

Neste in 2015  
Financial Statements

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**NESTE**





# Financial statements

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# Key financial indicators

		2015	2014	2013
<b>Income statement</b>				
Revenue	EUR million	11,131	15,011	17,238
Operating profit	EUR million	699	150	632
– of revenue	%	6.3	1.0	3.7
Comparable operating profit	EUR million	925	583	596
Profit before income taxes	EUR million	634	78	561
– of revenue	%	5.7	0.5	3.3
<b>Profitability</b>				
Return on equity (ROE)	%	19.5	2.1	19.2
Return on capital employed, pre-tax (ROCE)	%	15.1	3.3	13.4
Return on average capital employed, after tax (ROACE)	%	16.3	10.1	11.7
<b>Financing and financial position</b>				
Interest-bearing net debt	EUR million	1,291	1,621	1,252
Leverage ratio	%	29.4	37.9	30.0
Gearing	%	41.6	60.9	42.8
Equity-to-assets ratio	%	46.1	41.0	41.6
<b>Other indicators</b>				
Capital employed	EUR million	4,991	4,526	4,682
Capital expenditure and investments in shares	EUR million	536	418	214
– of revenue	%	4.8	2.8	1.2
Research and development expenditure	EUR million	41	40	40
– of revenue	%	0.4	0.3	0.2
Average number of personnel		4,906	4,989	5,097
<b>Share-related indicators</b>				

		2015	2014	2013
Earnings per share (EPS)	EUR	2.18	0.22	2.04
Equity per share	EUR	12.06	10.34	11.36
Cash flow per share	EUR	2.91	0.97	3.28
Price/earnings ratio (P/E)		12.66	89.62	7.04
Dividend per share	EUR	1.0 <sup>1)</sup>	0.65	0.65
Dividend payout ratio	%	45.8 <sup>1)</sup>	290.4	31.8
Dividend yield	%	3.6 <sup>1)</sup>	3.2	4.5
<b>Share prices</b>				
At the end of the period	EUR	27.63	20.06	14.37
Average share price	EUR	23.54	15.77	13.06
Lowest share price	EUR	19.91	13.24	10.13
Highest share price	EUR	27.70	20.32	17.33
Market capitalization at the end of the period	EUR million	7,084	5,143	3,685
<b>Trading volumes</b>				
Number of shares traded	1 000	213,855	233,793	241,467
In relation to weighted average number of shares	%	84	91	94
Average number of shares		255,568,717	255,532,039	255,967,244
Outstanding number of shares at the end of the period		255,605,219	255,403,686	255,982,212

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

# Calculation 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 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, vegetable oil, electricity and gas 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 <sup>1)</sup>	=	Operating profit +/- inventory gains/losses +/- non-recurring items – unrealized change in fair value of oil, vegetable oil, electricity and gas derivative contracts. Inventory gains/losses include the change in fair value of all trading inventories.
Comparable net profit	=	Profit for the period attributable to the equity holders of the company, adjusted for inventory gains/losses, non-recurring items and unrealized gains/losses on oil, vegetable oil, electricity and gas derivative contracts, net of tax.
Return on equity, (ROE) %	= 100 ×	$\frac{\text{Profit before taxes} - \text{taxes}}{\text{Total equity average}}$
Return on capital employed, pre-tax (ROCE) %	= 100 ×	$\frac{\text{Profit before taxes} + \text{interest and other financial expenses}}{\text{Capital employed average}}$
Return on average capital employed, after-tax (ROACE) %	= 100 ×	$\frac{\text{Profit for the period (adjusted for inventory gains/losses, non-recurring items and unrealized gains/losses on oil, vegetable oil, electricity and gas derivative contracts, net of tax) + non-controlling interests + interest expenses and other financial expenses related to interest-bearing liabilities (net of tax)}}{\text{Capital employed average}}$
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 ×	$\frac{\text{Interest-bearing net debt}}{\text{Interest bearing net debt} + \text{total equity}}$
Gearing, %	= 100 ×	$\frac{\text{Interest-bearing net debt}}{\text{Total equity}}$
Equity-to-assets ratio, %	= 100 ×	$\frac{\text{Total equity}}{\text{Total assets} - \text{advances received}}$
Return on net assets, %	= 100 ×	$\frac{\text{Segment operating profit}}{\text{Average segment net assets}}$
Comparable return on net assets, %	= 100 ×	$\frac{\text{Segment comparable operating profit}}{\text{Average segment net assets}}$

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

<sup>1)</sup> In the business environment where Neste operates, commodity prices and foreign exchange rates are volatile and can cause significant fluctuations in inventory values and IFRS operating profit. Comparable operating profit eliminates both the inventory gains/losses generated by the volatility in raw material prices and changes in open derivatives, and better reflects the company's underlying operational performance. Also, it reflects Neste's operational cash flow, where the change in IFRS operating profit caused by inventory valuation is mostly compensated by changing working capital.



## Consolidated statement of income

MEUR	Note	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
<b>Revenue</b>	4, 7	11,131	15,011
Other income	8	109	57
Share of profit (loss) of joint ventures	19	27	7
Materials and services	9	–9,539	–13,932
Employee benefit costs	10	–351	–339
Depreciation, amortization and impairments	11	–358	–330
Other expenses	12	–320	–324
<b>Operating profit</b>		699	150
<b>Financial income and expenses</b>	13		
Financial income		2	4
Financial expenses		–84	–75
Exchange rate and fair value gains and losses		16	–1
<b>Total financial income and expenses</b>		–65	–72
<b>Profit before income taxes</b>		634	78
Income tax expense	14	–74	–18
<b>Profit for the period</b>		560	60
<b>Attributable to:</b>			
Owners of the parent		558	57
Non-controlling interests		3	3
		560	60
<b>Earnings per share from profit attributable to owners of the parent basic and diluted (in EUR per share)</b>	15	2.18	0.22

## Consolidated statement of comprehensive income

MEUR	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
<b>Profit for the period</b>	560	60
<b>Other comprehensive income, net of tax:</b>		
<b>Items that will not be reclassified to profit or loss, net of tax</b>		
Remeasurements on defined benefit plans	30	–55
<b>Items that may be reclassified subsequently to profit or loss, net of tax</b>		
Translation differences	1	–30
Cash flow hedges		
recorded in equity	–71	–48
transferred to income statement	97	1
Net investment hedges	1	0
Share of other comprehensive income of investments accounted for using the equity method	–9	–9
<b>Total</b>	20	–86
<b>Other comprehensive income for the period, net of tax</b>	50	–141
<b>Total comprehensive income for the period</b>	611	–81
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	608	–84
Non-controlling interests	3	3
	611	–81

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

# Consolidated statement of financial position

MEUR	Note	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	18	71	62
Property, plant and equipment	17	3,745	3,667
Investments in joint ventures	19	220	195
Non-current receivables	20, 21	10	50
Deferred tax assets	28	29	55
Derivative financial instruments	20, 25	11	25
Available-for-sale financial assets	20, 21	5	5
<b>Total non-current assets</b>		<b>4,090</b>	<b>4,058</b>
<b>Current assets</b>			
Inventories	22	1,090	1,055
Trade and other receivables	23	870	887
Derivative financial instruments	20, 25	99	144
Cash and cash equivalents	24	596	246
<b>Total current assets</b>		<b>2,655</b>	<b>2,333</b>
<b>Assets classified as held for sale</b>	5	<b>47</b>	<b>103</b>
<b>Total assets</b>		<b>6,793</b>	<b>6,494</b>

MEUR	Note	31 Dec 2015	31 Dec 2014
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the parent</b>			
Share capital	26	40	40
Other equity		3,044	2,601
<b>Total</b>		<b>3,084</b>	<b>2,641</b>
<b>Non-controlling interests</b>		<b>20</b>	<b>18</b>
<b>Total equity</b>		<b>3,104</b>	<b>2,659</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing liabilities	20, 27	1,449	1,245
Deferred tax liabilities	28	265	265
Provisions	29	39	21
Pension liabilities	30	113	155
Derivative financial instruments	20, 25	6	5
Other non-current liabilities	20, 27	6	1
<b>Total non-current liabilities</b>		<b>1,878</b>	<b>1,691</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	20, 27	438	622
Current tax liabilities	27	21	4
Derivative financial instruments	20, 25	45	128
Trade and other payables	20, 27	1,307	1,388
<b>Total current liabilities</b>		<b>1,811</b>	<b>2,141</b>
<b>Liabilities related to assets held for sale</b>	5	<b>0</b>	<b>2</b>
<b>Total liabilities</b>		<b>3,689</b>	<b>3,835</b>
<b>Total equity and liabilities</b>		<b>6,793</b>	<b>6,494</b>

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

# Consolidated cash flow statement

MEUR	Note	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
<b>Cash flows from operating activities</b>			
Profit before income taxes		634	78
Adjustments for			
Share of profit (loss) of joint ventures	19	–27	–7
Depreciation and amortization	11	358	330
Other non-cash income and expenses		0	–72
Financial expenses – net	13	65	72
Profit/loss from disposal of fixed assets and shares	8	–77	2
		953	402
<b>Change in working capital</b>			
Decrease (+)/increase (–) in trade and other receivables		16	92
Decrease (+)/increase (–) in inventories		–37	406
Decrease (–)/increase (+) in trade and other payables		–74	–531
Change in working capital		–94	–33
		858	369
Interest and other finance cost paid		–74	–70
Interest income received		3	3
Dividends received		0	0
Realized foreign exchange gains and losses		–18	22
Income taxes paid		–27	–77
		–115	–121
<b>Net cash generated from operating activities</b>		743	248

MEUR	Note	1 Jan–31 Dec 2015	1 Jan–31 Dec 2014
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		–491	–261
Purchases of intangible assets	18	–13	–11
Purchases of other shares		0	0
Proceeds from sale of subsidiaries, net of cash disposed	6	171	0
Proceeds from capital repayments in joint arrangements	19	0	18
Proceeds from sale of property, plant and equipment		26	4
Changes in non-current receivables		44	–56
<b>Cash flows from investing activities</b>		–263	–306
<b>Cash flow before financing activities</b>		480	–59
<b>Cash flows from financing activities</b>			
Payment of (–) / proceeds from (+) current interest-bearing liabilities		–99	102
Proceeds from non-current interest-bearing liabilities		528	258
Repayments of non-current interest-bearing liabilities		–390	–383
Purchase of treasury shares		0	–15
Dividends paid to the owners of the parent		–166	–167
Dividends paid to non-controlling interests		–1	0
<b>Cash flows from financing activities</b>		–128	–205
<b>Net decrease (–)/increase (+) in cash and cash equivalents</b>		352	–263
Cash and cash equivalents at beginning of the period		246	506
Exchange gains (+)/losses (–) on cash and cash equivalents		–1	3
<b>Cash and cash equivalents at end of the period</b>	24	596	246

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



# Consolidated statement of changes in equity

MEUR	Note	Share capital	Reserve fund	Reserve of invested unrestricted equity	Treasury shares	Fair value and other reserves	Actuarial gains and losses	Translation differences	Retained earnings	Owners of the parent	Non-controlling interests	Total equity
<b>Total equity at 1 January 2014</b>		40	18	0	0	0	-30	-31	2,911	<b>2,908</b>	16	<b>2,924</b>
Profit for the period									57	<b>57</b>	3	<b>60</b>
Other comprehensive income for the period						-56	-55	-30		<b>-141</b>		<b>-141</b>
Total comprehensive income for the period		0	0	0	0	-56	-55	-30	57	<b>-84</b>	3	<b>-81</b>
Dividend paid									-167	<b>-167</b>	0	<b>-167</b>
Share-based compensation									-1	<b>-1</b>		<b>-1</b>
Transfer from retained earnings			1						-1	<b>0</b>		<b>0</b>
Purchase of treasury shares					-15					<b>-15</b>		<b>-15</b>
<b>Total equity at 31 December 2014</b>	<b>26</b>	<b>40</b>	<b>19</b>	<b>0</b>	<b>-15</b>	<b>-56</b>	<b>-85</b>	<b>-61</b>	<b>2,800</b>	<b>2,641</b>	<b>18</b>	<b>2,659</b>
<b>Total equity at 1 January 2015</b>		40	19	0	-15	-56	-85	-61	2,800	<b>2,641</b>	18	<b>2,659</b>
Profit for the period									558	<b>558</b>	3	<b>560</b>
Other comprehensive income for the period						17	30	2		<b>50</b>		<b>50</b>
Total comprehensive income for the period		0	0	0	0	17	30	2	558	<b>608</b>	3	<b>611</b>
Dividend paid									-166	<b>-166</b>	-1	<b>-167</b>
Share-based compensation				1	3				-4	<b>0</b>		<b>0</b>
Transfer from retained earnings			1						-1	<b>0</b>		<b>0</b>
Purchase of treasury shares										<b>0</b>		<b>0</b>
<b>Total equity at 31 December 2015</b>	<b>26</b>	<b>40</b>	<b>20</b>	<b>1</b>	<b>-12</b>	<b>-39</b>	<b>-55</b>	<b>-59</b>	<b>3,186</b>	<b>3,084</b>	<b>20</b>	<b>3,104</b>

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

# Notes to the Consolidated Financial Statements

## 1. General information

Neste Corporation (the Company) is a Finnish public limited liability company domiciled in Espoo, Finland. The Company is listed on the NASDAQ OMX Helsinki. The address of its registered office is Keilaranta 21, P.O. Box 95, 00095 Neste, FINLAND.

Neste Corporation and its subsidiaries (together referred to as the Group) is a forerunner in oil refining and renewable solutions. Neste offers its customers cleaner traffic solutions and industrial products based on cutting-edge research. 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 components, solvent, liquefied petroleum gas, and bitumen as well as NEXBTL renewable diesel and other renewable products based on Neste's proprietary technology. Neste's customers benefit not only from the high quality products, but also from the comprehensive supply and logistics services that Neste can provide. As an oil refiner, Neste is a leading manufacturer of high-quality fuels for cleaner traffic.

The Board of Directors has approved these consolidated financial statements for issue on 3 February 2016.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS as adopted by the European Union. The notes to the consolidated financial statements also include compliance with 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 comprehensive income statement.

The consolidated financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

### New standards, amendments and interpretations adopted by the Group

The following standards have been adopted by the Group for the financial year beginning on 1 January 2015:

#### IFRIC 21 Levies

The Group has applied IFRIC 21 Levies as of 1 January 2015. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain. The Group has identified certain land and property taxes in the scope of IFRIC 21. This restatement did not impact the year 2014 cumulative figures.

### New standards, amendments and interpretations not yet adopted

Certain new interpretations, amendments to existing standards or new standards have been published. The Group intends to adopt these standards when they become effective.

#### IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains, but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through income statement. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through income statement with the irrevocable option at inception to present changes in fair value in other comprehensive income not to be recycled. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through income statement. IFRS 9 relaxes the requirements for hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The complete version of IFRS 9 was issued in July 2014, but has not yet been endorsed by the EU. The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is assessing impacts of IFRS 9 with focus on the possibility to extend the application of Hedge Accounting within commodity derivative contracts. Based on this assessment the Group will consider possible early adoption.

### IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces all existing requirements (IAS 18 Revenue and IAS 11 Construction contracts and related interpretations). The standard is effective for annual periods beginning on or after 1 January 2018. The standard is not yet endorsed by the EU. Early adoption is permitted. Early assessment of IFRS 15 has shown that the implementation of IFRS 15 does not have a significant impact on the Group's income statement. Notes to the financial statements must be updated to reflect the standard requirements. The Group's assessment of the standard impact is under further investigation.

### IFRS 16 Leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the entity. IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In lessor accounting IFRS 16 substantially carries forward requirements in IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Group shall assess the effects of application of IFRS 16 to operating leases presented in note 34 Contingencies and commitments.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### Estimates and judgements requiring management estimation

The preparation of Consolidated Financial Statements in conformity with the International Accounting Standard requires the Group's management to make estimates and assumptions which have an impact on reported assets and liabilities, the disclosure of

contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of income and expenses during the reporting period. In addition, management judgement may be required in applying the accounting principles, for example, classifying assets as held for sale.

These estimates, assumptions and judgements are based on management's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual amounts may differ significantly from the estimates used in the financial statements. The Group follows the changes in estimates, assumptions and the factors affecting them by using multiple internal and external sources of information. Possible changes in estimates and assumptions are recognized in the financial period the estimate or assumption is changed. The most significant estimates relate to the following:

#### Inventories

Inventories are measured at the lower value of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

#### Impairment testing

Intangible assets and property, plant and equipment are always tested for impairment, when there is any indication of impairment. When the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognized as an expense immediately and the carrying amount is reduced to the asset's recoverable amount.

