

1 Accounting policies

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

Revenue

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

Other operating income

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

Foreign currency items

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

Derivative financial instruments

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

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

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

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

Fixed assets and depreciation

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

The depreciation is based on the following expected useful lives:

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

Inventories

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

Research and development

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

Pension expenses

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

Extraordinary items

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

Deferred taxes

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

Provisions

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