



NESTE 2016

Financial Statements

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Consolidated Statement of Income

MEUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Revenue	4,7	11,689	11,131
Other income	8	71	109
Share of profit (loss) of joint ventures	19	14	27
Materials and services	9	-9,519	-9,539
Employee benefit costs	10	-349	-351
Depreciation, amortization and impairments	11	-366	-358
Other expenses	12	-386	-320
Operating profit		1,155	699
Financial income and expenses	13		
Financial income		4	2
Financial expenses		-67	-84
Exchange rate and fair value gains and losses		-17	16
Total financial income and expenses		-79	-65
Profit before income taxes		1,075	634
Income tax expense	14	-133	-74
Profit for the period		943	560
Attributable to:			
Owners of the parent		939	558
Non-controlling interests		4	3
		943	560
Earnings per share from profit attributable to owners of the parent (in EUR per share)	15		
Basic		3.67	2.18
Diluted		3.66	2.18

Consolidated Statement of Comprehensive Income

MEUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Profit for the period	943	560
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss		
Remeasurements on defined benefit plans	-21	30
Items that may be reclassified subsequently to profit or loss		
Translation differences	6	1
Cash flow hedges		
recorded in equity	-20	-71
transferred to income statement	6	97
Net investment hedges	0	1
Share of other comprehensive income of investments accounted for using the equity method	-9	-9
Total	-17	20
Other comprehensive income for the period, net of tax	-38	50
Total comprehensive income for the period	905	611
Total comprehensive income attributable to:		
Owners of the parent	902	608
Non-controlling interests	4	3
	905	611

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

Consolidated Statement of Financial Position

MEUR	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	18	87	71
Property, plant and equipment	17	3,747	3,745
Investments in joint ventures	19	216	220
Non-current receivables	20,21	55	10
Deferred tax assets	28	39	29
Derivative financial instruments	20,25	9	11
Available-for-sale financial assets	20,21	5	5
Total non-current assets		4,157	4,090
Current assets			
Inventories	22	1,416	1,090
Trade and other receivables	3,23	1,034	870
Derivative financial instruments	20,25	48	99
Cash and cash equivalents	24	788	596
Total current assets		3,285	2,655
Assets classified as held for sale	5	0	47
Total assets		7,443	6,793

MEUR	Note	31 Dec 2016	31 Dec 2015
EQUITY			
Capital and reserves attributable to owners of the parent			
Share capital	26	40	40
Other equity		3,693	3,044
Total		3,733	3,084
Non-controlling interests		22	20
Total equity		3,755	3,104
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	20,27	1,117	1,449
Deferred tax liabilities	28	246	265
Provisions	29	53	39
Pension liabilities	30	136	113
Derivative financial instruments	20,25	2	6
Other non-current liabilities	20,27	11	6
Total non-current liabilities		1,565	1,878
Current liabilities			
Interest-bearing liabilities	20,27	354	438
Current tax liabilities	27	40	21
Derivative financial instruments	20,25	164	45
Trade and other payables	20,27	1,565	1,307
Total current liabilities		2,123	1,811
Total liabilities		3,688	3,689
Total equity and liabilities		7,443	6,793

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

Consolidated Cash Flow Statement

MEUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015	MEUR	Note	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from operating activities				Cash flows from investing activities			
Profit before income taxes		1,075	634	Purchases of property, plant and equipment		-381	-491
Adjustments for				Purchases of intangible assets	18	-26	-13
Share of profit (loss) of joint ventures	19	-14	-27	Proceeds from sale of subsidiaries, net of cash disposed	6	0	171
Depreciation and amortization	11	366	358	Proceeds from sale of property, plant and equipment		40	26
Other non-cash income and expenses		135	0	Changes in non-current receivables and available-for-sale financial assets		9	44
Financial expenses - net	13	79	65	Cash flows from investing activities		-359	-263
Profit/loss from disposal of fixed assets and shares	8	-28	-77				
		1,614	953	Cash flow before financing activities		834	480
Change in working capital							
Decrease (+)/increase (-) in trade and other receivables		-147	16	Cash flows from financing activities			
Decrease (+)/increase (-) in inventories		-321	-37	Payment of (-) / proceeds from (+) current interest-bearing liabilities		0	-99
Decrease (-)/increase (+) in trade and other payables		239	-74	Proceeds from non-current interest-bearing liabilities		0	528
Change in working capital		-229	-94	Repayments of non-current interest-bearing liabilities		-387	-390
		1,385	858	Dividends paid to the owners of the parent		-256	-166
Interest and other finance cost paid		-73	-74	Dividends paid to non-controlling interests		-1	-1
Interest income received		6	3	Cash flows from financing activities		-644	-128
Dividends received		0	0				
Realized foreign exchange gains and losses		12	-18	Net decrease (-)/increase (+) in cash and cash equivalents		191	352
Income taxes paid		-137	-27				
		-192	-115	Cash and cash equivalents at beginning of the period		596	246
Net cash generated from operating activities		1,193	743	Exchange gains (+)/losses (-) on cash and cash equivalents		1	-1
				Cash and cash equivalents at end of the period	24	788	596

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
Total equity at 1 January 2015		40	19	0	-15	-56	-85	-61	2,800	2,641	18	2,659
Profit for the period									558	558	3	560
Other comprehensive income for the period						17	30	2		50		50
Total comprehensive income for the period						17	30	2	558	608	3	611
Dividend paid									-166	-166	-1	-167
Share-based compensation				1	3				-4	0		0
Transfer from retained earnings			1						-1	0		0
Total equity at 31 December 2015	26	40	20	1	-12	-39	-54	-59	3,186	3,084	20	3,104

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
Total equity at 1 January 2016		40	20	1	-12	-39	-54	-59	3,186	3,084	20	3,104
Profit for the period									939	939	4	943
Other comprehensive income for the period						-23	-21	6		-38		-38
Total comprehensive income for the period						-23	-21	6	939	902	4	905
Dividend paid									-256	-256	-1	-257
Share-based compensation				3	2				-2	3		3
Transfer from retained earnings			1						-1	0		0
Total equity at 31 December 2016	26	40	20	4	-10	-62	-75	-52	3,867	3,733	22	3,755

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 fore-runner 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 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 6 February 2017.

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, significant amendments and interpretations adopted by the Group

There have been no new standards, significant amendments or interpretations to existing standards in year 2016, which would have had a material impact on Neste's consolidated financial statements.

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 an 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 an income statement with the irrevocable option at inception to present changes in fair value in other comprehensive income not to be recycled. A new expected credit loss model 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.

IFRS 9 has been endorsed and approved by the EU in November 2016. The standard is effective from 1 January 2018 onwards. Early adoption is permitted. The Group will start applying IFRS 9 from 1.1.2018. Classification and measurement changes or impairment requirements for financial instruments do not have major effects for Neste.

Application of hedge accounting within existing hedge accounting relationships (cash flow and fair value hedges within foreign exchange and interest rate derivatives) will continue under IFRS 9 as earlier.

IFRS 9 will allow the application of hedge accounting in separate commodity risk components, but the Group does not expect to be applying hedge accounting in commodity derivatives. The Group hedges its commodity risk in line with its risk management policy and these derivatives will continue to be presented at fair value through income statement.

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).

IFRS 15 has been endorsed by the EU in September 2016. The standard is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group will start applying IFRS 15 from 1.1.2018, and will apply the modified retrospective model.

Based on the Groups' interpretations, it has been assessed that the implementation of IFRS 15 is not likely to have a significant impact on the consolidated financial statements. Management has assessed the IFRS 15 impact on the different agreement types that are used in Neste's business areas. The majority of the Group's net sales comprise of fuel and other product sales. These sales contracts are mostly standard in nature, and the delivery terms have been investigated, with no major impact compared to the current revenue recognition. Certain storage service contracts, rebates, bonuses, penalties, warranties and other special terms and conditions that deviate from the basic agreement types have also been analyzed in more detail, and these are unlikely to have an impact on Neste's revenue recognition compared to the current accounting policy.

A part of the Group's product sales are under CIF Incoterm conditions, where the total sales price is allocated to the separate performance obligations; the first being the product and the second being the other costs, insurance and freight. The sales price allocated to the product is recognized upon shipment. The sales price for the

costs, insurance and freight will be recognized when the latter performance obligation has been fulfilled. However, the allocated sales price for these is a minor part of the total revenue from contracts with customers, and thus the estimated impact of IFRS 15 on the Group's net sales and operating profit is estimated to be minor.

Subsidiary Neste Jacobs' current revenue recognition based on the percentage of completion method is also consistent with IFRS 15, as the revenue is already recognized over time.

Renewable products' RINs (Renewable Identification Number), LCFS (Low Carbon Fuels Standard) credits, and BTCs (Blender's Tax Credits) and other similar separate performance obligations have also been assessed, with no changes to the current revenue recognition.

At the moment there is no industry guidance for the Oil and Gas Industry. Should there be any industry guidance published, the Group will follow that guidance and the impact on the Group's net sales might differ from the current assessment described above.

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 after EU endorsement. The Group has preliminary reviewed leasing, service and some utility purchase contracts to assess the effects of IFRS 16. The Group's assessment of the standard impact is under further investigation.

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. More information regarding inventories is presented in [Note 22](#).

Impairment testing

Intangible assets and property, plant and equipment are always tested for impairment, when there is any indication that an asset may be impaired. 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. More information regarding impairment testing is presented in [Note 18](#).

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. 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, Nestle 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 this 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 either 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 the 'Joint arrangements' paragraph.

Structured entities

The Group engages in 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 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 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 strict 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 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 trade date at fair value. Purchases and sales of other 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 when 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 at fair value, net of transaction costs, and subsequently measured 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 recorded at fair value through profit and loss when hedge accounting is not applied.

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 consolidated financial statement 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 forecast 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 and currency 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 to the 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 feedstock 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 forecast 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 feedstock selection and limited availability of hedging instruments.

The exposure to open positions of commodity derivative contracts as of 31 December 2016 (2015) 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 forecast cash flows and balance sheet exposures (referred to as transaction exposure) as well as the equity of non-eurozone 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 forecast 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 six 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), Norwegian Crown (NOK) 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

2016, the daily balance sheet exposure fluctuated between approximately EUR 483 million and 1,090 million (2015: EUR 440 million and 985 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 2016 (2015) 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 250 million as of 31 December 2016 (2015: EUR 284 million) and the exposures and hedging ratios are summarized in the following table.

Group translation exposure	2016			2015		
	Net investment	Hedge	Hedge %	Net investment	Hedge	Hedge %
MEUR						
USD	21	0	0%	17	0	0%
SEK	182	0	0%	174	0	0%
CAD	2	0	0%	55	0	0%
RUB	45	0	0%	38	0	0%
Other	0	0	0%	0	0	0%
	250	0	0%	284	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 debt portfolio is 12 months, and duration can vary between six and 48 months. In addition to duration, Neste uses flow risk limitation.

Interest rate derivatives have been used to adjust the duration of the 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 2016 (2015) 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
Financial instruments with floating interest rate				
Financial liabilities				
Loans from financial institutions	127	0	0	127
Finance lease liabilities	0	0	0	0
Bonds	0	50	0	50
Effect of interest rate swaps	150	-150	0	0
Financial instruments with fixed interest rate				
Bonds	254	400	500	1,154
Other loans	2	30	19	51
Finance lease liabilities	3	14	73	90
	536	344	592	1,471

The table below shows the nominal values of the Group's interest-bearing debt by currency as of 31 December 2016 and 2015, in millions of Euros.

