0
Other	114	117
Eliminations	-67	-69
	11,992	11,235

Revenue by market area

MEUR	2012	2011
Finland	6,424	6,367
Other Nordic countries	1,981	1,922
Baltic countries, Russia and Poland	681	560
Other European countries	1,873	1,436
North and South America	860	874
Other countries	173	76
	11,992	11,235

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 3 Other operating income

3 Other operating income

MEUR	2012	2011
Rental income	9	9
Gain on sale of intangible and tangible assets	0	0
Insurance compensations	2	1
Government grants	3	3
Other	2	1
	16	14

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 4 Materials and services

4 Materials and services

MEUR	2012	2011
Materials and supplies		
Purchases during the period	10,992	10,522
Change in inventories	-59	30
	10,933	10,552
External services	6	3
	10,939	10,555

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 5 Personnel expenses

5 Personnel expenses

MEUR	2012	2011
Wages, salaries and remunerations	137	127
Indirect employee costs		
Pension costs	36	30
Other indirect employee costs	10	8
	183	165

Salaries and remuneration

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

Average number of employees

	2012	2011
Oil Products	1,558	1,505
Other	729	718
	2,287	2,223

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 6 Depreciation, amortization and write-downs

6 Depreciation, amortization and write-downs

MEUR	2012	2011
Depreciation according to plan	142	140
Write-offs	0	0
	142	140

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 7 Other operating expenses

7 Other operating expenses

MEUR	2012	2011
Operating leases and other property costs	20	19
Freights relating to sales	86	73
Repairs and maintenance	88	67
Other	138	118
	332	276
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	15	3

Fees charged by the statutory auditor

EUR thousands	2012	2011
Audit fees	349	313
Auditor's mandatory opinions	5	8
Tax advisory	8	21
Other advisory services	279	585
	641	927

8 Financial income and expenses

MEUR	2012	2011
Dividend income		
From Group companies	18	3
From others	0	0
Dividend income total	18	3
Interest income from long-term loans and receivables		
From Group companies	1	1
From others	0	0
Interest income from long-term loans and receivables total	1	1
Other interest and financial income		
From Group companies	5	6
Other	0	0
Other interest and financial income total	5	6
Interest expenses and other financial expenses		
To Group companies	-4	-7
Other	-75	-73
Interest expenses and other financial expenses total	-79	-80
Exchange rate differences	-10	0
Financial income and expenses total	-65	-70
Total interest income and expenses		
MEUR	2012	2011
Interest income	6	7
Interest expenses	-72	-73
Net interest expenses	-66	-66

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 9 Extraordinary items

9 Extraordinary items

MEUR	2012	2011
Group contributions		
Group contributions received	35	50
Group contributions given	-165	-81
	-130	-31

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 10 Appropriations

10 Appropriations

Change in depreciation difference

MEUR	2012	2011
Difference between depreciation according to plan and depreciation in taxation	-7	-16

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 11 Income tax expense

11 Income tax expense

MEUR	2012	2011
Income taxes on regular business operations	54	57
Income taxes on extraordinary items	-32	-8
Change in deferred tax assets	2	0
	24	49

Financial statements ▶ Parent company financial statement ▶ Notes to the parent company financial statements ▶ 12 Fixed assets and long-term investments

12 Fixed assets and long-term investments

Change in acquisition cost 2012, MEUR

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2012	1	90	91
Increases	0	24	24
Decreases	-	15	15
Transfers between items	-	8	8
Acquisition cost as of 31 December 2012	1	107	108
Accumulated depreciation, amortization and write-downs as of 1 January 2012	1	65	66
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	1	1
Depreciation and amortization for the period	0	5	5
Accumulated depreciation, amortization and write-downs as of 31 December 2012	1	69	70
Balance sheet value as of 31 December 2012	-	38	38
Balance sheet value as of 31 December 2011	-	25	25

Tangible assets	Land areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost as of 1 January 2012	25	1,054	2,081	79	99	3,338
Increases	-	32	90	1	33	156
Decreases	-	1	3	0	4	8
Transfers between items	-	-	-	-	-8	-8
Acquisition cost as of 31 December 2012	25	1,085	2,168	80	120	3,478
Accumulated depreciation, amortization and write-downs as of 1 January 2012	0	479	1,227	30	-	1,736
Accumulated depreciation, amortization and write-downs of decreases and transfers	-	1	2	0	-	3
Depreciation, amortization and write downs for the period	-	31	104	2	-	137
Accumulated depreciation, amortization and write-downs as of 31 December 2012	0	510	1,329	32	-	1,870
Revaluations	6	24	-	-	-	30
Balance sheet value as of 31 December 2012	31	600	839	48	120	1,638
Balance sheet value as of 31 December 2011	31	599	854	48	99	1,631