The amounts recoverable from cash generating units' operating activities are determined based on value in use calculations. These calculations are based on estimated future cash flows approved by the Group's management, covering a period of three years. Preparation of these estimates requires management to make assumptions relating to future expectations. The main assumptions used relate to the estimated future operating cash flows and discount rates.

#### Taxes

Determination of income taxes and deferred tax assets and liabilities and the amount of deferred tax asset to be recognized requires management judgement.

The Group has deferred tax assets and liabilities which are expected to be realized through the income statement over extended periods of time in the future. In calculating the deferred tax items, the Group is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis.

More information regarding taxes is presented in note 14, Income tax expense and in note 28, Deferred income taxes.



## Employee benefits

Pension calculations under defined benefit plans in compliance with IAS 19 include the factors that rely on management estimates: the discount rate used in calculating pension expenses and obligations for the period, the rate of salary increase and the rate of future discretionary bonuses decided by the insurance company. Changes in these assumptions can significantly impact the amounts of pension liability and future pension expenses. The assumptions used are presented in Note 30, Employee benefit obligations.

## Provisions

The existence of criteria for recognizing provisions and the amounts of provisions are determined based on estimates of the existence and amount of the obligation. The amount to be recorded is the best estimate of the cost required to settle the obligation at the reporting date. The estimate of the financial impact of the past event requires management judgement, which is based on similar events occurred in the past, and where applicable, the opinion of external experts. Estimates may differ from the actual future amount of the obligation and with respect to the existence of the obligation.

The most significant provisions in the statement of financial position relate to environmental liabilities. Environmental provisions are based on management's best estimate of remediation costs. The restructuring provision is recognized when the Group has prepared a detailed restructuring plan and published it. More information regarding provisions is presented in note 29, Provisions.

## Structured entities

Management uses judgement when determining the accounting treatment of the structured entities. In addition to the voting rights or similar rights the management considers other factors such as the nature of the arrangement, contractual arrangements and level of influence with the structured entities.

## Consolidation

### Subsidiaries

The consolidated financial statements cover the parent company, Neste Corporation, and all those companies in which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and are no longer consolidated when that control ceases.

Acquired or established subsidiaries are accounted for by using the acquisition method. The consideration transferred and the identifiable asset acquired and liabilities assumed in the acquired company are measured at the fair value at acquisition date. The consideration transferred includes any assets transferred by the acquirer, liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Any contingent consideration related to the business combination is measured at fair value

at the acquisition date and it is classified as either liability or equity. Contingent consideration classified as liability is re-measured at its fair value at the end of each reporting period and the subsequent changes to fair value are recognized in profit or loss. Contingent consideration classified as equity is not subsequently re-measured. The consideration transferred does not include any transactions accounted for separately from the acquisition. Acquisition-related costs are expensed as incurred.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements. The result for the period and items recognized in other comprehensive income are allocated to the equity holders of the company and non-controlling interests and presented in the statement of income and statement of other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the equity holders of the company. Comprehensive income is allocated to the equity holders of the company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed the non-controlling interests' investment in the company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities.

## Joint arrangements

A joint arrangement is an arrangement in which two or more parties have joint control. Joint arrangements are arrangements in which the sharing of control has been contractually agreed between two or more parties. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures or joint operations.

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities relating to the arrangement. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method. Joint operations are consolidated for its share of the assets, liabilities, revenues, expenses and cash flow on a line-by-line basis. Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the

joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

### Associates

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 the voting rights. Investments in associates are accounted for by using the equity method as described above in 'Joint arrangements' paragraph.

### Structured entities

The Group engages business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group. The extent of the Group's interests to unconsolidated structured entities will vary depending on the type of structured entities. Entities are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

### Segment reporting

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

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 and sale is considered highly probable.

The assets are not depreciated after being classified as held for sale.

## Foreign currency translation

### (a) 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'). The consolidated financial statements are presented in euros, which is the Company's presentation currency.

### (b) Transactions in foreign currencies

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

### (c) Group companies

The results and financial position of all the 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 consolidated statement of income 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 licenses are recognized when the risks and rewards are transferred to the buyer.

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

Revenue includes sales from actual operations, less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer, and statutory stockpiling fees. 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.

Blender's tax credit (BTC) is recognized in revenue if the Government of the United States will make decision to grant it. It is made annually. Blender's tax credit is an incentive given to fuel blenders to use more renewable fuel by making the bio mandates less costly to achieve.

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 consolidated statement of income in 'Other income' over the period necessary to match them with the costs that they are intended to compensate. Investment grants related to acquisitions of property, plant and equipment and intangible assets are deducted from the cost of the asset in question in the statement of financial position and recognized as income on a systematic basis over the useful life of the asset in the form of reduced depreciation expense.

### 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. In respect of the deferred tax liability on undistributed foreign earnings, the amount recorded is based on expected circumstances and management expectations regarding the profit distribution. For items recognized directly in equity or other comprehensive income, the income tax effect is similarly recognized. Management judgment is required in determining the income tax expense and 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. 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 statement of income. Expenditure on development activities is capitalized only when it fulfills tight criteria e.g. development 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. The Group owns station network infrastructure with the exception of dealer stations. 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 on 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. 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 statement of income.

### Intangible assets

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

#### Computer software

Computer software licenses are capitalized on the basis of the costs incurred to acquire and introduce the software in question. The costs include the software development employee costs and professional fees arising directly bringing the asset to its working condition. Capitalization depends also on the technology used e.g. cloud services are not capitalized. Costs are amortized over their estimated useful lives (three to five years). Costs associated with updates or maintaining computer software programs are recognized as an expense.

#### Trademarks and licenses

Trademarks and licenses 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'. 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 recorded in intangible assets and measured at cost, and emission allowances received free of charge are recorded in their 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 purchased emission allowances intended to cover the deficit 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

Intangible assets that have an indefinite useful life or intangible assets not ready to use 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.

Derivatives are recognized on the date on which the Group commits to purchase or sell the asset known as the trade date. Purchases and sales of financial assets are recognized on the settlement 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. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category and consist of shares in unlisted companies. 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 is based on IFRIC interpretation 4.

#### Operating leases

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

### Inventories

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

### Trade receivables

Trade receivables are recognized initially at fair value. A provision for impairment of trade receivables is established for receivables over 90 days overdue, or 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. Impairment for doubtful trade receivables are based on a periodic review of outstanding amounts, including an analysis of historical bad debt, customer creditworthiness, past due amounts and changes in customer payment terms. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the loss is recognized in the consolidated statement of income within 'Other expenses'. When the trade receivables are sold to a third party, the Group receives the purchase price, less a discount for commission and fees. These fees are booked to financial expenses. The Group derecognizes a trade receivable when the contractual rights to the cash flows from the asset expire, or it transfers the asset and substantially all the related risks and rewards to the third party.

## Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated statement of financial position 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 consolidated statement of financial position 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. The Group has asset retirement obligations recorded in the consolidated statement of financial position.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as an interest expense.

## 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 nominal amount 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. Fees of revolving credit facility are capitalized and amortized over the period of the facility.

## Employee benefits

### Pension obligations

The Group has pension arrangements in different countries, which are generally funded through insurance companies. Pension schemes consist of 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. All arrangements that do not fulfill these conditions are considered defined benefit plans.

In defined benefit plans, after the Group has paid the amount for the period, an excess or deficit may result. The defined benefit obligation represents the present value of future cash flows from payable benefits, which are calculated for by using the projected unit credit method. The discount rate assumed in calculating the present value of the pension obligation is based on the market yield of high-quality corporate bonds (AA-rated) with appropriate maturities. Pension costs are recognized in the consolidated statement of income so as to spread the current service cost over the service lives of employees based on actuarial calculations. The net interest is included as part of the finance cost component in the consolidated statement of income.

The liability (or asset) recognized in the consolidation statements of financial position is the pension obligation at the closing date less the fair value of plan assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Actuarial valuations for the Group's defined benefit pension plans are performed annually.

## Share-based payments

The Share-based incentive plans are accounted for as a share based transaction. The portion of the earned reward (approximately 50%) for which the participants will receive shares 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 consolidated statement of income 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 consolidated statement of income.

## 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 reclassified 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 revenue. 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 consolidated statement of income.

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the consolidated statement of income in 'financial income and expenses', together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk compensating the effect.

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

Some commodity, currency and interest rate derivative contracts do not qualify for hedge accounting, although these instruments are largely held for economic hedging purposes. Any movements in the fair value of these contracts are recognized in the income statement in operating profit for commodity derivative contracts and in 'financial income and expenses' concerning financial instruments related to financing activities.

### 3. Financial risk management

#### Financial risk management principles

Neste Board of Directors has approved the Corporate risk management policy. This policy together with the related principles and instructions defines the framework for financial risk management within Neste. Mandates and limits that are applicable to financial risks have been defined in the risk management policy.

For more information regarding Neste's risk management, please refer to the risk management section in the annual report.

#### Market risks

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business. The primary commodity price risks that the Group is exposed to include crude oil, oil products, renewable feedstocks, and renewable diesel prices that could adversely affect the value of the Group's financial assets, liabilities, or expected future cash flows. As the pricing currency used in the oil market is the U.S. dollar and Neste operates and reports in Euro, also this factor exposes Neste's business to short-term transaction risks and longer-term economic currency risks. In accordance with Group risk management principles, the Group enters into various derivatives transactions for risk management purposes. The positions are monitored and managed on a daily basis according to the above mentioned risk management principles.

#### 1. Commodity price risks

The main commodity price risks Neste faces in 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 periodic over-supply and supply tightness in various regional markets, coupled with fluctuations in demand.

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

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

#### Inventory price risk

From a price risk management perspective, Neste'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'. The second and daily fluctuating component is

the amount of inventories differing from the base inventory level and at Neste it is called 'transaction position'.

The base inventory is the minimum level of stocks which can reasonably assure the continuous operation of the refineries and preventing deliveries from being compromised. It comprises inventories at the refineries and within the supply chain. The base inventory includes the minimum level of stocks that Neste is required to maintain under Finnish laws and regulations.

The role of price risk management in logistics is particularly present in the Renewable Products' business due to market practices in feedstock pricing and longer sea voyages. In the Renewable Products' business, the price risk related base inventory is higher than the physical inventory and is approximately one third of the annual renewables refining capacity used. In traditional oil refining, the base inventory is approximately one tenth of the total annual fossil fuel refining capacity.

The base inventory creates a risk in Neste's income statement and balance sheet inasmuch as Neste 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's inventory risk management policies target the 'transaction position' inasmuch as these stocks create cash flow risks depending on the relationships between feedstocks purchases, refinery production and refined petroleum product sales over any given period.

According to the Neste risk management principle, any open exposures of the transaction position are hedged without delay.

In hedging the transaction position, derivative financial instruments are used. Because of the differences between the quality of the underlying feedstocks for which derivative financial instruments can be sold and purchased and the actual quality of Neste's feedstocks, the business will remain exposed to some degree of basis risk. Basis risk is typically higher in the Renewables business due to the nature of the feedstock pool and limited availability of hedging instruments.

### Refining margin risk

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

In the traditional oil refining business, the refining margin at risk is a function of the revenue from sold petroleum products and the cost of raw materials together with other costs. Neste's exposure to low refining margins in traditional oil refining is partly offset by its high conversion refineries.

Neste is exposed to greater margin volatility in the Renewable Products' business compared to that in fossil fuel refining. In the Renewables business, the refining margin is mainly a function of the renewable fuel sale price received and the feedstocks used. The underlying indices used in renewable diesel pricing are primarily oil products or conventional biodiesel related. Product prices fluctuate regionally depending on the nature of bio mandates, local supply and demand, and fossil fuel prices. In Europe, the price of renewable fuels is determined mainly by the price of the local biodiesel price. Typical

biodiesel qualities are Fatty Acid Methyl Ester (FAME) or Rapeseed-Oil Methyl Ester (RME). In North America, the local biodiesel reference and typical renewable fuel pricing driver is Soy Methyl Ester (SME), on which the value of the Renewable Identification Number (RIN) has a direct impact. The cost of feedstocks depends on feedstocks selection and is typically derived from different vegetable oils and fats. Feedstock prices are mainly driven by supply and demand balances, crop forecasts and regional weather. In the Renewables business area, operational activities are the primary means of mitigating margin volatility.

With the aim of securing its margin and cash flow, Neste 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 Products' business, the targeted hedge ratios are typically higher. Hedge ratios can, however, be expected to fluctuate over time. The hedge ratio for renewable business is measured and monitored as a percentage of the quarterly sales volumes.

In hedging the refining margin, derivative financial instruments are used. Hedging transactions are targeted at the components of Neste'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 feedstocks and refined petroleum products for which derivative financial instruments can be sold and purchased, and the actual quality of Neste's feedstocks and refined petroleum products in any given period, the business will remain exposed to some degree of basis risk. The basis risk is typically higher in the Renewable Products' business than in the fossil fuel refining due to the nature of the feedstocks selection and limited availability of hedging instruments.

The exposure to open positions of oil derivative contracts as of 31 December 2015 (2014) 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 operates and reports in Euro, this factor is one that exposes Neste's business to short-term transaction and longer-term economic currency risks.

The objective of foreign exchange risk management in Neste 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 70% for the first six months and 30% of the next three months for the renewable business. Deviations from

the risk-neutral benchmark position are allowed in line with the limits set by treasury principles. The most important hedged currency is the U.S. dollar. Other material hedged currencies are the Malaysian Ringgit (MYR), Swedish Crown (SEK) and Singapore Dollar (SGD).

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 & Risk Management is responsible for implementing hedging transactions.

Neste 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. Similarly to commodity price risk management, the foreign exchange transaction hedging targets inventories in excess of the base inventory. Open exposures are allowed based on risk limits set by 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 2015, the daily balance sheet exposure fluctuated between approximately EUR 440 million and 985 million (2014: EUR 211 million and 1,144 million). Group Treasury & Risk Management 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 nominal and fair values of the outstanding foreign exchange derivative contracts as of 31 December 2015 (2014) are summarized in Note 25.

#### Translation exposure

Group Treasury & Risk Management is responsible for managing Neste'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 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 & Risk Management. The total non-Euro-denominated equity of the Group's subsidiaries and associated companies was EUR 284 million as of 31 December 2015 (2014: EUR 410 million) and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2015			2014		
	Net invest-ment	Hedge	Hedge %	Net invest-ment	Hedge	Hedge %
MEUR						
USD	17	0	0%	50	0	0%
SEK	174	0	0%	176	0	0%
CAD	55	0	0%	105	0	0%
RUB	38	0	0%	48	0	0%
LTL	0	0	0%	31	0	0%
Other	0	0	0%	0	0	0%
	284	0	0%	410	0	0%

### 3. Interest rate risk

Neste 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. In addition to duration, Neste uses flow risk limitation.

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 & Risk Management. The nominal and fair values of the outstanding interest rate derivative contracts as of 31 December 2015 (2014) are summarized in Note 25.

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

Period in which re-pricing occurs	Within 1 year	1 year– 5 years	> 5 years	Total
<b>Financial instruments with floating interest rate</b>				
Financial liabilities				
Loans from financial institutions	213	0	0	213
Finance lease liabilities	22	0	0	22
Bonds	0	50	0	50
Effect of interest rate swaps	250	–250	0	0
<b>Financial instruments with fixed interest rate</b>				
Bonds	310	650	500	1,460
Other loans	2	30	19	51
Finance lease liabilities	0	3	89	92
	797	483	608	1,888



The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2015 and 2014, in millions of Euros.

MEUR	2015	2014
EUR	1,703	1,646
SGD	87	84
USD	98	136
	1,888	1,866

#### 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 2016 (2015), 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		2016	2015
+/-10% in the EUR/USD exchange rate	EUR million	-105/+129	-82/+101
+/- USD 1.00/barrel in total refining margin	USD million	+/-110	+/-105
+/- USD 10/barrel in crude oil price <sup>1)</sup>	USD million	+/-85	+/-70
+/- USD 100/t in Renewable Products raw material price <sup>1)</sup>	USD million	+/-105	+/-80
+/- USD 50/t in Renewable Products refining margin <sup>2)</sup>	USD million	+/-120	+/-100

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

<sup>2)</sup> Based on name-plate capacity

##### 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, the USD/MYR 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 2015 (2014). 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, however cash in bank accounts is excluded
- 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 balance sheet items other 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, which are recorded directly in equity. Items affecting the income statement are not included in equity.