MEUR	2016	2015
EUR	1,290	1,703
SGD	86	87
USD	95	98
	1,471	1,888

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 2017 (2016), 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

		2017	2016
+/- 10% in the EUR/USD exchange rate	EUR million	-136/+166	-105/+129
+/- USD 1.00/barrel in total refining margin	USD million	+/-105	+/-110
+/- USD 10/barrel in crude oil price ¹⁾	USD million	+/-80	+/-85
+/- USD 100/t in Renewable Products raw material price ¹⁾	USD million	+/-105	+/-105
+/- USD 50/t in Renewable Products refining margin ²⁾	USD million	+/-120	+/-120

¹⁾ Inventory gains/losses excluded from comparable operating profit

²⁾ 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 2016 (2015). 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.

Sensitivity to market risks arising from financial instruments as required by IFRS 7		2016		2015	
		Income statement	Equity	Income statement	Equity
+/- 10% change in oil price ¹⁾	EUR million	-/+17	-/+0	-/+4	-/+0
+/- 10% change in EUR/USD exchange rate	EUR million	+65/-76	+60/-69	+57/-67	+25/-33
1% parallel shift in interest rates	EUR million	+/-3	+/-0	+/-4	+/-0
+/- 10% change in USD/MYR exchange rate	EUR million	-/+3	-/+0	+/-0	+/-7

¹⁾ 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.

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. foreign currency derivative contracts hedging USD-sales 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 2016 and 2015, 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. 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	2016	2015
Gain or loss on the hedging instrument	-8	-10
Gain or loss on the hedged item	7	10

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. Unused committed credit facilities together with excess cash must always be in minimum EUR 500 million and sufficient to cover all forecasted negative free cash flows and interest bearing liabilities maturing within the next 12 month period. 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 2016 was 3.6 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 2016, the Group had cash and cash equivalents and committed, unutilized credit facilities totaling EUR 2,438 million at its disposal.

Cash and cash equivalents and committed unutilized credit facilities

	2016	2015
Floating rate		
- cash and cash equivalents	788	596
- overdraft facilities, expiring within one year	150	150
- revolving credit facility, expiring beyond one year	1,500	1,500
	2,438	2,246

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 Dec 2016

	2017 ¹⁾	2018	2019	2020	2021	2022–	Total
Other than derivatives							
Trade payables	1,030	0	0	0	0	0	1,030
Bonds and debentures	287	77	427	11	11	511	1,324
- less interest expenses	37	27	27	11	11	11	124
Repayment of bonds and debentures	250	50	400	0	0	500	1,200
Loans from financial institutions	101	8	14	0	0	0	123
- less interest expenses	0	0	0	0	0	0	0
Repayment of loans from financial institutions	101	8	14	0	0	0	123
Finance lease liabilities	15	15	16	15	14	161	236
- less interest expenses	12	12	12	11	10	89	146
Repayment of finance lease liabilities	3	3	4	4	4	72	90
Other liabilities	4	5	37	2	2	22	72
- less interest expenses	4	4	4	1	1	4	18
Repayment of other long-term liabilities	0	1	32	1	1	19	54
Other than derivatives together	1,437	105	493	28	27	695	2,785
Commodities	102	0	0	0	0	0	102
Interest rate swaps: inflow (-)	-3	-2	-3	0	0	0	-8
Gross settled forward foreign exchange contracts							
- inflow (-)	-2,016	0	0	0	0	0	-2,016
- outflow	2,064	0	0	0	0	0	2,064

¹⁾ Repayments in 2017 are included in current liabilities in the balance sheet

Maturity profile of financial liabilities based on contractual payments 31 Dec 2015	2016 ¹⁾	2017	2018	2019	2020	2021–	Total
Other than derivatives							
Trade payables	787	0	0	0	0	0	787
Bonds and debentures	355	287	77	427	11	521	1,678
- 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	110	56	16	21	7	3	213
- 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	38	15	15	14	14	175	271
- less interest expenses	13	12	12	11	11	98	157
Repayment of finance lease liabilities	25	3	3	3	3	77	114
Other liabilities	4	4	4	36	2	26	76
- less interest expenses	4	4	4	3	1	6	22
Repayment of other long-term liabilities	0	0	0	33	1	20	54
Other than derivatives together	1,294	362	112	498	34	725	3,025
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

¹⁾ Repayments in 2016 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. Limits, mandates and management principles for credit and counterparty risk are covered in the Neste Risk Management Policy and separate instruction level documents.

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 a 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 have a minimum credit rating that is defined in Neste Risk Management Policy. 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 is defined in Neste Treasury principles.

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 2016, approximately 100% of the counterparties or their parent companies related to commodity derivative contracts have investment grade rating from an established international credit rating agency. Respectively, Group Treasury & Risk Management had an exposure for currency and interest rate derivative contracts as at 31 December 2016 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 an investment grade credit rating; 51% consists of trade receivables from counterparties not having an investment grade credit rating, most of it comprising from a large number of corporate and private customers.

Analysis of trade receivables by age	2016	2015
Undue trade receivables	824	730
Trade receivables 1-30 days overdue	39	38
Trade receivables 31-60 days overdue	3	1
Trade receivables more than 60 days overdue	10	5
Trade receivables total	875	774
Credit loss provision	-2	-3
Trade receivables – Net	874	771

The Group makes an ISDA master netting agreement or another netting agreement with each derivative counterparties. 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 2016	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	56	47	9
Trade receivables	9	6	4
Financial liabilities			
Derivatives	166	49	117
Trade payables	7	6	1

31 Dec 2015	Gross amount of recognized financial instruments	Related liabilities or assets subject to Master netting agreements	Net exposure
Financial assets			
Derivatives	110	26	84
Trade receivables	24	5	19
Financial liabilities			
Derivatives	51	26	25
Trade payables	6	5	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 2016 and 2015 was as follows:

	2016	2015
Total interest-bearing liabilities	1,471	1,888
Cash and cash equivalents	788	596
Interest-bearing net debt	683	1,291
Total equity	3,755	3,104
Interest-bearing net debt and total equity	4,438	4,395
Leverage ratio	15.4%	29.4%

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 and Strategy, Human Resources and Safety, Sustainability and Public Affairs, Technology, Emerging Businesses, Communications 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 Neste renewable diesel and Neste 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 2016 and 2015 did not result in any major concentration in any given geographical area or operating segment.

Information about the Group's operating segments as of and for the years ended 31 December 2016 and 2015 is presented in the following tables:

2016	Oil Products	Renewable Products	Oil Retail	Others	Eliminations	Group	Note
External revenue	5,629	2,467	3,523	69	0	11,689	
Internal revenue	1,766	223	28	225	-2,241	0	
Total revenue	7,395	2,690	3,552	294	-2,241	11,689	7
Other income	42	6	7	34	-19	71	8
Share of profit (loss) of joint ventures	3	0	0	11	0	14	19
Materials and services	-6,266	-1,939	-3,326	-64	2,076	-9,519	9
Employee benefit costs	-138	-32	-33	-148	2	-349	10
Depreciation, amortization and impairments	-217	-109	-22	-18	0	-366	11
Other expenses	-256	-97	-88	-121	177	-386	12
Operating profit	563	518	89	-11	-5	1,155	
Financial income and expense						-79	13
Profit before taxes						1,075	
Income taxes						-133	14
Profit for the period						943	
Comparable operating profit	453	469	90	-23	-6	983	
inventory gains/losses	157	123	0	0	0	280	
changes in the fair value of open commodity and currency derivatives	-57	-60	0	0	0	-118	
capital gains and losses	11	0	0	12	0	23	
insurance and other compensations	0	0	0	0	0	0	
other adjustments	0	-13	0	0	0	-13	
Operating profit	563	518	89	-11	-5	1,155	
Capital expenditure and investments in shares	249	104	31	38	0	422	
Segment operating assets	3,560	2,191	545	307	-310	6,293	
Investments in joint ventures	21	0	0	195	0	216	19
Deferred tax assets						39	28
Unallocated assets						894	
Total assets	3,581	2,191	545	502	-310	7,443	
Segment operating liabilities	1,157	380	350	253	-297	1,843	
Deferred tax liabilities						246	28
Unallocated liabilities						1,599	
Total liabilities	1,157	380	350	253	-297	3,688	
Segment net assets	2,424	1,811	196	249	-12	4,667	
Return on net assets, %	23.2	28.6	47.3	-5.3			
Comparable return on net assets, %	18.7	25.9	47.5	-11.3			

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 commodity and currency derivatives	35	-50	0	0	0	-15	
capital gains and losses	76	0	0	0	0	76	
insurance and other compensations	0	0	0	0	0	0	
other adjustments	-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			

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.

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
2016							
Revenue by destination	4,181	1,983	1,135	2,504	1,790	96	11,689
Non-current assets	2,545	195	103	650	0	557	4,049
Capital expenditure	315	0	8	84	0	15	422

	Finland	Other Nordic countries	Baltic rim	Other European countries	North and South America	Other countries	Group
2015							
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

5. Assets held for sale

There were no assets classified as held for sale on 31 December 2016.

The assets classified as held for sale as of 31 December 2015 relate to the agreements to create a joint venture company owned by Neste, Veolia and Borealis. The joint venture company produces and supplies steam and other utilities to Neste's refinery and Borealis' petrochemical plant in Porvoo, Finland. The transaction was completed in March 2016. The company, Kilpilahti Power Plant Ltd is owned 40% each by Neste and Veolia and 20% by Borealis. Classified power plant was part of the Oil Products segment.

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

6. Acquisitions and disposals

Acquisitions

No acquisitions took place in financial periods 2016 and 2015.

Disposals

No disposals took place in financial period 2016.

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 Sähkösiirto Oy

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

7. Analysis of revenue by category

	2016	2015
Sale of goods	11,526	10,946
Revenue from services	158	182
Royalty income	3	2
Other	1	1
	11,689	11,131

Sale of goods include product sales from the Group's own refineries, other production facilities and retail stations as well as other sale of petroleum products, feedstock, raw materials and oil trading. Excise taxes included in the retail selling price of finished oil products amounting to EUR 1,457 million (2015: EUR 1,309 million) are included in product sales. The corresponding amount is included in 'Materials and Services', [Note 9](#).

Oil trading included in Sale of goods comprise of revenue from physical 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 Sale of goods amounting to EUR -3 million (2015: EUR -82 million).

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

8. Other income

	2016	2015
Gain on sale of subsidiaries	0	79
Capital gains on disposal of other non-current assets	28	1
Rental income	22	17
Government grants	6	7
Insurance compensations	10	0
Other	5	5
	71	109

Government grants relate mainly to the shipping operations, which are entitled to apply for certain grants based on Finnish legislation. EUR 0 million (2015: EUR 1 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. Capital gains on disposal of other non-current assets relate mainly to the sale of a minority share in Ekokem Corporation.

9. Materials and services

	2016	2015
Materials and supplies	9,780	9,508
Change in inventories	-317	-31
External services	56	61
	9,519	9,539

Materials and supplies include excise taxes included in the retail selling price of petroleum products amounting to EUR 1,457 million (2015: EUR 1,309 million). The corresponding amount is included in 'Revenue', [Note 7](#).

Net gains/losses on financial instruments related to purchases designated as cash flow hedges are included in Materials and supplies. In 2016 the loss amounted to EUR 5 million (2015: loss EUR 38 million).

