



OIL ENERGY & CHEMICALS



ANNUAL REPORT 1996

NESTE IS

an oil, energy, and chemicals company,

WHOSE CHIEF OPERATING AREA IS

the Baltic Rim. IT HAS OPERATIONS

IN OVER 30 COUNTRIES AROUND THE WORLD.

Its customers RANGE FROM MULTINATIONAL

OIL COMPANIES AND INDUSTRIAL ENTERPRISES

TO PRIVATE CONSUMERS.

NESTE *was listed* ON THE HELSINKI STOCK EXCHANGE

AT THE END OF 1995.

2. NESTE IN 1996

Net sales were maintained; trading losses weakened the results; debt was reduced; positive share price performance

4. MANAGEMENT REVIEW

Strong internal transformation; consolidating Neste's position as a leading energy company in the Baltic Rim; convenient position on the European energy border

DIVISIONAL REVIEWS

an integrated downstream oil chain began its operations; oil production grew in Norway and Oman; oil and natural gas pipeline projects under way; a number of chemicals plants came on stream



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NESTE IN 1996

		1996	1995
Net sales	FIM mill.	43 375	43 335
Operating profit	FIM mill.	1 078	2 142
Profit before extraordinary items and taxes	FIM mill.	566	1 364
Investments	FIM mill.	2 048	2 167
Interest-bearing debt	FIM mill.	10 847	12 943
Return on capital employed	%	5.7	9.6
Return on shareholders' equity	%	2.9	6.5
Equity-to-assets ratio	%	39.4	36.6
Gearing	%	74.9	77.0
Earnings per share	FIM	3.14	7.59
Shareholders' equity per share	FIM	122.05	119.93
Average number of personnel		8 662	8 840

- The downstream oil business was reorganised according to a whole new operating model with effect from the beginning of April. The former Oil Refining, Marketing Companies, Shipping, and International Trading & Supply Divisions as well as the Bitumen and Lubricants Unit were merged into a single oil chain.

- Oil and gas production from our fields in Norway and Oman grew 12% from the previous year. Development of the Åsgard field began in Norway.

- In Sweden, our most important export market, we entered into a long-term agreement with Kuwait Petroleum on petroleum product deliveries and acquired the operations of Greenergy AB, which specialises in the direct sales of low-emission diesel fuel and light fuel oil.

- We opened 24 new service stations outside Finland. At the end of the year, the number of Neste service stations outside Finland totalled 92.

- Work on a plant producing base oils for new-generation lubricants and on a gas turbine power plant started at Porvoo.

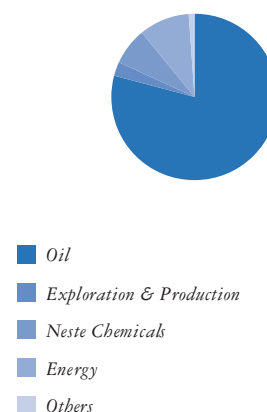
- We started a feasibility study into a crude oil pipeline from Russia to Finland.

- Work continued on a natural gas parallel pipeline which is set to increase Finland's natural gas transmission capacity by one-third from the present level. Prospects for constructing a pan-Nordic natural gas network improved, following the inclusion of the Nordic Gas Grid project in the EU's Trans-European Network (TEN) list. Project feasibility studies will be conducted under Neste's leadership. We decided to take a 10% stake in the Swedish natural gas company Vattenfall Naturgas AB.

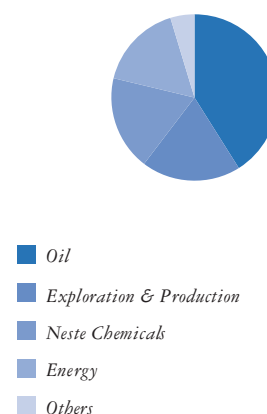
- A formaldehyde plant producing raw material for the manufacture of adhesive resins was completed in the USA. A gelcoat plant was opened in China. In Belgium, we started to manufacture oxo intermediates, and an acid plant was commissioned in Sweden.

- We launched a number of new products: Futura Green specialty gasoline; Futura City Diesel, a sulphur-free diesel fuel blend; low styrene emission polyester resins; gelcoats; and oxo chemicals.

NET SALES BY DIVISION



INVESTMENTS BY DIVISION



NESTE AND THE ENVIRONMENT

In environmental, health, and safety (EHS) matters, Neste concentrated on what it has defined as its key EHS focus areas for the year 2000. In essence, these were the ongoing work at the production plants to obtain environmental certification, commitment to improve product quality from the point of view of the environment and product life-cycle, provision of EHS training to employees and involving them in EHS work. We also aim at having our plants in Russia and the Baltic states conform with the same EHS criteria as applied at our other locations. The divisions progressed with the preparation and implementation of their own environmental programmes in line with the above guidelines.

During 1995, Neste set itself revised EHS targets for the year 2000, because some of the previous targets had been achieved. We also selected a set of measures to monitor our progress in reaching these targets. Apart from lost workday injuries, performance in 1996 was satisfactory.

Our Group-wide EHS management system was completed in 1996. The system describes how EHS issues are managed at Neste so as to ensure continuous improvement. It also defines the minimum level for good EHS practice.

This year we publish, for the fifth time, a comprehensive environmental progress report which covers the entire Group and its most important production facilities. Our 1995 environmental report received international acclaim for its contents and scope, and according to several international reviews, it was ranked among the world's best environmental reports for the year.

We also prepare separate environmental progress reports on our Porvoo, Naantali, and Hamina production facilities.

NESTE GROUP'S RESPONSIBLE CARE TARGETS AND PROGRESS DURING 1996

	Base year	Achieved in 1996	Target for the year 2000
Volatile organic compounds (VOC)	1988	-44%	-55%
SO ₂ emissions	1980	-84%	-80%
Waste to final disposal	1990	-24%	-50%
Lost workday injuries	1992	-50%	-80%
Energy efficiency*	1990	+8%	+15%
Fires	1995	-13%	-50%
Uncontained spills**	1995	11 incidents	0

* Result reported for 1994. The Solomon Associates' Energy Intensity Index (EII) report on refinery performance for 1996 will be completed during 1997.

** Two spills from Neste ships of which some 2 cubic metres of fuel oil remained in the sea.



Responsible Care is the European chemical industry's joint environmental, health, and safety programme, to which Neste became signatory in 1991.

MANAGEMENT REVIEW

When the year 1996 ended, Neste was, in many respects, a very different company from that of a year ago. Improvement and change projects were under way throughout the Group, extending into and continuing to have an impact on the present year, too. These projects are aimed at improving our ways of operating, enhancing our competence, and bringing increasingly more Neste people closer to the customer.

The most fundamental changes took place in the Oil Division as our entire downstream business, from crude oil supply to retail marketing, was transformed from separate business units into a process-based organisation. The processes are run by teams comprising of people with different skills and competences that complement each other well and bring added value.

The Exploration & Production Division and Neste Chemicals also started their own extensive projects to boost profits by enhancing customer liaison, quality, and personnel satisfaction.

A NEW SET OF SHARED VALUES

During 1996, we at Neste strived to define a set of shared values that would underpin everything we do. Spirited discussions were conducted in all parts of the company, and often very different points of view were voiced. Together we reached an understanding that Neste people advocate openness and candour, caring and respect, and dedication and a desire for renewal.

As our values demonstrate, we are committed to reinvigorating our business culture. We aspire to create an internally harmonious working community which is a reliable partner to everyone and has a positive impact on society. In 1996, we also launched an extensive leadership training programme so as to instil a new approach in management on all levels.



JUKKA VIINANEN, president and COO, and JAAKKO IHAMUOTILA, chairman and CEO

Working amidst change poses tough demands on personnel. It requires a great deal of effort and calls for a desire for renewal. We would therefore like to extend our sincere thanks to all Neste people for their valuable contribution.

AN ENERGY BRIDGE BETWEEN EAST AND WEST

Neste has an ideal geographical location as a Finnish energy refiner and supplier: the border between Finland and Russia is also the European energy border. Immense hydrocarbon reserves lie in the north and the east, while the EU member states constitute a large market area in the west.

Neste has joined forces with Russian and western oil companies to explore the feasibility of constructing a crude oil pipeline from the area located to the south-west of St Petersburg to the Gulf of Finland. Together this project and the growing demand for

Russian natural gas in Western Europe, in fact, give Finland the opportunity to become the European energy bridge in the future.

Natural gas is becoming an increasingly desirable form of energy in both Finland and Europe as a whole, thanks to its competitiveness and its environmental properties. This enables us to consolidate our own position. As a matter of fact, several interesting projects are currently under consideration. We have started feasibility studies into the construction of a Nordic gas grid. The European Commission has accepted this project as one of its Trans-European Network (TEN) projects. Late in 1996, we decided to take a 10% stake in the Swedish natural gas company Vattenfall Naturgas AB, and in January 1997, we signed a letter of intent with the Russian natural gas supplier RAO Gazprom on the setting up of a joint venture concerning the North European gas supply route.

GROWTH IN THE NEARBY MARKET

The St Petersburg region, the Baltic states, and the rest of the Baltic Rim inherently make up our nearby market. We run units that produce high-quality petroleum and chemicals products, we have created effective logistics, and we have seized significant market shares in this region. Looking forward, the immense oil and gas reserves in Russia provide us with ample opportunity for cooperation in the upstream business.

DIFFICULT YEAR

A look at our financial performance shows that 1996 was a difficult year for us. Market conditions kept the refining margins slim, and the petrochemicals trade cycles were reflected in our results through the weaker performance from our associated company Borealis. Our crude oil trading recorded significant losses, but we have since reorganised our trading activities and issued new guidelines and procedures to ensure better internal financial and management control.

Our upstream oil, in contrast, posted record high results, thanks to increased production and the high crude oil price. The Energy Division continued with its steady performance of recent years. Falling prices, however, slightly affected Neste Chemicals' results.

PREPARING OURSELVES FOR THE NEXT MILLENIUM

Now that Neste is a listed company we have a great responsibility to manage Neste's business in a way that will inspire confidence in our present and potential shareholders. We must learn from past experiences and be able to use present and future opportunities to our advantage. We are confident that Neste will be able to enhance its competitive performance among the energy companies operating in the Baltic Rim so as to seize the opportunities of the new millennium.

Espoo, March 1997



Jaakko Ihamuotila
Chairman and CEO



Jukka Viinanen
President and COO



OIL

The Oil Division is an integrated chain of Neste's downstream oil business, encompassing crude oil and feedstocks supply, refining, marketing of petroleum products, international sales of crude oil and petroleum products, as well as logistics.

The oil chain is managed in accordance with process thinking, driven essentially by customer needs. This means that refining, marketing, and sales are aligned with customer and market needs. The division's Commercial Coordination Group is responsible for ensuring that the performance of the oil chain is efficient and that our customers receive the products they need in as inexpensive a way as possible.

Neste operates two oil refineries in Finland. At these facilities, we manufacture petroleum products for use in traffic, heating, agriculture, industry, and energy generation. It is important to us that our products pose minimal harm to the environment.

Neste is the market leader in Finland in the retail and direct sales of petroleum products, and has an important share of the market in the other Baltic Rim countries, too. Neste also exports its products beyond the Baltic Sea region.

The year 1996 saw the sea and land transport and the terminal functions merge into an integrated Logistics Services Group, thereby giving us a significant competitive edge.

CUSTOMER CONFIDENCE IS
OUR MOST IMPORTANT GOAL.
Cooperation STEMS FROM CARING AND
MUTUAL RESPECT.



ILKKA PORANEN, Porvoo refinery; VELJ-MATTI ROPPONEN, executive vice president; MARJA-RIITTA KAIVONEN, marketing and sales

OIL

BULK SALES AND SUPPLY

The Bulk Sales and Supply Group is responsible for selling petroleum products in bulk and for trading in feedstocks, petroleum products, and components. It is also responsible for the supply of products and feedstocks used in refining and for hedging the oil price. Neste's MTBE business, which manufactures and markets gasoline components worldwide, is also included in the group.

Sales increased in Finland

Sales of petroleum products in Finland grew 3.4% from the previous year, amounting to 9 million tonnes. Gasoline sales, however, fell 3% mainly due to tax increases introduced at the beginning of 1996. In contrast, diesel fuel sales rose a good 3%, aided by economic growth in Finland and a revival in the haulage sector. A cold spell at the beginning of the year further increased demand for light and heavy fuel oils.

Neste retained its share of Finland's bulk sales market, with total deliveries amounting to some 7.5 million tonnes. This represents an increase of 1.5% over the previous year. In fact, Neste sold petroleum products to all domestic and international oil companies operating in Finland.

In Finland, Neste sold only lead-free reformulated gasolines, which are high in oxygen and less polluting than other gasoline blends. The majority of our diesel fuel sales were also of the virtually sulphur-free city diesel type. Furthermore, the majority of our bulk sales customers purchased our light fuel oil designed for heating purposes. Its sulphur content is significantly below the official standards in force in Finland.

Sweden the top export market

Neste's petroleum product exports totalled 4.5 million tonnes, up 12.5% on 1995. Sweden continued to be our principal export

market, with sales amounting to 1.6 million tonnes. In fact, Neste entered into a long-term agreement with Kuwait Petroleum on product supplies to its service station network in Sweden.

North America can be considered a new gasoline market area for Neste since our export deliveries to this market totalled some 1.0 million tonnes. Of this amount, one-third was accounted for by Neste's reformulated gasoline blend which meets the environmental standards of California, reputed to be the most stringent in the USA.

Sales in the Baltic states and Russia also grew, with volumes amounting to more than one million tonnes. The principal product sold in this area was gasoline.

Export prospects for Neste's petroleum products in future years are good.

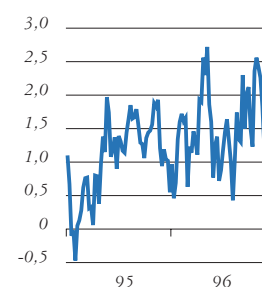
Crude oil from the North Sea

Neste continued to supply its own refineries with the light, low-sulphur North Sea crudes. Together the UK, Norway, and Denmark accounted for 74% of our crude imports, which totalled 9.7 million tonnes, while 26% was sourced from the former Soviet Union. Besides crude oil, our refineries also used other feedstocks, with the volume increasing by nearly a quarter from 1995.

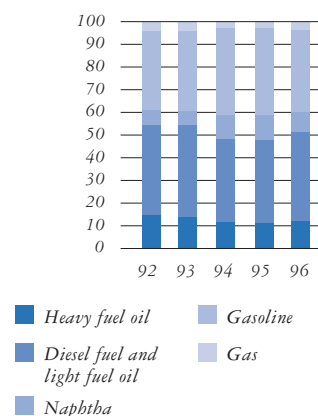
Trading activities were merged with the newly formed oil chain. Crude oil trading volumes were cut, and buying and selling contracts were focused on selected areas. Petroleum product trading in turn concentrated on optimising product supplies to customers and on marketing traffic fuels refined in Finland to countries outside Europe, the main markets being Canada, USA, North-West Europe, and Russia. The considerable crude oil sales margin deficit, however, adversely affected trading's profitability.

REFINING MARGIN IN ROTTERDAM

(Brent complex USD/b, week average)



BREAKDOWN OF REFINERY OUTPUT (%)



OIL	1996	1995
Net sales (FIM million)	35 844	35 185
Operating profit (FIM million)	196	940
Identifiable assets (FIM million)	9 649	9 369
Investments (FIM million)	842	1 362
Average number of personnel	4 456	4 400

MTBE PRODUCTION UP

Methyl-tert-butyl-ether (MTBE) is a high-octane, oxygen-rich gasoline component that contributes to improved combustion and reduces harmful emissions. Neste produces MTBE at its Porvoo refinery and at the Sines facilities in Portugal, and is a partner in MTBE plants in Edmonton, Canada, and Al Jubail, Saudi Arabia. Neste's MTBE sales in 1996 totalled some 640,000 tonnes. Our main customers were oil companies in California, Asia, and Western Europe.

A decision was made to raise the capacity of the Edmonton plant from 600,000 tonnes to 770,000 tonnes. The expansion will be completed in autumn 1997. In May 1996, Neste and the Alujain Corporation of Saudi Arabia signed a memorandum of understanding on a joint venture to build an MTBE plant in the Yanbu industrial city on the west coast of Saudi Arabia. Neste will have a minority holding in the joint venture. This 850,000-tonnes-a-year plant is scheduled to come on stream in 1999. The majority of the production will be marketed by Neste.

MARKETING AND SALES

The Marketing and Sales Group is responsible for the retail and direct sales and marketing of Neste's petroleum products in Finland and elsewhere in the Baltic Rim and for providing the related services. In Finland, the group operates under the Neste and Kesoil brand names, outside Finland it operates under the Neste name only.

Neste is the market leader in Finland in the retail and direct sales of petroleum products, and an important marketer in the Baltic states, Poland, and North-West Russia, in particular the St Petersburg region. In Germany, Neste is engaged in the retail and direct sales of petroleum products, whereas in Sweden our operations are confined to the direct sales sector.

In autumn 1996, we introduced a new sulphur-free diesel fuel blend under the brand name Futura CityDiesel. We also introduced a top-quality specialty fuel known as Futura Green. It is ideal for conditions where particularly stringent occupational hygiene and environmental requirements must be observed.

A single company for the Baltic Rim

The Finnish subsidiaries of the Marketing and Sales Group were merged into a single marketing company operating in the Baltic Rim as of the beginning of 1996. The new company known as Neste Marketing Ltd has four business units: Retail Finland, Direct Sales Finland, Marketing Europe East, and Marketing Europe West. In addition, the Transoil unit responsible for fuel transport operations was incorporated into the Logistics Services Group, and the heating specialist Neste Lämpö was merged with the Energy Division.

In 1996 the Marketing and Sales Group concentrated on grouping all its marketing and sales functions under the new unit, working in closer cooperation with other parts of the oil chain, and on improving information technology, quality, and environmental matters. As regards the environment, the group surveyed the condition of tanks and soil on service station sites, and has now begun to replace old tanks and to clean the soil.

Steady position in Finland

Neste's retail and direct sales in Finland totalled 4.3 million tonnes, up 3.7% on 1995. Thus our domestic market position remained satisfying: gasoline accounted for 34.9% (up 0.2 percentage points), diesel fuel 45.2% (up 0.5 percentage points), light fuel oil 41.3% (up 1.5 percentage points), and heavy fuel oil 46.2% (down 0.7 percentage points).

At the end of 1996, Neste's retail network in Finland totalled 1,201 service stations, diesel fuel outlets and other sales out-



The total annual capacity of Neste's two refineries is some 12 million tonnes.

lets, of which Neste- and Kesoil-branded outlets numbered 746 and 455 respectively. Convenience stores and car wash lines increased their sales from the previous year, whereas gasoline sales fell. The number of service stations incorporating a Neste Quick Shop convenience store climbed to 27. Overall, the service stations were maintained, shops and car wash halls were refitted, tanks were replaced, and other environmental investments were carried out according to an agreed improvements schedule. In addition, 40 aged service stations were closed down mainly due to their poor sales performance.