		2015		2014	
Sensitivity to market risks arising from financial instruments as required by IFRS 7		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price <sup>1)</sup>	EUR million	-/+4	-/+0	-/+4	-/+0
+/- 10% change in EUR/USD exchange rate	EUR million	+57/-67	+25/-33	+59/-68	+25/-34
1% parallel shift in interest rates	EUR million	+/-4	+/-0	+/-7	+/-0
+/- 10% change in USD/MYR exchange rate	EUR million	+/-0	+/-7	+/-0	+/-29

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

## 5. Hedge accounting

Neste applies hedge accounting to certain currency derivatives and interest rate derivatives. 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 sales and earnings, as well as in Neste'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 to reduce the volatility of interest expenses in the income statement. In addition, Neste reduces the volatility 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, or as hedges of the fair value of recognized assets or liabilities. 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, e.g. certain commodity derivative

contracts hedging refining margin, foreign currency derivative contracts hedging USD-sales and feedstock purchases priced in MYR 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 2015 and 2014, the ineffective portion has been immaterial. 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. Accrued interest 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	2015	2014
Gain or loss on the hedging instrument	-10	5
Gain or loss on the hedged item	10	-5

## 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'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 free cash flow. 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 total interest-bearing liabilities.

The average loan maturity as of 31 December 2015 was 3.7 years. The most important financing programs in place are:

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

As of 31 December 2015, the Group had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 2,246 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities	2015	2014
Floating rate		
– cash and cash equivalents	596	246
– overdraft facilities, expiring within one year	150	103
– revolving credit facility, expiring beyond one year	1,500	1,500
	2,246	1,849

Tables below present the maturity profile of the Group's financial liabilities based on contractual payments

Maturity profile of financial liabilities based on contractual payments  
31.12.2015

	2016 <sup>1)</sup>	2017	2018	2019	2020	2021–	Total
<b>Other than derivatives</b>							
Trade payables	<b>787</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>787</b>
Bonds and debentures	<b>355</b>	<b>287</b>	<b>77</b>	<b>427</b>	<b>11</b>	<b>521</b>	<b>1,678</b>
– less interest expenses	55	37	27	27	11	21	178
Repayment of bonds and debentures	300	250	50	400	0	500	1,500
Loans from financial institutions	<b>110</b>	<b>56</b>	<b>16</b>	<b>21</b>	<b>7</b>	<b>3</b>	<b>213</b>
– less interest expenses	1	1	1	0	0	0	3
Repayment of loans from financial institutions	109	55	15	21	7	3	210
Finance lease liabilities	<b>38</b>	<b>15</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>175</b>	<b>271</b>
– less interest expenses	13	12	12	11	11	98	157
Repayment of finance lease liabilities	25	3	3	3	3	77	114
Other liabilities	<b>4</b>	<b>4</b>	<b>4</b>	<b>36</b>	<b>2</b>	<b>26</b>	<b>76</b>
– less interest expenses	4	4	4	3	1	6	22
Repayment of other long-term liabilities	0	0	0	33	1	20	54
<b>Other than derivatives together</b>	<b>1,294</b>	<b>362</b>	<b>112</b>	<b>498</b>	<b>34</b>	<b>725</b>	<b>3,025</b>
Commodities	21	2	0	0	0	0	23
Interest rate swaps: Inflow (–)	–10	–3	–1	–3	0	0	–17
Gross settled forward foreign exchange contracts							
– Inflow (–)	–1,325	0	0	0	0	0	–1,325
– Outflow	1,337	0	0	0	0	0	1,337

<sup>1)</sup> Repayments in 2016 are included in current liabilities in the balance sheet.



Maturity profile of financial liabilities based on contractual payments  
31.12.2014

	2015 <sup>1)</sup>	2016	2017	2018	2019	2020–	Total
<b>Other than derivatives</b>							
Trade payables	916	0	0	0	0	0	916
Bonds and debentures	361	356	279	66	424	0	1,486
– less interest expenses	61	45	27	16	16	0	164
Repayment of bonds and debentures	301	311	252	50	408	0	1,322
Loans from financial institutions	267	12	52	13	18	10	372
– less interest expenses	2	1	1	1	0	0	5
Repayment of loans from financial institutions	265	11	51	12	18	10	367
Finance lease liabilities	67	13	14	13	13	182	302
– less interest expenses	13	12	12	11	10	105	163
Repayment of finance lease liabilities	54	1	2	2	3	77	139
Other liabilities	2	3	3	4	18	29	59
– less interest expenses	2	3	3	3	3	7	21
Repayment of other long-term liabilities	0	0	0	1	15	22	38
<b>Other than derivatives together</b>	<b>1,613</b>	<b>384</b>	<b>348</b>	<b>96</b>	<b>473</b>	<b>221</b>	<b>3,135</b>
Commodities	65	0	0	0	0	0	65
Interest rate swaps: Inflow (–)	–12	–10	–3	–1	–2	0	–28
Gross settled forward foreign exchange contracts							
– Inflow (–)	–1,516	0	0	0	0	0	–1,516
– Outflow	1,566	0	0	0	0	0	1,566

<sup>1)</sup> Repayments in 2015 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 the 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 Credit and Counterparty Risk Management Principles approved by the Board of Directors.

The amount of risk is quantified as the expected loss to Neste 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'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, for example, a letter of credit, bank guarantee or parent company guarantee has to be posted. In the event that collateral is required 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 may reduce its counterparty risks by selling trade receivables to the third party e.g. the bank. The sale of the receivables essentially transfers the title, benefits and interest in the trade receivables to the bank, indicating the bank to obtain all of the rights associated with the receivables. The sale and transfer shall be without guarantee from the seller in respect of the buyer's creditworthiness and with limited recourse to the seller. The seller receives the purchase price from the bank at the time of sale. Fees and other expenses are deducted from the payment or invoiced separately.

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 rated counterparties by general rating agencies and authority mandates related to unrated counterparties. For OTC (over-the-counter) derivative financial instrument contracts, Neste has negotiated framework agreements in the form of an ISDA (International Swaps and Derivatives Association, Inc.) Master Agreement with the main counterparties concerning commodity, emissions, 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 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 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.

Vis-à-vis counterparties to the contracts comprising the derivative financial instruments exposure on 31 December 2015, approximately 100% 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 & Risk Management had an exposure for currency and interest rate derivative contracts as at 31 December 2015 with banks, of which all have investment grade rating at a minimum. Commodity derivative transactions are also done through exchange, which reduces credit risk.

The following table shows an analysis of trade receivables by age. Of the trade receivables portfolio exposure, 49% is from counterparties or their parent companies having credit rating BBB- (S&P) minimum; 51% consists of trade receivables from the counterparties not having credit rating, most of it comprising from a large number of corporate and private customers.

Analysis of trade receivables by age	2015	2014
Undue trade receivables <sup>1)</sup>	730	718
Trade receivables 1–30 days overdue	38	49
Trade receivables 31–60 days overdue	1	3
Trade receivables more than 60 days overdue	5	6
Trade receivables total	774	777
Credit loss provision	–3	–4
Trade receivables – Net	771	773

<sup>1)</sup> Includes EUR 2 million of trade receivables related to Assets held for sale in 2014, as disclosed in Note 5.

The Group makes an ISDA master netting agreement or another netting agreement with each derivative counterparty. Based on the agreement sales and purchase invoices / payments are netted and in certain credit events all outstanding transactions under the ISDA agreement are terminated and either Neste or the counterparty pays the netted amount.

### Financial impact of netting for instruments subject to an enforceable master netting agreement (or similar)

31 Dec 2015	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
<b>Financial assets</b>			
Derivatives	110	26	84
Trade receivables	24	5	19
<b>Financial liabilities</b>			
Derivatives	51	26	25
Trade payables	6	5	1

31 Dec 2014	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
<b>Financial assets</b>			
Derivatives	169	95	74
Trade receivables	20	7	13
<b>Financial liabilities</b>			
Derivatives	133	95	38
Trade payables	8	7	1

### 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 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 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 2015 and 2014 was as follows:

	2015	2014
Total interest-bearing liabilities	1,888	1,866
Cash and cash equivalents	596	246
Interest-bearing net debt	1,291	1,621
Total equity	3,104	2,659
Interest-bearing net debt and total equity	4,395	4,280
Leverage ratio	29.4%	37.9%

## 4. Segment information

### Neste's business structure

The Group's operations are built around three business areas and seven common functions. The business areas act as profit centers and are responsible for their customers, products, and business development. Business areas are: Oil Products, Renewable Products, and Oil Retail. The common functions are: Finance, Human Resources and Safety, Sustainability and Public Affairs, Technology, Strategy and New Ventures, Communication and Brand Marketing and Legal Affairs.

### Operating segments

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

Operating segments are engaged in the following key business activities:

**Oil Products** segment produces, markets and sells an extensive range of premium-quality traffic fuels and other high value-added petroleum products to a global customer base. The product range includes gasoline, diesel fuel, aviation fuel, marine fuel, heating oil, heavy fuel oil, base oil, lubricant, traffic fuel component, solvent, liquefied petroleum gas and bitumen. Neste Shipping's chartering operations are included in the Oil Products segment.

**Renewable Products** segment produces, markets and sells NEXBTL renewable diesel and NEXBTL renewable aviation fuel based on Neste's proprietary technology to domestic and international wholesale markets. Renewable diesel is produced at the Porvoo, Singapore, and Rotterdam refineries.

**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 Group'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 (publ).

The operating segments presented above do not 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:** repairs and maintenance, rents, research, other property costs and insurance premiums

**Renewable Products:** repairs and maintenance, rents, research, other property costs and insurance premiums

**Oil Retail:** repairs and maintenance, rents, other property costs and marketing costs.

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, investments in joint ventures, 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 2015 and 2014 did not result in any major concentration in any given geographical area or operating segment.

## Definitions

### Comparable operating profit

Comparable operating profit is calculated by excluding inventory gains/losses, non-recurring items, and unrealized changes in the fair value of oil, vegetable oil, electricity and gas derivative contracts from the reported operating profit. Inventory gains/losses include the change in fair value of all trading inventories.

Non-recurring items are linked to unpredictability events of a significant nature that do not form part of normal day-to-day business. They include among others impairment losses and reversals, gains and losses associated with the combination or termination of businesses, restructuring costs, and gains and losses on the sales of assets. Only items having an impact of more than EUR 1 million on Neste's result will be classified as non-recurring items. This change in accounting practice will not affect Neste's consolidated IFRS result.

### Comparable return on net assets, %

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

### Segment net assets

Segment net assets include property, plant and equipment, intangible assets, investments in joint ventures, 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.



Information about the Group's operating segments as of and for the years ended 31 December 2015 and 2014 is presented in the following tables:

2015	Oil Products	Renewable Products	Oil Retail	Others	Eliminations	Group	Note
External revenue	5,406	1,946	3,709	69	0	11,131	
Internal revenue	2,061	426	40	198	-2,724	0	
Total revenue	7,467	2,372	3,748	267	-2,724	11,131	7
Other income	101	1	4	20	-18	109	8
Share of profit (loss) of joint ventures	2	0	0	26	0	27	19
Materials and services	-6,602	-1,930	-3,528	-56	2,578	-9,539	9
Employee benefit costs	-148	-31	-34	-139	2	-351	10
Depreciation, amortization and impairments	-216	-95	-31	-17	0	-358	11
Other expenses	-215	-84	-81	-101	161	-320	12
Operating profit	389	233	79	0	-2	699	
Financial income and expense						-65	13
Profit before taxes						634	
Income taxes						-74	14
Profit for the period						560	
Comparable operating profit	439	402	84	2	-2	925	
Inventory gains/losses	-143	-119	0	0	0	-263	
Changes in the fair value of open oil derivatives	35	-50	0	0	0	-15	
Non recurring items	59	0	-5	-3	0	52	
capital gains and losses	76	0	0	0	0	76	
insurance and other compensation	0	0	0	0	0	0	
others	-17	0	-5	-3	0	-25	
Operating profit	389	233	79	0	-2	699	
Capital expenditure and investments in shares	453	28	37	17	0	536	
Segment operating assets	3,282	2,145	439	260	-237	5,889	
Investments in joint ventures	18	0	0	201	0	220	19
Deferred tax assets						29	28
Unallocated assets						655	
Total assets	3,300	2,145	439	461	-237	6,793	
Segment operating liabilities	980	261	255	193	-230	1,459	
Deferred tax liabilities						265	28
Unallocated liabilities						1,965	
Total liabilities	980	261	255	193	-230	3,689	
Segment net assets	2,320	1,884	184	269	-7	4,650	
Return on net assets, %	16.2	12.6	38.9	-0.2			
Comparable return on net assets, %	18.2	21.8	41.2	1.1			

2014	Oil Products	Renewable Products	Oil Retaili	Others	Eliminations	Group	Note
External revenue	8,883	1,788	4,289	51	0	15,011	
Internal revenue	2,401	481	5	187	-3,075	0	
Total revenue	11,285	2,269	4,294	238	-3,075	15,011	7
Other income	47	1	3	24	-18	57	8
Share of profit (loss) of joint ventures	2	0	0	6	0	7	19
Materials and services	-10,876	-1,860	-4,084	-46	2,934	-13,932	9
Employee benefit costs	-157	-27	-34	-123	2	-339	10
Depreciation, amortization and impairments	-193	-96	-26	-15	0	-330	11
Other expenses	-219	-79	-85	-96	154	-324	12
Operating profit	-110	207	68	-13	-3	150	
Financial income and expense						-72	13
Profit before taxes						78	
Income taxes						-18	14
Profit for the period						60	
Comparable operating profit	285	239	68	-7	-3	583	
Inventory gains/losses	-381	-111	0	0	0	-492	
Changes in the fair value of open oil derivatives	-5	79	0	0	0	74	
Non recurring items	-9	0	0	-6	0	-16	
capital gains and losses	-4	0	0	3	0	-2	
insurance and other compensation	0	0	0	0	0	0	
others	-5	0	0	-9	0	-14	
Operating profit	-110	207	68	-13	-3	150	
Capital expenditure and investments in shares	276	113	19	18	-9	418	
Segment operating assets	3,249	2,198	471	239	-278	5,879	
Investments in joint ventures	16	0	0	179	0	195	19
Deferred tax assets						55	28
Unallocated assets						365	
Total assets	3,264	2,198	472	418	-278	6,494	
Segment operating liabilities	1,104	276	271	228	-273	1,605	
Deferred tax liabilities						265	28
Unallocated liabilities						1,965	
Total liabilities	1,104	276	271	228	-273	3,835	
Segment net assets	2,160	1,923	201	190	-6	4,469	
Return on net assets, %	-4.8	11.5	27.5	-5.3			
Comparable return on net assets, %	12.4	13.3	27.6	-2.7			

## Geographical information

The Group operates production facilities in Finland, Singapore, Netherlands and Bahrain and retail selling network in Finland, North-West Russia, Estonia, Latvia and Lithuania. 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 joint ventures. '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.

2015	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
Revenue by destination	4,529	1,477	1,232	2,248	1,506	139	11,131
Non-current assets	2,535	201	96	614	0	589	4,036
Capital expenditure	507	0	9	18	0	2	536

2014	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
Revenue by destination	5,849	2,024	1,768	2,979	1,966	424	15,011
Non-current assets	2,373	179	104	630	0	640	3,924
Capital expenditure	380	0	10	6	0	21	418

## 5. Assets held for sale

The assets classified as held for sale as of 31 December 2015 relate to the 15 December 2015 stock exchange release, which informed that Neste, Veolia and Borealis have agreed to create a joint venture company to build a new combined heat and power plant and produce and supply steam and other utilities to Neste's refinery and Borealis' petrochemical plant in Porvoo, Finland. The company, Kilpilahti Power Plant Limited will be owned 40% each by Neste and Veolia and 20% by Borealis. Neste will contribute its required equity share in Kilpilahti Power Plant Limited by transferring the current power plant to the joint venture company. The current power plant is classified as held for sale at 31 December 2015. The arrangement is subject to financing deals which are expected to take place during the first quarter of 2016. Classified power plant is part of the Oil Products segment.

Assets classified as held for sale	2015
Property, plant and equipment	47
Inventories	1
<b>Total</b>	<b>47</b>

In 2014, the assets and liabilities related to Kilpilahden Sähkönsiirto Oy have been presented as held for sale following the approval of the Group's management on 18 December 2014 to sell all shares of Kilpilahden Sähkönsiirto Oy to InfraVia European Fund II, an infrastructure fund managed by InfraVia. The transaction was completed on 2 January 2015. More information regarding the transaction is presented in note 6.

Assets classified as held for sale	2014
Property, plant and equipment	99
Trade and other receivables	4
<b>Total</b>	<b>103</b>

Liabilities related to assets held for sale	2014
Trade and other payables	2
<b>Total</b>	<b>2</b>

## 6. Acquisitions and disposals

### Acquisitions

No acquisitions took place in financial periods 2015 and 2014.