10. Employee benefit costs

	2016	2015
Wages, salaries	266	271
Social security costs	26	27
Pension costs-defined contribution plans	42	37
Pension costs-defined benefit plans	8	8
Other costs	7	8
	349	351

Number of personnel (average)	2016	2015
Oil Products	1,693	1,725
Renewable Products	267	263
Oil Retail	1,354	1,353
Others	1,699	1,565
	5,013	4,906

11. Depreciation, amortization and impairment charges

	2016	2015
Depreciation of property, plant, and equipment		
Buildings and structures	75	82
Machinery and equipment	259	243
Other tangible assets	22	22
	356	347
Amortization of intangible assets	10	11
Depreciation, amortization and impairment charges total	366	358

12. Other expenses

	2016	2015
Operating leases and other property costs	44	42
Repairs and maintenance	143	109
Services	107	88
Insurance	18	17
Other	73	65
	386	320

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

	2016	2015
Audit fees	936	990
Auditor's mandatory opinions	0	19
Tax advisory	67	181
Other advisory services	221	1,317
	1,224	2,507

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

13. Financial income and expenses

	2016	2015
Financial income		
Dividend income on available-for-sale investments	0	0
Interest income from loans and receivables	4	2
Other financial income	0	0
	4	2
Financial expenses		
Interest expenses for financial liabilities at amortized cost	-60	-77
Interest rate derivatives, non-hedge accounted	0	0
Interest rate derivatives, hedge accounted	-1	0
Other financial expenses	-6	-6
	-67	-84
Exchange rate and fair value gains and losses		
Loans and receivables	-15	24
Other	4	6
Foreign exchange derivatives, non-hedge accounted	-6	-13
	-17	16
Financial cost - net	-79	-65

Net gains/losses on financial instruments included in operating profit

	2016	2015
Foreign exchange rate and commodity derivative financial instruments designated as cash flow hedges	-8	-120
Non-hedge accounted foreign exchange rate, commodity derivative instruments	-144	37
	-151	-83

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 -137 million (2015: EUR 34 million), and transactions entered into for trading purposes amounting to EUR -7 million (2015: EUR 3 million). The net result of non-hedge accounted derivative financial instruments are included in Materials and services.

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 expense are presented in the following table:

	2016	2015
Current tax	150	56
Adjustments recognized for current tax for prior periods	2	-1
Change in deferred taxes	-20	19
Tax charge in the consolidated income statement	133	74

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:

	2016	2015
Profit before tax	1,075	634
Hypothetical income tax calculated at Finnish tax rate 20%	-215	-127
Differences in tax rates in other countries	81	35
Tax exempt income	0	18
Non-deductible expenses	-2	-1
Tax on undistributed earnings	-1	-4
Taxes for prior periods	-2	1
Net results of joint ventures	2	5
Realisability of deferred tax assets	1	-1
Other	3	0
Tax charge in the consolidated income statement	-133	-74

The Group's effective tax rate was 12% (12%), which is lower than the Finnish statutory tax rate 20% mainly due to lower taxation in Latvia, Lithuania, Singapore and Switzerland, where Neste has business operations. Neste's manufacturing investment in Renewable Products during 2008–2010 in Singapore is subject to tax exemption for 2010–2023 under the applicable Singapore legislation.

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

2016			
	Before tax	Tax charge (-) / credit	After tax
Remeasurements of defined benefit plans	-26	5	-21
Translation differences	6	0	6
Cash flow hedges			
recorded in equity	-25	5	-20
transferred to income statement	6	0	6
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	-48	10	-38
Current tax		0	
Deferred tax		10	
		10	

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	

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, 686,574 shares (2015: 798,467), 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.

	2016	2015
Profit attributable to owners of the parent, MEUR	939	558
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (thousands)	255,697	255,569
Number of ordinary shares, including treasury shares, used as the denominator in calculating diluted earnings per share (thousands)	256,404	256,404
Basic earnings per share (euro per share)	3.67	2.18
Diluted earnings per share (euro per share)	3.66	2.18

16. Dividend per share

The dividends paid in 2016 were EUR 1.00 per share, totalling EUR 256 million (2015: EUR 0.65 per share, totalling EUR 166 million). A dividend of EUR 1.30 per share will be proposed at the Annual General Meeting on 5 April 2017, corresponding to total dividends of EUR 332 million for 2016. This dividend is not reflected in the financial statements.

17. Property, plant and equipment

2016	Land	Buildings and constructions	Machinery and equipment	Other tangible assets	Assets under construction	Total
Gross carrying amount at 1 January 2016	73	2,189	4,005	321	165	6,753
Exchange rate differences	2	12	5	0	0	19
Additions	1	53	101	27	214	396
Disposals	-1	-22	-87	-30	-9	-149
Reclassifications	0	-17	21	0	-4	0
Gross carrying amount at 31 December 2016	75	2,215	4,044	318	366	7,019
Accumulated depreciation and impairment losses at 1 January 2016	0	835	2,073	100	0	3,008
Exchange rate differences	0	6	3	0	0	9
Disposals	0	-17	-70	-14	0	-101
Reclassifications	0	0	0	0	0	0
Depreciation for the period	0	75	259	22	0	356
Accumulated depreciation and impairment losses at 31 December 2016	0	899	2,265	108	0	3,272
Carrying amount at 1 January 2016	73	1,353	1,932	221	165	3,745
Carrying amount at 31 December 2016	75	1,316	1,779	210	366	3,747

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 rate 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 rate 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.

Finance leases

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

	2016	2015
Gross carrying amount	108	173
Accumulated depreciation	33	67
Carrying amount	74	106

Capitalized borrowing costs

During 2016 borrowing costs amounting to EUR 5.5 million (2015: 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 2016 (2015: 3.5%).

18. Intangible assets

2016	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2016	11	182	193
Exchange rate differences	0	0	0
Additions	0	26	26
Disposals	0	-4	-4
Reclassifications	0	0	0
Gross carrying amount at 31 December 2016	11	204	216
Accumulated amortization and impairment losses at 1 January 2016	0	122	122
Exchange rate differences	0	0	0
Disposals	0	-3	-3
Reclassifications	0	0	0
Amortization for the period	0	10	10
Accumulated amortization and impairment losses at 31 December 2016	0	129	129
Carrying amount at 1 January 2016	11	60	71
Carrying amount at 31 December 2016	11	76	87

2015	Goodwill	Other intangible assets	Total
Gross carrying amount at 1 January 2015	11	163	175
Exchange rate 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 rate 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

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 18.6 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 of 31 December 2016 an estimated obligation to purchase emission allowances was recognized in the balance sheet as a provision amounting to EUR 2.5 million (2015: intangible assets EUR 0 million). The actual amount of CO₂ emissions in 2016 were 3.2 million tons (2015: 2.9 million tons). The Group has traded emission allowances for net amount of 0.3 million tons during the financial period ended 31 December 2016 (2015: 1.2 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%	2016	2015
Oil Products	6.0	2	2
Other	4.9	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 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	2016	2015
On 1 January	220	195
Share of profits of joint ventures	14	27
Translation differences	-8	6
Share of other comprehensive income of investments accounted for using the equity method	-9	-9
Other changes	-1	1
On 31 December	216	220

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	2016 % interest held	2015 % interest held
Glacia Limited	Bermuda	Note 1	50.00	50.00
Nynas AB (publ)	Sweden	Note 2	49.99	49.99
Kilpilahden Voimalaitos Oy	Finland	Note 3	40.00	100.00

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+2-year time charter contract with the joint venture for the vessel, of which 2 years remain.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which (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 the legal form of which 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).

Note 3: Kilpilahti Power Plant Limited is a joint venture company that produces and supplies steam and other utilities to Neste's refinery and Borealis' petrochemical plant in Porvoo, Finland. The company, Kilpilahti Powerplant Ltd is owned 40% each by Neste and Veolia and 20% by Borealis.

Management has classified this ownership as a joint venture because the arrangement is structured through separate vehicle the legal form of which separates its assets and liabilities of its shareholders and it is directed so that the relevant activities of the company require unanimous consent from all parties sharing control. The new power plant's capacity is meant to serve also external customers in addition to Neste and Borealis and thus optimize the returns of all shareholders in form of net profit. Management has also taken into account that Kilpilahti Power Plant Ltd plans and executes the power plant operations as its own business decisions which are operated by Veolia.

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:

	Kilpilahti Power Plant Ltd	Glacia Limited		Nynas AB (publ)	
	2016	2016	2015	2016	2015
Non-current assets	186	35	37	610	520
Current assets					
Cash and cash equivalents	25	11	21	39	37
Other current asset (excl. Cash and cash equivalents)	35	0	0	608	602
Total current assets	60	11	21	647	639
Non-current liabilities					
Non-current financial liabilities (excl. Trade payables and provisions)	192	0	0	424	413
Other non-current liabilities	0	0	0	142	93
Total non-current liabilities	192	0	0	566	506
Current liabilities					
Current financial liabilities (excl. Trade payables and provisions)	0	0	19	43	0
Other current liabilities	53	2	2	259	251
Total current liabilities	53	2	20	302	251
Net assets	0	42	37	388	402
Revenue	85	11	10	1,321	1,937
Depreciation, amortization and impairments	7	4	3	47	43
Interest income	0	0	0	2	3
Interest expense	0	0	0	15	22
Income tax expense	0	0	0	10	15
Profit/loss	0	4	4	22	51

Reconciliation of summarized financial information

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

	Kilpilahti Power Plant Ltd	Glacia Limited		Nynas AB (publ)	
Summarized financial information	2016	2016	2015	2016	2015
Opening net assets 1 January	0	37	31	402	357
Profit for the period	0	4	4	22	51
Other comprehensive income	0	1	2	-36	-7
Closing net assets	0	42	37	388	402
Interest in joint venture	0	21	18	194	201
Carrying value	0	21	18	194	201

The financial statements of Nynas AB (publ) are not published within the Group's reporting timetable. Nynas AB (publ) 2016 and 2015 financial information above is based on 30 September 2016 and 30 September 2015 published interim reports. The share of profits of Glacia Limited for 2016 is consolidated based on the company's 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:

2016 Balance sheet item	Derivatives, hedge accounting	Assets/liabilities at fair value through income statement	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortized cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial assets								
Non-current receivables			55			55		21
Derivative financial instruments	8	1				9	9	25
Available-for-sale financial assets				5		5		21, 25
Current financial assets								
Trade and other receivables ¹⁾			1,029			1,029		
Derivative financial instruments	2	46				48	48	25
Cash and cash equivalents			788			788		24
Carrying amount by category	10	47	1,873	5	0	1,934	56	
Non-current financial liabilities								
Interest-bearing liabilities					1,117	1,117	1,172	27
Derivative financial instruments	2	0				2	2	25
Other non-current liabilities					11	11		27
Current financial liabilities								
Interest-bearing liabilities					354	354	355	27
Derivative financial instruments	46	118				164	164	25
Trade and other payables ²⁾					1,565	1,565		27
Carrying amount by category	48	118	0	0	3,047	3,213	1,694	

¹⁾ excluding non-financial assets

²⁾ excluding non-financial liabilities

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

¹⁾ excluding non-financial assets

²⁾ 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).

2016 Fair value hierarchy

Financial assets	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	8	0	8
Currency derivatives	0	0	0	0
Commodity derivatives	0	1	0	1
Available-for-sale financial assets	0	0	5	5
Non-currents financial assets	0	9	5	13
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	4	0	4
Commodity derivatives	0	43	0	43
Current financial assets	0	47	0	48
Total financial assets	0	56	5	61

Financial liabilities	Level 1	Level 2	Level 3	Total
Non-current derivative financial instruments				
Interest rate derivatives	0	2	0	2
Currency derivatives	0	0	0	0
Commodity derivatives	0	0	0	0
Non-current financial liabilities	0	2	0	2
Current derivative financial instruments				
Interest rate derivatives	0	0	0	0
Currency derivatives	0	62	0	62
Commodity derivatives	48	53	0	102
Current financial liabilities	48	116	0	164
Total financial liabilities	48	118	0	166

During the financial period 2016 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 (2015: EUR 5 million), for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

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-currents 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.