The Marketing and Sales Group includes a direct sales unit committed to improving the operational reliability of its customers and to tailoring its product and service supply in a cost-effective way. Its 1996 sales volume grew 4.5%, enabling Neste to retain its position as a strong market leader in Finland with all its principal products. The unit's certified quality system was renewed to reflect the division's new process organisation.

Growth in the Baltic Rim

Consumption of gasoline and diesel fuel continues to grow in the Baltic states, Poland, and Russia. As a result, competition increases as several oil companies operating in Western Europe are investing in the region.

In Sweden, Neste acquired the operations of Greenergy AB, a company which

OIL

specialises in the direct sales of low-emission diesel fuel and light fuel oil.

In 1996, Neste opened a total of 24 new service stations in St Petersburg, the Baltic states, and Poland. In Estonia, we opened the first unmanned fuel outlet in the Baltic Rim, open 24 hours a day. Our service stations also represent leading car wash technology in the region. As a result of rearrangements in business ownerships, however, the number of Neste service stations in Lithuania fell by five, thereby resulting in a net increase of 19 service stations in the Baltic Rim. Consequently, the total number of Neste service stations outside Finland was 92 at the end of the year. In addition, Neste has acquired several new service station sites in the Baltic Rim.

SPECIALTY PRODUCTS

The Specialty Products Group is responsible for the development and global marketing of bitumen products, base oils, lubricants, automotive chemicals, solvents, and specialty fuels. The group also includes the Helsinki-based lubricant blending plant of Neste Alfa Oy, manufacturers of lubricants and automotive chemicals, and the Neste PAO N.V. facilities in Beringen, Belgium, which produce the principal component of synthetic lubricants. Bitumen, solvents, and specialty fuel products are manufactured at our Naantali refinery.

In addition, Neste owns 50% of Nynäs Petroleum AB, one of the biggest bitumen producers in western Europe, which specialises in the production and marketing of bitumen and naphthenic specialty oils. Its total capacity is 4.2 million tonnes a year.

Slackened road bitumen demand

Neste is a market leader in Finland in both road and industrial bitumens. Besides a logistic advantage, this is based on our own bitumen research and our own production technology. Due to state cost cutting mea-

sures, however, demand for bitumen in Finland continued to decline in 1996. Yet, road maintenance and construction needs are increasing year by year.

Neste's bitumen business is seeking growth in the export market - especially in the Baltic states and North-West Russia. These efforts have, however, been retarded by the difficult economic scene in the region.

Sales of road and industrial bitumens totalled 270,000 tonnes in 1996. This indicates that domestic demand has now passed its nadir.

Expanding lubricants business

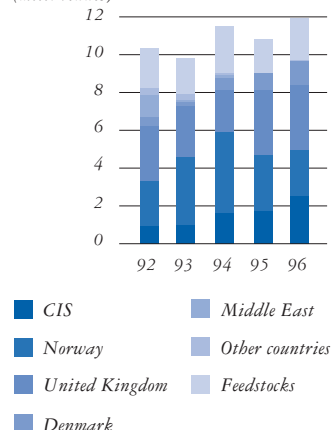
In lubricants, Neste specialises in producing and marketing environmentally sound, synthetic industrial and automotive lubricants for Finnish conditions. Sales of these products are on the increase, while demand for conventional mineral oils is turning weaker.

Neste accounted for 25% of the Finnish lubricants market in 1996. Exports to the Baltic Rim grew strongly, with one-fourth of the lubricant blending plant's output going to exports. At the end of 1996, Neste Alfa Oy commissioned a new packaging line at its plant and introduced new packaging for its products.

At Beringen, Belgium, Neste manufactures polyalphaolefin (PAO), the main component of synthetic lubricants used mainly in synthetic motor oils and industrial oils. Neste accounted for some 30% of the European market. The Beringen PAO plant operated at full capacity throughout the year.

Neste decided to start producing a new generation of base oils for lubricants at Porvoo. A new unit, scheduled to be commissioned at the end of 1997, is currently being built for the production of these VHVI (Very High Viscosity Index) base oils. The annual capacity of the unit will amount to 200,000 tonnes, of which VHVI base oils will account for 50,000 tonnes. The total investment cost for the unit is some FIM 180 million.

NESTE'S CRUDE OIL AND FEEDSTOCK IMPORTS INTO FINLAND (mill. tonnes)



CONSUMPTION OF PETROLEUM PRODUCTS IN FINLAND (mill. tonnes)



The new VHVI range is a good addition to Neste's current Nexbase PAO range, enabling our customers to develop products that meet the ever tightening performance and environmental requirements set for lubricants.

REFINING

The total refining capacity of Neste's two refineries at Porvoo and Naantali was some 12 million tonnes. The Porvoo refinery consumed 10.4 million tonnes of feedstocks during the year, thereby setting a record for the decade. At Naantali, feedstock consumption

totalled 2.3 million tonnes, which was also a record high since the current operational structure of the refinery was introduced. In addition, production was halted for five weeks due to a turn-around shut-down. The Porvoo refinery will have a similar shut-down in autumn 1997. These shut-downs take place on a four-year cycle.

In addition to North Sea crudes, Neste's refineries used a total of three million tonnes of other liquefied hydrocarbons, liquefied petroleum gas (LPG), and related products as feedstocks in refining. Light Russian crudes and other feedstocks sourced from the former Soviet Union were delivered to Finland by rail. To meet the increased rail deliveries, a new discharge terminal for oily feedstocks was commissioned at Porvoo.

The Porvoo refinery continued to focus on producing high-quality, low-emission traffic fuels. The efficient process units and large production lots of the refinery, combined with our flexible logistics and manufacturing methods, enable us to export our products profitably even to countries outside Europe. The Naantali refinery in turn increasingly concentrated on producing light distillates. For example, the share of middle distillates grew significantly. On the other hand, bitumen production also increased from the previous year. Porvoo produced a total of 9.8 million tonnes of petroleum products in 1996, while production at Naantali amounted to 2.2 million tonnes.

The capacity utilisation rate of both refineries was high. In fact, Porvoo reached a new record of 93.7%. The figure for the Naantali refinery was lower, 83.9%, due to the spring 1996 shut-down. During the shut-down, however, Naantali introduced a new automation system and invested in improving the refinery's energy efficiency.

LOGISTICS SERVICES

The Logistics Services Group is primarily responsible for Neste's maritime, road, and rail transport operations, and for Neste's terminal services. The group's most important operating areas are the Baltic Sea and the surrounding countries, the North Sea, and the Arctic regions. In maritime transport operations, Neste typically enters into long-term contracts with outside parties and operates in international freight markets to ensure a high rate of use of its vessels.

Petroleum product deliveries by the North-East Passage continued for the fourth consecutive year. Neste's vessels shipped petroleum products to Eastern Siberia and returned with gas condensate deliveries from the Ob River to North-West Europe. Navigating conditions were at times extremely demanding. Neste has also taken care of Greenland's oil deliveries for twenty years.

As of the turn of the year, Neste's fleet included a total of 20 Neste-owned vessels, two partly-owned vessels, and 9 time-chartered vessels, totalling 957,405 dwt. All these vessels incorporate either a double hull or a double bottom. During 1996, Neste sold three of its chemicals tankers: Kiisla, Kihu, and Tavi. The last two, however, continue operating for Neste as time-chartered vessels.

Neste's vessel safety management system was certified in March. Our shipping office and the vessels sailing under the Finnish flag and managed by Neste were awarded with the International Safety Management (ISM) certificate as proof that our shipping activities comply with international safety regulations.

Neste's road tanker deliveries are handled by private haulage contractors. There is a fleet of 220 road tankers in Neste's colours. Rail deliveries from Russia to Finland increased significantly, however. The railway cars were discharged mainly in Hamina,

South-East Finland, and then later in the year also at the new discharge terminal at the Porvoo refinery.

Neste has terminals in Finland and Estonia, and new ones are being constructed in Latvia and Russia. We operate our own terminals to ensure product availability and to link maritime and road deliveries in as inexpensive a way as possible.

New projects

In addition to the VHVI unit, work on a new gas turbine power station is under way at Porvoo. The first stage of this power production programme known as POVO will produce 70 MW of electricity and 110 MW of steam. The investment cost of this plant, scheduled to come on stream in autumn 1997, is some FIM 300 million.

Neste has been involved in two pre-feasibility studies exploring alternative routes for the construction of a crude oil pipeline and oil terminals from North and North-West Russia to the Gulf of Finland. In autumn 1996, Neste signed an agreement on conducting a feasibility study on the project with AOTransneft, which is responsible for Russia's crude oil pipeline network, and four other Russian and five international oil companies. The feasibility study will be completed during 1997, and the pipeline could be pumping crude oil by the turn of the millennium, at the earliest. This project would substantially improve export prospects for oil companies operating in oil fields in Timan Pechora and Western Siberia. In addition, extending the pipeline to Porvoo would contribute to improved energy supply in Finland. Neste's vast storage facilities at Porvoo, combined with Porvoo's deep-water harbour and deep-draft channel, would enable economical and safe tanker deliveries to the North-West European crude oil markets.



EXPLORATION & PRODUCTION

Neste's upstream oil production is dominated by Norway and the Middle East, and field studies on a proven oil deposit in Russia are under way. Neste produces oil and gas in two fields in Norway, the Brage and the Heidrun field, and is engaged in production in several deposits in Oman, of which the most important is the Safah field in the Suneinah licence area. In addition to production, Neste is involved in oil exploration in these areas.

Neste's target is to increase its annual oil and gas production from the present 1.7 million oil equivalent tonnes to some 3 million tonnes by the turn of the millennium. This growth would be derived predominantly from the Åsgard field off mid-Norway, whose oil and gas reserves account for more than one-half of Neste's proven reserves. In North Russia, Neste has a stake in two joint ventures that are aiming at production, but we are moving with caution towards eventual production start-up.

During the 1990s, Neste has concentrated its exploration and production activities on selected geographical areas. We have also invested in improving risk management by acquiring stakes in large hydrocarbon reserves that are geared to Neste's capital structure, and which retain their value for many years. This is because the value of remaining oil and gas reserves in large fields, which will be in production for dozens of years, is not as vulnerable to fluctuations in the oil price as that of fields with a shorter life span. Moreover, new discoveries to replace current production and an increase in the field recovery factor are more likely in large fields than in smaller ones.

THE FUTURE HOLDS
INFINITE OPPORTUNITIES.
We search for
NEW WAYS TO SUCCEED.



KALERVO MÄKINEN, business development and strategic planning; BO LINDFORS, executive vice president; LOCKHART BURCK, Russian business unit

EXPLORATION & PRODUCTION

Neste's oil and gas production totalled on average 32,100 oil equivalent barrels a day (1.7 million tonnes a year). Production from our fields in Norway and Oman climbed nearly 12% from the previous year. Total production, even when including the sale of our field stake in Tunisia, rose 10%.

Neste's Exploration & Production Division carried through an extensive business and organisation development project designed to boost profits by means of raising business quality and motivating personnel.

MORE INVESTMENTS IN NORWAY

The Norwegian Ministry of Oil and Energy granted a development licence to the Åsgard field and its natural gas transmission pipelines. Located in the Haltenbanken area on the Norwegian continental shelf off mid-Norway, Åsgard was formed by merging the Midgard, Smörbukk, and Smörbukk Sör gas, condensate, and oil fields. Neste has a 7% holding in Åsgard. Development investments were under way in the field throughout the year, with oil production start-up envisaged at the end of 1998. Åsgard's wet gas is fed through a purpose-built pipeline to the Kårstø terminal north of Stavanger. From here, dried gas is fed through new and existing transmission pipelines to Continental Europe. Gas production in Åsgard is scheduled to start in 2000.

The first full year of production from the Heidrun field in the Haltenbanken area proved that the field's production capacity and exploitable reserves were higher than estimated. As a result, Heidrun's planned daily production of 200,000 barrels, which corresponds to Finland's annual oil consumption of nearly 10 million tonnes, was raised at the end of the year to 250,000 barrels a day. Accordingly, with a 5% holding in the field,

Neste's production amounted to 10,500 barrels a day or 0.55 million tonnes a year.

A gas pipeline from Heidrun to a methanol plant in Tjeldbergodden was completed, and test runs started at the plant. The methanol plant comes on stream at the beginning of April 1997.

Production from the Brage field in the North Sea continued at a steady pace, totalling on average 130,000 oil equivalent barrels a day. Neste's 12.3% stake in the field corresponded to 14,400 barrels of oil and gas a day or 0.72 million tonnes a year. Gas, however, accounted for a minor share of production, reaching some 4%.

RECORD PRODUCTION IN OMAN

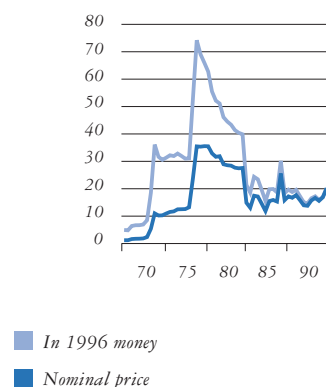
Production in Oman's Suneinah licence area continued for a fifth consecutive year. Daily production reached a record level of 44,000 barrels in February, and averaged 38,000 barrels a day over the year as a whole. Neste's share of total production remained at its maximum of 7,000 barrels a day or 0.35 million tonnes a year.

Neste disposed of the Tazerka field in Tunisia, and sold its stakes in exploration licences in the area. These deals came into force retroactively as of the beginning of 1996. Preparations were under way for a second exploratory drilling that is to take place in Algeria in spring 1997.

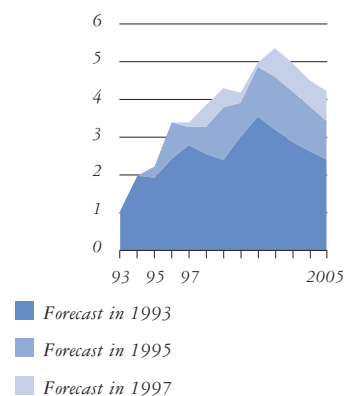
FIELD STUDIES STARTED IN RUSSIA

In Russia, Neste obtained an onshore exploration licence in the Timan Pechora region and an offshore licence in the Gulf of Pechora. In addition, SeverTEK, a joint venture between Russian and western companies, was granted an onshore exploration licence for the Yushno-Shapkinskoye field. The Russian partner in the joint venture is KomiTEK, while

CRUDE OIL MARKET PRICE IN THE GULF
(USD/b, six-month average)



PRODUCTION FORECAST VINTAGES,
(Adjusted to current reserves, 10,000 boe pd)



EXPLORATION & PRODUCTION

	1996	1995
Net sales (FIM million)	1 229	822
Operating profit (FIM million)	459	179
Identifiable assets (FIM million)	3 404	3 244
Investments (FIM million)	396	530
Average number of personnel	79	82

Elf Aquitaine of France and Neste represent the western oil industry. Neste's holding in the joint venture is 20%. Flowing tests of previously drilled wells in the field began in November:

An offshore exploration licence was issued to the Pechormorneft joint venture merging Finnish-Russian scientific and technical cooperation on the Arctic continental shelf. The joint venture partners with operations in Finland are Neste and Kvaerner Masa-Yards, with Neste's stake accounting for 39%.

Neste, Gazprom, Norsk Hydro, Conoco, and Total continued their feasibility studies on the massive Shtockmanovskoye gas field in the Barents Sea. Neste was also involved in a survey titled the Northern Gateway, conducted by international oil companies in order to find a profitable maritime transport channel for the oil produced in North Russia.

NEW RESERVES REPLACE PRODUCTION

Neste's oil and gas reserves remained stable despite the fact that production in 1996 amounted to 12 million barrels. Our commercially exploitable reserves, which include both proven and probable oil and gas reserves, totalled 268 million oil equivalent barrels at the end of the year or 37 million tonnes. Of these, proven reserves accounted for 188 million oil equivalent barrels or 27 million tonnes.

The value of our remaining reserves, production notwithstanding, grew from last year's FIM 4.8 billion to FIM 4.9 billion. This growth is primarily attributed to the Åsgard field, Heidrun's recovery factor, the Sognefjord deposit discovered in the Brage field, and Oman's production levels.

The value of Neste's reserves in Norway during the years 1995-96 grew the most relative to other oil companies. Our per-barrel production costs at USD 3.8 in Norway were also the lowest in the industry, compared to the average of USD 4.8 per oil equivalent barrel.



The first full year of production from the Heidrun field in the Haltenbanken area proved that the field's production capacity and exploitable reserves were higher than estimated.

FIELD STAKES AND COMMERCIAL RESERVES

Field	Stake (%)	Operator	Commercial reserves as of 31 Dec. Neste's share, (mill. boe)
<i>Norway</i>			247
• Brage	12.3	Norsk Hydro	30 ^{*)}
• Heidrun	5.0	Statoil	61
• Åsgard	7.0	Statoil	156
<i>Oman</i>			21
• Safah	35.0	Occidental	17
• Salmah	35.0	Occidental	2
• Others	35.0	Occidental	2
Total			268

^{*)} includes the Sognefjord discovery, of which Neste's equity share is 13.2%



ENERGY

The Energy Division encompasses Neste's natural gas, liquefied petroleum gas (LPG), and energy supply business. The division runs and aims to expand Neste's business in the energy market.

The natural gas business is run by Gasum Oy, owned by Neste Oy (75%) and the Russian natural gas supplier RAO Gazprom (25%). Local distribution is handled by Helsinki Kaasu Oy and Kotkan Kaasuenergia Oy in South and South-East Finland. The domestic LPG business is run by Tehokaasu Oy, while responsibility for the global LPG business lies with the LPG International Unit. The division's unit Neste Lämpö Oy is responsible for supplying heat and process steam to industry, district heat utilities, and the public sector in Finland. The solar and wind energy unit, Neste Advanced Power Systems (NAPS), is engaged in the global development, manufacture, and marketing of systems based on renewable forms of energy.

THERE IS ALWAYS ROOM
FOR IMPROVEMENT.
A TEAM *devoted to*
ITS CAUSE WILL SUCCEED.



MINNA LEPPIKORPI, electricity exchange; JARKO ALANKO, Gasum; TAPIO HARRA, executive vice president

ENERGY

The Energy Division is involved in promoting several energy generation projects that are aimed at increasing natural gas consumption in Finland in the area served by the existing natural gas pipeline network. In addition, Neste's ongoing intention is to pave the way for expanding the natural gas pipeline network to South-West Finland. Thanks to Neste's initiative, in fact, prospects for the construction of a pan-Nordic natural gas network have improved, following the inclusion of the Nordic Gas Grid project in the EU's Trans-European Network (TEN) list. This means that EU funding for feasibility studies on the project, which are conducted under Neste's leadership, would be available.