### Disposals

On 2 January 2015 Neste sold all shares of Kilpilahden Sähkönsiirto Oy to InfraVia European Fund II, an infrastructure fund managed by InfraVia. The sale produced a capital gain of EUR 79 million for Neste in the first quarter 2015. The sold operations were part of the Oil Product segment.

Assets and Liabilities of Kilpilahden Sähkönsiirto Oy MEUR	2 Jan 2015
Property, plant and equipment	99
Trade and other receivables	8
<b>Total assets</b>	<b>107</b>
Trade and other payables	9
Deferred tax liabilities	6
<b>Total liabilities</b>	<b>15</b>
<b>Sold net assets</b>	<b>92</b>
Gain on disposal	79
<b>Total consideration</b>	<b>171</b>
Cash consideration received	171
Cash and cash equivalents disposed of	0
<b>Cash inflow arising from disposal</b>	<b>171</b>

In the first quarter 2014 Neste sold its 100% interest in its subsidiary Neste LPG AB. The sale was completed on 31 March 2014 and capital gain amounting to EUR 2 million resulting from the transaction has been included in the consolidated financial statements. The operations were part of the Oil Retail segment.



Assets and Liabilities of Neste LPG AB  
MEUR

31 Mar 2014

Inventories	0
Trade and other receivables	0
Cash and cash equivalents	3
<b>Total assets</b>	<b>3</b>
Provisions	3
Trade and other payables	0
<b>Total liabilities</b>	<b>3</b>
<b>Sold net assets</b>	<b>0</b>
Gain on disposal	2
<b>Total consideration</b>	<b>3</b>
Cash consideration received	3
Cash and cash equivalents disposed of	3
<b>Cash inflow arising from disposal</b>	<b>0</b>

## 7. Analysis of revenue by category

	2015	2014
Sale of goods	10,946	14,865
Revenue from services	182	149
Royalty income	2	0
Other	1	-2
	<b>11,131</b>	<b>15,011</b>

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 are included in product sales.

Oil trading included in Sale of goods comprise of revenue from physical 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.

Net gains/losses on financial instruments related to sales, designated as cash flow hedges, are included in Revenue amounting to EUR -82 million (2014: EUR -5 million).

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

## 8. Other income

	2015	2014
Gain on sale of subsidiaries	79	2
Capital gains on disposal of other non-current assets	1	0
Rental income	17	4
Government grants	7	6
Insurance compensations	0	39
Other	5	6
	<b>109</b>	<b>57</b>

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation. EUR 1 million (2014: EUR 2 million) of the amount is included in 'Trade and other receivables' in the consolidated statement of financial position. 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. 2014 insurance compensation relates to damage to the Porvoo refinery hydrogen unit.

## 9. Materials and services

	2015	2014
Materials and supplies	9,508	13,469
Change in inventories	-31	409
External services	61	54
	<b>9,539</b>	<b>13,932</b>

Materials and supplies include excise taxes included in the retail selling price of petroleum products.

Net gains/losses on financial instruments related to purchases designated as cash flow hedges are included in Materials and supplies. In 2015 those amounted to EUR 38 million (2014: EUR 3 million).

## 10. Employee benefit costs

	2015	2014
Wages, salaries	271	267
Social security costs	27	22
Pension costs-defined contribution plans	37	37
Pension costs-defined benefit plans	8	5
Other costs	8	8
	351	339

Number of personnel (average)	2015	2014
Oil Products	1,725	1,866
Renewable Products	263	259
Oil Retail	1,353	1,355
Others	1,565	1,509
	4,906	4,989

## 11. Depreciation, amortization and impairment charges

	2015	2014
Depreciation of property, plant, and equipment		
Buildings and structures	82	69
Machinery and equipment	243	239
Other tangible assets	22	14
	347	321
Amortization of intangible assets	11	9
Depreciation, amortization and impairment charges total	358	330

## 12. Other expenses

	2015	2014
Operating leases and other property costs	42	43
Repairs and maintenance	109	121
Services	88	79
Insurance	17	17
Other	65	64
	320	324

Operating leases include rents for land, premises, machinery and equipment. Services include planning- and consulting services, IT-services and other services. Other expenses include travel expenses, HSE and advertising costs.

Fees charged by the statutory auditor, PwC, EUR thousands	2015	2014
Audit fees	990	751
Auditor's mandatory opinions	19	11
Tax advisory	181	352
Other advisory services	1,317	334
	2,507	1,449

Other advisory services include for example the fee relating to the sale of Kilpilahden Sähkönsiirto Oy in 2015.

## 13. Financial income and expense

	2015	2014
<b>Financial income</b>		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	2	3
Other financial income	0	0
	2	4
<b>Financial expenses</b>		
Interest expenses for financial liabilities at amortized cost	-77	-65
Interest rate derivatives, non-hedge accounted	0	0
Interest rate derivatives, hedge accounted	0	0
Other financial expenses	-6	-10
	-84	-75
<b>Exchange rate and fair value gains and losses</b>		
Loans and receivables	24	-11
Other	6	4
Foreign exchange derivatives, non-hedge accounted	-13	6
	16	-1
<b>Financial cost – net</b>	-65	-72

Net gains/losses on financial instruments included in operating profit	2015	2014
Foreign exchange rate and oil derivative financial instruments designated as cash flow hedges	-120	-7
Non-hedge accounted foreign exchange rate, commodity derivative instruments	37	75
	-83	67

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 some of the contracts that can be settled net in cash and are not entered into and held for the purpose of the receipt or delivery in accordance with expected purchase, sale or usage requirements. Non-hedge accounted derivative

financial instruments include net result of transactions entered into for hedging purposes amounting to EUR 34 million (2014: EUR 70 million), and transactions entered into for trading purposes amounting to EUR 3 million (2014: EUR 5 million).

Net gains/losses on financial instruments related to sales, designated as cash flow hedges, are included in Revenue (Note 7). Net gains/losses on financial instruments related to purchases designated as cash flow hedges and net gains/losses on non-hedge accounted financial instruments are included in Materials and services (Note 9).

## 14. Income tax expense

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

	2015	2014
Current tax	56	19
Adjustments recognized for current tax for prior periods	-1	2
Change in deferred taxes	19	-3
	74	18

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:

	2015	2014
Profit before tax	634	78
Hypothetical income tax calculated at Finnish tax rate 20.00% (2014: 20.00%)	-127	-16
Differences in tax rates in other countries	35	18
Tax exempt income	18	3
Non-deductible expenses	-1	-1
Tax on undistributed earnings <sup>1)</sup>	-4	-19
Taxes for prior periods	1	-2
Net results of joint ventures	5	1
Realisability of deferred tax assets	-1	1
Other	0	-3
Tax charge in the consolidated income statement	-74	-18

<sup>1)</sup> The line Tax on undistributed earnings has been renamed (earlier: Depreciation difference and untaxed reserves) in order to give more precise information on tax bookings.

The Group's effective income tax rate was 11.64% (2014: 23.20%).

The tax (charge)/credit relating to components of other comprehensive income:

	2015		
	Before tax	Tax (charge) / credit	After tax
Remeasurements of defined benefit plans	-38	8	-31
Translation differences	-1	0	-1
Cash flow hedges			
recorded in equity	-85	14	-71
transferred to income statement	117	-20	97
Net investment hedges	1	0	1
Share of other comprehensive income of investments accounted for using the equity method	-9	0	-9
Other comprehensive income	-15	1	-14
Current tax		0	
Deferred tax		1	
		1	

	2014		
	Before tax	Tax (charge) / credit	After tax
Remeasurements of defined benefit plans	-68	14	-55
Translation differences	-30	0	-30
Cash flow hedges			
recorded in equity	-58	10	-48
transferred to income statement	1	0	1
Net investment hedges	0	0	0
Share of other comprehensive income of investments accounted for using the equity method	-9	0	-9
Other comprehensive income	-164	23	-141
Current tax		0	
Deferred tax		23	
		23	

## 15. Earnings per share

Basic 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. The average number of shares has been adjusted with treasury shares, 798,467 shares (2014: 1,000,000), as described in Note 26. Diluted earnings per share reflect the impact of the share-based incentive plans. The Company has not granted any options.

	2015	2014
Profit attributable to owners of the parent, MEUR	558	57
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands)	255,569	255,532
Number of ordinary shares, including treasury shares, used as the denominator in calculating diluted earnings per share (thousands)	256,404	256,404
Earnings per share basic and diluted (euro per share)	2.18	0.22

## 16. Dividend per share

The dividends paid in 2015 were EUR 0.65 per share, totalling EUR 166 million (2014: EUR 0.65 per share, totalling EUR 167 million). A dividend of EUR 1.00 per share will be proposed at the Annual General Meeting on 30 March 2016, corresponding to total dividends of EUR 256 million for 2015. This dividend is not reflected in the financial statements.



## 17. Property, plant and equipment

2015	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2015	72	2,101	3,991	321	253	6,738
Exchange differences	-1	-5	-2	0	0	-9
Additions	2	90	365	34	32	523
Disposals	-1	-8	-254	-46	-13	-322
Reclassifications	0	34	41	12	-94	-7
Classified as assets held for sale	0	-23	-134	0	-13	-170
Gross carrying amount at 31 December 2015	73	2,189	4,005	321	165	6,753
Accumulated depreciation and impairment losses at 1 January 2015	0	776	2,171	124	0	3,071
Exchange differences	0	-3	-1	0	0	-4
Disposals	0	-8	-228	-46	0	-282
Reclassifications	0	0	0	0	0	0
Depreciation for the period	0	82	243	22	0	347
On assets classified as held for sale	0	-12	-111	0	0	-123
Accumulated depreciation and impairment losses at 31 December 2015	0	835	2,073	100	0	3,008
Carrying amount at 1 January 2015	72	1,325	1,820	197	253	3,667
Carrying amount at 31 December 2015	73	1,353	1,932	221	165	3,745

Capital expenditure in the turnaround at the Porvoo refinery totalled EUR 116 million. The scheduled major turnaround was implemented during the second quarter of 2015. The capitalization related to the turnaround is included in Machinery and Equipment.

2014	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2014	76	2,146	4,051	206	173	6,652
Exchange differences	-5	-29	-13	0	-2	-49
Additions	0	63	98	120	126	407
Disposals	0	-32	-75	-5	-9	-120
Reclassifications	1	2	7	0	-11	-1
Classified as assets held for sale	0	-51	-75	0	-25	-151
Gross carrying amount at 31 December 2014	72	2,101	3,991	321	253	6,738
Accumulated depreciation and impairment losses at 1 January 2014	0	739	2,054	116	0	2,909
Exchange differences	0	-12	-7	0	0	-19
Disposals	0	-9	-75	-6	0	-90
Reclassifications	0	0	0	0	0	0
Depreciation for the period	0	69	239	14	0	321
On assets classified as held for sale	0	-12	-40	0	0	-52
Accumulated depreciation and impairment losses at 31 December 2014	0	776	2,171	124	0	3,071
Carrying amount at 1 January 2014	76	1,407	1,997	90	173	3,743
Carrying amount at 31 December 2014	72	1,325	1,820	197	253	3,667

## Finance leases

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

	2015	2014
Gross carrying amount	173	235
Accumulated depreciation	67	94
Carrying amount	106	141

## Capitalized borrowing costs

During 2015 borrowing costs amounting to EUR 2.4 million were capitalized related mainly to Oil Products investments. 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 3.5% in 2015.

## 18. Intangible assets

2015	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2015	11	163	175
Exchange differences	0	0	0
Additions	0	13	13
Disposals	0	-2	-2
Reclassifications	0	7	7
Gross carrying amount at 31 December 2015	11	182	193
Accumulated amortization and impairment losses at 1 January 2015	0	113	113
Exchange differences	0	0	0
Disposals	0	-2	-2
Reclassifications	0	0	0
Amortization for the period	0	11	11
Accumulated amortization and impairment losses at 31 December 2015	0	122	122
Carrying amount at 1 January 2015	11	50	62
Carrying amount at 31 December 2015	11	60	71

2014	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2014	11	163	174
Exchange differences	0	0	0
Additions	0	11	11
Disposals	0	-10	-10
Reclassifications	0	1	1
Gross carrying amount at 31 December 2014	11	164	175
Accumulated amortization and impairment losses at 1 January 2014	0	112	112
Exchange differences	0	0	0
Disposals	0	-6	-6
Reclassifications	0	0	0
Amortization for the period	0	9	9
Accumulated amortization and impairment losses at 31 December 2014	0	113	113
Carrying amount at 1 January 2014	11	51	62
Carrying amount at 31 December 2014	11	50	62

## Emission allowances

Neste's Porvoo and Naantali refineries come under the European Union's greenhouse gas emission trading system, and were granted a total of 18.7 million tons emission allowances for the period 2013–2020. 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 purchased emission allowances intended to cover the deficit 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 2015 there was no estimated obligation to purchase emission allowances in the balance sheet of Neste (2014 provision EUR 1.6 million). The actual amount of CO<sub>2</sub> emissions in 2015 were 2.9 million tons (2014: 3.1 million tons). The Group has traded emission allowances for net amount of 1.2 million tons during the financial period ended 31 December 2015 (2014: 0.5 million tons).

## Impairment test of goodwill

Goodwill is allocated to Group's cash-generating units (CGU's). From 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:

	WACC%	2015	2014
Oil Products	6.2	2	2
Other	6.0	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. Cash flows beyond the three-year period are extrapolated by using 1.0% nominal growth rate.

The discount rates represent 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. WACC rates are specified for each of the cash generating units separately in the table above. WACC% and growth rate are used purely for the impairment testing.

The key assumptions used for the plans in Neste Jacobs are the demand and the price level for engineering and project management services, as well as the billability rate. The key assumptions used in the impairment test are the billability rate affecting the EBITDA.

The key assumptions for the plans in Oil Products are the demand and the margin level for oil products.

Sensitivity analysis: A decrease of 10% in cash flows or 2%-points increase does in the discount rate would not create a situation in which the carrying amounts of the cash generating units would exceed their recoverable amounts.

## 19. Investments in joint ventures

Carrying amount	2015	2014
At 1 January	195	224
Share of profits of joint ventures	27	7
Translation differences	6	-10
Share of other comprehensive income of investments accounted for using the equity method	-9	-9
Capital repayments in joint ventures	0	-18
Other changes	1	0
At 31 December	220	195

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	Nature of the relationship	2015 % interest held	2014 % interest held
Glacia Limited	Bermuda	Note 1	50.00	50.00
Nynas AB (publ)	Sweden	Note 2	49.99	49.99

**Note 1:** Glacia Limited is a joint venture company owned on a 50/50 basis by Neste and Stena Maritime AG (part of the Stena Group). The company owns an Aframax-size crude tanker, which joined the Neste fleet in January 2007. Neste has entered into a 10-year time charter contract with the joint venture for the vessel of which 1 year remain.

Management has classified this ownership as a joint venture because the arrangements are structured through separate vehicle which legal form (limited liability company) separates the assets and liabilities of the arrangement from the assets and liabilities of its shareholders, and are directed so that the relevant activities of the company require unanimous consent from all shareholders.

**Note 2:** Nynas AB (publ) is a Swedish company that specializes in marketing and producing bitumen in Europe and naphthenics globally. Neste 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, Petróleos de Venezuela S.A. Nynas AB (publ) is governed as a 50/50 owned joint venture, although the other party owns the majority of the company's total share capital.

Management has classified this ownership as a joint venture because the arrangement is structured through a separate vehicle which legal form separates its assets and liabilities from the assets and liabilities of its shareholders, and that the terms and conditions of the

shareholders' agreement or other facts and circumstances do not give Neste or Petróleos de Venezuela S.A. rights to the assets and obligations for the liabilities of Nynas AB (publ). 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:

	Glacia Limited		Nynas AB (publ)	
	2015	2014	2015	2014
<b>Non-current assets</b>	37	35	520	462
<b>Current assets</b>				
Cash and cash equivalents	21	17	37	108
Other current asset (excl. Cash and cash equivalents)	0	0	602	805
<b>Total current assets</b>	21	17	639	914
<b>Non-current liabilities</b>				
Non-current financial liabilities (excl. Trade payables and provisions)	0	17	437	444
Other non-current liabilities	0	0	69	106
<b>Total non-current liabilities</b>	0	17	506	550
<b>Current liabilities</b>				
Current financial liabilities (excl. Trade payables and provisions)	20	4	161	354
Other current liabilities	0	0	91	116
<b>Total current liabilities</b>	20	4	251	469
<b>Net assets</b>	37	31	402	357
<b>Revenue</b>	10	9	1,937	1,927
Depreciation, amortization and impairments	3	3	0	0
Interest income	0	0	3	5
Interest expense	0	0	36	28
Income tax expense	0	0	15	17
<b>Profit/loss</b>	4	3	51	12

## Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint venture.