Balance sheet value of machinery and equipments used in production	807
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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 1 January 2012	2,579	13	1	0	3	23	2,619
Increases	-	1	-	-	1	0	2
Decreases	-	3	-	0	0	11	14
Acquisition cost as of 31 December 2012	2,579	11	1	0	4	12	2,607
Accumulated depreciation, amortization and write-downs as of 1 January 2012	-	-	-	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2012	-	-	-	0	0	0	0
Balance sheet value as of 31 December 2012	2,579	11	1	0	6	12	2,607
Balance sheet value as of 31 December 2011	2,579	13	1	0	3	23	2,619

Interest-bearing and interest-free receivables

MEUR	2012	2011
Interest-bearing receivables	12	14
Interest-free receivables	12	23
	24	37

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 13 Revaluations

13 Revaluations

MEUR	Revaluations as of Jan 1 2012	Increases	Decreases	Revaluations as of Dec 31 2012
Land areas	6	-	-	6
Buildings	24	-	-	24
	30	-	-	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.

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 14 Inventories

14 Inventories

MEUR	2012	2011
Raw materials and supplies	306	242
Products/finished goods	512	610
Advance payments on inventories	5	0
	823	852
Replacement value of inventories	824	853
Book value of inventories	823	852
Difference	1	1

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 15 Long-term receivables

15 Long-term receivables

MEUR	2012	2011
Receivables from Group companies		
Other long-term receivables	230	127
Deferred tax assets	1	3
	231	130

16 Short-term receivables

MEUR	2012	2011
Trade receivables	490	450
Receivables from Group companies		
Trade receivables	364	325
Other receivables	35	50
Accrued income and prepaid expenses	2	2
Total	401	377
Receivables from associated companies		
Trade receivables	0	0
Other receivables	1	1
Total	1	1
Other receivables	80	74
Accrued income and prepaid expenses	20	18
	992	920

Short-term accrued income and prepaid expenses

MEUR	2012	2011
Accrued interest	6	4
Accrued taxes	1	6
Other	15	10
	22	20

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 17 Changes in shareholders' equity

17 Changes in shareholders' equity

MEUR	2012	2011
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Retained earnings at 1 January	1,036	1,005
Dividends paid	-90	-90
Reversal of revaluation	-	0
Profit for the year	89	121
Retained earnings at 31 December	1,035	1,036
Distributable equity	1,035	1,036

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 18 Accumulated appropriations

18 Accumulated appropriations

MEUR	2012	2011
Depreciation difference	917	910

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 19 Provisions for liabilities and charges

19 Provisions for liabilities and charges

MEUR	Restructuring provisions	Provision for pensions	Provision for environment	Other provision	Total
Provisions as of 1 January 2012	0	0	9	0	9
Increase	0	-	1	-	1
Decrease	0	-	9	-	9
Provisions as of 31 December 2012	0	0	1	0	1

Financial statements ► Parent company financial statement ► Notes to the parent company financial statements ► 20 Liabilities

20 Liabilities

Long-term liabilities

MEUR	2012	2011
Bonds	1,292	646
Loans from financial institutions	487	1,093
Liabilities to Group companies		
Other long-term liabilities	551	540
Other long-term liabilities	7	6
Accruals and deferred income	2	2
	2,339	2,287

Interest-bearing liabilities due after five years

MEUR	2012	2011
Bonds	447	49
Loans from financial institutions	23	70
Liabilities to Group companies	511	495
	981	614

Shor-term liabilities

MEUR	2012	2011
Bonds	-	120
Loans from financial institutions	342	292
Advances received	1	2
Trade payables	1,022	931
Liabilities to Group companies		
Advances received	0	0
Trade payables	107	62
Other short-term liabilities	422	180
Accruals and deferred income	0	0
Total	529	242
Liabilities to associated companies		
Trade payables	2	2
Other short-term liabilities	0	0
Total	2	2
Other short-term liabilities	368	466
Accruals and deferred income	94	71
	2,358	2,126