Domestic growth for natural gas continues to be found typically in the combined heat and power (CHP) generation for industry and municipalities. In fact, several such power plants are being built in the area served by the existing natural gas pipeline network. In addition, Finland is going to build new condensing power capacity in the near future. Indeed, condensing power generation is also a typical growth area for natural gas, but the energy tax scheme which became effective in Finland at the turn of 1996/97 undermines the competitiveness of natural gas in this sector.

The European Commission is drafting a directive on common guidelines for the transmission and distribution of natural gas. The structure and nature of the European natural gas market is, however, completely different from country to country, and Finland, distant from central Europe, has its own characteristics. Reaching a consensus is thus likely to take quite a while.

Neste decided to take a 10% stake in the Swedish natural gas company Vattenfall Naturgas AB, which imports natural gas into Sweden from Denmark and distributes it through its own network. Participating in-

terests in the company were also purchased by Ruhrgas AG from Germany, Dansk Olje og Naturgas A/S from Denmark, and Statoil AS from Norway.

In January 1997, Neste signed a letter of intent with RAO Gazprom on the setting up of a joint venture concerning the North European gas route. The project is based on growing export volumes of Russian natural gas to Europe. The planning and exploratory phase of the project begins in 1997 with completion envisaged in 2005. The total investment cost of the project will be known once the preparatory planning and routing alternatives have been completed. The plans will take into account developments in the Nordic natural gas market.

COLD WINTER BOOSTED NATURAL GAS DEMAND

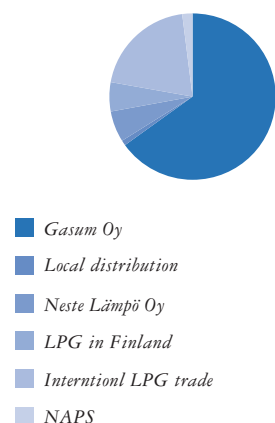
Finland's natural gas business maintained its stable performance in 1996. Gasum Oy, which runs Neste's natural gas business, posted net sales of FIM 2,183 million, up 11.2% on the previous year.

Natural gas deliveries grew more than was expected as a result of the long, cold winter and a lack of hydro power in the Nordic electricity market. Natural gas sales in 1996 totalled 34.7 TWh (3.5 billion cubic metres), up 4.5% on the previous year. There were no disruptions in the deliveries, and profitability was almost on the 1995 level.

Expansion of the existing natural gas pipeline network, designed to increase Finland's transmission capacity by nearly one-third, progressed according to plan, and is likely to fall below the cost estimate. The new capacity will be available in autumn 1997. Following the completion of the current investment projects, natural gas sales volume in Finland is set to climb to 4.5 billion cubic metres in 1998.

In addition to the ongoing work in Finland, RAO Gazprom is expanding the trans-

ENERGY DIVISION NET SALES



NATURAL GAS SALES (mill. m³n)



ENERGY	1996	1995
Net sales (FIM million)	3 280	2 831
Operating profit (FIM million)	350	324
Identifiable assets (FIM million)	1 459	1 198
Investments (FIM million)	377	30
Average number of personnel	438	467

mission capacity of the pipeline which supplies Russian natural gas to Finland, and a new parallel pipeline, of which 54 kilometres are in use already, is being built on the Karelian Isthmus. The year 1997 will also see completion of a new compressor station at Severnaya, located to the north-west of St Petersburg.

STEAM SALES UP ONE-FIFTH

Favourable conditions characterised steam sales to industry. In the wake of economic growth in Finland, industrial plants decided to begin the implementation of several previously suspended revamp and expansion schemes. Competition was further intensified by an increased interest among local and regional energy utilities in generating steam energy to industry. Consequently, Neste Lämpö's steam sales to industry amounted to 600 GWh, up 19% on 1995.

As a result of changes in the energy sector, there are improved opportunities in the market for CHP generation. Neste Lämpö's future focus therefore is on generating energy for industry and district heat for the public sector, often combining the generation of heat and power. During 1997, in fact, the unit will build an engine-based CHP plant in Ikaalinen and a power plant run on heavy fuel oil in Säkyliä, both in Western Finland. In addition, autumn 1997 will see the commissioning of a new gas turbine power plant in Nokia, Western Finland. Neste will have a stake in the plant and be responsible for marketing its heat output.

In 1996, Neste Lämpö Oy was awarded the ISO 9001 quality certificate.

LPG DELIVERIES TO INDUSTRY ARE ON THE INCREASE

Liquefied petroleum gases (LPG) increased their market share in Finland to 6.4%. Both bulk deliveries to industry and sales of bottled gas grew by almost the same amount.

The domestic LPG supplier, Tehokaasu Oy, retained its market share in deliveries to industry, but saw its share of the bottled gas market diminish slightly. Tehokaasu therefore made improvements in its bottled gas logistics in order to improve cost efficiency.

During recent years, Tehokaasu has made a concerted effort to improve its expertise as a supplier of LPG and LPG systems. The work bore fruit in autumn 1996, when Tehokaasu signed an important LPG supply agreement with Rautaruukki's Raahe steel plant in North-West Finland. Under the agreement, Tehokaasu will construct and run an LPG storage facility with the necessary LPG-feed systems and be responsible for its maintenance. The investment is scheduled to be completed in autumn 1997.

Tehokaasu expects that its LPG deliveries to industry will experience strong growth in future years. This forecast is based on the company's ability to satisfy industry needs and on its ability to develop new solutions that optimise the special characteristics of the fuel, making it a cost effective alternative to the customer.

The LPG price rose strongly in 1996 in international markets. Over the long term, great fluctuations in international LPG prices may have an impact on the overall growth of the business.

LPG TERMINAL PLANNED IN CHINA

The world LPG market continued to expand; in China, for example, LPG accounted for more than 25% of the energy market. LPG International supplied some 1.5 million tonnes of LPG to its global customers. Neste Gas Ltd performed successfully in the European market, especially in the EU member states.

Disruptions in deliveries and higher transport costs, however, hampered performance in Poland. In contrast, Neste Gas AB in Sweden retained its 21% share of LPG sales to industry.



Tehokaasu Oy retained its market position in deliveries to industry.

Neste and China Petroleum Pipeline Bureau, a subsidiary of China's biggest company China Oil and Gas, set up a joint venture known as Qingdao Dragon Gas. Exploiting Neste's rock cavern technology, the new company plans to build an import terminal in the coastal town Qingdao. Construction work is set to start during 1997.

STREAMLINING NAPS

Neste Advanced Power Systems (NAPS) specialises in solar energy, solar heat, and wind energy, and on the related energy storage and control technologies.

During 1996, NAPS' organisation structure was simplified. NAPS disposed of its interest in the Elcat electric car project, discontinued its operations in Singapore, and disposed of its participating interest in a production plant in Russia. Furthermore, the unit introduced a process-based organisation structure at the end of 1996, and set up a logistics and customer service centre in Finland which serves the entire NAPS organisation.

NAPS' most important goals in the solar electricity business during 1997 are to consolidate its presence in its core market area and to improve its competence in new application areas, such as grid-connected and facade-integrated systems. In the solar heat business, NAPS will begin to market a product range designed to complement house-specific heating systems in Finland and Sweden.

CHEMICALS

The Chemicals Division specialises in performance chemicals with a focus on adhesive resins, industrial coatings, and oxo products used as coatings intermediates. Neste also produces polystyrene and insulation materials.

The division has some 40 production plants in eleven countries throughout Europe, North America, and Asia. Neste Chemicals' global network of sales offices covers its most important market areas. The division's trading unit, NCT, is engaged in worldwide trading in commodity polymers and chemicals intermediates.

THERE RESIDE LATENT TALENTS
IN ALL OF US.

Open and candid COOPERATION
WILL RELEASE THEM.



GEORGES MARZLOFF, executive vice president; THOMAS STENDAHL, polystyrene unit; TARJA MYLLYMÄKI, business development

CHEMICALS

The Chemicals Division followed its strategy to become a leading manufacturer of adhesive resins and industrial coatings by consolidating its position in these core business areas. In line with this strategy, it disposed of its composite businesses in Plastilon and Exel.

In order to reach its strategic goal of generating organic growth in its core businesses, the division paid special attention to market orientation and to increasingly focused research and development work. This effort was rewarded by customer recognition awards that the division received during the year. Furthermore, focused research enabled us to launch a number of new products, such as low styrene emission polyester resins and gelcoats, and new oxo products. Indeed, our research and development programmes aim at introducing improved, environmentally sound products and processes.

The division's organisational and management structure was modified with effect from the beginning of 1997. Decision-making in strategic business units now takes place closer to the customers and the market, and support functions were streamlined to better reflect the division's current business structure.

A NEW FORMALDEHYDE PRODUCTION UNIT IN THE USA

Neste is the world's second largest manufacturer of adhesive resins used in wood panels and structures and in various industrial applications. Our customers are companies that specialise in the manufacture and marketing of wood-based products.

Market conditions for adhesive resins in the Americas were good. As a result, a formaldehyde plant producing raw material for adhesive resins manufacture was completed and brought on stream in Winnfield, Louisiana. In contrast, unfavourable conditions characterised the adhesive resins market in Eu-

rope. In Malaysia, the division entered the market with a 30% stake in a new joint venture with Enso Oy of Finland to produce overlaying films.

GOOD MARKET CONDITIONS FOR OXO PRODUCTS

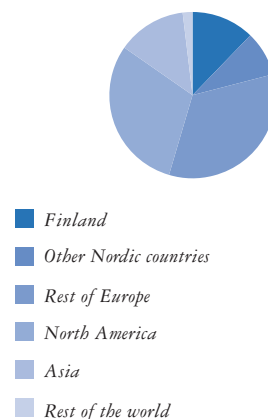
Neste markets oxo products which are used in coatings and plasticizers on a global basis, the main emphasis being on Europe. Our oxo customers are chemicals companies which use the product in their own production processes. Market conditions varied in 1996, but the overall climate for oxo products was good. In Stenungsund, Sweden, Neste opened a multi-purpose acid plant, and the production of 2-ethylhexanoic acid was transferred from the Örnköldsvik facilities to Stenungsund.

In February 1997, Neste took the decision to invest further in its Gent plant in Belgium that produces oxo intermediates. The investment is set to boost the plant's productivity and improve its flexibility to develop new products.

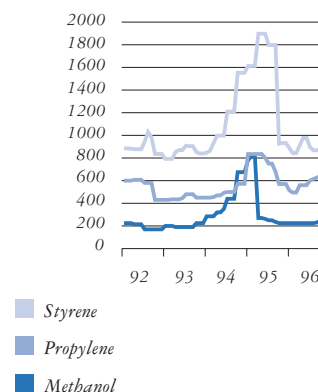
POLYESTER RESINS PRODUCED IN CHINA

Neste's polyester product range includes unsaturated polyester resins and gelcoats. Polyester resins are used in casting moulds for the manufacture of boats and containers, for example, and in manufacturing acid-resistant containers and equipment used by the process industry. Gelcoats are in turn used to coat, for example, boats, car bodies, and sanitary equipment. In terms of its production capacity, Neste Chemicals is, in fact, the world's second largest gelcoat producer with the main production facilities in Europe and the USA.

NESTE CHEMICALS NET SALES BY COUNTRY



RAW MATERIAL CONTRACT PRICES IN NORTH-WEST EUROPE (DEM/t)



NESTE CHEMICALS	1996	1995
Net sales (FIM million)	4 442	5 245
Operating profit (FIM million)	332	582
Identifiable assets (FIM million)	2 103	2 221
Investments (FIM million)	340	204
Average number of personnel	2 426	2 687

Overall market conditions for polyesters were rather satisfactory in 1996. In Kunshan near Shanghai in China, we opened a new gelcoat plant.

Poland is one of Chemicals' fastest-growing market areas. In fact, during 1997 a new gelcoat production unit will be started near Gdansk.

EXPLOITING MARKET GROWTH

Neste Chemicals' units producing polystyrene, expandable polystyrene (EPS) and EPS products improved their performance during the year, thanks to an overall upward trend in the market. As a result, the division decided to invest in an EPS plant producing insulation materials in St Petersburg, Russia.

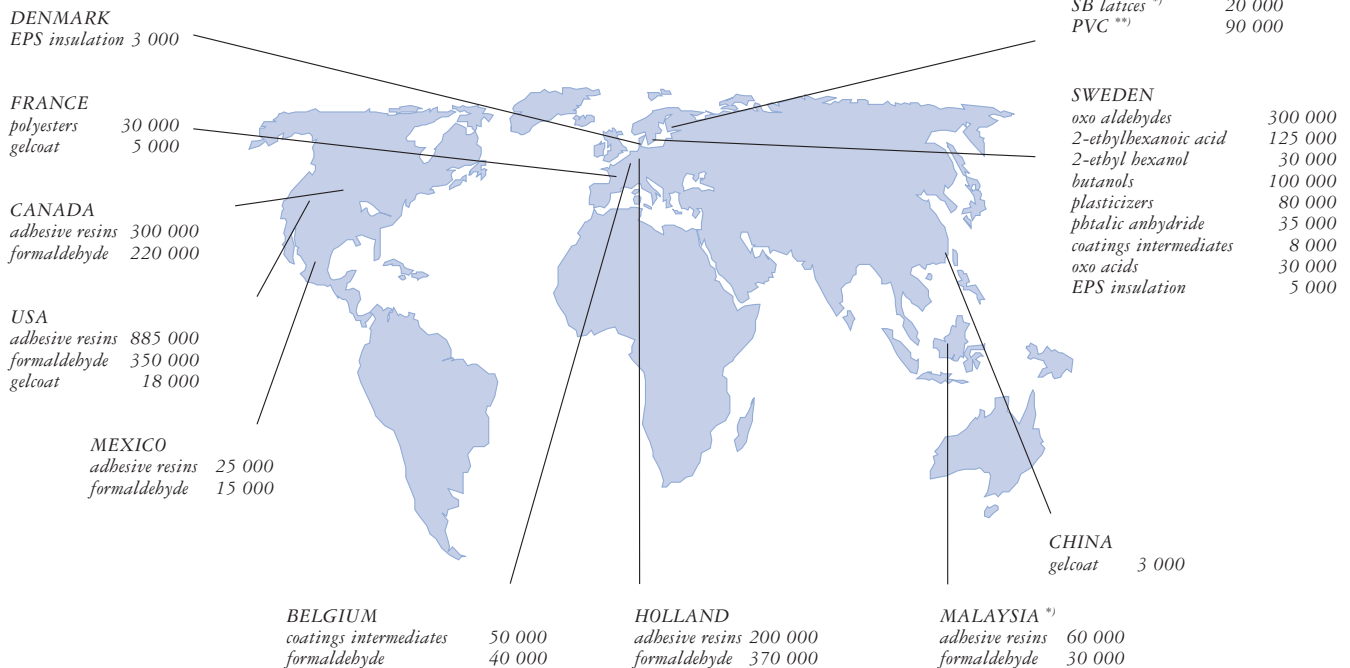
In view of the ongoing structural change in the chemicals industry, combined with the sound basis of Neste's chemicals business, we are well poised to take advantage of potential growth in our selected markets. Customer needs, financial performance, and employee satisfaction continue to be our permanent areas of attention for future years.



Adhesive resins are used in wood panels and structures.

PRODUCTION UNITS AND CAPACITIES 1997

tonnes



^{*)} associated company
^{**)} tolling agreement with Rovin

RESEARCH AND DEVELOPMENT

In line with the Group's technology strategy, the divisions are responsible for the long- and short-term R & D activity in their field and for bearing the related costs. The Corporate Technology Unit in turn develops and supervises Group-wide long-term research activity, provides a broad range of research and development related services to Neste's R & D organisations, monitors technological developments in our field, and prepares technology development initiatives for Neste's management.

FOCUS ON ENERGY, CATALYSIS AND ORGANIC SYNTHESIS

During 1996, the Corporate Technology Unit reviewed the role of Neste's long-term research activity and realigned it together with the divisions. The areas selected as our core R & D areas were energy, catalysis, and organic synthesis. Experts with their own areas of responsibility plan and steer long-term research in their field with the help of both in-house and external resources. The Corporate Technology Unit's own projects in 1996 were related to renewable forms of energy, hydrocarbon technologies, and to developing the aforementioned core research areas.

PROMINENCE TO ENVIRONMENTAL PROPERTIES

The Oil Division continued to focus its R & D activity on developing traffic fuels. The turn of the millennium is set to introduce more stringent restrictions on exhaust gas emissions in Europe, and this will entail changes in engine design. These changes will, on the one hand, pose new demands on traffic fuels and, on the other hand, provide favourable conditions for developing increasingly low-emission gasolines and diesel fuels.

Neste intends to retain its leading position as a producer of pro-environmental fuels even beyond the year 2000. That is why we continue to invest in developing technologies that enable us to manufacture such fuels and certain speciality fuel products in a more cost-effective way and by using new raw materials.

Neste Chemicals proceeded to test its new, pro-environmental adhesive resins and gelcoats on customer sites. The division was also the first company in the world to introduce a low styrene emission (LSE) gelcoat. Production of another new speciality chemicals product, Nexcoat 795 which is used in coatings, started in October 1996. This was, in fact, the second product in the expanding Nexcoat range, developed using Neste Chemicals' proprietary technology, and the development of new Nexcoat products and related technologies is under way.

Neste Advanced Power Systems (NAPS) completed the development of its solar energy systems for use in conjunction with oil and gas heating systems and began to market them. The heating system that makes use of oil and solar heat is marketed under the brand name SolarMax, while the unit combining the use of liquefied petroleum gas and solar electricity is known as GasPower. The latter is ideal for use in summer houses. NAPS also reached the pilot stage in developing its facade-integrated solar heating systems.

Neste Engineering makes increasing use of mathematic modelling in its own process development. This means that, for example, reactions are described in terms of a mathematic model to facilitate new process development. Having been successfully applied to process development in the Oil and Chemicals Divisions, this approach has reduced the need for large-scale testing.

A NEW PROCESS ASSESSMENT METHOD AND EXTENSIVE AUDITING

The year 1996 saw Neste introduce a new, systematic assessment method for its R & D projects. Our aim is to ensure that our R & D activities are in line with our approved business strategies, to encourage cooperation and commitment between R & D, production, and marketing, and to assess the added value generated by the R & D work. The new assessment method enables us to analyse at Group and divisional level different alternatives so as to provide a sound R & D function that generates added value. Designing the assessment method was part of the ViVa! project, which was launched in 1995 in order to introduce process management at Neste and improve productivity.

In 1995, we started to audit our entire technology asset portfolio, and that work was completed during the review period. Designed to optimise exploitation of our technology assets, the audit included all of the Group's identified technologies. It analysed the importance of the technologies for the entire Group and their potential for technology transfer.