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	
	2016	2015
Non-current receivables		
Non-current interest-bearing receivables	47	1
Other non-current receivables	9	10
	55	10

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.

	2016	2015
Available-for-sale financial assets		
On 1 January	5	5
Additions	0	0
On 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

	2016	2015
Materials and supplies	643	417
Finished products and goods	765	667
Other inventories	8	7
Classified as assets held for sale	0	-1
	1,416	1,090

Cumulative inventory gains due to oil price changes amounted EUR 280 million (2015: losses EUR 263 million) of which EUR 6 million (2015: EUR 86 million) consisted of inventory write downs recorded at the end of the period.

23. Current trade and other receivables

	Carrying amount	
	2016	2015
Trade receivables	874	771
Other receivables	118	59
Advances paid	13	11
Accrued income and prepaid expenses	29	29
	1,034	870

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 (2015: EUR 1 million).

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

An unsubstantial part of the trade receivables have been sold to a third party during 2016 and 2015.

24. Cash and cash equivalents

Cash and cash equivalents include the following:

	2016	2015
Cash at bank and in hand	768	596
Short term bank deposits	20	0
Total	788	596

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

	2016			2015		
	Remaining maturities		Total	Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–4 years	
Derivative financial instruments designated as cash flow hedges						
Interest rate swaps ¹⁾	0	50	50	0	50	50
Forward foreign exchange contracts	954	0	954	522	0	522
Currency options						
- Purchased	388	0	388	283	0	283
- Written	388	0	388	283	0	283
	1,730	50	1,780	1,088	50	1,138
Derivative financial instruments designated as fair value hedges						
Interest rate swaps ¹⁾	100	200	300	250	300	550
	100	200	300	250	300	550
Non-hedge accounting derivative financial instruments						
Interest rate swaps ¹⁾	0	0	0	0	0	0
Forward foreign exchange contracts	1,132	0	1,132	821	0	821
Currency options						
- Purchased	0	0	0	175	0	175
- Written	0	0	0	0	0	0
	1,132	0	1,132	996	0	996

¹⁾ Interest rate swaps mature in 3 years.

Volumes of commodity derivative contracts

	2016			2015		
	Volume million bbl Remaining maturities		Total	Volume million bbl Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–3 years	
Commodity derivative contracts designated as cash flow hedges ²⁾						
Futures and forwards						
- Sales contracts	0	0	0	0	0	0
	0	0	0	0	0	0
Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives ³⁾						
Futures and forwards						
- Sales contracts	27	0	27	16	0	16
- Purchase contracts	17	0	18	8	0	8
	44	1	45	24	0	24

	Volume GWh Remaining maturities			Volume GWh Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting electricity and gas derivative contracts						
Futures and forwards						
- Purchase contracts	1,716	665	2,381	1,548	884	2,432
	1,716	665	2,381	1,548	884	2,432

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

³⁾ 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 2016				Fair value 2015			
	Positive		Negative		Positive		Negative	
	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–4 years	< 1 year	1–4 years
Interest rate and currency derivative contracts								
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps ¹⁾	0	0	0	2	0	0	0	4
Forward foreign exchange contracts	0	0	35	0	1	0	15	0
Currency options								
- Purchased	1	0	3	0	0	0	3	0
- Written	0	0	8	0	1	0	2	0
	1	0	46	2	3	0	20	4
Derivative financial instruments designated as fair value hedges								
Interest rate swaps ¹⁾	0	8	0	0	5	11	0	0
	0	8	0	0	5	11	0	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps ¹⁾	0	0	0	0	0	0	0	0
Forward foreign exchange contracts	3	0	17	0	4	0	3	0
Currency options								
- Purchased	0	0	0	0	0	0	1	0
- Written	0	0	0	0	0	0	0	0
	3	0	17	0	4	0	4	0

¹⁾ Interest rate swaps mature in 3 years.

	Fair value 2016				Fair value 2015			
	Positive		Negative		Positive		Negative	
	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–3 years
Commodity derivative contracts								
Commodity derivative contracts designated as cash flow hedges ²⁾								
Futures and forwards								
- Sales contracts	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
Non-hedge accounting commodity derivative contracts ³⁾								
Futures and forwards								
- Sales contracts	1	0	89	0	72	0	3	0
- Purchase contracts	42	1	12	0	15	0	19	2
	43	1	102	0	87	0	22	2

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

³⁾ 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.

	2016				2015			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Balance sheet reconciliation								
Derivative financial instruments	48	9	164	2	99	11	45	6

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 as per last business day of financial year. The

fair value of currency options are calculated using market rates as per last business day of financial year 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 last business day of financial year. 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 last business day of the financial year.

26. Equity

Share capital

The Parent Company's share capital registered with the Trade Register as of 31 December 2016 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 2016 or 2015.

	Number of shares, 1,000	Treasury shares, 1,000	Outstanding shares, 1,000
1 January 2016	256,404	-798	255,605
Transfer of treasury shares		112	112
31 December 2016	256,404	-687	255,717
1 January 2015	256,404	-1,000	255,404
Transfer of treasury shares		202	202
31 December 2015	256,404	-798	255,605

Treasury shares

1.1.2015 Group had 1,000,000 treasury shares. In addition, 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. During the year 2015, 201,533 treasury shares of Neste Corporation were conveyed without consideration to 64 key persons participating in the share-based incentive plan 2010 according to the terms and conditions of the plan. On 7 March 2016, 111,893 treasury shares have been conveyed without consideration to 86 key persons participating in the share-based incentive plan 2013 according to the terms and conditions of the plan. After this directed share issue the total amount of treasury shares is 686,574 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	2016	2015
Bonds	954	1,205
Loans from financial institutions	22	101
Finance lease liabilities	87	89
Other loans	54	54
Other non-current liabilities	7	6
Accruals and deferred income	4	0
Non-current liabilities total	1,128	1,455
of which interest-bearing	1,117	1,449

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 1,261 million (2015: EUR 1,238 million) of which EUR 1,211 million belong to fair value hierarchy 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	2016	2015
Bonds	250	305
Loans from financial institutions	101	108
Finance lease liabilities	3	25
Advances received	17	56
Trade payables	1,030	787
Other current liabilities	407	340
Current tax liabilities	40	21
Accruals and deferred expenses	112	123
Current liabilities total	1,959	1,766
of which interest-bearing	354	438

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 252 million (2015: EUR 311 million) of which EUR 252 million belong to fair value hierarchy 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 MEUR
2012/2017	Fixed	4.0000	4.0650	EUR	250	252
2012/2019	Fixed	4.0000	4.0780	EUR	400	437
2015/2022	Fixed	2.1250	2.2080	EUR	500	522
Total outstanding carrying amount 31 December 2016						1,211

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

	2016			2015		
	Minimum lease payments	Future finance charges	Present value of minimum lease payments	Minimum lease payments	Future finance charges	Present value of minimum lease payments
Amounts payable under finance lease:						
Within one year	15	12	3	38	13	25
Between one and five years	73	55	18	73	53	20
More than 5 years	150	80	69	157	87	70
Total amounts payable	238	147	90	268	153	115

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 2016 is presented in the following table:

	on 1 Jan 2016	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	on 31 Dec 2016
Deferred tax assets					
Tax loss carried forward	2	4	0	0	6
Provisions	2	0	0	0	3
Pensions	23	-1	5	0	27
Fixed assets ¹⁾	6	6	0	0	12
Financial instruments ¹⁾	0	0	8	0	8
Other temporary differences	4	1	0	-1	4
Total deferred tax assets	36	11	13	0	59
Netting against liabilities	-8	-13	0	0	-20
Total deferred tax assets in balance sheet	29	-2	13	0	39
Deferred tax liabilities					
Depreciation difference and untaxed reserves	242	-8	0	0	234
Tax on undistributed earnings	12	-1	0	0	11
Finance leases	1	-1	0	0	0
Capitalized interest	11	0	0	0	11
Other temporary differences	6	1	3	0	10
Total deferred tax liabilities	272	-9	3	0	267
Netting against assets	-8	-13	0	0	-20
Total deferred tax liabilities in balance sheet	265	-22	3	0	246

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

	on 1 Jan 2016	Charged to Income Statement	Charged in Other comprehensive income	Exchange rate differences and other changes	on 31 Dec 2015
Deferred tax assets					
Tax loss carried forward	14	-12	0	0	2
Provisions	4	-2	0	0	2
Pensions	31	-1	-8	0	23
Fixed assets ¹⁾	1	5	0	0	6
Other temporary differences	5	-1	0	0	4
Total deferred tax assets	55	-11	-8	0	36
Netting against liabilities	0	-8	0	0	-8
Total deferred tax assets in balance sheet	55	-19	-8	0	29
Deferred tax liabilities					
Depreciation difference and untaxed reserves	232	16	0	-6	242
Tax on undistributed earnings	19	-6	0	0	12
Finance leases	2	-1	0	0	1
Capitalized interest	12	-1	0	0	11
Other temporary differences	1	0	6	0	6
Total deferred tax liabilities	265	7	6	-6	272
Netting against assets	0	-8	0	0	-8
Total deferred tax liabilities in balance sheet	265	0	6	-6	265

¹⁾ Tax assets related to fixed assets and financial instruments are presented as separate line items (previously: included in 'Other temporary difference') in order to give more precise information.

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 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.

There are altogether EUR 7 million (2015: EUR 2 million) tax loss carry forwards and other unused tax credits for which no deferred tax asset is recognized. Expiry dates are between 2017 and 2025 for EUR 2 million and no expiry for EUR 4 million.

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

Deferred tax assets	2016	2015
Deferred tax asset to be recovered after more than 12 months	34	25
Deferred tax asset to be recovered within 12 months	6	3
	39	29
Deferred tax liabilities	2016	2015
Deferred tax liability to be recovered after more than 12 months	241	264
Deferred tax liability to be recovered within 12 months	5	1
	246	265

29. Provisions

	Environmental provisions	Restructuring provisions	Provision to return emission allowances	Other provisions	Total
On 1 January 2016	36	3	0	0	39
Charged to income statement					
Additional provisions	15	0	2	0	17
Amounts used during the period	-1	-3	0	0	-4
Reversed unused provisions	0	0	0	0	0
On 31 December 2016	50	0	2	0	53

	Environmental provisions	Restructuring provisions	Provision to return emission allowances	Other provisions	Total
On 1 January 2015	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
On 31 December 2015	36	3	0	0	39

The nature of certain Group's businesses exposes the Group to risks of environmental costs and potential contingent liabilities. The risks arise 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% (2015: 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 are 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 a voluntary pension plan for a certain group of employees to fulfill an aggregated benefit after retirement. The voluntary pension plan is managed in an insurance company. There is a pension reform in Finland starting at 1 January 2017. The Group will not compensate the changes in a majority of the defined benefit pension plans and thus the benefits of the plan will not change significantly due to the reform.

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 calculated at the age 63 in the old age plan. 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 the 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 1.5% are based on the last known salary without any assumptions on future salary increases. The insurance company guarantees the same interest yield to the assets in the plan, as the one 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 the amount of the bonus annually.