Short-term accruals and deferred income

MEUR	2012	2011
Salaries and indirect employee costs	42	38
Accrued interests	29	21
Other short-term accruals and deferred income	23	12
	94	71

Interest-bearing and interest-free liabilities

MEUR	2012	2011
Long-term liabilities		
Interest-bearing liabilities	2,332	2,279
Interest-free liabilities	7	8
	2,339	2,287
Short-term liabilities		
Interest-bearing liabilities	608	540
Interest-free liabilities	1,750	1,586
	2,358	2,126

21 Contingent liabilities

Contingent liabilities

MEUR	2012	2011
Operating lease liabilities		
Due within a year	3	3
Due after a year	4	2
	7	5
Contingent liabilities given on own behalf		
Real estate mortgages	24	24
Pledged assets	1	1
Other contingent liabilities	2	2
	27	27
Contingent liabilities given on behalf of Group companies		
Real estate mortgages	2	2
Guarantees	238	206
	240	208
Contingent liabilities given on behalf of associated companies		
Guarantees	1	2
	1	2
Contingent liabilities given on behalf of others		
Guarantees	1	1
	1	1
Contingent liabilities total	276	243

22 Derivative financial instruments

Interest and currency derivative contracts and share forward contracts

MEUR	2012			2011		
	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	1,030	26	-6	772	5	-4
Forward foreign exchange contracts	1,945	15	11	1,756	-33	-27
Currency options						
Purchased	113	0	0	206	-5	-5
Written	92	2	2	193	-3	-3

Oil and freight derivative contracts

	2012			2011		
	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	19	13	13	44	-5	-5
Purchase contracts	17	-10	-10	35	17	17

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 years control period.

24 Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2012 EUR thousands
Subsidiary shares				
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
Associated companies				
A/B Svartså Vattenverk - Mustiojen 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
Other shares and holdings				
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 Anttilankaari 8	Finland	51		545
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 & Osakeyhtiö Lapinniemi	Finland	24	125
Nordic Carbon Fund Ky	Finland	1	1
Posintra Oy	Finland	190	34
			3,467
Telephone shares			
Kymen Puhelin Oy	Finland	1	0
Pietarsaaren Seudun Puhelin Oy	Finland	3	1
Osuuskunta PPO	Finland	1	-
Savonlinnan Puhelinosuuskunta SPY	Finland	1	1
			2
Connection fees			65
Total			2,582,972

Financial statements ► 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 of 31 December 2012 stood at EUR 1,035 million.

The Board of Directors proposes Neste Oil Corporation to pay a dividend of EUR 0.38 per share for 2012, totalling EUR 97 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 4 February 2013

Jorma Eloranta

Michiel Boersma

Majja-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. - 31.12.2012. 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 Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have 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 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 4, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

ANNA-MAIJA SIMOLA
Anna-Maija Simola
Authorized Public Accountant

Financial statements ► Quarterly segment information

Quarterly segment information

Revenue

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	3,607	3,389	3,224	3,544	3,377	3,327	3,070	2,870
Renewable Fuels	505	597	595	466	399	290	144	193
Oil Retail	1,258	1,266	1,181	1,190	1,112	1,107	1,058	1,021
Others	45	48	54	52	56	44	47	44
Eliminations	-818	-795	-757	-798	-775	-663	-645	-656
Total	4,597	4,505	4,297	4,454	4,169	4,105	3,674	3,472

Operating profit

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	128	248	-80	195	3	56	136	178
Renewable Fuels	-43	-73	-59	-8	-32	-81	-53	-4
Oil Retail	5	23	15	15	9	24	13	12
Others	-35	-1	1	-10	1	15	7	-15
Eliminations	2	-4	6	-4	-3	1	6	0
Total	57	193	-117	188	-22	15	109	171

Comparable operating profit

MEUR	10-12/2012	7-9/2012	4-6/2012	1-3/2012	10-12/2011	7-9/2011	4-6/2011	1-3/2011
Oil Products	116	154	49	77	27	86	75	83
Renewable Fuels	-2	-19	-33	-2	-15	-57	-55	-36
Oil Retail	5	23	15	15	9	23	13	12
Others	-37	0	1	-10	2	15	8	-16
Eliminations	0	-2	6	-4	-3	1	6	0
Total	82	156	38	76	20	68	47	43