	Glacia Limited		Nynas AB (publ)	
Summarized financial information	2015	2014	2015	2014
<b>Opening net assets 1 January</b>	31	26	357	385
Profit for the period	4	3	51	12
Other comprehensive income	2	2	-7	-40
<b>Closing net assets</b>	37	31	402	357
Interest in joint venture @ 50%	18	15	201	178
Carrying value	18	15	201	178

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2015 and 2014 financial information above is based on 30 September 2015 and 30 September 2014 published interim reports. The share of profits of Glacia Limited for 2015 is consolidated based on the companys' preliminary results for the financial period.

Transactions carried out with joint arrangements are disclosed in Note 32.

Contingent liabilities relating to the Group's interest in the joint arrangements are disclosed in Note 34.

## 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:

2015 Balance sheet item	Financial assets/liabilities at fair value through income statement					Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available-for-sale financial					
<b>Non-current financial assets</b>									
Non-current receivables			10				10		21
Derivative financial instruments	11	0					11	11	25
Available-for-sale financial assets				5			5		21, 25
<b>Current financial assets</b>									
Trade and other receivables <sup>1)</sup>			868				868		
Derivative financial instruments	8	91					99	99	25
Cash and cash equivalents			596				596		24
<b>Carrying amount by category</b>	19	91	1,475	5	0		1,589	110	
<b>Non-current financial liabilities</b>									
Interest-bearing liabilities						1,449	1,449	1,482	27
Derivative financial instruments	4	2					6	6	25
Other non-current liabilities						6	6		27
<b>Current financial liabilities</b>									
Interest-bearing liabilities						438	438	445	27
Derivative financial instruments	20	26					45	45	25
Trade and other payables <sup>2)</sup>						1,307	1,307		27
<b>Carrying amount by category</b>	23	27	0	0	3,200		3,251	1,978	

<sup>1)</sup> excluding prepayments

<sup>2)</sup> excluding non-financial liabilities



2014 Balance sheet item	Financial assets/liabilities at fair value through income statement					Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
	Hedge accounting	Non-hedge accounting	Loans and receivables	Available -for-sale financial					
<b>Non-current financial assets</b>									
Non-current receivables			50				50		21
Derivative financial instruments	25	0					25	25	25
Available-for-sale financial assets				5			5		21, 25
<b>Current financial assets</b>									
Trade and other receivables <sup>1)</sup>			875				875		
Derivative financial instruments	3	141					144	144	25
Cash and cash equivalents			246				246		24
<b>Carrying amount by category</b>	28	141	1,171	5	0		1,345	169	
<b>Non-current financial liabilities</b>									
Interest-bearing liabilities						1,245	1,245	1,305	27
Derivative financial instruments	5	1					5	5	25
Other non-current liabilities						1	1		27
<b>Current financial liabilities</b>									
Interest-bearing liabilities						622	622	626	27
Derivative financial instruments	50	77					128	128	25
Trade and other payables <sup>2)</sup>						1,388	1,388		27
<b>Carrying amount by category</b>	55	78	0	0	3,255		3,389	2,064	

<sup>1)</sup> excluding prepayments

<sup>2)</sup> excluding non-financial liabilities

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).

**2015 Fair value hierarchy**

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	11	0	11
Currency derivatives	0	0	0	0
Commodity derivatives	0	0	0	0
Available-for-sale financial assets	0	0	5	5
Non-current financial assets	0	11	5	16
Current derivative financial instruments				
Interest rate derivatives	0	5	0	5
Currency derivatives	0	7	0	7
Commodity derivatives	39	47	0	87
Current financial assets	39	60	0	99
Total financial assets	39	71	5	115

Financial liabilities	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	4	0	4
Currency derivatives	0	0	0	0
Commodity derivatives	0	0	0	0
Non-current financial liabilities	0	4	0	4
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	24	0	24
Commodity derivatives	0	23	0	23
Current financial liabilities	0	47	0	47
Total financial liabilities	0	51	0	51

During the financial period 2015 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. Available for sale financial assets consist of shares in unlisted companies of EUR 5 million (2014: EUR 5 million), for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

**2014 Fair value hierarchy**

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	25	0	25
Currency derivatives	0	0	0	0
Commodity derivatives	0	0	0	0
Available-for-sale financial assets	0	0	5	5
Non-current financial assets	0	25	5	30
Current derivative financial instruments				
Interest rate derivatives	0	1	0	1
Currency derivatives	0	3	0	3
Commodity derivatives	27	113	0	140
Current financial assets	27	117	0	144
Total financial assets	27	142	5	174

Financial liabilities	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	5	0	5
Currency derivatives	0	0	0	0
Commodity derivatives	0	1	0	1
Non-current financial liabilities	0	6	0	6
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	63	0	63
Commodity derivatives	28	37	0	65
Current financial liabilities	28	100	0	128
Total financial liabilities	28	106	0	134

During the financial period 2014 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.

Fair values of non-current interest-bearing liabilities that are carried at amortised cost, but for which fair value is disclosed, are determined by using the discounted cash flow method employing market interest rates or market values at the balance sheet date. Non-current interest-bearing liabilities are classified into fair value measurement hierarchy level 2.

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

	Carrying amount	
Non-current receivables	2015	2014
Non-current interest-bearing receivables	1	1
Other non-current receivables	10	49
	10	50

Carrying amounts of loan receivables are measured at amortized cost using the effective interest rate method. Fair values are not materially different from the carrying amounts. The maximum exposure to credit risk at the reporting date is the carrying amount of the loan receivables.

Available-for-sale financial assets	2015	2014
At 1 January	5	4
Additions	0	0
At 31 December	5	5

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

## 22. Inventories

	2015	2014
Materials and supplies	417	381
Finished products and goods	667	666
Other inventories	7	8
Classified as assets held for sale	-1	0
	1,090	1,055

Cumulative inventory losses due to oil price changes amounted EUR 263 million (2014: EUR 492 million) of which EUR 86 million (2014: EUR 127 million) consisted of inventory write downs recorded at the end of the period.

## 23. Current trade and other receivables

	Carrying amount	
	2015	2014
Trade receivables	771	771
Other receivables	59	57
Advances paid	11	6
Accrued income and prepaid expenses	29	53
	870	887

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. Credit loss of trade receivables amounted to EUR 1 million (2014: EUR 2 million).

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

The trade receivables were sold to the third party during 2015, but the volume of the sold trade receivables was not substantial. In 2014 trade receivables were not sold to the third party.

## 24. Cash and cash equivalents

Cash and cash equivalents include the following:

	2015	2014
Cash at bank and in hand	596	246
Short term bank deposits	0	0
Total	596	246

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

	2015			2014		
	Remaining maturities		Total	Remaining maturities		Total
	< 1 year	1–4 years		< 1 year	1–5 years	
<b>Derivative financial instruments designated as cash flow hedges</b>						
Interest rate swaps <sup>1)</sup>	0	50	50	0	50	50
Forward foreign exchange contracts	522	0	522	748	0	748
Currency options						
– Purchased	283	0	283	189	0	189
– Written	283	0	283	188	0	188
	1,088	50	1,138	1,125	50	1,175
<b>Derivative financial instruments designated as fair value hedges</b>						
Interest rate swaps <sup>1)</sup>	250	300	550	150	550	700
	250	300	550	150	550	700
<b>Non-hedge accounting derivative financial instruments</b>						
Interest rate swaps <sup>1)</sup>	0	0	0	0	0	0
Forward foreign exchange contracts	821	0	821	804	0	804
Currency options						
– Purchased	175	0	175	0	0	0
– Written	0	0	0	0	0	0
	996	0	996	804	0	804

<sup>1)</sup> Interest rate swaps mature in 4 years.

### Volumes of commodity derivative contracts

	2015			2014		
	Remaining maturities		Total	Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–3 years	
Volume million bbl						
<b>Commodity derivative contracts designated as cash flow hedges<sup>2)</sup></b>						
Futures and forwards						
– Sales contracts	0	0	0	0	0	0
	0	0	0	0	0	0
<b>Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives <sup>3)</sup></b>						
Futures and forwards						
– Sales contracts	16	0	16	8	0	8
– Purchase contracts	8	0	8	8	0	8
	24	0	24	16	0	16

Volume GWh	2015			2014		
	Remaining maturities		Total	Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–3 years	
<b>Non-hedge accounting electricity and gas derivative contracts</b>						
Futures and forwards						
– Purchase contracts	1,548	884	2,432	1,592	1,099	2,691
	1,548	884	2,432	1,592	1,099	2,691

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

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

Fair values of derivative financial instruments	Fair value 2015				Fair value 2014			
	Positive		Negative		Positive		Negative	
	< 1 year	1–4 years	< 1 year	1–4 years	< 1 year	1–5 years	< 1 year	1–5 years
<b>Interest rate and currency derivative contracts<sup>1)</sup></b>								
<b>Derivative financial instruments designated as cash flow hedges</b>								
Interest rate swaps <sup>1)</sup>	0	0	0	4	0	0	0	5
Forward foreign exchange contracts	1	0	15	0	1	0	42	0
Currency options								
– Purchased	0	0	3	0	0	0	2	0
– Written	1	0	2	0	0	0	7	0
	3	0	20	4	2	0	50	5
<b>Derivative financial instruments designated as fair value hedges</b>								
Interest rate swaps <sup>1)</sup>	5	11	0	0	1	25	0	0
	5	11	0	0	1	25	0	0
<b>Non-hedge accounting derivative financial instruments</b>								
Interest rate swaps <sup>1)</sup>	0	0	0	0	0	0	0	0
Forward foreign exchange contracts	4	0	3	0	1	0	12	0
Currency options								
– Purchased	0	0	1	0	0	0	0	0
– Written	0	0	0	0	0	0	0	0
	4	0	4	0	1	0	12	0

<sup>1)</sup> Interest rate swaps mature in 4 years.



	Fair value 2015				Fair value 2014			
	Positive		Negative		Positive		Negative	
	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years
<b>Commodity derivative contracts</b>								
<b>Commodity derivative contracts designated as cash flow hedges <sup>2)</sup></b>								
Futures and forwards								
– Sales contracts	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
<b>Non-hedge accounting commodity derivative contracts <sup>3)</sup></b>								
Futures and forwards								
– Sales contracts	72	0	3	0	138	0	3	0
– Purchase contracts	15	0	19	2	2	0	62	1
	87	0	22	2	140	0	65	1

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

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

	2015				2014			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Balance sheet reconciliation</b>								
Derivative financial instruments	99	11	45	6	144	25	128	5

## Fair value estimations

Derivative financial instruments are initially recognized and subsequently re-measured at their fair values i.e. the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant and the measurement date.

The fair values of the interest rate swaps are the present values of the estimated future cash flows. 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.

The fair value of exchange traded commodity futures and option contracts is determined using the forward exchange market quotations as per 31 December 2015. The fair value of over-the-counter derivative contracts is calculated using the net present value of the forward derivative contracts quoted market prices as per 31 December 2015.

## 26. Equity

### Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2015 totalled EUR 40,000,000, divided into 256,403,686 shares of equal value. The nominal value of one share is not determined. There have been no changes in share capital in 2015 or 2014.

	Number of shares, 1,000	Treasury shares, 1,000	Outstanding shares, 1,000
1 January 2015	256,404	-1,000	255,404
Purchase of treasury shares		0	0
Transfer of treasury shares		202	202
31 December 2015	256,404	-798	255,605
1 January 2014	256,404	0	256,404
Purchase of treasury shares		-1,000	-1,000
31 December 2014	256,404	-1,000	255,404

### Treasury shares

In the Annual General Meeting on 3 April 2014 the Board of Directors was authorized to decide the purchase of and/or take as security a maximum of 2,000,000 company shares using the company's unrestricted equity. During year 2014 the Group acquired a total of 1,000,000 treasury shares, and the acquisition cost of EUR 15 million was deducted from equity. In the Annual General Meeting on 1 April 2015 the Board of Directors was authorized to decide on the purchase of and/or take as security a maximum of 1,000,000 company shares using the company's unrestricted equity. On 5 March 2015, 198,303 treasury shares of Neste Corporation have been conveyed without consideration to 63 key persons participating in the share-based incentive plan 2010 according to the terms and conditions of the plan. On 15 September 2015, 3,230 treasury shares have been conveyed without consideration to one key person participating in the share-based incentive plan 2010 according to the terms and conditions of the plan. After these two directed share issues the total amount of treasury shares is 798,467 shares. The acquisition cost including transaction costs, has been deducted from equity. The total number of the company's shares is 256,403,686 shares.

### Other reserves

Reserve fund comprises of restricted reserves other than share capital.

Fair value and other reserves include the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges, amounts recognized directly in equity concerning available-for-sale investments, and

concerning equity settled share based payments, the amount corresponding to the expense recognized in the income statement.

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

## 27. Non-current and current liabilities

	Carrying amount	
Non-current liabilities	2015	2014
Bonds	1,205	1,021
Loans from financial institutions	101	103
Finance lease liabilities	89	85
Other loans	54	37
Other non-current liabilities	0	0
Accruals and deferred income	6	1
<b>Non-current liabilities total</b>	<b>1,455</b>	<b>1,246</b>
of which interest-bearing	1,449	1,245

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. The fair value of the bonds was EUR 1,238 million (2014: EUR 1,081 million) of which EUR 1,188 million belong to level 1 and 50 million to level 2. The fair values of other non-current liabilities are not materially different from their carrying amounts.

	Carrying amount	
Current liabilities	2015	2014
Bonds	305	301
Loans from financial institutions	108	218
Finance lease liabilities	25	55
Advances received	56	12
Trade payables	787	914
Other current liabilities	340	403
Current tax liabilities	21	4
Accruals and deferred expenses	123	106
<b>Current liabilities total</b>	<b>1,766</b>	<b>2,013</b>
of which interest-bearing	438	622

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 or market values at the balance sheet date. The fair value of the bonds was EUR 311 million (2014: EUR 306 million) of which EUR 311 million belong to level 1.

The fair values of other current liabilities are not materially different from their carrying amounts.

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

#### Listed bond issues

Issued/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2009/2016	Fixed	6.0000	6.0965	EUR	300	305
2012/2017	Fixed	4.0000	4.0650	EUR	250	252
2012/2019	Fixed	4.0000	4.0780	EUR	400	407
2015/2022	Fixed	2.1250	2.2080	EUR	500	496
<b>Total outstanding carrying amount 31 December 2015</b>						<b>1,460</b>

In addition private placement (2011/2018) of EUR 50 million with floating interest

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

	2015			2014		
Amounts payable under finance lease:	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Within one year	38	13	25	68	14	54
Between one and five years	73	53	20	67	53	14
More than 5 years	157	87	70	164	93	71
<b>Total amounts payable</b>	<b>268</b>	<b>153</b>	<b>115</b>	<b>299</b>	<b>160</b>	<b>139</b>

Finance lease liabilities arise from bareboat agreement on crude oil tanker Tempera delivered in 2002 that is classified as finance lease agreement under IAS 17. The lease term for Tempera has been extended by 6 months in the amendment made in 2015 to end on 15th April 2016. In May Neste announced that it will sell Tempera in 2016.

In addition, finance lease liabilities arise from two finance lease agreements for the Singapore 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.

## 28. Deferred income taxes

The movement in deferred tax assets and liabilities during 2015 is presented in the following table:

	at 1 Jan 2015	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2015
<b>Deferred tax assets</b>						
Tax loss carried forward	14	-12	0	0	0	2
Provisions	4	-2	0	0	0	2
Pensions	31	-1	-8	0	0	23
Other temporary differences	6	-4	0	0	0	2
Total deferred tax assets	55	-19	-8	0	0	29
<b>Deferred tax liabilities</b>						
Depreciation difference and untaxed reserves	232	16	0	-6	0	242
Tax on undistributed earnings <sup>1)</sup>	19	-6	0	0	0	12
Finance leases	2	-1	0	0	0	1
Capitalized interest	12	-1	0	0	0	11
Other temporary differences	1	-8	6	0	0	-1
Total deferred tax liabilities	265	0	6	-6	0	265

The movement in deferred tax assets and liabilities during 2014 is presented in the following table:

	at 1 Jan 2014	Charged to Income Statement	Charged in Equity	Exchange rate differences and other changes	Assets held for sale	at 31 Dec 2014
<b>Deferred tax assets</b>						
Tax loss carried forward	4	10	0	0	0	14
Provisions	2	2	0	0	0	4
Pensions	19	-1	14	0	0	31
Other temporary differences	4	2	0	0	0	6
Total deferred tax assets	29	12	14	0	0	55
<b>Deferred tax liabilities</b>						
Depreciation difference and untaxed reserves	248	-11	0	0	-6	231
Tax on undistributed earnings <sup>1)</sup>	0	19	0	0	0	19
Finance leases	4	-2	0	0	0	2
Capitalized interest	13	-1	0	0	0	12
Other temporary differences	1	11	-11	0	0	1
Total deferred tax liabilities	266	16	-11	0	-6	265

<sup>1)</sup> Tax on undistributed earnings is presented as a separate line item (previously: included in Depreciation difference and untaxed reserves) in order to give more precise information on the deferred tax liabilities.