The Group has insured the 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 (decreases) 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 completely bears 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	2016	2015
Service cost	8	8
Net interest (+expense/-income)	2	2
Remeasurements related to other long-term remulations	1	0
Defined benefit cost recognized in the consolidated statement of income	11	11

Remeasurements of defined benefit plans	2016	2015
Actuarial gains/losses:		
Changes in demographic assumptions	1	-3
Changes in financial assumptions	-63	60
Return on plan assets, excluding amounts included in net interest expense	32	-22
Experience adjustments	4	3
Total remeasurements recognized in other comprehensive income	-27	38

Amounts recognized in the consolidated statement of financial position	2016	2015
Present value of funded defined benefit obligations	508	451
Present value of unfunded defined benefit obligations	8	8
Fair value of plan assets	-381	-346
Net defined benefit liability	136	113

Changes in fair value of plan assets	2016	2015
On January 1	346	366
Interest income	7	6
Return on plan assets (excluding amounts included in net interest expense)	32	-22
Employer contributions	15	15
Benefits paid	-19	-19
On December 31	381	346

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

Changes in the present value of the defined benefit obligation	2016		2015	
	Funded	Unfunded	Funded	Unfunded
On January 1	451	8	513	8
Current service cost	7	1	8	1
Curtailments	0	0	0	0
Interest cost	9	0	8	0
Actuarial gains (-)/ losses (+)	58	1	-60	0
Settlements	-1	0	-1	0
Benefits paid	-17	-1	-17	-1
On December 31	508	8	451	8

The expected contributions to be paid to the defined benefit plans in 2017 are EUR 14 million.

Significant actuarial assumptions (2016 presented as weighted average)

	2016	2015
Discount rate, %		
Finland	1.37%	2.13%
Other countries	0.96%	0.9–1.9%
Future salary increase, %		
Finland	3.0%	2.6–3.1%
Other countries	2.0%	1.5–2.5%
Insurance company's bonus index, %		
Finland	0.0%	0.0%
Other countries	0.0%	0.0%
Future benefit increase, %		
Finland	1.8%	0–1.8%
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	
		2016	2015
Discount rate			
	0.25% increase	MEUR -18	-14
	0.25% decrease	MEUR 19	15
Future salary increase			
	0.25% increase	MEUR 5	4
	0.25% decrease	MEUR -5	-4
Future benefit increase			
	0.25% increase	MEUR 15	13
	0.25% decrease	MEUR -14	-12

- 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 3.5%/3.7% in the defined benefit obligation.

- 0.25% increase/decrease in the rate of salary increase would lead to a increase/decrease of 1.0%/0.9% 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	2016
Within the next 12 months (next annual reporting period)	21
Between 1 and 5 years	90
Between 5 and 10 years	102
Beyond 10 years	279
Total	492

The average duration of the defined benefit pension obligation at the end of the reporting period is 13 years.

31. Share-based payments

The aim of all of the Company's share-based long-term incentives plans 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 annually selects the members of Group's senior management and other key personnel entitled to participate in the long-term incentive plans.

Share-based incentive plan as of 1 January 2016

The Board of Directors decided on 14 December 2015 to establish a new long-term share-based incentive plan for the Group's senior management and nominated key personnel. The plan includes three individual share plans, each with a three-year earning period. The first two plans have started, the first one in 2016 and the second in 2017. The third plan will start in 2018. Any possible payments will be made partly in Company shares and partly in cash in 2019, 2020, and 2021. The proportion to be paid in cash will cover taxes and other tax-related costs.

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 on-going earning period. The earning criteria for the earning periods 2016–2017 and 2017–2019 are the Group's cumulative comparable free cash flow (75%) and total return by the Group's share related to STOXX Europe 600 index (25%). In plan 2016–2018 the target long-term incentive for the President & CEO and the other members of the Neste Executive Board (NEB) will be around 40% of individuals' annual fixed salary. In plan 2017–2019 the target long-term incentive for the President & CEO and the other members of the NEB is around 30% of individuals' annual fixed salary. 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 earnings under the long-term incentive program together with the incentive paid on

the annual short-term 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 the 2016–2018 plan. In 2017–2019 plan the restriction period will be one year.

There is Ownership requirement for all participants for shares earned from the long-term incentive plans. For NEB, reward shares must be held until ownership exceeds 100% of annual gross base salary. For others, reward shares must be held until ownership exceeds 50% of annual gross base salary.

Share-based incentive plan as of 1 January 2013

The Board of Directors decided on 13 December 2012 to establish a long-term share-based incentive plan for the Group's senior management and nominated key personnel.

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 approximately 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 approximately 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 NEB, and one year in respect of other participants.

Earnings period of share-based incentive plan 2013–2015 ended 31 December 2015. The earning criteria was met fully resulting in the delivery of shares to the participants in 2016. A gross reward of 230,907 shares equaling to EUR 6.7 million was delivered to the participants. The net amount of shares delivered totaled 111,893 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 29,00 euros. The members of company's Executive Board received a gross reward equaling to 76,768 shares.

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 plan has included three three-year earning periods beginning of 2010, 2011 and 2012. Earning period of share-based incentive plan 2011–2013 ended 31 December 2013 and the restriction period for this earning period ended 1 January 2017. The plan 2012-2014 ended 31. December 2014 and the restriction period will end 1 January, 2018.

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

	Plan 2016–2018	Plan 2015–2017	Plan 2014–2016	Plan 2013–2015	Plan 2012–2014	Plan 2011–2013
Grant dates and prices						
Grant dates	1 Feb 2016	11 Feb 2015	1 Feb 2014	10 Feb 2013	2 Jan 2012	3 Jan 2011
Grant prices, euros	26.09				6.70	10.81
Share price as at grant date, euros	28.74				8.10	12.21
Term of the plan						
Beginning of earnings period	1 Jan 2016	1 Jan 2015	1 Jan 2014	1 Jan 2013	1 Jan 2012	1 Jan 2011
End of earnings period	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
End of restriction period	31 Mar 2022	31 Mar 2019/ 31 Mar 2021	31 Mar 2018/ 31 Mar 2020	31 Mar 2017/ 31 Mar 2019	1 Jan 2018	1 Jan 2017
Assumptions used in calculating the value of the reward	Shares	Cash	Cash	Cash	Shares	Shares
Amount of granted shares/cash at the beginning of the period, maximum reward	0	5,394,576	5,011,364	6,357,410	407,978	416,177
Granted during the period	125,729	2,800	0	0	0	0
Released during the period	0	0	0	-208,488	-45,265	-38,138
Cancelled during the period	0	0	0	0	0	0
Forfeited during the period	-5,540	-115,000	-97,500	-146,859	-7,740	0
Adjusted during the period	94,197	6,650	917,096	-192,313	0	0
Amount of granted shares at the end of the period, maximum reward	214,386	5,289,026	5,830,960	5,809,750	354,973	378,039
Number of persons at the end of the reporting year	93	84	84	79	64	47
Share price at the end of the reporting period, euros	36.50	36.50	36.50	26.52	23.28	15.44
Estimated rate of realization of the earnings criteria, %	88%	88%	100%	100%	100%	65%
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:

	2016	2015
Expense arising from equity-settled share-based payment transactions	3	3
Expense arising from cash-settled share-based payment transactions	4	2
Total expense arising from share-based payment transactions	6	5

The liability recognized in the balance sheet related to share-based payments amounted to EUR 5 million (2015: EUR 5 million). The expense to be recognized during the financial periods 2017–2020 is estimated on 31 December 2016 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 also includes 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.

Transactions carried out with related parties

2016	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	131	95	74	0	8
Other related parties	41	63	8	0	3
	173	158	82	0	10

2015	Sales of goods and services	Purchases of goods and services	Receivables	Financial income and expense	Liabilities
Joint ventures	67	60	2	0	0
Other related parties	44	4	15	0	0
	111	64	17	0	1

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

The major part of business between Neste and its joint ventures becomes from Nynas and Kilpilahti Power Plant Ltd. Transactions with Nynas comprises sales of

bitumen production from the Naantali refinery based on a long term agreement and sales of process oils from the Porvoo refinery. Neste's transactions with Kilpilahti Power Plant Ltd consist mainly of steam purchases and sales of heavy fuel oil, water and asphaltene.

Board of Directors and key management compensation

EUR thousand	2016	2015
Salaries and other short-term employee benefits	3,975	3,785
Statutory pensions	233	220
Supplementary pensions	1,445	1,287
Share-based payments	2,169	2,256
Total (Including statutory pensions)	7,821	7,547

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 2016 or 31 December 2015.

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	
	2016	2015	2016	2015
Annual remuneration				
Base salary	686	668	1,846	1,861
Taxable benefits	7	17	102	114
Annual incentive (STI plan)	260	222	683	506
Total annual remuneration	953	906	2,631	2,481
Vested long term remuneration				
Supplementary pension (insurance contributions)	957	824	488	463
Share-based incentive plan	630	717	1,539	1,539
Total remuneration	2,540	2,447	4,657	4,482

Compensation to the Board of Directors

EUR thousand	2016	2015
Board of Directors at 31 December 2016		
Jorma Eloranta	77	79
Maija-Liisa Friman	61	61
Laura Raitio	46	49
Jean-Baptiste Renard	53	59
Willem Schoeber	59	56
Kirsi Sormunen	47	47
Marco Wirén, since 1 April 2015	47	35
Former Board members		
Per-Arne Blomquist, until 1 April 2015	0	12
Board of Directors, all members total	391	398

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 2016 totaled EUR 957 thousand (2015: EUR 824 thousand). Net liability of defined benefit plan on 31 December 2016 was EUR 862 thousand (2015: EUR 487 thousand). Statutory pension insurance contributions in 2016 were EUR 69 thousand (2015: EUR 66 thousand).

Net liability of defined benefit plans of former Presidents and CEOs on 31 December 2016 were EUR 1,657 thousand (2015: EUR 1,297 thousand).

33. Group companies on 31 December 2016

Subsidiaries	Group holding %	Country of incorporation
Kiinteistö Oy Espoon Keilaranta 21	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	60.00%	Sweden
Neste Jacobs B.V.	60.00%	The Netherlands
Neste Jacobs Oy	60.00%	Finland
Neste Jacobs Pte. Ltd.	60.00%	Singapore
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	60.00%	Finland

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
Kilpilahti Power Plant Ltd	40.00%	Joint Venture	Finland
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	
	2016	2015	2016	2015
Proportion of shares held by non-controlling interests	40.00%	40.00%	50.00%	50.00%
Current assets	88	71	0	0
Non-current assets	7	5	0	0
Current liabilities	45	33	0	0
Non-current liabilities	0	0	0	0
Revenue	154	137	1	1
Profit for the period	9	8	0	0
Dividends paid to non-controlling interests	1	1	0	0
Cash flows from operating activities	16	4	0	0
Cash flows from investing activities	-12	-1	0	0
Cash flows from financing activities	-3	-3	0	0

Unconsolidated structured entities

In 2015, Neste sold its shares of KED Oy (former Kilpilahden Sähkönsiirto 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 the 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 land leased from Neste for 30 years with an option to extend the lease. Neste is supplying small part of the operating services needed in electricity distribution. Neste also has a 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

Since 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	Value of collateral 2016	Value of collateral 2015
On own behalf for commitments		
Real estate mortgages	17	17
Pledged assets	116	116
Other contingent liabilities	48	42
Total	182	175
On behalf of joint arrangements		
Pledged assets	46	0
Guarantees	1	1
Total	47	1
On behalf of others		
Guarantees	2	2
Other contingent liabilities	0	2
Total	2	3
	230	179

Operating lease liabilities	2016	2015
Due within one year	79	72
Due between one and five years	80	61
Due later than five years	78	75
	237	209

Operating leases

Lease rental expenses amounting to EUR 113 million (2015: EUR 105 million) relating to the lease (under operating leases) of property, plant and equipment are included in the income statement.

Commitments	2016	2015
Commitments for purchase of property, plant and equipment	26	84
	26	84

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 obligations. The total fixed fees payable under the agreements during 2011–2026 as of 31 December 2016 are presented in the table below.