Participating in the EU's Fourth Framework Programme, Neste is involved in a total of 14 joint research projects that fall under the Brite /EuRam III, Joule, and SMT research programmes. In four of these, Neste acts as the project coordinator.

As of the end of 1996, R & D functions within the Neste Group employed nearly 500 people. The Group's R & D investment, including external financing amounting to some FIM 20 million, totalled FIM 270 million.

Neste registered a total of 86 inventions, and lodged 18 basic patent applications in Finland and 45 abroad. In 1996, 18 Finnish patents and 62 foreign patents were approved.

RECOGNITION TO RESEARCH INTO OXYGENATES

Neste's annual Researcher of the Year award was given to a team of researchers from Neste Engineering and the Oil Division which worked on oxygenate technology. As a result of the team's achievements, the Porvoo refinery now incorporates a TAME unit which produces an oxygen-rich gasoline component. In fact, we have received several patents and lodged more than 40 invention applications in the field of oxygenate technology.



Neste is committed to developing environmentally beneficial products.

NESTE ENGINEERING

Neste's in-house engineering resource, Neste Engineering, is primarily responsible for effectively planning and carrying through investments that are important for the Group to ensure its technological competitiveness. In addition, the unit develops, applies and commercialises technologies developed in cooperation with our production plants and research units.

In 1996, nearly one-half of Engineering's business was made up of investment projects carried out in the Oil Division to boost the performance of the Porvoo and Naantali refineries and to improve logistics in the oil chain. Gasum Oy's project to build a natural gas parallel pipeline in Finland, and investment and development projects for Borealis at Porvoo each accounted for nearly one-fifth of the unit's workload.

The most important ongoing plant investments in 1996 were the expansion of Finland's natural gas pipeline network, the capacity upgrade at Borealis' Porvoo ethylene plant and in its aromatic and phenol unit, the Porvoo power plant project, the construction of a VHVI (Very High Viscosity Index) base oil plant at Porvoo, the productivity improvement projects at the Porvoo refinery, and the projects completed during the turn-around shut-down at the Naantali refinery in order to boost its productivity.

Neste Engineering also takes an active part in developing Neste's and Borealis' proprietary technologies in cooperation with the respective R & D departments.

GENERAL

International crude oil prices were high throughout the year. At its height, Brent crude traded at more than USD 25 per barrel and averaged at more than USD 20 per barrel for the year. This represented an increase of more than USD 3.5 per barrel.

Although improving from the previous year, worldwide refining margins remained slim. The Brent crude margin at one complex refinery in North-West Europe rose close to USD 1.5 per barrel compared to slightly more than one dollar in 1995.

Neste's own industrial business, that is, upstream oil and downstream refining, naturally benefited from the stronger prices and wider margins. The high prices were, however, a major setback for Neste's international crude oil trading. The reason for this is that Neste had, at the turn of the decade, signed long-term crude oil supply and trading contracts. To hedge these contracts, Neste had accumulated a comprehensive portfolio of derivative instruments. In the middle of the review period it became apparent that the risk analysis had been based on too narrow a crude oil price range, in particular where more recent instruments were concerned. The risks materialised due to the persistently high crude oil price, and as a result, Neste's crude oil trading incurred heavy losses. During the latter part of the review period Neste therefore began to carry out improvement measures proposed by internal surveys to enhance the risk management and the overall supervision in trading, and to integrate trading even more closely with the rest of our oil business.

MARKET CONDITIONS

Consumption of primary energy in Finland remained on the 1995 level. Sales of petroleum products totalled 9.0 million tonnes, up 3.4% on the previous year. This increase is primarily attributable to cold weather conditions and an overall recovery in the Finnish economy. Gasoline sales dropped 3.3%, however, primarily due to the fuel tax increase that became effective as of 1 January 1996. As a result, Finland has the highest fuel tax percentage in Europe. The fall in gasoline sales was offset by a 3.1% increase in diesel fuel sales spurred by a revival in the haulage sector. Domestic sales of fuel oil also grew, thanks to the cold months early in the year and the tax increases introduced as of the beginning of 1997.

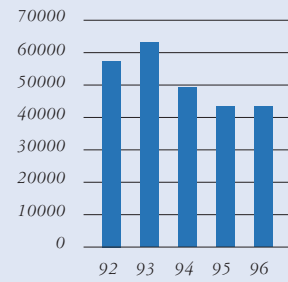
Neste's share of the Finnish bulk sales market remained on the 1995 level. In this sector, we are seeking sales growth in the Baltic states, Poland, and Russia, where demand for traffic fuels is on a constant increase.

Finnish natural gas consumption maintained its pace of growth. As a result of a cold winter and a lack of hydro power in the Nordic electricity market, natural gas deliveries rose more than expected, 4.5%. Demand growth for natural gas in Finland is primarily attributed to the combined heat and power (CHP) generation for industry and municipalities.

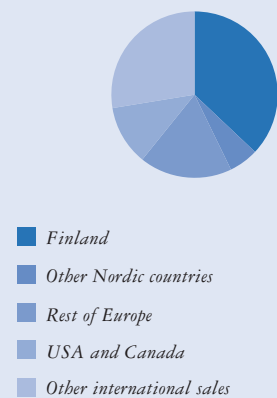
Adhesive resins used in the mechanical forest industry enjoyed good market conditions in North and South America, but found the situation less satisfying in Europe. Market conditions for oxo products varied in 1996, but the overall climate was good. Favourable competitive conditions also prevailed in the polyesters market.

Prices for polyethylene and polypropylene, the main products of the associated company Borealis A/S, recovered slightly from the slump of late summer and autumn 1995. In fact, some product groups saw their prices rise more than 40%. Despite this, the prices were nowhere near the levels that prevailed at the turn of 1994 and 1995.

GROUP NET SALES,
FIM mill.



GROUP NET SALES BY
MARKET AREA



PERFORMANCE

Neste Group's net sales in 1996 totalled FIM 43,375 million (FIM 43,335 million in 1995). Thanks to stronger prices, the Oil Division maintained its net sales on the 1995 level, despite continued measures to cut down crude oil trading volumes. Of the other divisions, both Exploration & Production and Energy delivered higher net sales than in 1995 as a result of healthier prices and increased sales volumes. Neste Chemicals' net sales, in contrast, fell due to lower prices.

In 1996, Neste delivered an operating profit of FIM 1,078 million (FIM 2,142 million). The figure includes a loss of FIM 18 million (a profit of FIM 419 million), representing Neste's share of the results of associated companies, as well as a sum of FIM 220 million (FIM 468 million), resulting from gains on the sale of fixed assets, primarily sales of company-owned vessels, and from reversals of previous years' write-offs on share values.

A reduction in gains on the sale of fixed assets, weaker performances by associated companies, and, in particular, the significant losses recorded by crude oil trading, adversely affected the Group's operating profit. Trading's sales margin deficit in the financial statements for 1996 totalled FIM 560 million. The change from the FIM 495 million announced in the Interim Report for 1 January - 31 August 1996 was due to the strengthening of the US dollar against the Finnish markka, and to the fact that the commitments due during the last four months of 1997 are included in the 1996 performance. In the Interim Report, these commitments were included in other contingent liabilities and, thus, other contingent liabilities in the financial statements for 1996 have been reduced correspondingly. The trading contracts due to mature in 1998 that were open at the turn of the year were closed at the end of February 1997. Consequently, the Group no longer has any trading contracts that would have a material impact on earnings in future years.

Neste's refining profitability improved, thanks to the strengthening of the international refining margin. Due to more intense competition in the retail market, however, refining and marketing failed to improve their overall results from the previous year. Neste Chemicals' performance also weakened as a result of unfavourable price developments. In contrast, the Exploration & Production Division doubled its operating profit, with Energy also showing an improved performance over the previous year.

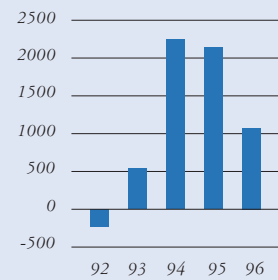
The Group's net financing expenses continued to diminish substantially, decreasing from FIM 778 million to FIM 512 million. Profit before extraordinary items and taxes totalled FIM 566 million (FIM 1,364 million).

Extraordinary items showed a profit of FIM 179 million compared to a loss of FIM 26 million in 1995. The most significant of these items were the gains on the sale of shares in Finnair Oy and Sands Petroleum AB.

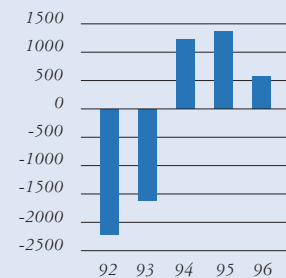
Neste's overall result was further affected by taxes from previous years amounting to FIM 97 million. They were primarily due to the reversals of previous years' write-offs on Neste's stake in Asko Oy, made in the early 1990s, which were ruled nondeductible in taxation by the Supreme Administrative Court. A large portion of these write-offs has since been cancelled in the wake of rising share prices.

The Group's profit for the year totalled FIM 489 million (FIM 661 million), and earnings per share FIM 3.14 (FIM 7.59).

OPERATING PROFIT,
FIM mill.



PROFIT BEFORE EXTRAORDINARY ITEMS,
FIM mill.



NET SALES

Net sales by division were as follows:

FIM mill.	1996	1995	Change, %
Oil *)	35 844	35 185	1.9
Exploration & Production	1 229	822	49.5
Energy	3 280	2 831	15.9
Neste Chemicals	4 442	5 245	-15.3
Others	511	502	1.8
Total	45 306	44 585	1.6
Internal invoicing	-1 931	-1 250	54.5
Net sales	43 375	43 335	0.1
*) Including trading	14 232	17 064	

OPERATING PROFIT

FIM mill.	1996	1995
Oil	196	940
Exploration & Production	459	179
Energy	350	324
Neste Chemicals	332	582
Associated companies	-18	419
Others	-242	-300
Total	1 077	2 144
Eliminations	1	-2
Operating profit	1 078	2 142

INVESTING ACTIVITIES

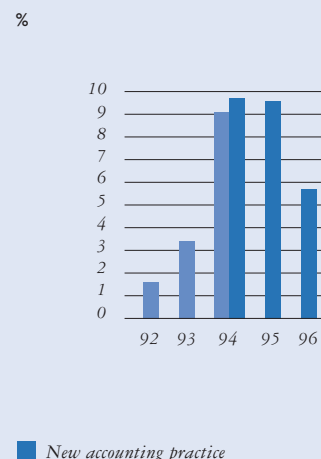
The Group's capital expenditures in fixed assets totalled FIM 2,048 million (FIM 2,167 million). The most important investment projects under way during the year were the development of the Åsgard field in Norway, the expansion of Finland's natural gas pipeline network, the construction of a plant producing base oils for lubricants at Porvoo, the Porvoo power plant project, and the expansion of Neste's service station network in the Baltic states and the St Petersburg region. At the end of the year, Neste signed an agreement on the purchase of a 10% holding in the Swedish natural gas company Vattenfall Naturgas AB.

During the review period, Neste acquired an additional holding of 6% in Asko Oy's share capital. Neste's direct and indirect holdings in Asko now stand at 40.1%.

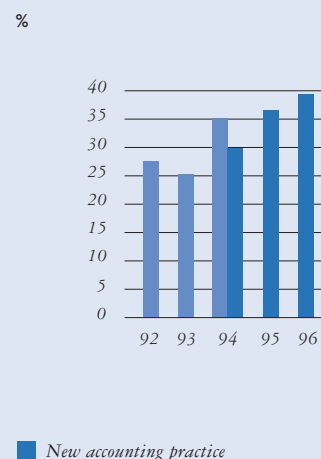
Investments by division were as follows:

FIM mill.	1996	1995
Oil	842	1 362
Exploration & Production	396	530
Energy	377	30
Neste Chemicals	340	204
Others	96	41
Total	2 051	2 167
Eliminations	-3	-
Investments	2 048	2 167

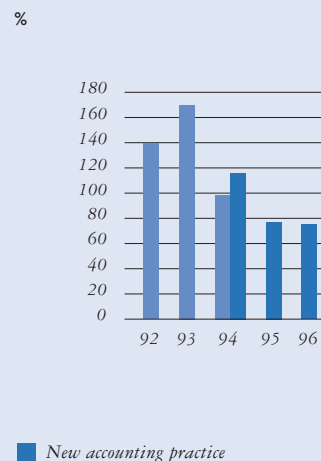
RETURN ON CAPITAL EMPLOYED



EQUITY-TO-ASSETS RATIO



GEARING



FINANCING

During 1996, Neste continued to reduce its interest-bearing debt. As of the end of the year, interest-bearing debt totalled FIM 10,847 million (FIM 12,943 million), while net interest-bearing debt amounted to FIM 9,288 million (FIM 9,378 million). The Group's gearing ratio also improved, declining from 77% to 75%, while the equity-to-assets ratio rose from 36.6% to 39.4 %.

Thanks to a reduction in interest-bearing debt and the lower average interest rate of the Group's loan portfolio, Neste's net financing expenses diminished substantially compared to recent years. As a result, our 1996 net financing expenses stood at FIM 512 million, down from FIM 778 million, and accounted for 20% (22%) of the operating profit before depreciation.

The Group's liquid funds and investments on the balance sheet date totalled FIM 1,559 million (FIM 3,565 million). This reduction is partly attributable to the USD 800 million (some FIM 3.7 billion) syndicated loan contracted with an international group of banks in February 1996. Undrawn on the balance sheet date of this loan due in 2003 was some FIM 1.4 billion.

The USD 500 million (some FIM 2.3 billion) drawdown out of the syndicated loan was mainly used for the prepayment of Neste's long-term loans. Other long-term loan drawdowns during the review period were substantially smaller in amount and contracted by subsidiaries.

Neste Oy satisfies its short-term financing needs through a Domestic and Euro Commercial Paper Programme. In January 1997, Neste signed an agreement to increase the maximum amount of the Domestic Commercial Paper Programme from FIM 850 million to one billion Finnish markkas. The maximum amount of the Euro Commercial Paper Programme remained at USD 200 million (some FIM 925 million). Neste's total loan drawdowns in the Domestic and Euro Commercial Paper Programmes as of the end of 1996 were some FIM 200 million and some USD 15 million (some FIM 70 million), respectively. Our short-term credit-ratings in the Euro Commercial Paper Programme remained unchanged, while our rating with Standard & Poor's was A-2, and with Moody's P-2.

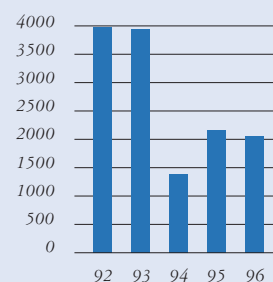
The Group's external financing is strongly centralised. Neste Oy's and the Group's financing companies, Neste Finance B.V. and Neste Coordination Center N.V., accounted for 89% of the Group's external interest-bearing debt. By concentrating its external financing, Neste aims to minimise its financing expenses and to improve its financial risk management. Most of Neste's borrowings are in US dollars (some 52%), Finnish markkas (some 32%), and Danish kroner (7%). Neste's year-end average loan interest rate after hedging arrangements was 6.3%, and the average life-time of its long-term loans was some 3.6 years.

MANAGEMENT AND THE GROUP'S OPERATIONAL STRUCTURE

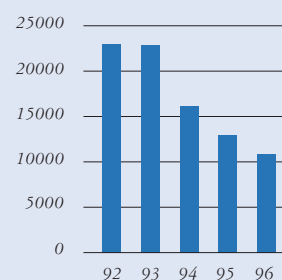
In August, the Supervisory Board made appointments concerning the Group management. Jaakko Ihamuotila was appointed Chief Executive Officer and full-time Chairman of the Board of Directors with effect from 1 January 1997. Jukka Viinainen, Vice Chairman of the Board, was appointed President and Chief Operating Officer.

The Supervisory Board further appointed Chief Financial Officer Veli-Matti Ropponen as Deputy Chief Operating Officer of the Neste Group and as Executive Vice President of the Oil Division. He also continues as a member of the Board of Directors. Eero Aittola was appointed Chief Financial Officer and a new member of the Board. Both these appointments came into effect on 1 January 1997.

GROUP INVESTMENTS,
FIM mill.



INTEREST-BEARING DEBT,
FIM mill.



The non-executive members of the Board are L.J. Jouhki, President and CEO of Thomesto Trading Companies Ltd, and Eero Tuomainen, General Manager of Postipankki Oy.

Neste's downstream oil business was reorganised as of 1 April 1996. The former Oil Refining, Marketing Companies, Shipping, and International Trading & Supply Divisions as well as the Bitumen and Lubricants Unit were merged into a single Oil Division.

CHANGES IN GROUP COMPANY STRUCTURE

At the beginning of the review period, Neste Liikennepalvelu Oy, Neste Yrityspalvelu Oy, and Novaoil Oy were incorporated into Neste Marketing Ltd by means of a combination merger. At the same time, the heat and steam business of Neste Yrityspalvelu Oy was transferred to Neste Lämpö Oy.

In the autumn, Neste sold the operations of Exel Oy and its subsidiaries Pro Stick Oy and Mastsystem AB, as well as the Group's minority holding in Plastilon Oy. Neste thus disposed of all of its composite businesses.

In Lithuania, Neste acquired the entire share capital of Litofinn Service LT and merged the company with Neste OIL LT. In Estonia, Neste acquired the interests in Traffic Service A/S and Estonian Transoil A/S previously held by minority shareholders. Neste also acquired the entire share capital of Latvian Traffic Service and of the Mexican company Neste Resinas S.A. de C.V. The Group's development company Noptor Oy was merged with Neste Oy.

R & D ACTIVITIES

In line with the Group's technology strategy, the divisions are responsible for the long- and short-term R & D activity in their field and for bearing the related costs. During 1996, the Corporate Technology Unit reviewed the role of Neste's long-term research activity and realigned it in cooperation with the divisions. The areas selected as our core R & D areas were energy, catalysis, and organic synthesis. The Corporate Technology Unit's own projects in 1996 were related to renewable forms of energy, hydrocarbon technologies, and to developing the aforementioned core research areas.

The Oil Division continued to focus its R & D activity on developing increasingly pro-environmental traffic fuels. Neste Chemicals in turn proceeded to test its new, environmentally sound adhesive resins and gelcoats on customer sites.

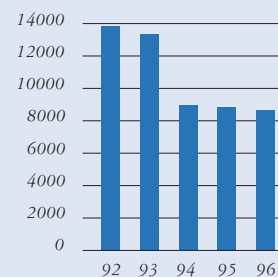
As of the end of 1996, R & D functions within the Neste Group employed nearly 500 people. The Group's R & D investment, including external financing amounting to some FIM 20 million, totalled FIM 270 million.