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 amounting to EUR 8 million (2014: EUR 1 million) have been netted in the balance sheet.

Deferred tax assets are recognized for tax loss carryforwards and other unused tax credits to the extent that the utilization of the related tax benefit through future taxable profits is probable. At the end of 2015, a deferred tax asset of EUR 2 million has been recognized cumulatively on the subsidiaries' taxable losses. The tax losses may be carried forward indefinitely.

There are altogether EUR 2 million (2014: EUR 0 million) tax loss carryforwards and other unused tax credits for which no deferred tax asset is recognized and their expiry dates are between 2017 and 2025.

A deferred tax liability has been recognized for undistributed earnings of subsidiaries where income taxes would be payable upon distribution.

Deferred tax assets	2015	2014
Deferred tax asset to be recovered after more than 12 months	25	48
Deferred tax asset to be recovered within 12 months	3	7
	29	55

Deferred tax liabilities	2015	2014
Deferred tax liability to be recovered after more than 12 months	264	263
Deferred tax liability to be recovered within 12 months	1	2
	265	265



## 29. Provisions

	Environmental provisions	Restructuring provisions	Provision to return emission allowances	Other provisions	Total
<b>At 1 January 2015</b>	10	9	2	1	21
Charged to income statement					
Additional provisions	28	0	0	0	28
Amounts used during the period	-1	-5	-2	-1	-9
Reversed unused provisions	-1	0	0	0	-1
<b>At 31 December 2015</b>	36	3	0	0	39

	Environmental provisions	Restructuring provisions	Provision to return emission allowances	Other provisions	Total
<b>At 1 January 2014</b>	33	4	0	0	37
Charged to income statement					
Additional provisions	1	8	2	1	12
Amounts used during the period	-2	-3	0	0	-5
Changes in estimates in ARO provisions included in assets	-22	0	0	0	-22
<b>At 31 December 2014</b>	10	9	2	1	21

	2015	2014
Current provisions	1	1
Non-current provisions	39	20
	39	21

The nature of certain Group's businesses exposes the Group to risks of environmental costs and potential contingent liabilities. The risks 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 the environment. Liability may arise also through the acquisition, ownership or operation of properties or businesses.

Environmental provisions consists mostly of the Group's asset retirement obligations (ARO). The Group recognizes a provision for the decommissioning costs of an oil installation to the extent that Group is obliged to rectify damage already caused. The amount

recognized as a provision is the best estimate of the expenditure required to settle the present obligation on the balance sheet date or transfer to a third party. The provisions are to be discounted, where the effect of the time value of money is material.

Based on IAS 37, in addition to the provisions recognized, there are some off-balance-sheet contingent liabilities for which the future potential outcome (timing, costs) cannot be estimated reliably.

The exchange rate difference relating to the Group's provisions is immaterial.

## 30. Employee 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 are accounted for as a defined contribution plan in the consolidated financial statements.

The Group has defined benefit pension plans in Finland, Belgium and Switzerland. The largest plans are in Finland, which account for 96% (2014: 96%) of the Group's total defined benefit pension obligation and 98% of the Group's total plan assets. The voluntary pension plan in Finland accounting for most of this has been closed since 1 January 1994. The insured supplementary pension scheme consists of defined benefit group pension insurances, which are very similar in structure, with the exception of retirement age and pension accrual rules.

Other long-term employee benefits are long-service remunerations, which is accounted for as an unfunded defined benefit plan in accordance to IAS 19.

### Characteristics of the post-employment defined benefit plans in Finland

In Finland the Group has voluntary pension plan for certain group of employees to fulfill an aggregated benefit after retirement. The voluntary pension plan is managed in insurance company.

The voluntary plan's benefit is based on the aggregated benefits determined by the insurance contract. The voluntary benefit is the difference between aggregated benefits and compulsory benefits. The aggregated benefits are at most 60% or 66% of the supplementary pension salary depending on the plan. The supplementary pension salary is calculated based on the last 10 years' salaries prior to the pension event adjusted by the index level. The benefits in the plans are old age and disability pensions, survivors' pensions for widows and children, and funeral grants. Old-age pension ages are 60, 62 and 65 years. In some pension schemes, pension cover also includes the right to early old-age pension retirement ages.

The insurance company collects premiums on yearly basis from the employer. The future premiums are adjusted so that the old-age pension will be fully funded until retirement. The disability and survivor's pension are also financed by risk premiums collected during the employment period. The premiums with fixed discount rate 2.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees to the assets in the plan the same interest yield they have used in calculating the premiums.

The employer finances the index-linkage by paying an additional premium covering the index increase in the year. Discretionary bonuses from the insurance company will lower the index premium. The insurance company decides annually the amount of the bonus.

The Group has insured benefits index increases each year as the benefits have been increased. If the insurance company's granted bonus index does not cover the annual index increase, the insurance company collects a premium from the employer to cover the increase. The insurance company's bonus index varies on yearly basis.

### Risks associated with defined benefit plans

Through its defined benefit pension plans the Group is exposed to a number of risks. The employer's defined benefit obligations pension liability depends on the discount rate which is determined to a yield of corporate bonds as at the reporting date. A decrease (increase) in used discount rates increase (decrease) the defined benefits obligations. However, a decrease (increase) in the used discount rate yield also increases (decrease) the fair value of the assets partially offsetting the total impact of change in yield on the net defined benefit pension liability.

The benefit of the plans is tied to the future benefit increase, which depends on inflation and common salary index. Higher inflation increases the benefit increase, which leads to an increase in liabilities and annual payments to the insurance company.

If the active employee's salary increases more than the common salary index, the amount of promised benefit and the benefit obligation increases together with annual payments to life insurance company.

The longevity risk is borne by the insurance company in case the actual mortality differs from the assumed. Possible adjustments in mortality assumption have an effect on the employer's liability according to IFRS. The insurance company bears completely the mortality risk on accrued benefits. The employers have a mortality risk only if the insurance company will raise its future benefit accruals premiums because of mortality adjustment.

## Defined benefit plans

Cost of defined benefit plans	2015	2014
Service cost	8	5
Net interest (+expense/–income)	2	3
Remeasurements related to other long-term remulations	0	1
Defined benefit cost recognized in the consolidated statement of income	11	9

Remeasurements of defined benefit plans	2015	2014
Actuarial gains/losses:		
Changes in demographic assumptions	–3	0
Changes in financial assumptions	60	–116
Return on plan assets, excluding amounts included in net interest expense	–22	45
Experience adjustments	3	2
Total remeasurements recognized in other comprehensive income	38	–69

Amounts recognized in the consolidated statement of financial position	2015	2014
Present value of funded defined benefit obligations	451	513
Present value of unfunded defined benefit obligations	8	8
Fair value of plan assets	–346	–366
Net defined benefit liability	113	155

Changes in fair value of plan assets	2015	2014
January 1	366	311
Interest income	6	11
Return on plan assets (excluding amounts included in net interest expense)	–22	44
Employer contributions	15	16
Benefits paid	–19	–17
December 31	346	366

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.

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

	2015		2014	
	Funded	Unfunded	Funded	Unfunded
January 1	513	8	396	8
Current service cost	8	1	7	1
Curtailements	0	0	–1	0
Interest cost	8	0	14	0
Actuarial gains (–)/ losses (+)	–60	0	114	1
Settlements	–1	0	–1	–1
Benefits paid	–17	–1	–16	–1
December 31	451	8	513	8

The expected contributions to be paid to the defined benefit plans in 2016 are EUR 13 million.

Significant actuarial assumptions	2015	2014
Discount rate, %		
Finland	2.13%	1.65%
Other countries	0.9–1.9%	1.60%
Future salary increase, %		
Finland	2.6–3.1%	3.5%
Other countries	1.5–2.5%	1.5–2.0%
Insurance company's bonus index, %		
Finland	0.0%	0.0%
Other countries	0.0%	0.0%
Future benefit increase, %		
Finland	0–1.8%	2.1%
Other countries	0.0%	0.0%

### Sensitivity analysis of significant actuarial assumptions

Reasonably possible changes at the reporting date to one of the weighted principal assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation as shown below:

Assumptions	Change in assumption		Impact on the defined benefit pension obligation	
			2015	2014
Discount rate				
	0.25% increase	EUR million	-14	-18
	0.25% decrease	EUR million	15	19
Future salary increase				
	0.25% increase	EUR million	4	5
	0.25% decrease	EUR million	-4	-5
Future benefit increase				
	0.25% increase	EUR million	13	16
	0.25% decrease	EUR million	-12	-15

- 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 3.4%/3.5% in the defined benefit obligation.
- 0.25% increase/decrease in the rate of salary increase would lead to a increase/decrease of 1.0%/1.0% in the defined benefit obligation.
- 0.25% increase/decrease in the rate of pension index would lead to a increase/decrease of 2.9%/2.8% in the defined benefit obligation.

The above sensitivity analysis may not be representative of the actual impact of change. If more than one assumption is changed simultaneously, the combined impact of changes would not necessarily be the same as the sum of the individual change. If the assumptions change to a different level compared to that presented above, the effect on the defined benefit obligation may not be linear.

### Maturity profile of the undiscounted defined benefit obligation

	2015
Within the next 12 months (next annual reporting period)	20
Between 1 and 5 years	90
Between 5 and 10 years	116
Beyond 10 years	392
Total expected payments	619

The average duration of the defined benefit pension obligation at the end of the reporting period is 14 years.

## 31. Share-based payments

### Share-based incentive plan as of 1 January 2013

The Board of Directors decided on 13 December 2012 to establish a new long-term share-based incentive plan for the Group's senior management and nominated key personnel. The aim of the plan is to align the objectives of the company's owners and key personnel to increase the company's value and to commit key personnel to the company through an incentive system based on ownership of Group's shares. The Board is responsible for annually selecting the members of Group's senior management entitled to participate in this long-term incentive plan.

The plan includes three individual share plans, each with a three-year earning period. The share plans have started in 2013, 2014, and 2015. The Board of Directors have decided on the earning criteria and targets to be applied, as well as the maximum level of incentive payable for each earning period and for the entire earning period. The earning criteria for the earning period 2013–2015 are the Group's comparable free cash flow (75%) and the comparable operating profit of Renewable Products (25%). The earning criteria for the earning periods 2014–2016 and 2015–2017 is the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to a peer group of 10 oil industry peers (25%). Any possible payments will be made partly in Company shares and partly in cash in 2016, 2017, and 2018. The proportion to be paid in cash will cover taxes and other tax-related costs. The target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be 40% of individuals' annual fixed salary on average. The maximum long-term incentive for the President & CEO will be 100% of his annual fixed salary and 80% for the other members of the NEB. The combined amount of incentives paid based on target-level earnings under the long-term incentive program that has now been decided on, together with the incentive paid on the annual short-term program, may not exceed 60% of participants' annual fixed salary in any given year. In addition, the combined amount of incentives to be paid based on maximum-level earnings under the short-term program and this new long-term incentive program may not exceed 120% of participants' annual fixed salary in any given year.

Participants shall not be entitled to sell or transfer the shares they receive as incentives during a restriction period following the end of the earning period. The length of this period will be three years in respect of the President and CEO and the other members of the Neste Executive Board, and one year in respect of other participants.

### 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 was to align the objectives of the owners and key personnel of Neste: 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 has included three three-year earning periods beginning of 2010, 2011 and 2012.

The Board of Directors decided the earnings criteria and targets to be met as well as the maximum level of the payable reward for each earning period. The earning criteria for the plans were the same, the sales volume at Renewable Products and total shareholder return on Company share in relation to the Dow Jones Nordic Return Index. As incentives, shares have been delivered to participants after all three earning periods in 2013, 2014 and 2015. The maximum level of participants' reward has not exceeded the annual gross salary of the year in question during any earning year. The portion paid in cash has covered taxes 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.

Earnings period of share-based incentive plan 2012–2014 ended 31 December 2014. The earning criteria was met fully resulting in the delivery of shares to the participants in 2015. A gross reward of 414,843 shares equaling to EUR 9.7 million was delivered to the participants. The net amount of shares delivered totaled 201,533 shares and the rest of the reward was paid in cash to cover taxes. The fair value of the share as at delivery date was 23,2776 euros. The members of Company's Executive Board received a gross reward equaling to 46,142 shares.

Earnings period of share-based incentive plan 2011–2013 ended 31 December 2013. Part of the earning criteria was met resulting in the delivery of shares to the participants in March 2014. A gross reward of 411,655 shares equaling to EUR 6.4 million was delivered to the participants. The net amount of shares delivered totaled 202,391 shares and the rest of the reward was paid in cash to cover taxes. The fair value of the share as at delivery date was 15.4355 euros. The members of Company's Executive Board received a gross reward equaling to 156,218 shares.

Earnings period of share-based incentive plan 2010–2012 ended 31 December 2012. Part of the earning criteria was met resulting in the delivery of shares to the participants in March 2013. A gross reward of 128,340 shares equaling to EUR 1.4 million was delivered to the participants. The net amount of shares delivered totaled 63,526 shares and the rest of the reward was paid in cash to cover taxes and any tax related costs. The fair value of the share as at delivery date was 10.9977 euros. The members of Company's Executive Board received a gross reward equaling to 67,580 shares. The restriction period for this earning period will end January 1, 2016.



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

Grant dates and prices	Plan 2015–2017	Plan 2014–2016	Plan 2013–2015	Plan 2012–2014	Plan 2011–2013	Plan 2010–2012
Grant dates	11 Feb 2015	01 Feb 2014	10 Feb 2013	02 Jan 2012	03 Jan 2011	04 Jan 2010
Grant prices, euros				6.70	10.81	11.50
Share price as at grant date, euros				8.10	12.21	12.70
Term of the plan						
Beginning of earnings period	01 Jan 2015	01 Jan 2014	01 Jan 2013	01 Jan 2012	01 Jan 2011	01 Jan 2010
End of earnings period	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
End of restriction period	31 Mar 2019/ 31 Mar 2021	31 Mar 2018/ 31 Mar 2020	31 Mar 2017/ 31 Mar 2019	01 Jan 2018	01 Jan 2017	01 Jan 2016
Assumptions used in calculating the value of the reward						
Amount of granted shares at the beginning of the period, maximum reward	0	2,281,678	5,914,520	1,000,000	416,177	128,340
Granted during the period	3,195,100	0	0	0	0	0
Released during the period	0	–34,827	–54,752	–2,244	0	0
Cancelled during the period	–15,000	0	0	0	0	0
Forfeited during the period	–115,000	–201,423	–171,553	–4,621	0	0
Adjusted during the period	2,329,476	2,965,936	669,195	–585,157	0	0
Amount of granted shares at the end of the period, maximum reward	5,394,576	5,011,364	6,357,410	407,978	416,177	128,340
Number of persons at the end of the reporting year	85	87	85	65	0	0
Share price at the end of the reporting period, euros	27.63	27.63	27.63	23.28	15.44	11.00
Estimated rate of realization of the earnings criteria, %	88%	88%	100%	100%	65%	20%
Estimated termination rate before the end of the restriction period, %	10%	10%	10%	0%	0%	0%

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 earning period.

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

	2015	2014
Expense arising from equity-settled share-based payment transactions	3	2
Expense arising from cash-settled share-based payment transactions	2	5
Total expense arising from share-based payment transactions	5	7

The liability recognized in the balance sheet related to share based payments amounted to EUR 5 million (2014: EUR 7 million). The expense to be recognized during the financial periods 2016–2019 is estimated as 31 December 2015 to amount to EUR 10 million. The actual amount may differ from this estimate.

## 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, joint arrangements (Note 33) and the entities controlled by Neste's controlling shareholder the State of Finland. Related party includes also the 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 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 and other companies controlled by the State of Finland are on an arm's length basis. The reporting of related party transactions has been aligned.