Fixed fees payable under take-or-pay contracts	2016	2015
Payable	17	16
Payable after the financial period	150	159
Total payable	167	176

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

Neste has two pending disputes concerning the bio mandate penalty payments totaling approximately EUR 62 million. The dispute concerning the penalty payment levied in 2014, amounting approximately EUR 44 million, is pending at the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015. The dispute concerning the penalty payment levied and expensed in 2015, amounting approximately EUR 17 million, is pending at the Administrative Court of Helsinki. In both cases Neste considers that it has complied with the requirements according to the legislation and the authority instructions and that the penalty payments are in contradiction with the legislation and general principles.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment has been charged to the income statement during the financial period 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when export outside the EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of the EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste demands for rectification of decisions from the tax authority.

In December 2016, Finnish Customs decided – contrary to its former draft resolution and in consequence of the statement of Neste – not to levy excise tax, interest and additional tax totaling approximately EUR 18 million for two shippings placed to export procedure and shipped outside Finland in 2013. The representative of Finnish state has demanded for rectification of the Custom's decision and the decision is not yet final. Neste considers that export has been the correct procedure in these shippings and Finnish Customs' decision should not be changed. No provision is recognized in consolidated financial statement because possibility of an outflow of resources embodying economic benefits is not considered probable.

In August 2016, the US Customs agency granted Neste's appeal and filed its decision to revoke the prior classification ruling regarding Neste Renewable Diesel that was issued in 2014. The revocation confirmed that Neste Renewable Diesel should be classified in the Harmonized Tariff System in the same manner as classification decisions made by other jurisdictions including the EU. The confirmed classification has a more favorable corresponding import duty rate. Neste is in the process of amending its entry filing for the deliveries entered under the interim classification ruling.

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 appealed the ruling of the District Court to the Court of Appeals which repealed the ruling of the District Court in August 2016. Thereafter, the shipping companies (including Neste Shipping) have asked for a leave to appeal the case to the Supreme Court.

Neste is currently engaged in arbitration with its joint arrangement's co-shareholders and considers the co-owners' claims unfounded. Neste has made counterclaims and the management estimates that the case will be solved in 2017.

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 the 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 2016	1 Jan–31 Dec 2015
Revenue	2	6,429	6,366
Change in product inventories		59	17
Other operating income	3	58	126
Materials and services	4	-5,459	-5,636
Personnel expenses	5	-197	-220
Depreciation, amortization and write-downs	6	-179	-172
Other operating expenses	7	-278	-324
Operating profit/loss		433	157
Financial income and expenses	8	112	151
Profit/loss before appropriations and taxes		545	307
Appropriations	9	84	175
Income tax expense	10	-95	-32
Profit for the year		534	450

Parent Company Balance Sheet

MEUR	Note	31 Dec 2016	Restated* 31 Dec 2015
ASSETS			
Fixed assets and other long-term investments	11,12		
Intangible assets		64	47
Tangible assets		1,804	1,776
Other long-term investments		2,096	2,382
		3,964	4,205
Current assets			
Inventories	13	747	562
Long-term receivables	14	19	7
Short-term receivables	15	1,041	912
Cash and cash equivalents		727	557
		2,533	2,037
Total assets		6,497	6,242
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Share capital		40	40
Other reverses		-15	-1
Retained earnings		1,151	957
Profit for the year		534	450
		1,710	1,446
Accumulated appropriations	17	925	931
Provisions for liabilities and charges	18	5	5
Liabilities	19		
Long-term liabilities		1,114	1,271
Short-term liabilities		2,742	2,590
		3,856	3,861
Total equity and liabilities		6,497	6,242

*The company has started to apply fair value method to derivatives under hedge accounting in 2016, and the comparatives in Balance Sheet for 2015 have been restated. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Other financial instruments are recognized at amortized cost. The effect on change for the comparison period is also disclosed in Notes 14, 15, 16 and 19.

Parent Company Cash Flow Statement

MEUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from operating activities		
Profit before extraordinary items	545	307
Depreciation, amortization and write-downs	179	172
Other non-cash income and expenses	61	-31
Financial income and expenses	-112	-151
Divesting activities, net	-28	-103
Operating cash flow before change in working capital	645	194
Change in working capital		
Decrease (+)/increase (-) in interest-free receivables	-223	97
Decrease (+)/increase (-) in inventories	-185	-76
Decrease (-)/increase (+) in interest-free liabilities	196	-61
Change in working capital	-213	-40
Cash generated from operations	433	154
Interest and other financial expenses paid, net	-50	-54
Dividends received	164	223
Income taxes paid	-93	0
Realized foreign exchange gains and losses	13	-31
Net cash from operating activities	467	292
Cash flows from investing activities		
Capital expenditure	-263	-341
Proceeds from sale of fixed assets	12	3
Investments in shares in subsidiaries	0	0
Investments in shares in other shares	0	0
Proceeds from shares in subsidiaries	404	171
Proceeds from other shares	12	0
Change in other investments, increase (-)/decrease (+)	-83	14
Net cash used in investing activities	83	-153
Cash flow before financing activities	550	139

MEUR	1 Jan–31 Dec 2016	1 Jan–31 Dec 2015
Cash flows from financing activities		
Sale of treasury shares	0	0
Proceeds from long-term liabilities	150	747
Payments of long-term liabilities	-377	-401
Change in short-term liabilities	-99	25
Dividends paid	-256	-166
Group contributions, net	202	204
Cash flow from financing activities	-379	410
Net increase (+)/decrease (-) in cash and cash equivalents	170	549
Cash and cash equivalents at the beginning of the period	557	8
Cash and cash equivalents at the end of the period	727	557
Net increase (+)/decrease (-) in cash and cash equivalents	170	549

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.

Change in accounting policies applied

The company has started to apply fair value method to derivatives under hedge accounting in 2016, and the comparatives in Balance Sheet for 2015 have been restated. Unrealized derivative financial instruments that are designated and qualify as cash flow hedges are recognized in equity when effective. Other financial instruments are recognized at amortized cost. The effect on change for the comparison period is also disclosed in [Notes 14](#), [15](#), [16](#) and [19](#).

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.

Financial assets and liabilities

Financial instruments are valued at fair value according alternative method of the Finnish Accounting act article 5.2a §. Loans and receivables and other financial liabilities are recognized at amortized cost. Available for sale financial assets include non-listed shares, which are at amortized cost.

Loans and receivables consist of cash and cash equivalents, loans granted together with trade and other receivables. Other financial liabilities include interest bearing liabilities together with trade and other payables.

Derivative Financial instruments

The company uses derivative financial instruments mainly to hedge commodity 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.

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 when derivatives are used to hedge future cashflows.

Hedge accounting

The company applies hedge accounting on certain forward foreign exchange contracts, options and interest rate derivatives.

Fair value hedges

The company applies fair value hedge accounting to reduce exposure to fair value fluctuations of interest-bearing liabilities due to changes in interest rates. Changes in fair value of derivatives designated and qualifying as fair value hedges, together with any changes in the fair value of hedged liabilities attributable to the hedged risk, are recognized in financial income and expenses.

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 expenditure is recognized as an expense as incurred and included in other operating expenses in the income statement. 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 company's development expenditure does not meet the criteria for capitalization and are recognized as expenses as incurred.

Cash Pool receivables/liabilities

Cash Pool items are presented as short-term receivables or liabilities.

Pension expenses

An external pension insurance company manages the pension plan. The pension expenses are booked to income statement during the year they occur.

Appropriations

Appropriations consist of received or given group contributions from or to Neste Group companies and depreciation above the plan.

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	2016	2015
Oil Products	6,376	6,313
Renewable Products	1	3
Oil Retail	0	0
Other	129	123
Eliminations	-76	-73
	6,429	6,366

Revenue by market area	2016	2015
Finland	2,931	3,363
Other Nordic countries	671	701
Baltic countries, Russia and Poland	472	600
Other European countries	1,752	1,388
North and South America	475	245
Other countries	127	69
	6,429	6,366

3. Other operating income

	2016	2015
Rental income	24	20
Gain on sale of intangible and tangible assets	15	0
Gain on sale of shares	12	103
Insurance compensations	5	0
Government grants	1	1
Other	0	3
	58	126

4. Materials and services

	2016	2015
Materials and supplies		
Purchases during the period	5,571	5,683
Change in inventories	-121	-54
	5,450	5,629
External services	9	7
	5,459	5,636

5. Personnel expenses

	2016	2015
Wages, salaries and remunerations	150	167
Indirect employee costs		
Pension costs	36	39
Other indirect employee costs	13	14
Wages and salaries capitalized in fixed assets	-3	-1
	197	220

Salaries and remuneration

Key management compensations are presented in [Note 32](#) in the Neste Group consolidated financial statements.

Average number of employees	2016	2015
White-collar	1,303	1,257
Blue-collar	1,000	1,060
	2,303	2,317

6. Depreciation, amortization and write-downs

	2016	2015
Depreciation according to plan	173	165
Write-offs	6	6
Write-down of tangible fixed assets	0	1
	179	172

7. Other operating expenses

	2016	2015
Operating leases and other property costs	17	17
Repairs and maintenance	109	177
Other	152	130
	278	324
Other operating expenses include losses on sales of tangible assets and write-offs of fixed assets in progress	2	0

Fees charged by the statutory auditor, PwC EUR thousands

	2016	2015
Audit fees	339	344
Auditor's mandatory opinions	0	5
Tax advisory	20	29
Other advisory services	207	1,291
	566	1,669

8. Financial income and expenses

	2016	2015
Dividend income		
From Group companies	163	223
From associated companies	0	0
From others	0	0
Dividend income total	164	223
Interest income from long-term loans and receivables		
From Group companies	2	0
From others	0	0
Interest income from long-term loans and receivables total	3	0
Other interest and financial income		
From Group companies	0	0
Other	0	0
Other interest and financial income total	1	0
Write-downs on long-term investments	0	0
Interest expenses and other financial expenses		
To Group companies	-1	-3
Other	-50	-56
Interest expenses and other financial expenses total	-51	-59
Exchange rate differences	-4	-13
Financial income and expenses total	112	151
Total interest income and expenses	2016	2015
Interest income	3	0
Interest expenses	-46	-53
Net interest expenses	-43	-53

9. Appropriations

	2016	2015
Change in depreciation difference		
Difference between depreciation according to plan and depreciation in taxation	5	-27
Group contributions		
Group contributions received	79	202
Appropriations total	84	175

10. Income tax expense

	2016	2015
Income taxes on regular business operations	95	18
Taxes for prior periods	0	0
Change in deferred tax assets	0	14
	95	32

11. Fixed assets and long-term investments

Change in acquisition cost 2016

Intangible assets	Goodwill	Other intangible assets	Total
Acquisition cost as of 1 January 2016	1	127	128
Increases	0	26	26
Decreases	0	2	2
Transfers between items	0	0	0
Acquisition cost as of 31 December 2016	1	151	152
Accumulated depreciation, amortization and write-downs as of 1 January 2016	1	81	82
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	2	2
Depreciation and amortization for the period	0	8	8
Accumulated depreciation, amortization and write-downs as of 31 December 2016	1	87	88
Balance sheet value as of 31 December 2016	0	64	64

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 2016

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 2016	25	1,193	2,494	108	136	3,957
Increases	0	28	57	20	138	242
Decreases	0	37	128	9	14	189
Transfers between items	0	-19	19	0	0	0
Acquisition cost as of 31 December 2016	26	1,164	2,442	119	260	4,011
Accumulated depreciation, amortization and write-downs as of 1 January 2016	0	591	1,577	42	0	2,209
Accumulated depreciation, amortization and write-downs of decreases and transfers	0	23	114	9	0	146
Depreciation, amortization and write downs for the period	0	32	123	15	0	170
Accumulated depreciation, amortization and write-downs as of 31 December 2016	0	600	1,587	47	0	2,234
Revaluations	6	22	0	0	0	28
Balance sheet value as of 31 December 2016	31	586	856	71	260	1,804
Balance sheet value of machinery and equipments used in production						856

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

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 2016	2,377	1	0	0	4	0	2,382
Increases	0	73	0	46	0	0	119
Decreases	404	1	0	0	0	0	406
Transfers between items	0	0	0	0	0	0	0
Acquisition cost as of 31 December 2016	1,973	73	0	46	3	0	2,096
Accumulated depreciation, amortization and write-downs as of 1 January 2016	0	0	0	0	0	0	0
Accumulated depreciation, amortization and write-downs as of 31 December 2016	0	0	0	0	0	0	0
Balance sheet value as of 31 December 2016	1,973	73	0	46	3	0	2,096

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

Interest-bearing and interest-free receivables	2016	2015
Interest-bearing receivables	119	2
Interest-free receivables	0	0
	119	2

12. Revaluations

	Revaluations as of Jan 1 2016	Increases	Decreases	Revaluations as of Dec 31 2016
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.