PERSONNEL AND REMUNERATION

The Group's average number of personnel by division was as follows:

	1996	1995
Oil	4 456	4 400
Exploration & Production	79	82
Energy	438	467
Neste Chemicals	2 426	2 687
Others	1 263	1 204
Total	8 662	8 840

GROUP AVERAGE NUMBER OF PERSONNEL



Permanent personnel by country as of 31 Dec. 1996

Finland	5 129
USA	909
Sweden	380
Poland	290
Canada	256
Russia	272
France	141
Netherlands	145
Rest of Europe	369
Rest of the world	153
Total	8 044

SALARIES, WAGES AND OTHER REMUNERATIONS PAID

I 000 FIM	Group	
	1996	1995
To Supervisory Boards, Boards of Directors and Presidents	39 591	39 038
Other personnel	1 467 925	1 432 480

I 000 FIM	Parent company	
	1996	1995
To the Supervisory Board, the Board of Directors and the President	4 682	5 931
Other personnel	821 636	781 648

BOREALIS

The prices for polyethylene and polypropylene improved from the low levels of early 1996. Borealis' own measures further contributed to improved profitability. Among the measures taken by Borealis was the disposal of Borealis Industrier, which specialises in subcontracts for the automobile industry. The company's internal programme to cut fixed costs was also effective. Borealis' net profit for the year totalled DKK 628 million (DKK 2,049 million), and its total dividend payout to Neste amounted to FIM 412 million (FIM 82 million).

Rapid changes in Borealis' operating environment not only have an impact on the company's profits but also on the valuation of Borealis. In Neste's balance sheet, Borealis is recorded as a long-term investment, the goodwill of which is depreciated within 20 years. At the time of an economic boom in 1995, however, Neste decided to accelerate the depreciation of goodwill on consolidation of Borealis by FIM 330 million a year. This depreciation plan was initially intended for two years only, but Neste has decided to carry on with the plan. In the 1996 balance sheet, the value of Neste's Borealis holding, consolidated in accordance with the equity method, totalled FIM 4,735 million.

At the time of the closing of the accounts, negotiations on the sale of Neste's stake in Borealis were under way.

STRATEGY

Oil, energy, and chemicals are the cornerstones of Neste's business strategy. In focusing on these areas we are committed to delivering profitable growth by making use of our own strengths and areas of competence.

The new Oil Division which was formed in 1996 aims to maximise the performance of the entire downstream business by improving efficiency and intensifying cooperation. Refining and marketing are concentrated on and seek growth in the Baltic Rim region in particular. Our upstream oil is dominated by the Norwegian waters of the North Sea and the Middle East, but close attention is being paid to developments in crude oil and gas production in Russia.

In energy, Neste's focus is on expanding the natural gas business and on increasing sales of energy generated by plants running on natural gas. In fact, great changes in the Nordic energy market are set to provide ample opportunity for growth in these areas. Over the medium term, cooperation with RAO Gazprom to promote a Nordic supply route for nat-

ural gas, and Neste's stake in Vattenfall Naturgas AB will contribute to further growth in our energy business.

In chemicals, Neste's focus is on two product groups: adhesive resins used by the forest industry, and industrial coatings and coating intermediates. Our objective is to achieve world-wide presence in these products.

The economic bedrock of Neste's business strategy and administration principles is to increase company value. By striving to achieve this target and to deliver competitive shareholder returns we will ensure that Neste remains an attractive investment target.

PROSPECTS FOR 1997

Falling crude oil prices have characterised the early months of 1997, and the international refining margin has hovered around one US dollar. A movement of one dollar in the crude oil price accounts for a change of some FIM 60 million in the performance of the upstream business, while a similar movement in the refining margin has an impact of some FIM 350 million in the results of the Oil Division.

Uncertain market prices notwithstanding, Neste's performance in 1997 is likely to be better than in 1996. It is anticipated that the Oil Division will improve its performance, despite a five-week turn-around shut-down that will take place at the Porvoo refinery in the autumn. Results from the Exploration & Production Division and Neste Chemicals are likely to remain fairly stable. The ongoing project to expand Finland's natural gas transmission capacity will be completed in autumn 1997, thereby contributing to increased natural gas sales volumes. It is not until 1998, however, that the benefits from the expansion project will be fully reflected in the results of the Energy Division. Gains on the sale of fixed assets will be below the previous years' levels.

INCOME STATEMENT

<i>FIM million</i>		<i>Group</i>		<i>Parent company</i>	
		1996	1995	1996	1995
<i>Net sales</i>	(1)	43 375	43 335	25 678	27 153
Change in product inventories		148	-168	117	-120
Share of profits of associated companies		-18	419		
Other operating income	(1)	286	525	295	510
<i>Operating expenses</i>	(2)				
Materials and supplies					
Purchases		36 545	35 542	23 312	23 450
Change in inventories		-16	324	-133	378
Services		51	50	13	12
Personnel expenses		1 935	1 943	1 046	1 031
Rents		204	205	93	73
Other operating expenses		2 560	2 514	1 677	1 864
		-41 279	-40 578	-26 008	-26 808
<i>Operating margin</i>		2 512	3 533	82	735
<i>Depreciation</i>	(3)				
Intangible and tangible assets		1 411	1 354	549	566
Goodwill on consolidation		23	37		
		-1 434	-1 391	-549	-566
<i>Operating profit</i>		1 078	2 142	-467	169
<i>Financial income and expenses</i>	(4)				
Dividends		25	14	1 013	675
Interest income from long-term investments		23	52	170	156
Other financial income		256	283	117	261
Interest expenses		-786	-1 061	-655	-871
Other financial expenses		-30	-66	-29	-26
Depreciation on investments	(3)	-	-	-226	-
		-512	-778	390	195
<i>Profit before extraordinary items, reserves and taxes</i>		566	1 364	-77	364
<i>Extraordinary items</i>	(5)				
Income		219	105	260	171
Expenses		-40	-131	-25	-296
		179	-26	235	-125
<i>Profit before reserves and taxes</i>		745	1 338	158	239
<i>Change in reserves</i>					
Depreciation above the plan				331	309
Voluntary reserves				460	-
<i>Direct taxes</i>	(6)				
For the financial period and previous periods		-354	-291	-140	-10
Change in deferred tax liabilities		149	-333		
		-205	-624	-140	-10
<i>Minority interests</i>		-51	-53		
<i>Net profit for the period</i>		489	661	809	538

BALANCE SHEET

<i>FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
ASSETS				
<i>Fixed assets and other long-term investments</i>				
Intangible assets (8)				
Intangible rights	104	80	43	28
Goodwill	241	110	121	137
Goodwill on consolidation	334	502		
Other long-term expenditure	130	138	54	48
	809	830	218	213
Tangible assets (8)				
Land and water areas	311	303	135	133
Buildings and structures	4 190	4 195	1 692	1 683
Machinery and equipment	7 006	7 279	3 111	3 429
Other tangible assets	1 225	1 188	120	117
Advances paid and construction in progress	1 165	528	377	223
	13 897	13 493	5 435	5 585
Other long-term investments (11,12)				
Shares in subsidiaries			5 289	5 396
Other shares and holdings	6 677	7 138	6 223	6 114
Loans receivable	348	542	4 055	2 397
Other investments	24	23	11	13
	7 049	7 703	15 578	13 920
<i>Valuation items</i> (13)	1	7	-	-
<i>Inventories and financial assets</i>				
Inventories				
Raw materials and supplies	1 524	1 455	1 200	940
Work in progress	370	227	361	215
Products/finished goods	1 027	1 058	488	644
Other inventories	96	76	56	30
	3 017	2 816	2 105	1 829
Debtors (14)				
Trade receivables	4 683	4 168	3 459	3 203
Loans receivable	28	41	-	43
Accrued income and prepaid expenses	273	452	242	346
Other debtors	290	348	306	445
	5 274	5 009	4 007	4 037
Investments				
Marketable securities	156	1 160	149	1 133
Cash and cash equivalents	1 403	2 405	444	792
	31 606	33 423	27 936	27 509

BALANCE SHEET

<i>FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
LIABILITIES AND EQUITY				
<i>Shareholders' equity</i>	(16)			
Restricted equity				
Share capital	985	985	985	985
Other restricted equity	1 291	1 299	1 093	1 093
	2 276	2 284	2 078	2 078
Non-restricted equity				
Retained earnings	9 260	8 871	4 322	4 070
Net profit for the period	489	661	809	538
	9 749	9 532	5 131	4 608
	12 025	11 816	7 209	6 686
<i>Minority interests</i>	373	362		
<i>Reserves</i>				
Accumulated depreciation above the plan	(17)		4 088	4 419
Voluntary reserves	(18)		1 415	1 875
<i>Provisions for liabilities and charges</i>	(18)	58	112	13
<i>Deferred tax liabilities</i>		2 211	2 347	
<i>Creditors</i>	(19,20)			
Long-term				
Bonds	3 085	2 939	1 273	1 215
Bonds with warrants	1	-	1	-
Loans from financial institutions	4 103	4 825	3 503	2 805
Pension loans	1 046	1 103	947	947
Advances received	95	108	95	108
Other long-term creditors	168	257	2 784	2 784
	8 498	9 232	8 603	7 859
Current				
Loans from financial institutions	2 210	2 526	1 480	734
Pension loans	1	6	-	-
Advances received	40	33	34	29
Trade payables	3 819	3 250	2 877	2 200
Accruals and deferred income	639	906	304	424
Other current creditors	1 732	2 833	1 913	3 268
	8 441	9 554	6 608	6 655
	31 606	33 423	27 936	27 509

STATEMENT OF CASH FLOW

<i>FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
<i>Cash flow from operating activities</i>				
Operating profit				
Net profit and minority interests	540	714	809	538
Depreciation	1 434	1 391	775	566
Change in reserves and provisions	-55	-110	-793	-389
Undistributed earnings of associated companies	488	-293		
Divesting activities, net	-281	-378	-264	-94
Foreign exchange gains and losses	-47	25	11	-99
Interest expenses, net	573	755	382	579
Taxes	205	624	140	10
Operating profit before changes in working capital	2 857	2 728	1 060	1 111
Changes in working capital				
Decrease (+)/Increase (-) in trade and other short-term receivables	-459	481	-234	768
Decrease (+)/Increase (-) in inventories	-171	532	-262	505
Decrease (-)/Increase (+) in interest-free liabilities	305	-595	419	-708
	-325	418	-77	565
<i>Funds generated from operations</i>	2 532	3 146	983	1 676
Interest paid, net	-621	-963	-429	-764
Realised foreign exchange gains and losses	23	-4	34	12
Income taxes paid	-285	-179	-49	-13
<i>Net cash from operating activities</i>	1 649	2 000	539	911
<i>Cash flow from investing activities</i>				
Capital expenditures	-2 045	-2 165	-953	-805
Proceeds from sales of fixed assets	720	1 344	509	1 205
	-1 325	-821	-444	400
<i>Cash flow before financing activities</i>	324	1 179	95	1 311
<i>Cash flow from financing activities</i>				
Capital investment by minority shareholders, increase (+), decrease (-)	-22	-8		
Payment of (-)/Proceeds from (+) long-term liabilities	-2 590	-2 370	-117	-1 713
Payment of (-)/Proceeds from (+) short-term borrowings	194	-194	355	-281
Proceeds from (+)/Payment of (-) interest-bearing receivables	281	523	-1 428	916
Dividends paid	-236	-105	-236	-105
Proceeds from share issue	-	688	-	688
Other financing activities	-1	-1	-1	-1
	-2 374	-1 467	-1 427	-496
<i>Net increase (+)/decrease (-) in cash and marketable securities</i>	-2 050	-288	-1 332	815
Reconciliation (cash and marketable securities)				
As reported for at the beginning of the period	3 565	3 828	1 925	1 110
Foreign exchange adjustment	44	25		
	3 609	3 853	1 925	1 110
As reported for at the end of the period	1 559	3 565	593	1 925
<i>Net increase (+)/decrease (-) in cash and marketable securities</i>	-2 050	-288	-1 332	815

ACCOUNTING PRINCIPLES

CONSOLIDATION

The consolidated financial statements cover the Parent Company Neste Oy and all its subsidiaries, that is, companies in which Neste owned more than 50% of the voting rights, as well as 12 material associated companies.

The subsidiaries acquired during the year are consolidated from the effective date of acquisition. Likewise, the subsidiaries divested during the accounting period are included in the Group accounts until the effective date of the divestment.

The difference between the acquisition cost of subsidiaries and the shareholders' equity at the time of acquisition, arising from the elimination of mutual shareholdings, has been treated mainly as goodwill on consolidation, which is amortised over its estimated life time to a maximum of 20 years. In the case of North American subsidiaries, goodwill is allocated to fixed assets at the time of acquisition to the extent that their fair value at the time exceeded the book value.

Intergroup transactions, balances, and profits have been eliminated, and minority interests have been reported separately in the income statement and the balance sheet.

Associated companies in which the Group's holding and share of voting rights is between 20% and 50%, have been consolidated using the equity method. Accordingly, the Group's share of the retained earnings of an associated company accumulated after the effective date of acquisition, less depreciation on goodwill on consolidation, is entered as income in the income statement and added to the value of the shares in the consolidated balance sheet. The dividends received are deducted from the shares' balance sheet value.

NET SALES

Net sales include sales revenues from actual operations and exchange rate differences on trade debtors, less sales freights and other delivery expenses as well as indirect taxes such as the value added tax, the excise tax payable by the manufacturer, and the statutory stockpiling fees.

Trading sales include the value of wet cargo deliveries and the net result of derivative contracts.

OTHER OPERATING INCOME

Other operating income includes gains on the sale of business-related fixed assets as well as all other operating income not related to the sale of products or services such as rents.

FOREIGN CURRENCY ITEMS

Receivables and liabilities denominated in foreign currencies have been valued using the exchange rate quoted on the balance sheet date. Exchange rate differences have been entered, with minor exceptions, in the income statement. Exchange rate differences on trade receivables and trade payables have been entered in the income statement as corresponding income or expenses. Conversion differences relating to financing have been entered net under financial income or expenses.

Translation differences arising from the shareholders' equity of foreign subsidiaries and associated companies have been entered under consolidated shareholders' equity. The majority of the shareholders' equity of these companies has been hedged by means of foreign currency denominated loans and forward contracts. In the consolidated financial statements, exchange rate differences arising from equity-hedging have been entered against translation differences under shareholders' equity.

The income statements of companies outside Finland have been translated into Finnish markkas using an annual average exchange rate based on month-end exchange rates, while the balance sheets have been translated employing the exchange rate quoted on the balance sheet date. The resulting translation differences have been entered under non-restricted equity. The fixed assets of subsidiaries operating in high-inflation countries such as Russia and the Baltic states are revalued to the exchange rate on the effective date of acquisition.

DERIVATIVE INSTRUMENTS

Neste enters into derivative financial instruments such as forward contracts, options, and currency swaps to hedge its exposure to fluctuations in foreign exchange rates. The interest element relating to derivatives is accrued as interest income or expense over the period to maturity. The derivatives used to hedge loans or receivables in the balance sheet and any other derivative contracts included in the net position are valued employing the exchange rate quoted on the balance sheet date, and the foreign exchange gains or losses are recognised in the income statement. Loans and the related currency swaps have been netted in the balance sheet. Foreign exchange gains or losses on derivatives that hedge future cash flow are recognised once the underlying income or expense occurs.

Option premiums are treated as advances paid or received until the options mature or become void. The difference between the paid

or received premium and the closing price of the option on the balance sheet date is entered in the income statement. As revenue can, however, be recognised the expense charged for the underlying transaction at the maximum.

Interest income or expense for derivatives used to manage exposure to interest rate risk is accrued over the period to maturity and is recognised as adjustment to the interest income or expense of the underlying liability or transaction. Losses for interest rate derivatives used for other purposes than hedging are valued at the interest rate on the balance sheet date and entered as expense in the income statement.

Neste also trades commodity derivatives. In the financial statements, these instruments are marked to market and any losses due in the following year are expensed. Losses with a longer maturity are not considered so evident that they should be expensed. This risk of loss is instead included in other contingent liabilities. Gains or losses on derivatives used for the purpose of hedging are recognised as income or expense once the underlying income or expense occurs. In the financial statements, commodity options are treated in the same way as currency options.

FIXED ASSETS AND DEPRECIATION

The balance sheet value of fixed assets consists of historical costs less depreciation and other deductions, and added by revaluations permitted by local regulations. Some foreign companies have also capitalised direct acquisition costs and interests relating to the period of construction.

Depreciation according to plan is straight-line depreciation based on the probable lifespan of investments. Depreciation on oil and gas reserves and production equipment is calculated using the unit-of-production method. The depreciation periods used for different asset groupings are as follows:

Buildings and structures	20 - 40 years
Other tangible assets	20 - 40 years
Machinery and equipment	5 - 20 years
Other long-term investments	5 - 10 years

Acquisition costs are depreciated at the end of their actual lifespan at the latest, irrespective of their planned lifespan. Sales and scrapping losses are recorded either as other operating expenses or extraordinary expenses.

Oil and gas reserves are valued as per each field on the basis of future cash flows, in line with the practice in the country concerned. If needed, the balance sheet value of capitalised expenditure is reduced by additional depreciation.

INVENTORIES

Inventories have been valued on the FIFO principle at the lower of direct acquisition cost or market value. In the case of some foreign subsidiaries, the acquisition cost also includes indirect expenses, in line with the practice in the country concerned. Valuation differences do not have a material impact on the consolidated financial statements.

MARKETABLE SECURITIES

Marketable securities are accounted for at the lower of acquisition cost or market value.

OIL EXPLORATION EXPENDITURES

Oil exploration expenditures are recorded using the successful efforts method, under which projects are capitalised and either depreciated according to plan or expensed once it has been established that commercially exploitable oil or gas reserves were not discovered.

RESEARCH AND DEVELOPMENT

Research and development expenditures have been recorded as annual expenses with the exception of investments in buildings and equipment.

PENSION EXPENSES

Pension expenses have been entered in the results in line with the practice observed in the host countries in which the Group operates. The compulsory liabilities deficit of the Neste Corporation Joint Pension Foundation has been included in pension costs and entered as a provision in the balance sheet.

EXTRAORDINARY ITEMS

Any profits or losses made on the sales of assets not associated with the actual business activities have been entered as extraordinary income or expenses. Devaluations associated with withdrawing from a business, or significantly reducing Neste's presence in a business, have also been entered in a similar fashion. Group contributions are treated as extraordinary items in respect of the Parent Company.

DEFERRED TAX LIABILITIES

In the consolidated accounts, voluntary reserves and accumulated depreciation above the plan have been divided into shareholders' equity and deferred tax liabilities. The deferred tax liabilities for 1995 include the change in Finland's company tax rate from 25% to 28%, which entered into effect in 1996. This new accounting principle is also applied to the profits of associated companies.