### Transactions carried out with related parties

2015	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint arrangements	111	64	17	0	1
	111	64	17	0	1

  

2014	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint arrangements	150	99	5	0	8
	150	99	5	0	8

There were no material transactions with key management persons or entities controlled by them.

The major part of business between Neste 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.

### Board of Directors and key management compensation

EUR thousand	2015	2014
Salaries and other short-term employee benefits	3,785	3,840
Statutory pensions	220	222
Supplementary pensions	1,287	1,239
Share-based payments	2,256	2,430
Total (Including statutory pensions)	7,547	7,731

Key management consists of President and CEO and other members of the Neste Executive Board. There were no outstanding loan receivables from key management on 31 December 2015 or 31 December 2014.

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 and members of the Neste Executive Board

EUR thousand	President and CEO		Members of the Neste Executive Board	
	2015	2014	2015	2014
Annual remuneration				
Base salary	668	667	1,861	1,741
Taxable benefits	17	26	114	119
Annual incentive (STI plan)	222	229	506	648
Total annual remuneration	906	921	2,481	2,509
Vested long term remuneration				
Supplementary pension (insurance contributions)	824	619	463	620
2012–2014 Plan	717	804	1,539	1,626
Total remuneration	2,447	2,344	4,482	4,754

## Compensation to the Board of Directors

EUR thousand	2015	2014
Board of Directors at 31 December 2015		
Jorma Eloranta	79	79
Maija-Liisa Friman	61	62
Laura Raitio	49	47
Jean-Baptiste Renard	59	46
Willem Schoeber	56	59
Kirsi Sormunen	47	47
Marco Wirén, as of 1 April 2015	35	0
Former Board members		
Per-Arne Blomquist, until 1 April 2015	12	58
Michiel Boersma, until 3 April 2014	0	12
Board of Directors, all members total	398	410

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. Board members are not covered by the Company's remuneration systems and do not receive any performance- or share-related payments.

Should the Company decide to give notice of termination, the President & CEO shall be entitled to his salary during the six-month period of notice, together with a severance payment equivalent to 18 months' salary.

The retirement age of the President & CEO is 60 years, and his pension is based on a defined benefit plan. The pension paid is 60% of his or her retirement salary, equivalent to a monthly salary calculated on the basis of statutory pension insurance contributions made over the previous 10 years. The pension is insured by an insurance company, and insurance contributions paid during 2015 totaled EUR 824 thousand (2014: EUR 619 thousand). Net liability of defined benefit plan on 31 December 2015 was EUR 487 thousand (2014: EUR 796 thousand). Statutory pension insurance contributions in 2015 were EUR 66 thousand (2014: EUR 65 thousand).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2015 were EUR 1,297 thousand (2014: EUR 1,955 thousand).

## 33. Group companies on 31 December 2015

Subsidiaries	Group holding %	Country of incorporation
Kiinteistö Oy Espoon Keilaranta 21	100.00%	Finland
Kilpilahden Voimalaitos Oy <sup>1)</sup>	100.00%	Finland
LLC Neste Saint-Petersburg	100.00%	Russia
Navidom Oy	50.00%	Finland
Neste (Suisse) S.A.	100.00%	Switzerland
Neste AB	100.00%	Sweden
Neste Affiliate B.V.	100.00%	The Netherlands
Neste Canada Inc.	100.00%	Canada
Neste Components B.V.	100.00%	The Netherlands
Neste Eesti AS	100.00%	Estonia
Neste Insurance Limited	100.00%	Guernsey
Neste Jacobs Aktiebolag	100.00%	Sweden
Neste Jacobs Oy	60.00%	Finland
Neste Markkinointi Oy	100.00%	Finland
Neste N.V.	100.00%	Belgium
Neste Netherlands B.V.	100.00%	The Netherlands
Neste Oil Bahrain W.L.L.	100.00%	Bahrain
Neste Renewable Fuels Oy	100.00%	Finland
Neste Shipping Oy	100.00%	Finland
Neste Singapore Pte. Ltd.	100.00%	Singapore
Neste US, 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

<sup>1)</sup> Neste, Veolia and Borealis have agreed to create a joint venture company Kilpilahden Voimalaitos Oy. At 31 December 2015 Kilpilahden Voimalaitos Oy is 100% owned subsidiary classified as held for sale. The joint venture arrangement is expected to take place during the first quarter of 2016.

Associated companies	Group holding %	Country of incorporation
Neste Arabia Co. Ltd.	48.00%	Saudi Arabia

Joint arrangements	Group holding %	Classification	Country of incorporation
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	40.00%	Joint Operation	Finland
Bahrain Lube Base Oil Company B.S.C. (Closed)	45.00%	Joint Operation	Bahrain
Glacia Limited	50.00%	Joint Venture	Bermuda
Nemarc Shipping Oy	50.00%	Joint Venture	Finland
NSE Biofuels Oy Ltd	50.00%	Joint Venture	Finland
Nynas AB (publ)	49.99%	Joint Venture	Sweden
Oy Innogas Ab	50.00%	Joint Operation	Finland
Porvoo Alueverkko Oy	33.33%	Joint Operation	Finland
Tahkoluodon Polttoöljy Oy	31.50%	Joint Operation	Finland
Tapaninkylän Liikekeskus Oy	40.03%	Joint Operation	Finland
Vaskiluodon Kalliovarasto Oy	50.00%	Joint Operation	Finland

#### Specification of financial information on subsidiaries with material non-controlling interests

	Neste Jacobs Oy		Navidom Oy	
	2015	2014	2015	2014
Proportion of shares held by non-controlling interests	40.00%	40.00%	50.00%	50.00%
Current assets	71	62	0	0
Non-current assets	5	4	0	0
Current liabilities	33	28	0	0
Non-current liabilities	0	0	0	0
Revenue	137	124	1	1
Profit for the period	8	8	0	0
Dividends paid to non-controlling interests	1	0	0	0
Cash flows from operating activities	4	9	0	0
Cash flows from investing activities	-1	-7	0	0
Cash flows from financing activities	-3	-1	0	0

#### Unconsolidated structured entities

In 2015, Neste sold its shares of KED Oy (former Kilpilahden Sähkösiirto Oy) to InfraVia European Fund II, an infrastructure fund managed by InfraVia. After the sale Neste does not have direct or indirect investment in KED Oy. KED Oy is responsible for high- and medium-voltage electricity distribution in the Kilpilahti industrial area where Neste's Porvoo refinery is situated. In addition to Neste, KED Oy's customers include other companies operating in the area.

As the Kilpilahti electricity distribution network requires significant investments, Neste selected InfraVia as its electricity distribution partner to contribute to the effective implementation of the investments and, therefore, secure reliable electricity distribution in Kilpilahti.

Under the contractual arrangements with KED Oy Neste is involved and supports the KED Oy in different ways and it can be considered that Neste has possibility to influence the investments made by KED Oy. KED Oy distributes electricity to Neste and Neste remains to be the main user of the capacity of the electricity distribution network. KED Oy operates on a land leased from Neste for 30 years with an option to extend the lease. In connection with the transaction, the parties agreed that Neste will supply the operating and maintenance services needed in electricity distribution and offered to KED Oy for two years. Neste has also repurchase option of the shares of KED Oy valid for two years in case of a substantial breach of the share purchase agreement. Neste has not provided any financial support or other significant support to KED Oy without contractual obligation.

Based on the factors described above Neste has determined that it has significant influence over KED Oy and treats KED Oy as unconsolidated structured entity in its consolidated financial statements. Management has assessed the company's exposure to losses by considering the nature of Neste's involvement in KED Oy, and KED Oy's significance to Neste from an operative perspective. Neste's exposure is mainly dependent upon the effective operation of the distribution network.

#### Consolidated structured entities

In 2014, Neste has treated the sold vessels' sale-and-leaseback agreements made with Ilmarinen Mutual Pension Insurance Company and Finland's National Emergency Supply Agency as structured entities. As a part of these arrangements, Neste guarantees the vessels' residual value and certain return on the investors' investments.

## 34. Contingencies and commitments

Contingent liabilities	2015 Value of collateral	2014 Value of collateral
On own behalf for commitments		
Real estate mortgages	17	17
Pledged assets	0	0
Other contingent liabilities	158	107
Total	175	125
On behalf of joint arrangements		
Guarantees	1	1
Total	1	1
On behalf of others		
Guarantees	2	1
Other contingent liabilities	2	2
Total	3	3
	179	129

Operating lease liabilities	2015	2014
Due within one year	72	53
Due between one and five years	61	48
Due later than five years	75	64
	209	164

### Operating leases

Lease rental expenses amounting to EUR 21 million (2014: EUR 21 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement in other expenses.

Commitments	2015	2014
Commitments for purchase of property, plant and equipment	84	51
	84	51

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 2015 are presented in the table below.

Fixed fees payable under take-or-pay contracts	2015	2014
Payable	16	16
Payable after the financial period	159	175
Total payable	176	192

### Other contingent liabilities

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

## 35. Disputes and potential litigations

In 2014 Finnish Customs has levied a penalty payment totaling approximately EUR 44 million on the Group because they saw that Finnish biofuel mandate requirements were not met in 2009 and 2010. Neste has supplied the amount of biofuels required by legislation in 2009 and 2010. Neste disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. The disagreement between Neste and Finnish Customs covers how the legislation on biofuel mandate should be interpreted. Neste appealed against the Finnish Customs' interpretation before the Administrative Court of Helsinki, which made its decision in June 2015. According to Court's decision, Finnish Customs should not have ordered a penalty payment, because Neste had not neglected its duty to report to the authority or erred in the biofuel mandate reporting. Finnish Customs have appealed against the decision before the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015.

In March 2014, Neste received a U.S. customs ruling regarding the classification under the Harmonized Tariff Schedule for the code and corresponding duty rate for a certain product Neste Oil imported into a foreign country, including prior entries from the years 2009–2014. This classification was different than the one utilized by Neste and has a higher duty rate, which could have an effect on some of the import entries dependent upon any Free Trade Agreement between the countries. Neste disputes the classification ruling and believes the classification originally utilized was appropriate considering the product's chemical composition and the applicable explanatory notes to the Harmonized Tariff Schedule. Neste has filed an appeal against such classification ruling seeking to align it with those of other global jurisdictions. If the classification ruling is ultimately upheld, Neste could be required to pay additional duties with an estimated impact of EUR 12 million which has not been reported as a provision in the consolidated financial statements as of 31 December 2015.

In February 2015 the District Court of Helsinki has given its ruling in the long-pending fairway due dispute in favor of shipping companies who took action on the issue. Neste Shipping is one of the shipping companies party to the action and as a result of the court ruling will receive approximately EUR 23 million from the Finnish state as a refund for unjustifiably collected fairway dues for 2001–2004, if the ruling of the District Court becomes legally valid. The sum also includes interest for the time elapsed. The Finnish state has appealed the ruling of the District Court to the Court of Appeals. According to the ruling, in breach of EU legislation, the Finnish state was charging higher fairway dues from international traffic than domestic traffic. Consequently, traffic between Finland and other Member States was discriminated against when compared with internal traffic in Finland.

In addition 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.

## 36. Events after the balance sheet date

No significant events took place in the Group after the balance sheet date.



## Parent company income statement

MEUR	Note	1 Jan –31 Dec 2015	1 Jan–31 Dec 2014
<b>Revenue</b>	2	6,366	10,255
Change in product inventories		17	–201
Other operating income	3	126	48
Materials and services	4	–5,636	–9,739
Personnel expenses	5	–220	–205
Depreciation, amortization and write-downs	6	–172	–146
Other operating expenses	7	–324	–222
<b>Operating profit/loss</b>		157	–208
Financial income and expenses	8	151	59
<b>Profit/loss before extraordinary items</b>		307	–149
Extraordinary items	9	202	204
<b>Profit before appropriations and taxes</b>		509	55
Appropriations	10	–27	–4
Income tax expense	11	–32	14
<b>Profit for the year</b>		450	64

## Parent company balance sheet

MEUR	Note	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>			
<b>Fixed assets and other long-term investments</b>	12, 13		
Intangible assets		47	43
Tangible assets		1,776	1,628
Other long-term investments		2,382	2,497
		4,205	4,169
<b>Current assets</b>			
Inventories	14	562	486
Long-term receivables	15	52	36
Short-term receivables	16	853	838
Cash and cash equivalents		557	8
		2,024	1,368
<b>Total assets</b>		6,229	5,536
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	17		
Share capital		40	40
Invested non-restricted equity fund		5	0
Retained earnings		957	1,058
Profit for the year		450	64
		1,451	1,163
<b>Accumulated appropriations</b>	18	931	903
<b>Provisions for liabilities and charges</b>	19	5	12
<b>Liabilities</b>	20		
Long-term liabilities		2,281	1,886
Short-term liabilities		1,561	1,572
		3,842	3,458
<b>Total equity and liabilities</b>		6,229	5,536

# Parent company cash flow statement

MEUR	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
<b>Cash flows from operating activities</b>		
Profit before extraordinary items	307	-149
Depreciation, amortization and write-downs	172	146
Other non-cash income and expenses	-31	22
Financial income and expenses	-151	-59
Divesting activities, net	-103	0
<b>Operating cash flow before change in working capital</b>	194	-41
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	97	46
Decrease (+)/increase (-) in inventories	-76	357
Decrease (-)/increase (+) in interest-free liabilities	-61	-425
Change in working capital	-40	-22
<b>Cash generated from operations</b>	154	-63
Interest and other financial expenses paid, net	-54	-55
Dividends received	223	125
Income taxes paid	0	-40
Realized foreign exchange gains and losses	-31	14
<b>Net cash from operating activities</b>	292	-18
<b>Cash flows from investing activities</b>		
Capital expenditure	-341	-205
Proceeds from sale of fixed assets	3	3
Investments in shares in subsidiaries	0	-31
Investments in shares in other shares	0	0
Proceeds from shares in subsidiaries	171	150
Change in other investments, increase (-)/decrease (+)	14	33
<b>Net cash used in investing activities</b>	-153	-50
<b>Cash flow before financing activities</b>	139	-68

MEUR	1 Jan – 31 Dec 2015	1 Jan – 31 Dec 2014
<b>Cash flows from financing activities</b>		
Purchase of treasury shares	0	-15
Proceeds from long-term liabilities	747	145
Payments of long-term liabilities	-401	-404
Change in short-term liabilities	25	-2
Dividends paid	-166	-167
Group contributions, net	204	161
<b>Cash flow from financing activities</b>	410	-283
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	549	-351
Cash and cash equivalents at the beginning of the period	8	358
Cash and cash equivalents at the end of the period	557	8
<b>Net increase (+)/decrease (-) in cash and cash equivalents</b>	549	-351

# Notes to the Parent Company Financial Statements

## 1. Accounting policies

The financial statements of Neste Corporation (Parent company) are prepared in accordance with Finnish GAAP. The financial statements are presented in millions of euros unless otherwise stated. The figures in the tables are exact figures and consequently the sum of individual figures may deviate from the sum presented.

### Revenue

Revenue include sales revenues from actual operations less discounts, indirect taxes such as value added tax and excise tax payable by the manufacturer and statutory stockpiling fees. Revenue is recorded for the exchange of goods only when dissimilar goods are exchanged.

### 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

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

Derivative contracts hedging future cash flow and qualifying for hedge accounting are booked once matured and the underlying exposure occurs. Derivative financial instruments used to hedge balance sheet items e.g. bank accounts, loans or receivables as well as derivatives hedging future cash flow but no qualifying for hedge accounting are recognized at fair value and gains or losses are recognized in the income statement. 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 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 Corporation is committed or obliged to settle, and whose monetary value can reasonably be assessed, are entered as expenses in the income statement and included as provisions in the balance sheet. These items include expenses relating to the pension liabilities, guarantee obligations, restructuring provisions, expenses relating to the future clean-up of proven environmental damage and obligation to return emission allowances. Provisions are recorded based on management estimates of the future obligation.