13. Inventories

	2016	2015
Raw materials and supplies	372	247
Products/finished goods	367	309
Advance payments on inventories	7	6
	747	562
Replacement value of inventories	758	562
Book value of inventories	747	562
Difference	11	0

14. Long-term receivables

	2016	Restated 2015
Long-term advance payments	2	3
Receivables from Group companies		
Other long-term receivables	9	0
Deferred tax assets	8	4
	19	7

15. Short-term receivables

	2016	Restated 2015
Trade receivables	345	261
Receivables from Group companies		
Trade receivables	289	212
Other receivables	134	254
Accrued income and prepaid expenses	91	3
Total	513	470
Receivables from associated companies		
Trade receivables	27	0
Other receivables	0	0
Total	27	0
Other receivables	84	35
Accrued income and prepaid expenses	72	146
	1,041	912
Short-term accrued income and prepaid expenses	2016	2015
Accrued interest	2	4
Derivative financial instruments	151	133
Other	10	13
	163	150

Cash Pool receivables are presented as short-term receivables. Previously presented as long-term items.

16. Changes in shareholders' equity

	2016	Restated 2015
Share capital at 1 January	40	40
Share capital at 31 December	40	40
Fair value reserve at 1 January	-5	0
Increases	4	1
Decreases	-22	-7
Fair value reserve at 31 December	-22	-5
Invested non-restricted equity fund at 1 January	5	0
Transfer of treasury shares	3	5
Invested non-restricted equity fund at 31 December	8	5
Retained earnings at 1 January	1,406	1,123
Dividends paid	-256	-166
Profit for the year	534	450
Retained earnings at 31 December	1,685	1,406
Capitalized development expenditure	0	0
Distributable equity	1,670	1,406

17. Accumulated appropriations

	2016	2015
Depreciation difference	925	931

18. Provisions For liabilities and charges

	2016				2015			
	Restructuring provisions	Provision for environment	Liability to return emission rights	Total	Restructuring provisions	Provision for environment	Total	
Provisions as of 1 January	3	2	0	5	8	3	12	
Increase	0	1	2	3	0	0	0	
Decrease	3	0	0	3	5	2	7	
Provisions as of 31 December	0	3	2	5	3	2	5	

19. Liabilities

Long-term liabilities	2016	Restated 2015
Bonds	954	1,194
Loans from financial institutions	0	70
Advanced payments	1	0
Liabilities to Group companies		
Other long-term liabilities	150	0
Other long-term liabilities	3	3
Accruals and deferred income	5	4
	1,114	1,271

Interest- bearing liabilities due after five years	2016	2015
Bonds	497	497
Loans from financial institutions	0	3
	497	500

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 1,261 million (2015: EUR 1 238 million) of which EUR 1,211 million belong to Level 1 in fair value hierarchy and 50 million to Level 2. The fair values of other non-current liabilities are not materially different from their carrying amounts.

Short-term liabilities	2016	Restated 2015
Bonds	250	300
Loans from financial institutions	0	7
Advances received	0	41
Trade payables	667	480
Liabilities to Group companies		
Advances received	0	1
Trade payables	43	84
Other short-term liabilities	1,138	1,176
Accruals and deferred income	45	0
Total	1,226	1,261
Liabilities to associated companies		
Trade payables	0	0
Total	0	0
Other short-term liabilities	338	297
Accruals and deferred income	260	204
	2,742	2,590

Cash Pool liabilities are presented as short-term liabilities. Previously presented as long-term items.

The carrying amounts of current interest-free liabilities are reasonable approximations of their 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 252 million (2015: EUR 311 million) of which EUR 252 million belong to Level 1 in fair value hierarchy. The fair values of other current liabilities are not materially different from their carrying amounts.

Short-term accruals and deferred income	2016	2015
Salaries and indirect employee costs	53	59
Accrued interests	21	27
Accrued taxes	9	7
Derivative financial instruments	222	111
Other short-term accruals and deferred income	0	0
	306	204

Interest-bearing and interest-free liabilities	2016	2015
Long-term liabilities		
Interest-bearing liabilities	1,099	1,267
Interest-free liabilities	16	4
	1,114	1,271
Short-term liabilities		
Interest-bearing liabilities	1,365	1,478
Interest-free liabilities	1,377	1,111
	2,742	2,590

Listed bond issues

Issue/Maturity	Interest basis	Interest rate, %	Effective interest, %	Currency	Nominal million	Carrying amount EUR million
2012/2017	Fixed	4.0000	4.0650	EUR	250	252
2012/2019	Fixed	4.0000	4.0780	EUR	400	437
2015/2022	Fixed	2.1250	2.2080	EUR	500	522
Total outstanding carrying amount 31 December 2016						1,211

In addition Private Placement (2011/2018) of EUR 50 million with floating interest.

20. Contingent liabilities

Contingent liabilities	2016	2015
Operating lease liabilities		
Due within a year	3	3
Due after a year	3	3
	6	5
Contingent liabilities given on own behalf		
Real estate mortgages	17	17
Pledged assets	0	0
Other contingent liabilities	18	14
	35	31
Contingent liabilities given on behalf of Group companies		
Guarantees	94	102
	94	102
Contingent liabilities given on behalf of associated companies		
Guarantees	1	1
	1	1
Contingent liabilities given on behalf of others		
Guarantees	2	2
	2	2
Contingent liabilities total	137	141

21. Derivative Financial Instruments

Nominal values of interest rate and currency derivative contracts	2016			2015		
	Remaining maturities		Total	Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–4 years	
Derivative financial instruments						
Interest rate swaps ¹⁾	0	50	50	0	50	50
Forward foreign exchange contracts	967	0	967	522	0	522
Currency options						
- Purchased	178	0	178	283	0	283
- Written	178	0	178	283	0	283
	1,323	50	1,373	1,088	50	1,138
Derivative financial instruments designated as fair value hedges						
Interest rate swaps ¹⁾	100	200	300	250	300	550
	100	200	300	250	300	550
Non-hedge accounting derivative financial instruments						
Interest rate swaps ¹⁾	0	0	0	0	0	0
Forward foreign exchange contracts	1,119	0	1,119	821	0	821
Intra-group forward foreign exchange contracts	467	0	467	345	0	345
Currency options						
- Purchased	0	0	0	293	0	293
- Written	0	0	0	0	0	0
Intra-group currency options						
- Purchased	210	0	210	175	0	175
- Written	210	0	210	118	0	118
	2,006	0	2,006	1,752	0	1,752

¹⁾ Interest rate swaps mature in 3 years.

Volumes of commodity derivative contracts	2016			2015		
	Volume million bbl Remaining maturities		Total	Volume million bbl Remaining maturities		Total
	< 1 year	1–3 years		< 1 year	1–3 years	
Commodity derivative contracts designated as cash flow hedges ²⁾						
Futures and forwards						
- Sales contracts	0	0	0	0	0	0
	0	0	0	0	0	0
Non-hedge accounting commodity derivative contracts excl. electricity and gas derivatives ³⁾						
Futures and forwards						
- Sales contracts	28	0	29	16	0	16
- Purchase contracts	19	0	19	8	0	8
Intra-group futures and forwards						
- Sales contracts	15	0	15	5	0	5
- Purchase contracts	16	0	17	4	0	4
	78	2	80	33	0	33

	Volume GWh Remaining maturities			Volume GWh Remaining maturities		
	< 1 year	1–3 years	Total	< 1 year	1–3 years	Total
Non-hedge accounting electricity and gas derivative contracts						
Futures and forwards						
- Sales contracts	0	0	0	0	0	0
- Purchase contracts	1,716	665	2,381	1,548	884	2,432
Intra-group futures and forwards						
- Sales contracts	765	196	961	571	263	834
- Purchase contracts	0	0	0	0	0	0
	2,481	861	3,342	2,119	1,147	3,266

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

³⁾ 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.

Fair values of derivative financial instruments	Fair value 2016				Fair value 2015			
	Positive		Negative		Positive		Negative	
	< 1 year	1–3 years	< 1 year	1–3 years	< 1 year	1–4 years	< 1 year	1–4 years
Interest rate and currency derivative contracts								
Derivative financial instruments designated as cash flow hedges								
Interest rate swaps ¹⁾	0	0	0	2	0	0	0	4
Forward foreign exchange contracts	0	0	15	0	1	0	14	0
Currency options								
- Purchased	1	0	3	0	0	0	3	0
- Written	5	0	8	0	1	0	2	0
	6	0	32	2	3	0	19	4
Derivative financial instruments designated as fair value hedges								
Interest rate swaps ¹⁾	0	8	0	0	5	11	0	0
	0	8	0	0	5	11	0	0
Non-hedge accounting derivative financial instruments								
Interest rate swaps ¹⁾	0	0	0	0	0	0	0	0
Forward foreign exchange contracts	0	0	15	0	4	0	3	0
Intra-group forward foreign exchange contracts	11	0	1	0	11	0	0	0
Currency options								
- Purchased	1	0	3	0	2	0	0	0
- Written	0	0	8	0	0	0	0	0
Intra-group currency options								
- Purchased	0	0	1	0	0	0	1	0
- Written	5	0	0	0	0	0	0	0
	17	0	28	0	17	0	4	0

¹⁾ Interest rate swaps mature in 3 years.

	Fair value 2016				Fair value 2015			
	Positive < 1 year	1–3 years	Negative < 1 year	1–3 years	Positive < 1 year	1–3 years	Negative < 1 year	1–3 years
Commodity derivative contracts								
Commodity derivative contracts designated as cash flow hedges ²⁾								
Futures and forwards								
- Sales contracts	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0
Non-hedge accounting commodity derivative contracts ³⁾								
Futures and forwards								
- Sales contracts	10	0	91	0	75	0	5	0
- Purchase contracts	43	1	22	0	18	0	19	2
Intra-group futures and forwards								
- Sales contracts	14	0	36	0	3	0	18	0
- Purchase contracts	60	0	10	0	5	0	32	0
	127	1	159	0	101	0	74	2

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

³⁾ 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.

	2016				2015			
	Assets		Liabilities		Assets		Liabilities	
Balance sheet reconciliation	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivative financial instruments	151	9	219	3	126	11	97	6

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 by selling 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 as per last business day of financial year. The

fair value of currency options are calculated using market rates as per last business day of financial year 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 last business day of financial year. 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 last business day of financial year.