PROVISIONS

Foreseeable future expenses and losses that no longer accrue corresponding revenues and which the Group is committed or obliged to settle, and whose monetary value can reason-

ably be assessed, are entered as expenses in the income statement and included in provisions in the balance sheet. These items include expenses relating to the decommissioning of production platforms, guarantee reserves, and expenses relating to the future clean-up of proven environmental damage.

Losses such as bad debts, obsolescence deductions, and devaluations of fixed assets are recognised as adjustments of the corresponding balance sheet item, not as provision.

STATEMENT OF CASH FLOW

The statement of cash flow has been prepared employing the cash flow principle. The cash flows of foreign Group companies have been translated into Finnish markkas employing the average exchange rates for the period. In respect of any significant investments or asset disposals, the exchange rate on the effective date of the transaction has been used. Realised foreign exchange gains or losses in cash flow from operating activities include the realised foreign exchange gains or losses on derivatives used to hedge the shareholders' equity or foreign currency loans of subsidiaries. The realised foreign exchange gains or losses on the settlement of loans or interest-bearing receivables are included in cash flow from financing activities.

EXCHANGE RATES 1992-1996

The table below shows the most important exchange rates used in the financial statements between the years 1992 and 1996:

	Exchange rates on the balance sheet date ¹⁾					Average exchange rates during the accounting period ²⁾			
	1992	1993	1994	1995	1996	1993	1994	1995	1996
USD	5.2450	5.7845	4.7432	4.3586	4.6439	5.7296	5.2295	4.3714	4.5841
CAD	4.1350	4.3540	3.3780	3.1960	3.3900	4.4298	3.8290	3.1838	3.3588
GBP	7.9570	8.5540	7.4090	6.7410	7.8690	8.5892	7.9886	6.9134	7.1855
SEK	0.7436	0.6945	0.6358	0.6546	0.6748	0.7304	0.6754	0.6153	0.6833
NOK	0.7602	0.7701	0.7014	0.6899	0.7209	0.8063	0.7399	0.6906	0.7113
DKK	0.8407	0.8549	0.7794	0.7862	0.7809	0.8846	0.8210	0.7810	0.7919
DEM	3.2485	3.3350	3.0615	3.0435	2.9880	3.4631	3.2174	3.0559	3.0521
NLG	2.8928	2.9812	2.7337	2.7185	2.6624	3.0833	2.8694	2.7276	2.7235
BEF	0.1581	0.1602	0.1490	0.1482	0.1449	0.1657	0.1562	0.1486	0.1483
FRF	0.9532	0.9817	0.8873	0.8906	0.8862	1.0124	0.9413	0.8789	0.8983

¹⁾ Average exchange rate of the Bank of Finland

²⁾ Average month-end exchange rates

<i>FIM mill.</i>	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
1. Net sales and other operating income				
<i>Net sales by division</i>				
Oil	35 844	35 185	24 772	25 972
Exploration & Production	1 229	822	-35	5
Energy	3 280	2 831	265	240
Neste Chemicals	4 442	5 245	563	817
Others	511	502	400	397
Total	45 306	44 585	25 965	27 431
Internal invoicing	-1 931	-1 250	-287	-278
Net sales	43 375	43 335	25 678	27 153
<i>Net sales by market area</i>				
Finland	16 068	14 439	8 208	6 888
Other Nordic countries	2 489	2 443	2 007	1 869
Rest of Europe	7 814	6 200	2 118	1 475
USA and Canada	5 043	3 876	1 143	534
Other international sales	11 961	16 377	12 202	16 387
Net sales	43 375	43 335	25 678	27 153
<i>Other operating income</i>				
Gains on the sale of fixed assets	152	468	150	441
Reversal of previous write-offs	68	-	78	-
Other	66	57	67	69
Total	286	525	295	510
2. Expenses				
<i>Wages, salaries, and indirect employee costs</i>				
Wages, salaries, and fringe benefits	1 541	1 553	844	793
Pension costs	164	210	109	134
Other indirect employee costs	248	250	107	113
Total	1 953	2 013	1 060	1 040
The monetary value of fringe benefits is not included in the personnel expenses entered in the income statement. Other indirect employee costs in 1995 include a transfer of FIM 3 million to Neste Oy's Employee Profit Sharing Fund.				
<i>Other charges</i>				
Losses on mergers and sales of fixed assets	72	61	52	61
Other	9	55	7	50
Total	81	116	59	111
3. Depreciation				
<i>Depreciation according to plan</i>				
Intangible rights	25	21	6	5
Goodwill	30	18	16	20
Other long-term expenditure	49	46	17	18
Buildings and structures	235	235	76	83
Machinery and equipment	986	935	429	435
Other tangible assets	86	99	5	5
Total	1 411	1 354	549	566
Goodwill on consolidation	24	38		
Negative goodwill on consolidation	-1	-1		
Total	23	37		
<i>Depreciation on investments</i>				
Shares in subsidiaries			226	-

NOTES TO THE FINANCIAL STATEMENTS

FIM million	Group		Parent company				
	1996	1995	1996	1995			
4. Financial income and expenses							
<i>Foreign exchange gains and losses in other financial income and expenses</i>	47	-25	-11	99			
<i>Interest income in other financial income</i>	190	254	103	136			
<i>Financial income received from Group companies</i>							
Dividends			546	563			
Interest income			149	123			
Other financial income			5	6			
Total			700	692			
<i>Financial expenses paid to Group companies</i>							
Interest expenses			205	298			
5. Extraordinary items							
<i>Extraordinary income</i>							
Gains on the sales of fixed assets	172	103	96	19			
Group contributions			150	152			
Other	47	2	14	-			
Total	219	105	260	171			
<i>Extraordinary expenses</i>							
Loss on demerger			-	230			
Other devaluations and sales losses	25	79	25	66			
Restructuring costs	-	52	-	-			
Other	15	-	-	-			
Total	40	131	25	296			
6. Direct taxes							
Taxes for the period	257	276	41	8			
Taxes for previous periods	97	15	99	2			
Change in deferred tax liabilities	-149	333					
Total	205	624	140	10			
7. Taxable value of fixed assets							
Land areas			123	123			
Buildings			339	342			
Shares in subsidiaries			4 765	5 570			
Other shares and holdings			6 281	6 045			
Total			11 508	12 080			
	<i>Acquisition cost as of 1 January</i>	<i>Exchange rate difference and other adjustments</i>	<i>Increases</i>	<i>Decreases</i>	<i>Accumulated depreciation</i>	<i>Revaluations</i>	<i>Balance sheet as of 31 Dec.</i>
8. Fixed assets and other long-term expenditure,							
<i>Group</i>							
Intangible rights	166	23	42	9	118	-	104
Goodwill	159	298	7	1	222	-	241
Goodwill on consolidation	973	- 299	10	5	341	-	338
Negative goodwill on consolidation	- 21	-	0	0	- 17	-	- 4
Other long-term expenditure	502	- 36	36	33	339	-	130
Total, intangible assets	1 779	- 14	95	48	1 003	-	809
Land and water areas	248	- 4	12	6		61	311
Buildings and structures	6 159	1	249	75	2 376	232	4 190
Machinery and equipment	13 675	267	697	700	6 939	6	7 006
Other tangible assets	1 523	89	74	18	444	1	1 225
Advances paid and construction in progress	528	20	674	57	-	-	1 165
Total, tangible assets	22 133	373	1 706	856	9 759	300	13 897
Total	23 912	359	1 801	904	10 762	300	14 706
Plants and machinery							4 407

<i>FIM million</i>	<i>Acquisition cost as of 1 January</i>	<i>Increases</i>	<i>Decreases</i>	<i>Accumu- lated depreciation</i>	<i>Reval- uations</i>	<i>Balance sheet as of 31 Dec.</i>
<i>Fixed assets and other long-term expenditure, Parent company</i>						
Intangible rights	64	22	1	42	-	43
Goodwill	158	-	-	37	-	121
Other long-term expenditure	215	25	23	163	-	54
Total, intangible assets	437	47	24	242	-	218
Land and water areas	72	2	-		61	135
Buildings and structures	2 467	87	4	1 070	212	1 692
Machinery and equipment	7 616	224	541	4 188	-	3 111
Other tangible assets	189	8	0	77	-	120
Advances paid and construction in progress	222	177	22	-	-	377
Total, tangible assets	10 566	498	567	5 335	273	5 435
Total	11 003	545	591	5 577	273	5 653
Plants and machinery						1 637

***Identifiable assets and depreciation by division,
Group***

<i>FIM million</i>	<i>Identifiable assets</i>		<i>Depreciation</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Oil	9 649	9 369	772	773
Exploration & Production	3 404	3 244	344	304
Energy	1 459	1 198	62	64
Neste Chemicals	2 103	2 221	201	196
Associated companies	6 202	6 527		
Others	1 140	1 223	55	54
Total	23 957	23 782	1 434	1 391

The components of identifiable assets include fixed assets and net working capital.

<i>FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
9. Revaluations, 31 Dec.				
Land areas	61	62	61	61
Buildings	232	230	212	213
Machinery and equipment	6	6	-	-
Other tangible assets	1	1	-	-
Shares in subsidiaries			6	8
Other shares and holdings	74	120	74	120
Total	374	419	353	402

10. Proven crude oil, condensate and natural gas reserves in million of boe				
Net equity	<i>Total</i>	<i>Norway</i>	<i>UK</i>	<i>Middle East</i>
Reserves 31 December 1994	231	171	37	23
Revisions of previous estimates	3	3	0	0
Increases due to improvement in recovery	-	-	-	-
Extensions and discoveries	4	4	-	0
Purchase/sale of reserves	-34	-	-34	0
Production	-11	-5	-3	-3
Reserves 31 December 1995	193	173	-	20
Revisions of previous estimates	8	8	-	-
Increases due to improvement in recovery	-	-	-	-
Extensions and discoveries	0	0	-	-
Purchase/sale of reserves	-1	0	-	-1
Production	-12	-9	-	-3
Reserves 31 December 1996	188	172	-	16

The proven developed and undeveloped oil and gas reserves have been calculated in accordance with the North Sea and Middle East practices. Neste's own estimates fall in line with the quantities of field operating companies.

The value of the oil and gas reserves owned by Neste totalled FIM 4.9 billion as of 31 December 1996. This value is equivalent to future cash flow discounted at 10% interest assuming a crude oil price of USD 18/bbl. The equivalent asset value in the balance sheet is approx. FIM 3.4 billion.

The proven and probable reserves at the end of 1996 were 268 million barrels.

	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
11. Shares, holdings, and loans receivable included in long-term investments				
<i>Group companies</i>				
Shares			5 289	5 396
Loans receivable			3 731	1 894
Total			9 020	7 290
<i>Associated companies</i>				
Shares	6 202	6 527	5 790	5 616
Loans receivable	31	88	27	66
Total	6 233	6 615	5 817	5 682

In 1996, loans receivable included subordinated loans to associated companies and subsidiaries totalling FIM 0.5 million and FIM 66.3 million respectively.

<i>Market value of listed companies' shares in fixed assets</i>				
Other shares and holdings				
Book value	990	809	760	694
Market value	1 040	722	1 039	639
	50	-87	279	-55

12. Most significant associated companies				
<i>Million currency units</i>		<i>Shareholders' equity as of 31 Dec. 1996</i>	<i>Profit 1996</i>	<i>Holding %</i>
Borealis Group	DKK	6 079	497	50
Asko Group	FIM	2 026	242	40
Nynäs Petroleum Group	SEK	782	111	50

	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
13. Valuation items				
Valuation items as of 1 January	7	24	-	-
Change in capitalised foreign exchange losses	-6	-17	-	-
Valuation items as of 31 December	1	7	-	-

FIM million	Group		Parent company	
	1996	1995	1996	1995
14. Financial assets				
<i>Debtors due after one year</i>				
Loans receivable	-	15	-	-
Accrued income and prepaid expenses	-	162	-	157
Other debtors	-	28	-	14
Total	-	205	-	171
<i>Receivables from associated companies</i>				
Trade receivables	124	112	111	95
Loans receivable	1	8	-	-
Accrued income and prepaid expenses	2	3	2	1
Other debtors	0	38	0	33
Total	127	161	113	129
<i>Receivables from Group companies</i>				
Trade receivables			1 017	1 256
Loans receivable			-	43
Accrued income and prepaid expenses			67	57
Other debtors			171	203
Total			1 255	1 559
15. Loans receivable from and pension commitments to corporate management (FIM 1,000)				
Loans receivable	72	105	72	105
The interest of the loan is 5 %. The members of the Board of Directors of Neste Oy are entitled to retire at the age of 60, with the full benefits of the Neste Corporate Joint Pension Foundation.				
16. Changes in shareholders' equity				
Restricted equity 1 Jan.	2 284	1 571	2 078	1 390
+ Share issue	-	89	-	89
+ Share issue premium	-	599	-	599
+ From non-restricted equity	52	-1	49	-
+ Changes in revaluations	-45	8	-49	-
+ Changes in restricted equity of associated companies	-14	21		
+ Translation differences and other changes	-1	-3		
Restricted equity 31 Dec.	2 276	2 284	2 078	2 078
Non-restricted equity 1 Jan.	9 532	3 087	4 608	4 176
./. Dividends	236	105	236	105
./. Transfer to restricted equity	52	1	49	-
./. Other distribution	1	1	1	1
+ Equity share of reserves from previous years	-	5 639		
+ Changes in non-restricted equity of associated companies	12	215		
+ Translation differences and other changes	5	37		
+ Net profit for the period	489	661	809	538
Non-restricted equity 31 Dec.	9 749	9 532	5 131	4 608
Distributable equity				
Non-restricted equity	9 749	9 532		
./. Reserves in equity ¹⁾	5 192	5 626		
Distributable equity 31 Dec.	4 557	3 906		
17. Accumulated depreciation above the plan				
Intangible assets	54	61	25	27
Buildings and structures	1 645	1 523	952	948
Machinery and equipment	3 786	4 040	3 066	3 400
Other tangible assets	61	53	45	44
Total	5 546	5 677	4 088	4 419
¹⁾ Reserves comprise accumulated depreciation above the plan and voluntary reserves excluding tax liability.				

NOTES TO THE FINANCIAL STATEMENTS

FIM million	Group		Parent company	
	1996	1995	1996	1995
18. Reserves and provisions				
<i>Voluntary reserves</i>				
Transitional reserve	1 536	2 015	1 415	1 875
Other reserves	206	166	-	-
Total	1 742	2 181	1 415	1 875
<i>Deferred tax liability in voluntary reserves</i>				
	488	611		
<i>Provisions for liabilities and charges</i>				
Abandonment reserve for oil production facilities	8	14	-	-
Other provisions	50	98	13	15
Total	58	112	13	15
19. Liabilities				
<i>Non-interest-bearing and interest-bearing liabilities</i>				
Non-interest-bearing liabilities	6 092	5 843	4 474	4 147
Interest-bearing liabilities	10 847	12 943	10 737	10 367
Total	16 939	18 786	15 211	14 514
<i>Due dates of long-term liabilities</i>				
Year				
1997	1 795	2 159		
1998	703	1 445		
1999	1 952	2 100		
2000	336	455		
2001 and later	5 507	3 073		
Total	10 293	9 232		
<i>Creditors due in five years or later</i>				
Bonds	1 484	1 398	100	100
Loans from financial institutions	2 841	873	2 681	521
Pension loans	1 044	1 086	947	947
Other long-term creditors	138	171	2 249	2 282
Total	5 507	3 528	5 977	3 850
<i>Loans received from associated companies</i>				
Long-term creditors	19	17	0	0
Trade payables	30	33	26	28
Accruals and deferred income	0	1	0	0
Other current creditors	5	0	5	3
Total	54	51	31	31
<i>Loans received from Group companies</i>				
Other long-term creditors			2 653	2 559
Advances received			9	8
Trade payables			245	137
Accruals and deferred income			44	51
Other current creditors			605	651
Total			3 556	3 406
20. Bonds				
Neste Finance B.V.	1992	1 788	1 678	
Neste Marketing Ltd	1993 I	47	70	
Neste Oy				
1986 DEM loan	no. 4/86/502	-	609	-
1989 USD loan	" 4/89/550	1 161	1 090	1 161
1992 I		100	100	100
1993 I	" 4/93/035	25	37	25
1993 II	" 4/93/090	-	150	-
MTN programme: Loans 3-7		-	261	-
Total		3 121	3 995	1 286
				2 247

<i>FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	1996	1995	1996	1995
21. Contingent liabilities				
<i>Pension liabilities</i>	-	1	-	-
<i>Other contingent liabilities</i>				
Pledges granted				
Company loans	452	415	387	390
Loans of Group companies			9	1
Total	452	415	396	391
Real estate mortgages				
Company loans and other commitments	394	785	310	614
Loans of Group companies			22	27
Total	394	785	332	641
Company mortgages				
Company loans and other commitments	14	50	-	25
Associated companies			-	22
Total	14	50	-	47
Other mortgages				
Company loans and other commitments	327	327	327	327
Guarantees				
Persons referred to in § 11:7 of the Companies Act	1	1	1	1
Subsidiaries			2 547	3 755
Associated companies	45	127	45	127
Others	58	92	48	76
Total	104	220	2 641	3 959
Other contingent liabilities	265	289	209	214
Total	1 556	2 086	3 905	5 579
<i>Leasing liabilities</i>				
Due within a year	150	161	122	145
Due after a year	556	515	320	250
Total	706	676	442	395

Excluded from other contingent liabilities in the above are letters of comfort and completion guarantees given by Neste Oy on behalf of subsidiaries and an associated company.

Repurchase obligations

The sale and leaseback contracts on the natural gas compressor stations, on an air propane plant, and on the vessels Kihu and Tavi include a right of repurchase or an obligation to designate a buyer for the assets. The contracts in respect of the compressor stations and the air propane plant become void in 2005 with a redemption price of FIM 139 million, and in respect of the vessels in 2006 with a redemption price of USD 7.2 million.

<i>FIM million</i>	<i>Group</i>	
	1996	1995
<i>Group liabilities for which pledges, mortgages or other equivalent guarantees have been given</i>		
Pledges	320	337
Mortgages	625	825
Total	945	1 162

<i>Derivatives as of 31 Dec.1996, FIM million</i>	<i>Group</i>		<i>Parent company</i>	
	<i>Contract or notional value</i>	<i>Fair value</i>	<i>Contract or notional value</i>	<i>Fair value</i>
Interest and currency derivatives				
FRA's and bond futures	20 817	4	20 480	4
Interest rate swaps	2 595	57	1 643	73
Interest rate options	1 161	-41	1 161	-41
Forward foreign exchange contracts	17 736	-4	16 123	5
Currency swaps	849	-100	502	-121
Currency options				
Purchased	130	-1	46	0
Written	130	1	46	0
Oil futures and forward instruments	<i>volume 1000 bbl</i>		<i>volume 1000 bbl</i>	
Sales contracts	18 256	-65	17 731	-64
Purchase contracts	20 502	74	20 280	74
Options				
Purchased	540	-1	540	-1
Written	5 734	-48	5 734	-48

Other contingent liabilities include a risk of loss of USD 6 million for oil derivatives due in 1998, valued at market prices on the balance sheet date. The fair value of other off-balance-sheet items, that is, of derivatives to hedge future cash flows, is insignificant. Other contingent liabilities also include a rent liability totalling at most DEM 60 million, tied to the price development of petrochemicals and plastics in 1996-1999. This liability will not materialise at market prices on the balance sheet date.