## 2. Revenue

Revenue by segment	2015	2014
Oil Products	6,313	10,210
Renewable Products	3	0
Oil Retail	0	0
Other	123	112
Eliminations	-73	-66
	6,366	10,255

Revenue by market area	2015	2014
Finland	3,363	4,683
Other Nordic countries	701	1,463
Baltic countries, Russia and Poland	600	949
Other European countries	1,388	2,079
North and South America	245	723
Other countries	69	359
	6,366	10,255

## 3. Other operating income

	2015	2014
Rental income	20	7
Gain on sale of intangible and tangible assets	0	0
Gain on sale of shares	103	0
Insurance compensations	0	39
Government grants	1	2
Other	3	1
	126	48

## 4. Materials and services

	2015	2014
Materials and supplies		
Purchases during the period	5,683	9,574
Change in inventories	-54	159
	5,629	9,733
External services	7	6
	5,636	9,739

## 5. Personnel expenses

	2015	2014
Wages, salaries and remunerations	167	158
Indirect employee costs	0	0
Pension costs	39	36
Other indirect employee costs	14	11
Wages and salaries capitalized in fixed assets	-1	0
	220	205

## Salaries and remuneration

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

Average number of employees	2015	2014
White-collar	1,257	1,334
Blue-collar	1,060	1,095
	2,317	2,429

## 6. Depreciation, amortization and write-downs

	2015	2014
Depreciation according to plan	165	143
Write-offs	6	2
Write-down of tangible fixed assets	1	0
	172	146

## 7. Other operating expenses

	2015	2014
Operating leases and other property costs	17	17
Repairs and maintenance	177	89
Other	130	115
	324	222
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress		
	0	1

### Fees charged by the statutory auditor, PwC EUR thousands

	2015	2014
Audit fees	344	248
Auditor's mandatory opinions	5	10
Tax advisory	29	62
Other advisory services	1,291	328
	1,669	648

### Fees charged by the statutory auditor, EY EUR thousands

	2015	2014
Audit fees	0	81
Auditor's mandatory opinions	0	7
Tax advisory	0	44
Other advisory services	0	86
	0	218

## 8. Financial income and expenses

	2015	2014
Dividend income		
From Group companies	223	125
From associated companies	0	0
From others	0	0
Dividend income total	223	125
Interest income from long-term loans and receivables		
From Group companies	0	1
From others	0	0
Interest income from long-term loans and receivables total	0	1

Other interest and financial income		
From Group companies	0	0
Other	0	0
Other interest and financial income total	0	1
Write-downs on long-term investments	0	-3
Interest expenses and other financial expenses		
To Group companies	-3	-2
Other	-56	-59
Interest expenses and other financial expenses total	-59	-61
Exchange rate differences	-13	-3
Financial income and expenses total	151	59

	2015	2014
Total interest income and expenses		
Interest income	0	1
Interest expenses	-53	-52
Net interest expenses	-53	-52

## 9. Extraordinary items

	2015	2014
Group contributions		
Group contributions received	202	204
Total	202	204

## 10. Appropriations

	2015	2014
Change in depreciation difference		
Difference between depreciation according to plan and depreciation in taxation	-27	-4

## 11. Income tax expense

	2015	2014
Income taxes on regular business operations	59	1
Income taxes on extraordinary items	-40	0
Taxes for prior periods	0	0
Change in deferred tax assets	14	-14
	32	-14

## 12. Fixed assets and long-term investments

### Change in acquisition cost 2015

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2015	1	116	117
Increases	0	12	12
Decreases	0	0	0
Transfers between items	0	0	0
Acquisition cost as of 31 December 2015	1	127	128
Accumulated depreciation, amortization and write-downs as of 1 January 2015	1	73	74
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	0	0
Depreciation and amortization for the period	0	8	8
Accumulated depreciation, amortization and write-downs as of 31 December 2015	1	81	82
Balance sheet value as of 31 December 2015	0	47	47

### Change in acquisition cost 2014

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2014	1	116	116
Increases	0	12	12
Decreases	0	12	12
Business transfer to Kilpilahden Sähkönsiirto Oy	0	0	0
Transfers between items	0	0	0
Acquisition cost as of 31 December 2014	1	116	117
Accumulated depreciation, amortization and write-downs as of 1 January 2014	1	73	74
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	6	6
Business transfer to Kilpilahden Sähkönsiirto Oy	0	0	0
Depreciation and amortization for the period	0	6	6
Accumulated depreciation, amortization and write-downs as of 31 December 2014	1	73	74
Balance sheet value as of 31 December 2014	0	43	43



## Change in acquisition cost 2015

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 2015	25	1,137	2,222	86	213	3,685
Increases	0	62	236	22	0	321
Decreases	0	6	32	0	10	48
Transfers between items	0	0	67	0	-67	0
Acquisition cost as of 31 December 2015	25	1,193	2,494	108	136	3,957
Accumulated depreciation, amortization and write-downs as of 1 January 2015	0	563	1,486	35	0	2,084
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	6	32	0	0	38
Depreciation, amortization and write downs for the period	0	34	122	7	0	163
Accumulated depreciation, amortization and write-downs as of 31 December 2015	0	591	1,577	42	0	2,209
Revaluations	6	22	0	0	0	28
Balance sheet value as of 31 December 2015	31	624	918	66	136	1,776
Balance sheet value of machinery and equipments used in production						872

## Change in acquisition cost 2014

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 2014	25	1,140	2,232	84	132	3,613
Increases	0	46	65	3	103	217
Decreases	0	2	11	0	3	17
Business transfer to Kilpilahden Sähkösiirto Oy	0	47	64	0	19	129
Transfers between items	0	0	0	0	0	0
Acquisition cost as of 31 December 2014	25	1,137	2,222	86	213	3,685
Accumulated depreciation, amortization and write-downs as of 1 January 2014	0	541	1,429	33	0	2,005
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	0	10	0	0	10
Business transfer to Kilpilahden Sähkösiirto Oy	0	11	38	0	0	49
Depreciation, amortization and write downs for the period	0	33	105	2	0	139
Accumulated depreciation, amortization and write-downs as of 31 December 2014	0	563	1,486	35	0	2,084
Revaluations	6	22	0	0	0	28
Balance sheet value as of 31 December 2014	31	596	737	51	213	1,628
Balance sheet value of machinery and equipments used in production						705

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 2015	2,445	4	0	0	4	44	2,497
Increases	0	0	0	0	0	0	0
Decreases	69	2	0	0	0	44	115
Acquisition cost as of 31 December 2015	2,377	1	0	0	4	0	2,382
Accumulated depreciation, amortization and write-downs as of 1 January 2015	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2015	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2015	2,377	1	0	0	4	0	2,382

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 2014	2,527	5	1	0	4	11	2,547
Increases	37	18	0	0	0	44	99
Decreases	119	19	0	0		10	148
Acquisition cost as of 31 December 2014	2,445	4	0	0	4	44	2,497
Accumulated depreciation, amortization and write-downs as of 1 January 2014	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2014	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2014	2,445	4	0	0	4	44	2,497

Interest-bearing and interest-free receivables	2015	2014
Interest-bearing receivables	2	4
Interest-free receivables	0	44
	2	48

## 13. Revaluations

	Revaluations as of Jan 1 2015	Increases	Decreases	Revaluations as of Dec 31 2015
Land areas	6	0	0	6
Buildings	22	0	0	22
Total	28	0	0	28

### Policies and principles for revaluations and evaluation methods

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

## 14. Inventories

	2015	2014
Raw materials and supplies	247	186
Products/finished goods	309	292
Advance payments on inventories	6	8
	562	486
Replacement value of inventories	562	487
Book value of inventories	562	486
Difference	0	0

## 15. Long-term receivables

	2015	2014
Long-term advance payments	3	4
Receivables from Group companies		
Other long-term receivables	47	16
Deferred tax assets	2	16
	52	36

## 16. Short-term receivables

	2015	2014
Trade receivables	261	302
Receivables from Group companies		
Trade receivables	212	252
Other receivables	207	207
Accrued income and prepaid expenses	3	2
Total	423	461
Receivables from associated companies		
Trade receivables	0	0
Other receivables	0	0
Total	0	0
Other receivables	35	33
Accrued income and prepaid expenses	134	43
	853	838

Short-term accrued income and prepaid expenses	2015	2014
Accrued interest	4	5
Accrued taxes	0	12
Derivative financial instruments	121	0
Other	13	26
	137	44

## 17. Changes in shareholders' equity

	2015	2014
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Invested non-restricted equity fund at 1 January	0	0
Transfer of treasury shares	5	0
Invested non-restricted equity fund at 31 December	5	0
Retained earnings at 1 January	1,123	1,242
Dividends paid	-166	-167
Reversal of revaluation	0	-2
Transfer/Purchase of treasury shares	0	-15
Profit for the year	450	64
Retained earnings at 31 December	1,406	1,123
Distributable equity	1,411	1,123

## 18. Accumulated appropriations

	2015	2014
Depreciation difference	931	903

## 19. Provisions for liabilities and charges

	2015			2014		
	Restructuring provisions	Provision for environment	Total	Restructuring provisions	Provision for environment	Total
Provisions as of 1 January	8	3	12	0	2	2
Increase	0	0	0	8	2	10
Decrease	5	2	7	0	0	0
Provisions as of 31 December	3	2	5	8	3	12

## 20. Liabilities

Long-term liabilities	2015	2014
Bonds	1,194	995
Loans from financial institutions	70	77
Liabilities to Group companies		
Other long-term liabilities	1,010	808
Other long-term liabilities	3	3
Accruals and deferred income	4	2
	2,281	1,886

Interest-bearing liabilities due after five years	2015	2014
Bonds	497	0
Loans from financial institutions	3	10
Liabilities to Group companies	1,010	758
	1,510	768

Short-term liabilities	2015	2014
Bonds	300	300
Loans from financial institutions	7	106
Advances received	41	2
Trade payables	480	588
Liabilities to Group companies		
Advances received	1	0
Trade payables	84	85
Other short-term liabilities	166	89
Accruals and deferred income	0	0
Total	251	175
Liabilities to associated companies		
Trade payables	0	3
Other short-term liabilities	0	0
Total	0	3
Other short-term liabilities	297	305
Accruals and deferred income	186	93
	1,561	1,572

Short-term accruals and deferred income	2015	2014
Salaries and indirect employee costs	59	50
Accrued interests	27	26
Accrued taxes	7	0
Derivative financial instruments	92	18
Other short-term accruals and deferred income	0	0
	186	94

Interest-bearing and interest-free liabilities	2015	2014
Long-term liabilities		
Interest-bearing liabilities	2,277	1,884
Interest-free liabilities	4	2
	2,281	1,886
Short-term liabilities		
Interest-bearing liabilities	469	406
Interest-free liabilities	1,093	1,166
	1,561	1,572

## 21. Contingent liabilities

Contingent liabilities	2015	2014
<b>Operating lease liabilities</b>		
Due within a year	3	3
Due after a year	3	4
	5	7
<b>Contingent liabilities given on own behalf</b>		
Real estate mortgages	17	17
Pledged assets	0	0
Other contingent liabilities	14	7
	31	23
<b>Contingent liabilities given on behalf of Group companies</b>		
Guarantees	102	164
	102	164
<b>Contingent liabilities given on behalf of associated companies</b>		
Guarantees	1	1
	1	1
<b>Contingent liabilities given on behalf of others</b>		
Guarantees	2	1
	2	1
<b>Contingent liabilities total</b>	<b>141</b>	<b>197</b>

## 22. Derivative financial instruments

	2015			2014		
Interest and currency derivative contracts and share forward contracts	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	600	13	-4	750	22	-5
Forward foreign exchange contracts	1,689	-1	-3	2,125	-29	-17
Currency options						
Purchased	751	-2	0	142	-1	0
Written	401	1	0	140	-5	-5

	2015			2014		
Oil derivative contracts	Volume million bbl	Fair value	Not recognized as an income	Volume million bbl	Fair value	Not recognized as an income
Sales contracts	21	52	0	13	182	182
Purchase contracts	12	-22	0	14	-142	-137

	2015			2014		
Electricity and gas derivative contracts	Volume GWh	Fair value	Not recognized as an income	Volume GWh	Fair value	Not recognized as an income
Sales contracts	834	3	0	503	1	1
Purchase contracts	2,432	-8	0	2,691	-4	-4

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 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 commodity derivative contracts is based on the net present value of the forward contracts quoted market prices at the balance sheet date.

## 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 2015 EUR thousands
<b>Subsidiary shares</b>				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	39,725
Kilpilahden Voimalaitos Oy	Finland	1	100.00	3
LLC Neste Saint-Petersburg	Russia	10	100.00	58,427
Navidom Oy	Finland	50	50.00	1
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 AB	Sweden	2,000,000	100.00	23,972
Neste Components Finance B.V.	The Netherlands	40	100.00	8,022
Neste Affiliate B.V.	The Netherlands	26,090	100.00	19,177
Neste Insurance Limited	Guernsey	7,000,000	100.00	3,000
Neste N.V.	Belgium	4,405,414	99.99	414,753
Neste (Suisse) S.A.	Switzerland	200	100.00	62
Neste US, Inc.	USA	2,000	100.00	19,528
Neste Renewable Fuels Oy	Finland	200	100.00	1,676,901
Neste Shipping Oy	Finland	101	100.00	55,452
				2,376,855
<b>Associated companies</b>				
A/B Svartså Vattenverk – Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Neste Arabia Co. Ltd.	Saudi-Arabia	480	48.00	0
Porvoon Alueverkko Oy	Finland	40	33.33	7
Tahkoluodon Polttoöljy Oy	Finland	630	31.50	5
Vaskiluodon Kalliovarasto Oy	Finland	330	50.00	7
				143

### Other shares and holdings

CLEEN Oy	Finland	100	100
East Office of Finnish Industries Oy	Finland	1	10
Ekokem Oyj	Finland	75,000	2.13 125
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
Posintra Oy	Finland	190	34
			3,465

### Telephone shares

Elisa Oyj	Finland	1	0
Pietarsaaren Seudun Puhelin Oy	Finland	3	1
Osuuskunta PPO	Finland	1	0
Savonlinnan Puhelinosuuskunta SPY	Finland	1	1
			2
<b>Connection fees</b>			
			63

<b>Total</b>			2,380,528
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## 25. Disputes and potential litigations

In 2014 Finnish Customs has levied a penalty payment totaling approximately EUR 44 million on the company because they saw that Finnish biofuel mandate requirements were not met in 2009 and 2010. Neste has supplied the amount of biofuels required by legislation in 2009 and 2010. Neste disputes Finnish Customs' interpretation and believes that it complied with the requirements according to the legislation in force at the time. The disagreement between Neste and Finnish Customs covers how the legislation on biofuel mandate should be interpreted. Neste appealed against the Finnish Customs' interpretation before the Administrative Court of Helsinki, which made its decision in June 2015. According to Court's decision, Finnish Customs should not have ordered a penalty payment, because Neste had not neglected its duty to report to the authority or erred in the biofuel mandate reporting. Finnish Customs have appealed against the decision before the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015.

## 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 2015 stood at EUR 1,411 million.

The Board of Directors proposes Neste Corporation to pay a dividend of EUR 1.00 per share for 2015, totalling EUR 256 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 3 February 2016

Jorma Eloranta

Maija-Liisa Friman

Laura Raitio

Jean-Baptiste Renard

Willem Schoeber

Kirsi Sormunen

Marco Wirén

Matti Lievonen  
President and CEO

# Auditor's Report (Translation from the Finnish original)

## To the Annual General Meeting of Neste Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Neste Oyj for the year ended 31 December, 2015. 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 Managing Director

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they 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 and the consolidated 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 and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Espoo 3 February 2016

PricewaterhouseCoopers Oy  
*Authorised Public Accountants*

Markku Katajisto  
*Authorised Public Accountant*

## Quarterly segment information

### Revenue

MEUR	10-12/2015	7-9/2015	4-6/2015	1-3/2015	10-12/2014	7-9/2014	4-6/2014	1-3/2014
Oil Products	1,756	2,060	1,675	1,976	2,652	2,879	3,124	2,630
Renewable Products	711	582	583	496	575	560	603	531
Oil Retail	898	991	976	882	1,046	1,153	1,076	1,019
Others	71	60	74	62	63	58	60	58
Eliminations	-678	-670	-704	-672	-785	-803	-759	-728
Total	2,759	3,023	2,605	2,744	3,552	3,846	4,104	3,510

### Operating profit

MEUR	10-12/2015	7-9/2015	4-6/2015	1-3/2015	10-12/2014	7-9/2014	4-6/2014	1-3/2014
Oil Products	2	119	42	226	-180	11	46	12
Renewable Products	218	12	11	-7	154	20	3	30
Oil Retail	13	27	22	17	8	26	20	14
Others	15	-1	-14	0	-5	-1	2	-8
Eliminations	-3	1	3	-3	-2	-3	-1	2
Total	245	158	63	233	-25	54	70	50

### Comparable operating profit

MEUR	10-12/2015	7-9/2015	4-6/2015	1-3/2015	10-12/2014	7-9/2014	4-6/2014	1-3/2014
Oil Products	91	178	14	156	110	111	33	32
Renewable Products	231	75	54	42	142	53	32	12
Oil Retail	17	27	22	17	8	26	20	14
Others	15	-1	-14	3	-2	5	2	-11
Eliminations	-3	1	3	-3	-2	-3	-1	2
Total	352	281	78	215	256	191	86	50