Fair value hierarchy of derivatives									
2016					2015				
Financial assets	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	
Non-current derivative financial instruments									
Interest rate derivatives		8		8		0		0	
Currency derivatives		0		0		0		0	
Commodity derivatives	0	1	0	1	0	0	0	0	
Non-current available-for-sale financial assets		0	5	5		0	5	5	
Current derivative financial instruments									
Interest rate derivatives		0		0		0		0	
Currency derivatives		7		7		6		6	
Commodity derivatives	25	102	0	127	42	59	0	101	
Financial liabilities									
Non-current derivative financial instruments									
Interest rate derivatives		2		2		0		0	
Currency derivatives		0		0		0		0	
Commodity derivatives		0		0		2		2	
Current derivative financial instruments									
Interest rate derivatives		0		0		0		0	
Currency derivatives		58		58		22		22	
Commodity derivatives	58	101		159	6	68	0	74	

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).

22. 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.

23. Shares and holdings

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2016 EUR thousands
Subsidiary shares				
Kiinteistö Oy Espoon Keilaranta 21	Finland	16,000	100.00	36,725
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 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	13,753
Neste (Suisse) S.A.	Switzerland	200	100.00	62
Neste US, Inc.	USA	1,000	100.00	19,528
Neste Renewable Fuels Oy	Finland	200	100.00	1,676,901
Neste Shipping Oy	Finland	101	100.00	55,452
				1,972,852
Associated companies				
A/B Svartså Vattenverk - Mustijoen Vesilaitos O/Y	Finland	14	40.00	124
Kilpilahti Power Plant Ltd	Finland	2,000	40.00	200
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
				343

	Country of incorporation	No of shares	Holding -%	Book value 31 Dec 2016 EUR thousands
Other shares and holdings				
CLEEN Oy	Finland	100		100
East Office of Finnish Industries Oy	Finland	1		10
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
				3,340
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
Connection fees				63
Total				1,976,600

24. Disputes and potential litigations

Neste has two pending disputes concerning the bio mandate penalty payments totaling approximately EUR 62 million. The dispute concerning the penalty payment levied in 2014, amounting approximately EUR 44 million, is pending at the Supreme Administrative Court. Despite the appeal, Finnish Customs has returned penalty payment to Neste in August 2015. The dispute concerning the penalty payment levied and expensed in 2015, amounting approximately EUR 17 million, is pending at the Administrative Court of Helsinki. In both cases Neste considers that it has complied with the requirements according to the legislation and the authority instructions and that the penalty payments are in contradiction with the legislation and general principles.

Neste has one pending dispute concerning the excise tax levied on the exported products. Finnish Customs levied excise tax, interest and additional tax totaling approximately EUR 16 million due to the default of entries to the Excise Movement and Control System (EMCS). The payment has been charged to the income statement during the financial period 2016. However, Neste considers that excise duty cannot be levied due to the default of entries to EMCS when products have been exported under the customs supervision and when the export outside EU is indisputable. Neste considers that the excise tax levy is in contradiction with the purpose of excise tax legislation of EU as well as the general principle of proportionality and the interpretations of Court of Justice of the European Union. Neste demands for rectification of decisions from the tax authority.

In December 2016, Finnish Customs decided – contrary to its former draft resolution and in consequence of the statement of Neste – not to levy excise tax, interest and additional tax totaling approximately EUR 18 million for two shippings placed to export procedure and shipped outside Finland in 2013. The representative of Finnish state has demanded for rectification of the custom's decision and the decision is not yet final. Neste considers that export has been the correct procedure in these shippings and Finnish Customs' decision should not be changed. No provision is recognized in consolidated financial statement because possibility of an outflow of resources embodying economic benefits is not considered probable.

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 2016 stood at EUR 1,670 million.

The Board of Directors proposes Neste Corporation to pay a dividend of EUR 1.30 per share for 2016, totalling EUR 332 million, and that any remaining distributable funds be allocated to retained earnings.

Espoo, 6 February 2017

Jorma Eloranta

Maija-Liisa Friman

Laura Raitio

Jean-Baptiste Renard

Willem Schoeber

Kirsi Sormunen

Marco Wirén

Matti Lievonen
President and CEO

Auditor's Report

To the Annual General Meeting of Neste Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Neste Oyj (business identity code 1852302-9) for the year ended 31 December 2016. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis For Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

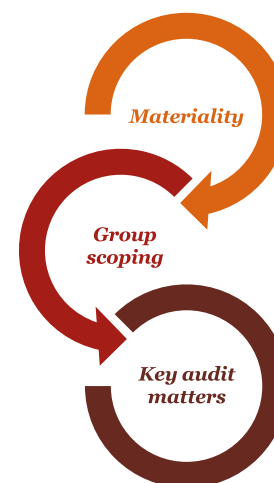
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Overview



Materiality

- Overall group materiality of € 40 million

Audit scope

- The scope of our group audit has encompassed all significant refineries, as well as selected sales companies.

Key audit matters

- Timing of revenue recognition
- The valuation of inventories
- Income tax expense
- System environment and internal controls
- Disputes and potential litigations

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the following table. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality

€ 40 million

How we determined it

4% of profit before tax

Rationale for the materiality benchmark applied

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 4% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

The scope included the refineries and operations in Finland, Switzerland, Singapore, the Netherlands and the USA, covering the most significant companies in the Oil products, Renewable products and Retail segments. We obtained, through our audit procedures at the aforementioned reporting units, combined with additional procedures at the Group level, sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group
Timing of revenue recognition
 Refer to Notes 2 and 7 in the financial statements

The group has several different revenue streams, under the Oil Products, Renewable Products and Oil Retail segments.

In both the Oil Products and Renewable Products segments, the company has deliveries, which can be considered individually significant. We consider there to be a risk of misstatement of the financial statements related to transactions occurring close to the year end, as transactions could be recorded in the wrong financial period (cut-off). The Oil Retail segment's revenues consist of several small transactions, with short payment terms, low complexity and significant automation, therefore resulting in a lower risk related to cut-off.

Accordingly, we focused our work on cut-off in the Oil Products and Renewable Products segments.

How our audit addressed the key audit matter

In order to address the risk of misstatement related to cut-off in revenue recognition, we tested the company's controls around revenue recognition, tested balances recognized in the company's balance sheet and, tested individual transactions occurring either immediately before or after the year end.

Our testing of the company's manual and automated controls focused on controls around the timely and accurate recording of sales transactions.

We tested the company's system generated reports, based on which revenue is accrued at the year end, and performed tests of details on the accrued revenue and accounts receivable balances recognized in the balance sheet at the year end.

Our tests of detail focused on transactions occurring within proximity of the year end in the Oil Products and Renewable Products segments, obtaining evidence to support the appropriate timing of revenue recognition, based on terms and conditions set out in sales contracts and delivery documents or system generated reports.

The valuation of inventories

Refer to Notes 2 and 22 in the financial statements

The company has significant inventory balances in both the Oil Products and Renewable Products segments. The inventory is valued at the lower of cost or net realizable value. The calculations are complex and include inputs from a variety of different sources, introducing a risk of error. Accordingly, we focused on the appropriate valuation of inventory as part of our audit.

While the finished products in the Oil Products segment are refined from one type of input, being crude oil, the Renewable Products' main finished product, Neste Renewable Diesel, is produced using a wide range of different feedstocks.

Inventories are valued at the lower of cost or net realizable value. The valuation of inventory at cost is determined based on the assumption that goods are sold on in the same order in which they were purchased (the FIFO-principle). Our audit procedures focused on the valuation of inventory as described below.

Key audit matter in the audit of the group
Renewable Products

The cost of inventory in the Renewable Products segment reflects purchase prices, which are impacted by the market prices of different feedstocks, such as waste and residues and vegetable oils, as well as the mix of feedstocks purchased.

The net realizable value of the inventory reflects management's best estimate of the likely sales prices, which depend on a number of different factors, and expected sales mix by feedstock.

How our audit addressed the key audit matter
Renewable Products

We compared the cost of raw materials and pre-treated products to purchase invoices, verifying the application of the FIFO principle and application of the appropriate purchase prices.

We tested the cost of the finished products by tracing the purchase cost of the used raw materials to purchase invoices. We also verified that the capitalised production costs were based on actual refining costs and thereby appropriate.

Our testing of the net realizable value covered raw materials, pre-treated products and finished products. We compared raw materials and pre-treated products to relevant market prices where such exist. Where no readily available market price could be found, we performed a compound level comparison to the respective compound's repurchase price or the average purchase price based on the latest purchases. We compared finished products to a weighted average of sales made or agreed during the last month of the year. We have, as part of our procedures, ensured that the principle of valuing inventory at the lower of cost or net realisable value has been applied in the valuation of inventory.

Oil Products

The cost of inventory in the Oil Products reflects purchase prices, which are impacted by the market prices of crude oil, and the cost of refining.

The net realizable value of the inventory is affected by the market prices of refined products such as gasoline and diesel, as well as by crude oil prices.

Oil Products

We traced the cost of raw materials and finished goods to purchase invoices, verifying the application of the FIFO principle and purchase prices. We checked the cost of refining against the actual refining costs of the respective refineries.

Our testing of the net realizable value covered a selection of finished goods and raw materials, comparing the cost of the item to the relevant market price of the same compound, or similar compounds, where an exact match could not be found in the market.

Key audit matter in the audit of the group
How our audit addressed the key audit matter
Income tax expense

Refer to Notes 2 and 22 in the financial statements

The group operates in several different countries. The income tax expense in the consolidated financial statements depends on the tax rates applicable to the taxable earnings, which depend on the country, in which the income is earned.

We identified income taxes as an area of focus in the audit as there is a risk related to the appropriate application of all relevant tax regulations and that the income tax expense may be misstated.

We assessed the compliance with applicable tax laws in the respective countries.

We recalculated both the current tax expense and the tax liability in the balance sheet for all significant locations. We verified the applied tax rates against local tax law and decisions made by tax authorities.

We recalculated the deferred tax balances in the balance sheet and the income statement impact of the change in deferred taxes.

System environment and internal controls

The group has a fragmented system environment, reflecting the different nature of the different operating segments.

The fragmented system environment introduces risks related to system access, change management and data transfer between the different systems, and we have accordingly designated this as a focus area in the audit.

Management has mitigated this risk by means of manual controls.

Our response to the risks related to the fragmented system environment includes both the test of IT and business process controls. We also performed sufficient tests of details as part of our audit.

We tested the company's controls around access and change management related to key IT systems.

We also tested the company's controls around system interfaces, and the transfer of data from one system to another.

We noted certain weaknesses related to access controls to certain key systems. We have reported these control weaknesses to management, and included sufficient tests of detail in our audit response in order to sufficiently mitigate the related risks in our audit.

Key audit matter in the audit of the group
How our audit addressed the key audit matter
Disputes and potential litigations

Refer to Notes 2 and 35 in the financial statements

Neste is involved in a few legal proceedings, both for and against the company. For a smaller number of claims against the company, management has assessed that the probability of success of the claim is remote. Accordingly, the company has not accounted for or disclosed the claims. In many cases, Neste has counter claims against the other party.

The group has also been subject to customs investigations, some of which are still ongoing.

Management judgement is involved in assessing the accounting for claims, and in particular in considering the probability of a claim being successful and we have accordingly designated this as a focus area of the audit. The risk related to the claims is mainly associated with the completeness of the disclosure, and the completeness of the provisions in the financial statements.

In response to the risk of completeness of the disclosures and the completeness of the provisions in the financial statements, we obtained external confirmations directly from Neste's legal advisors. We discussed the cases with management, and reviewed correspondence and other documents exchanged between Neste and the other parties involved in the disputes. We read the minutes of the board meetings, and inspected the company's legal expenses, in order to ensure all cases have been identified.

We tested provisions recorded in the accounting records, and reviewed the disclosures for completeness based on our procedures detailed above.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director For the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities For the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

Helsinki 6 February 2017

PricewaterhouseCoopers Oy

Authorised Public Accountants

Markku Katajisto

Authorised Public Accountant