The fair values of derivative contracts subject to public trading are based on market prices as of the balance sheet date. The fair values of other derivatives are based on the present value of cash flows resulting from the contracts, and, in respect of options, the fair value is based on evaluation models.

22. Exchange rate and interest rate risk management

Financial risk management at Neste is based on a Board-approved risk management policy which sets the framework for hedging operations and enables Neste to take exchange rate and interest rate positions within specified risk limits.

Interest rate risk management

Neste's long-term objective for managing the Group's exposure to interest rate risks is to minimise financing expenses within specified risk limits. Neste's interest rate exposure arises primarily from the Group's debt, investments, and cash flows from operating activities. The currencies that currently are the most significant in this respect are the US dollar and the Finnish markka.

In hedging interest rate exposure Neste's aim is to maintain the risk as close to the position deemed neutral as possible. A position is considered neutral when a change in the Group's interest expenses resulting from movements in the general level of interest rates can be expected to be eliminated by a simultaneous change in the opposite direction in the Group's business performance. A neutral interest rate risk position and the Group's target in interest rate risk management are determined by using benchmark interest rates calculated for the currencies that the Group uses. The calculation method used to measure the exposure and set the specified risk limits is *modified duration*, which describes the sensitivity of the price of the instrument to movements in the interest rate level.

Neste's exposure to interest rate risks is managed with both cash instruments and derivative contracts. The derivatives used are interest rate and currency swaps, forward rate agreements and bond futures, and interest rate options.

Exchange rate risk management

The purpose of exchange rate risk management is to limit the impact of exchange rate movements on the Group's cash flow and shareholders' equity. Neste's foreign exchange exposure arises from the Group's foreign currency denominated or otherwise foreign currency impacted cash flows, receivables, or debt. Movements in the US dollar against the Finnish markka are the most material to Neste's business. This is because both raw materials and end products in Neste's core business areas are priced and/or invoiced mainly in US dollars. In addition, almost one-half of the Group's external loans are denominated in US dollars. Other significant currencies are the Deutsche Mark, the Swedish krona, and the British pound.

The shareholders' equity of foreign subsidiaries and associated companies also poses a material exchange rate risk to the Group. The principal exposure in this respect is against the Danish krone. Other significant currencies include the Swedish krona, the Dutch guilder, the Belgian franc, and the US dollar.

The Group's exposure to exchange rate risks is monitored for each Group company against several base currencies on the basis of the net exposure, which includes the above mentioned risk factors. The risk is hedged primarily, where possible, by netting currency flows. The risk involved in any open position is hedged with forward foreign exchange contracts, currency options, and currency swaps. The maturities of the external contracts used to hedge cash flows from operating activities are generally not longer than 12 months.

Extensive hedging against movements in exchange rates is not possible nor even practicable in countries whose currencies lack advanced money markets where sophisticated hedging instruments would be available. Such countries include Russia, the Baltic states, and Poland. Currently this does not, however, expose the Group to material exchange rate risks.

The table on page 46 shows the year-end amounts and fair values of the derivatives used in interest rate and exchange rate risk management.

Credit risk

Credit risk in financing arises from cash investments and from the credit risk involved in derivative contracts. The credit risk associated with derivatives arises from the potential failure of the counterparty to meet its contractual obligations and, thus, the amount of risk depends on the creditworthiness of the counterparty. Neste seeks to minimise credit risk by entering into derivative contracts with leading financial institutions and brokers only, keeping within the approved credit limits.

23. Legal proceedings

Eesti Kütus

RE Eesti Kütus of Estonia had summoned Neste Oy before a court of arbitrators in Helsinki. The plaintiff claimed that the setting up of A/S Neste Oil Eesti in Estonia by Neste Oy, without the prior consent of Eesti Kütus, had violated the non-competition clause of the shareholders agreement on the Estonian joint venture A/S Traffic Service, in which Neste Oy has a 60% stake and RE Eesti Kütus a 40% stake. RE Eesti Kütus had claimed compensation for damages and that all sales of fuels by Neste Oy and A/S Neste Oil Eesti in Estonia be prohibited.

An arbitration award was given on the case on 28 March 1996. The court of arbitrators found that the non-competition clause of the shareholders agreement was invalid and rejected the claim for a prohibition of sales in its entirety. Neste Oy was, however, ordered to pay damages amounting to three million Finnish markkas for the violation of the agreement. Neste has later acquired the entire share capital of A/S Traffic Service.

Machinoimport

A court of arbitrators has settled the dispute between V/O Machinoimport of Russia and Neste Oy concerning the currency and exchange rate used in a contract agreement concluded between the parties as well as the universal succession of the original contractor. On the basis of the agreement signed in 1984, Machinoimport demanded that Neste pay the remaining instalments of the delivery credit in a freely convertible currency using the old central bank exchange rate of the rouble that was used in the former Soviet Union. Neste wanted to settle the debt in roubles or alternatively in US dollars using the rouble's new market-based exchange rate.

The court of arbitrators found it reasonable that Neste pay the remainder of the credit in US dollars or Finnish markkas with one dollar equalling one old rouble. This decision did not have any material impact on Neste's results.

SEO

The long dispute on gasoline bulk sales pricing ended in a positive ruling from Neste's point of view on 24 October 1996. In its final judgement, the Finnish Competition Council found that Neste Oy had been entitled to differentiate its bulk sales pricing on the basis of both its customers' purchase volumes and their storage and importation readiness. It was also found that the pricing applied by Neste Oy to Suomalainen Energiaosuuskunta (SEO) had not exceeded the level to which Neste Oy was entitled. The Finnish Competition Council further found that Neste Oy's pricing had not caused damage to SEO's business.

According to the decision of the Finnish Competition Council, Neste Oy had used improper pricing for about one month in 1993. With 4 votes to 3, the council set a two million Finnish markka fine to Neste Oy. The minority of the council was of the opinion that Neste should not be fined at all. The Office for Free Competition had previously proposed that Neste should pay a fine of one hundred million Finnish markkas.

SEO has, in arbitration proceedings, also presented a preliminary claim for compensation on the 1993 pricing. In the light of the decision from the Finnish Competition Council, SEO cannot have suffered any damage, and nor does Neste Oy see any reason for compensation on any other grounds. It is the understanding of Neste's management that the claim for compensation will not have any material impact on Neste's profits.

Magneti Marelli

Magneti Marelli of Italy has summoned Neste before a court of arbitrators in Brussels. The plaintiff claims that Neste Oy has violated the delivery contract on lubricants concluded between the parties and refused to negotiate on any modifications to the contract. Magneti Marelli has claimed compensation for damages and demanded that the delivery contract be annulled.

Neste Oy finds that the claim presented by Magneti Marelli is unfounded on the grounds that Neste Oy has complied with the clauses of the contract in all respects. It is the understanding of Neste's management that this case will not have any material impact on Neste's profits.

Other cases

Several product reclamations have been presented to Neste, some of which are currently under consideration in court, in particular those presented in respect of the disposed Plastilon group. Any compensations that may arise will not have any material impact on Neste's profit.

GROUP SHARES AND HOLDINGS

1000 FIM / currency unit	Profit/loss FIM	No. of shares	Holding %	Nominal share value	Book value 31 Dec. 1996
Group shares (Book value more than FIM 10 million)					
Eastex Crude Company (General Partnership)	14 454		70.00	USD -	25 065
Estonian Transoil A/S	-700	400	100.00	EEK 40 000	18 873
Gasum Oy	86 326	39 750 000	75.00	795 000	795 000
Helsinkikaasu Oy	1	120 000	75.00	6 000	27 707
Kotkan Kaasuenergia Oy	1	380	71.25	1 900	10 541
Latvian Traffic Service	-3 779	5	100.00	LVL 202	15 967
Mäntyharjun Muovituote Oy	45	10 000	100.00	10 000	40 000
NAPS France S.A.	-11 614	599 998	100.00	FRF 30 000	14 275
NCT Hong Kong Ltd.	4 302	200	100.00	HKD 200	18 722
Neste Alfa Oy	-251	50 000	100.00	5 000	30 351
Neste Canada Inc.	93 529	30 000	100.00	CAD 30 000	116 098
Neste Chemicals Belgium N.V.	-3 495	588 500	100.00	BEF 294 250	42 726
Neste Chemicals Benelux Holding B.V.	-10 853	173 406	100.00	NLG 78 380	173 822
Neste Chemicals Holding France S.A.	-1 748	302 992	99.99	FRF 30 299	26 563
Neste Chemicals Holding Inc.	36 700	1 000	100.00	USD 1	247 757
Neste Coordination Center N.V.	43 676	572 500	100.00	BEF 5 725 000	730 861
Neste Corporate Holding Inc.	36 966	142	100.00	USD 0	187 279
Neste Crude Oil Inc.	-4 992	1 000	100.00	USD 1	11 235
Neste Deutschland Holding GmbH	2 368	50	100.00	DEM 50	22 576
Neste Finance B.V.	50 744	237 001	100.00	NLG 237 001	1 315 341
Neste Gas Aktiebolag	28	50 000	100.00	SEK 5 000	10 122
Neste Holding (U.S.A.) Inc.	9	3 000	100.00	USD 3	73 936
Neste Investments	-12 959	30 910 002	100.00	USD 30 910	460 133
Neste Kemi Danmark A/S	-1 124	14 000	100.00	DKK 7 000	22 009
Neste Lämpö Oy	52	2 000	100.00	10 000	49 940
Neste Markkinointi Oy	2 059	20 352 000	100.00	203 520	1 100 972
Neste MTBE S.A.	4 016	600 000	100.00	PTE 600 000	12 300
Neste Oel GmbH	-6 510	1	100.00	DEM 6 457	19 293
Neste Oil Holding (U.S.A.) Inc	-2 540	1 000	100.00	USD 1	87 342
Neste Oil Inc.	839	3 000	100.00	USD 3	67 298
Neste Oil Poland Ltd.	-23 875	1	100.00	PLZ 1 815	69 504
Neste Oil Services Inc.	2 265	1 000	100.00	USD 1	119 306
Neste Oxo Aktiebolag	1 345	100	100.00	SEK 100	30 501
Neste PAO N.V.	2 555	55 000	100.00	BEF 900 000	80 056
Neste Polyester Inc.	-2 058	100	100.00	USD 0	23 271
Neste Polyester S.A.	4 928	90 395	99.98	FRF 22 599	75 327
Neste Resins B.V.	2 410	76 000	100.00	NLG 16 188	117 146
Neste Resins Corporation	39 524	200	100.00	USD	184 818
Neste Resins Oy	196	10 000	100.00	10 000	41 487
Neste Sverige AB	133 876	5 980 530	100.00	SEK 598 053	580 151
Neste Thermisol A/S	-315	13 300	100.00	DKK 13 300	24 747
Tehokaasu Oy	42	7 200	100.00	18 000	23 190
Tidelands Oil Production Company Partnership	11 488		80.00	USD -	24 855
Traffic Service A/S	926	2 675	100.00	EEK 268	16 026
Asunto Oy Kuutoset	-5	7 893	100.00	789	21 085
Neste Sverige Fastigheter AB	3	100 000	100.00	SEK 10 000	15 520
Associated companies (Book value more than 10 million)					
Asko Oy		1 840 403	26.11	92 020	389 536
Borealis A/S		2 000 000	50.00	DKK 2 000 000	5 167 038
Creative Pultrusions Inc.		4 355	25.00	USD 4	14 322
Kuljetusristikko Oy		3 786	45.19	189	18 565
Lanor Oy		145 864	47.09	145 864	194 409
Neste Trifinery Petroleum Services Company			50.00	USD	51 021
AB Nynäs Petroleum		33 765	49.99	SEK 33 765	267 663
Volant Energy			50.00	CAD	11 107
Other shares and holdings (Book value more than FIM 10 million)					
Finnair Oy		3 092 620	3.79	15 463	72 151
Kesko Oy		340 000	0.38	3 400	19 928
Nokian Lämpövoima Oy		19 900	19.90	199	26 000
Vakuutusosakeyhtiö Pohjola		462 060	1.14	2 310	24 212
Vakuutusosakeyhtiö Sampo		89 855	0.58	1 797	15 341
Saudi European Petrochemical Company Ibn Zahr		98 832	10.00	SAR 98 832	88 301
Silja Oy AB		644 116	4.75	12 882	44 542
Vattenfall Naturgas AB		31 610	10.00	1 517	53 984
Housing and real estate shares					97 777
Associated companies and other shares and holdings (book value less than FIM 10 million)					79 254
Shares in telephone companies and connection fees					21 002
Associated companies and other shares and holdings total					6 656 152
A complete list of shares and holdings is included in Neste Oy's official financial statements.					

SELECTED FINANCIAL DATA 1992-1996

		1992	1993	1994	1994 ¹⁾	1995	1996
Income statement							
Net sales	FIM mill.	57 412	63 089	49 201		43 335	43 375
Operating profit	"	-227	540	2 243		2 142	1 078
(% of net sales)	%	-0.4	0.9	4.6		4.9	2.5
Financial expenses, net	FIM mill.	-1 990	-2 061	-1 012		-778	-512
Profit before extraordinary items	"	-2 217	-1 521	1 231		1 364	566
(% of net sales)	%	-3.9	-2.4	2.5		3.1	1.3
Profit before reserves and taxes	FIM mill.	-2 217	-1 429	1 175		1 338	745
(% of net sales)	%	-3.9	-2.3	2.4		3.1	1.7
Net profit / (loss) for the period	FIM mill.	-1 285	1 120	1 353	942	661	489
Statement of cash flow							
Funds generated from operations	FIM mill.	2 531	3 448	3 454		3 146	2 532
Net cash from operating activities	"	1 725	1 893	1 889		2 000	1 649
Proceeds from sales of fixed assets	"	345	4 555	1 926		1 344	720
Total capital expenditure	"	-3 825	-8 575	-2 241		-2 165	-2 045
Balance sheet							
Cash and marketable securities	FIM mill.	4 319	3 372	3 828		3 565	1 559
Total assets	"	48 413	45 342	35 700		33 423	31 606
Shareholders' equity	"	2 403	3 268	4 658	10 280	11 816	12 025
Reserves	"	10 848	8 117	7 530			
Interest-bearing debt	"	22 952	22 835	16 172		12 943	10 847
Capital employed	"	36 364	34 398	28 701	26 813	25 122	23 245
Key ratios							
Return on shareholders' equity	%	neg.	neg.	7.4	10.1	6.5	2.9
Return on capital employed	"	1.6	3.4	9.1	9.7	9.6	5.7
Equity-to-assets ratio	"	27.6	25.3	35.2	29.9	36.6	39.4
Gearing	"	139.6	169.9	98.5	116.0	77.0	74.9
Investments	FIM mill.	3 975	3 941	1 376		2 167	2 048
(% of net sales)	%	6.9	6.2	2.8		5.0	4.7
Research and development expenditure	FIM mill.	404	477	267		284	270
(% of net sales)	%	0.7	0.8	0.5		0.7	0.6
Average number of employees		13 838	13 332	8 948		8 840	8 662
Per share data							
Earnings (loss) per share (EPS)	FIM	-26.07	-18.36	9.98	11.37	7.59	3.14 ²⁾
Shareholders' equity per share	"	151.25	129.96	135.92	114.64	119.93	122.05
Dividend per share	"	0.60	0.60	1.17		2.40	2.00 ³⁾
Dividend per earnings	%	neg.	neg.	11.7	10.3	31.6	63.6 ³⁾
Dividend yield	"					3.1	1.8 ³⁾
Price / earnings (P/E)						10.3	35.5
Adjusted share prices:							
Share price at the end of the period	FIM					77.90	111.45
Average share price	"					80.14	91.63
Highest share price	"					83.00	113.50
Lowest share price	"					77.60	65.50
Market capitalisation at the end of the period	FIM mill.					7 675	10 980
Number of shares traded during the period	1 000 shares					1 771	8 632
Adjusted average number of shares during the period	1 000 shares	87 608	87 608	87 863		90 570	98 523
Adjusted number of shares at the end of the period	1 000 shares	87 608	87 608	89 673		98 523	98 523

¹⁾ Deferred tax liabilities have been taken into account.

²⁾ The tax rate increase from 25% to 28% with effect from January 1996 has been taken into account in deferred taxes in 1995. The impact of this was FIM 2.45.

³⁾ Board of Directors' proposal.

Key to the financial ratios is on page 50.

KEY TO THE FINANCIAL RATIOS

Capital employed	=	Total assets - non-interest-bearing liabilities - deferred tax liabilities - provisions
Return on shareholders' equity (%)	= 100 ×	$\frac{\text{Profit before extraordinary items - taxes}}{(\text{Shareholders' equity} + \text{reserves} + \text{minority interests}) \text{ average}}$
Return on capital employed (%)	= 100 ×	$\frac{\text{Profit before extraordinary items} + \text{interest and other financial expenses}}{\text{Average capital employed}}$
Equity-to-assets ratio (%)	= 100 ×	$\frac{\text{Shareholders' equity} + \text{reserves} + \text{minority interests}}{\text{Total assets} - \text{advances received}}$
Gearing (%)	= 100 ×	$\frac{\text{Interest bearing liabilities} - \text{cash and marketable securities}}{\text{Shareholders' equity} + \text{reserves} + \text{minority interests}}$
Earnings (loss) per share (EPS)	=	$\frac{\text{Profit before extraordinary items} - \text{taxes} - \text{minority interests in earnings}}{\text{Adjusted average number of shares during the period}}$
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity} + \text{reserves}}{\text{Adjusted number of shares at the end of the period}}$
Dividend per share	=	$\frac{\text{Dividend for the financial period}}{\text{Adjusted average number of shares during the period}}$
Dividend per earnings (%)	= 100 ×	$\frac{\text{Dividend per share}}{\text{Earnings (loss) per share}}$
Dividend yield (%)	= 100 ×	$\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the period}}$
Price/earnings (P/E)	=	$\frac{\text{Adjusted share price at the end of the period}}{\text{Earnings (loss) per share}}$
Adjusted average share price	=	$\frac{\text{Amount traded in FIM during the period}}{\text{Adjusted number of shares traded during the period}}$
Market capitalisation	=	Number of shares at the end of the period × share price at the end of the period

SHARES AND SHARE CAPITAL

A total of 98,523,082 Neste shares have been issued. The nominal value of the shares is FIM 10, and each share carries one vote at the annual general meeting. All shares entitle holders to an equal dividend.

In accordance with the articles of association, Neste's minimum share capital is FIM 800 million and maximum share capital 3,200 million. Within these limits, the share capital can be increased or decreased without changing the articles of association. Neste's share capital on 31 December 1996 paid in its entirety and entered in the trade register was the same as in 1995, totalling FIM 985,230,820.

Neste Oy's shares are in the book-entry system.

Neste Oy has increased its share capital during 1990-1995 as follows:

	No. of new shares	Increase in share capital, FIM	New share capital, FIM
Rights issue 27 April 1990	3 001	30 010 000	866 080 000
Private placement 17 June-30 September 1991	1 000	10 000 000	876 080 000
Rights issue 14 November-16 November 1994	2 065 082	20 650 820	896 730 820
Initial public offering 1 November-15 November 1995	8 850 000	88 500 000	985 230 820

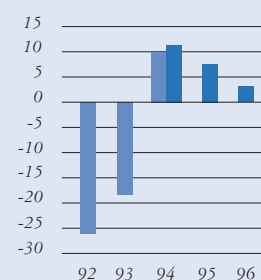
In 1994, the nominal value of the shares was split from FIM 10,000 to FIM 10 by giving an equal number of new shares.

SHAREHOLDERS

The ownership of Neste shares as of 31 December 1996 was divided as follows:

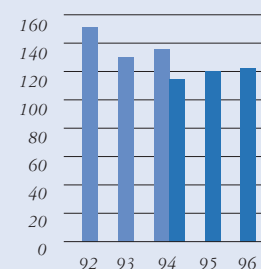
Shareholders	No. of shares	Holding %
Finnish state	81 939 979	83.17
Alko Joint Pension Foundation	1 667 399	1.69
The Local Government Pensions Institution	1 427 000	1.45
Pension Insurance Company Ilmarinen Ltd	924 300	0.94
Pohjola Insurance Company Ltd	834 800	0.85
Neste Corporate Joint Pension Foundation	731 163	0.74
Industrial Mutual Insurance Company	500 000	0.51
The Suomi Mutual Life Assurance Company	465 100	0.47
Pension Varma Mutual Insurance Company	386 100	0.39
Kesko Ltd	325 000	0.33
Nominee registrations	1 320 844	1.34
Other shareholders in total	8 001 397	8.12
Total	98 523 082	100.00

EARNINGS PER SHARE, FIM



■ New accounting practice

EQUITY PER SHARE, FIM



■ New accounting practice

SHARES AND SHAREHOLDERS

DISTRIBUTION OF OWNERSHIP OF SHARES AS OF 31 DECEMBER 1996:

No. of shares	No. of shareholders	% of shareholders	No. of shares owned	% of share-capital
1 - 100	10 479	46.87	409 731	0.41
101 - 500	9 297	41.59	1 810 474	1.85
501 - 1 000	1 439	6.44	940 395	0.95
1 001 - 10 000	1 068	4.78	1 697 640	1.72
10 001 - 100 000	55	0.25	1 771 238	1.80
100 001 - 1 000 000	14	0.06	5 537 363	5.62
1 000 001 - 10 000 000	3	0.01	4 398 569	4.46
over 10 000 000	1	0.00	81 939 979	83.17
	22 356	100.00	98 505 389	99.98
unregistered/uncleared transactions as of 31 Dec. 1996			17 693	0.02
Total			98 523 082	100.00
of which nominee registrations			1 320 844	1.34

DISTRIBUTION OF OWNERSHIP OF SHARES BY OWNER CATEGORY:

Owner category	% of owners	% of share-capital
Private non-financial corporations	0.61	0.71
Public non-financial corporations	0.02	1.71
Financial and insurance institutions	0.26	3.71
General government	0.16	87.57
Non-profit organisations	0.24	0.44
Households	98.50	4.49
Outside Finland and nominee registrations	0.21	1.35
Unregistered/uncleared		0.02
Total	100.00	100.00

STATE OWNERSHIP

The Finnish state owns 83.17% (83.58% at the end of 1995) of Neste's share capital and voting rights. The parliament has, however, authorised the Council of State to reduce the state's holding in Neste to 50.1% of the share capital and voting rights.

The reduction in the state's holding is attributed to the transfer of bonus shares from the state to private investors in November 1996. The bonus shares were the state's advantage to private investors in Neste's initial public offering (IPO) that took place in November 1995. For each set of ten shares purchased in the IPO and held continuously for a period of 12 months in accordance with the sales terms, the shareholders received one bonus share free of charge. Accordingly, in November 1996, a total of 402 801 shares were transferred from the state to private investors. These bonus shares entitle the shareholders to a dividend for the year 1996.

BONDS WITH WARRANTS FOR MANAGEMENT AND MANAGEMENT HOLDINGS

On 19 April 1996, Neste Oy's annual general meeting decided to issue a bond loan with warrants totalling FIM 1,200,000, at the maximum to company executives. This sum includes the subscription of Neste Marketing Ltd totalling FIM 226,000, made in compliance with the terms and conditions of the bond loan.

The bond loan was subscribed on 2 May 1996 with an issue price of 100%. The annual interest rate on the loan is 3%, and the loan shall be repaid in one instalment on 2 May 1999. The loan arrangement includes a maximum of 1,200,000 warrants, each of which can be converted to one Neste share at the price of FIM 86.50 between 1 December 1998 and 31 January 2002. Conversion of all the warrants into shares would increase Neste Oy's share capital by at most FIM 12 million, representing 1.20% of Neste's share capital and voting rights. The new shares entitle the holders to a dividend for the period during which they were subscribed.

The members of the Supervisory Board owned a total of 1,107 shares, that is, 0.00% of Neste's share capital and voting rights. The total number of Neste shares owned by the members of the Board of Directors was 5,782 shares, equalling 0.01% of the share capital and voting rights. In addition, the members of the Board of Directors owned bonds with warrants totalling FIM 137,500. The warrant holders are entitled to convert the warrants to a total of 137,500 new shares, which represents 0.14% of the share capital and voting rights.

Neste Oy has not issued other convertible bonds or bonds with warrants that would entitle bond holders to Neste shares.

SHARE ISSUE AUTHORISATION

Neste's Board of Directors does not have the authorisation to increase Neste's share capital nor to issue convertible bonds or bonds with warrants.

QUOTATION OF SHARES

Neste Oy's shares are quoted on the Helsinki Stock Exchange.

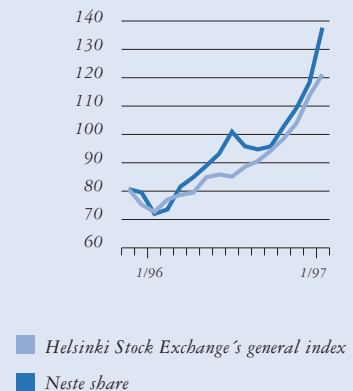
QUOTATION AND TRADING OF SHARES

The highest quotation of Neste Oy's share in 1996 was FIM 113.50 and the lowest FIM 65.50. The average quotation on the last trading day of the year was FIM 111.45 (FIM 77.90). Our market capitalisation at the end of the year was FIM 10,980 million (FIM 7,675 million).

A total of 8.6 million shares for a total value of some FIM 791 million were traded during 1996. The number of shares traded represented 8.67% of the average number of shares during the review period. The average quotation of our share in 1996 was FIM 91.63 (FIM 80.14).

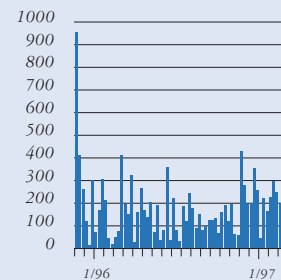
QUOTATIONS

FIM



NUMBER OF SHARES TRADED,

1000 shares



The Group's non-restricted equity as of 31 December 1996 stood at FIM 9,749 million, of which the amount of distributable equity totalled FIM 4,557 million. The Parent Company's distributable equity stood at FIM 5,131 million.

The Board of Directors proposes that Neste Oy should pay a dividend of FIM 2.00 per share, totalling FIM 197,046,164, and should set aside a sum of FIM 1,000,000 for the purposes of public utility.

Espoo, 27 February 1997

Jaakko Ihamuotila

Jukka Viinanen

Veli-Matti Ropponen

Eero Aittola

L.J. Jouhki

Eero Tuomainen

AUDITORS' REPORT

TO THE SHAREHOLDERS OF NESTE OY

We have audited the accounting, the financial statements, and the corporate governance of Neste Oy for the period 1.1. - 31.12.1996. The financial statements, which include the report of the Board of Directors, the consolidated and parent company income statements, the balance sheets, and the notes to the financial statements, have been prepared by the Board of Directors and the President. Based on our audit we express an opinion on these financial statements and the company's corporate governance.

We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance has been to examine that the members of the Supervisory Board and of the Board of

Directors and the President have legally complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements and the consolidated financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Finnish Companies' Act.

We have reviewed the interim reports published during the financial period (12 June and 10 October 1996). In our opinion, they have been prepared according to the rules and regulations governing the interim reporting of public companies in Finland.

Espoo, 12 March 1997

Arthur Andersen Kihlman Oy

Hannu Vänskä

Authorised Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

Meeting today, Neste Oy's Supervisory Board has considered the Company's financial statements for 1996, which include the income statement, the balance sheet, the consolidated financial statement, the report on activities, the Board of Directors' proposal contained in the latter for the disposal of retained earnings, and the auditors' report provided by the Company's auditors. The Supervisory Board has decided to propose to the Annual General Meeting that the financial statements be approved and the profits from the previous

years be disposed of in accordance with the Board of Directors' proposal.

The Supervisory Board is satisfied that its decisions and instructions have been followed, and that it has received adequate information from the Board of Directors and the Company's management.

The terms of the following members are due to expire at the 1997 Annual General Meeting: Tuulikki Hämäläinen, Sirkka-Liisa Anttila, Per-Erik Lundh, Erkki Tuomioja, and Matti Vanhanen.

Espoo, 12 March 1997

Tuulikki Hämäläinen

Kaarina Dromberg

Sirkka-Liisa Anttila

Gustav Hägglund

Tytti Isohookana-Asunmaa

Timo Laaksonen

Per-Erik Lundh

Erkki Tuomioja

Taisto Turunen

Matti Vanhanen

Stig Östdahl

U.S. GAAP RECONCILIATION

Financial statements prepared according to the Finnish Accounting Standards (FAS) and according to the United States' Generally Accepted Accounting Principles (U.S. GAAP) differ in some material respects. The most significant differences affecting Neste Group's net profit and equity are as follows:

CAPITALISATION OF COSTS OF CONSTRUCTING FIXED ASSETS

If certain criteria are met, U.S. GAAP requires that interest expenses and indirect costs incurred during the construction period of an investment project be included in the purchase price of the fixed asset and depreciated over the estimated useful life of the asset in question.

OVERHEAD COSTS OF INVENTORIES

Under U.S. GAAP, part of overhead costs are included in the historical cost of inventories.

REVALUATIONS OF FIXED ASSETS

Under U.S. GAAP, revaluation of fixed assets is not allowed.

DEPRECIATION OF GOODWILL ON CONSOLIDATION

In the FAS financial statements, goodwill on consolidation is depreciated over 20 years. Under U.S. GAAP, goodwill is depreciated over its estimated useful life, not to exceed 40 years.

SALE AND LEASEBACK TRANSACTION

In the FAS financial statements, gains on the sale and leaseback of Neste's head office building, Gasum Oy's compressor stations, and ships, were recorded in the income statement. Under U.S. GAAP, these transactions are either accounted for as financing arrangements (for buildings) and the gains are eliminated, or as sale and leaseback transactions (ships) with the gains being amortised over the lease term.

BOREALIS

Under U.S. GAAP, Borealis shares are valued using the book values of net assets transferred, which have been adjusted to comply with U.S. GAAP.

LEASE CONTRACTS

Some of Neste's time charter contracts are treated as capital leases under U.S. GAAP. The leased asset is recorded as a fixed asset, and a corresponding liability is also recorded. The fixed asset is depreciated according to plan, and annual leasing costs are divided into interest expenses and loan repayments. In FAS financial statements, time charter contracts are treated as operating leases.

FOREIGN EXCHANGE DIFFERENCES

Exchange rate differences which are recorded against translation adjustments or shown as valuation items in FAS are reversed to the income statement under U.S. GAAP.

SHARE ISSUE FEES

In the FAS financial statement, the arrangement fees of share issues are recorded in income statement as other financial expenses. Under U.S. GAAP, these fees are deducted from share premium in the shareholders' equity.

FINANCIAL INSTRUMENTS

Some currency derivative contracts which are accounted for as hedges in FAS are not treated as hedges under U.S. GAAP, but are valued using market prices, as is done with the open position.

Under U.S. GAAP, shares and holdings in financial assets are valued at market prices; changes in market prices are recorded directly in shareholders' equity for "available-for-sale" securities. Under FAS, shares and holdings in financial assets are valued at lower of cost or market value.

COMMODITY TRANSACTIONS

In the FAS financial statements, only the next year's portion of any future losses resulting from the valuation of derivatives and other trading contracts using year-end market values is recorded in the income statement. Any losses relating to subsequent years are due to constant fluctuations in oil prices, and thus are not recorded as a loss. Prior to 1993, Neste recognised premiums on written options as income in the year received.

Under U.S. GAAP, derivatives which do not qualify as hedging instruments are valued at market prices, and the resulting gains and losses are recorded in the income statement. Received option premiums are recorded as liabilities.

OIL AND GAS ACCOUNTING

In the FAS financial statements, Neste capitalises general and administrative costs attributable to its exploration activities. Under U.S. GAAP, such costs are expensed when incurred.

In the FAS financial statements, unit of production calculations for the depreciation of producing oil and gas properties and the provision for decommissioning obligations are based on proven and probable reserves. Under U.S. GAAP, only proved reserves are used.

In the FAS financial statements, provision is made for the permanent diminution in value of oil and gas properties. Under U.S. GAAP, detailed rules are provided for impairment calculations which generally require larger write-offs. The impairment write-downs made are not reversed, even if the values increase in future years.

PENSION COSTS

Under U.S. GAAP, future salary increases have to be taken into consideration when calculating pension liabilities and possible other future personnel benefits. These liabilities have to be accrued for under U.S. GAAP. In the FAS financial statements, pension costs are recorded based on accounting practices relevant in each operating country. The calculation of pension costs in Finland is based on present salary levels.

DEFERRED TAXATION

Under U.S. GAAP, a deferred tax liability is recognized for all taxable temporary differences between the book and tax bases of assets and liabilities. Also, deferred tax assets on tax loss carry forwards are recognised in the financial statements when they are more likely than not to be realised. The tax effects of certain U.S. GAAP adjustments are also taken into consideration.

FIM million 1996 1995

Net profit reconciliation

Net profit under Finnish GAAP	489	661
Capitalisation of costs of constructing fixed assets	16	-2
Overhead costs of inventories	-14	-24
Depreciation on goodwill on consolidation	23	24
Sale and leaseback transaction	-86	-104
Borealis	-211	528
Lease contracts	-53	86
Foreign exchange differences, share issue fees	-7	150
Financial instruments	0	-7
Commodity transactions	228	119
Oil and gas accounting	72	64
Pension costs	159	170
Deferred taxation	511	-127

Approximate net profit under U.S. GAAP 1 127 1 538

Shareholders' equity reconciliation

Shareholders' equity under Finnish GAAP	12 025	11 816
Capitalisation of costs of constructing fixed assets	606	590
Overhead costs of inventories	61	75
Revaluations of fixed assets	-374	-418
Goodwill on consolidation	285	280
Sale and leaseback transaction	-372	-286
Borealis	-	102
Lease contracts	-76	-23
Foreign exchange differences, share issue fees	-1	-7
Financial instruments	91	29
Commodity transactions	-63	-291
Oil and gas accounting	-857	-881
Pension obligations	105	-70
Deferred taxation	410	-67

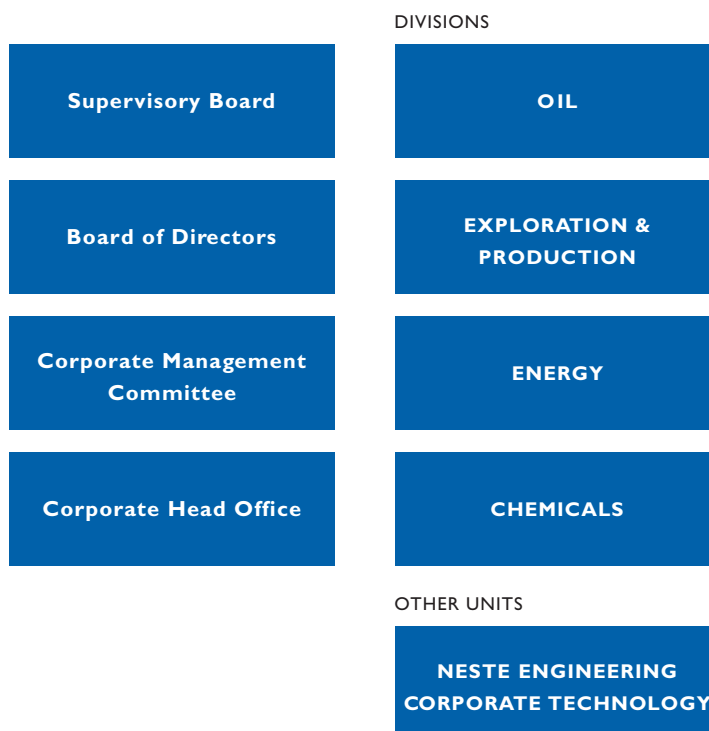
Approximate shareholders' equity under U.S. GAAP 11 840 10 849

ORGANISATION



*The members of Neste's Board of Directors: back, from left: EERO TUOMAINEN and JUKKA VIINANEN.
Middle: L.J. JOUHKI and JAAKKO IHAMUOTILA.
Front: VELI-MATTI ROPPONEN and EERO AITTOLA*

ORGANISATION AS OF 1 FEBRUARY 1997



Board of Directors

Jaakko Ihamuotila, born 1939
chairman
chief executive (31 Dec. 1997)

Jukka Viinanen, born 1948
vice chairman
president and COO
(31 Dec. 1999)

Veli-Matti Ropponen, born 1949
deputy COO
(31 Dec. 1998)

Eero Aittola, born 1942
chief financial officer
(31 Dec. 1998)

L.J. Jouhki, born 1944
president, CEO
Thomesto Trading Companies Ltd
(31 Dec. 1997)

Eero Tuomainen, born 1938
general manager
Postipankki Oy (31 Dec. 1999)

Secretary of the Supervisory Board and of the Board of Directors is Markku Tuomi, corporate vice president, legal affairs and contracts.

Divisional Management

OIL

Veli-Matti Ropponen
executive vice president

Risto Riekkö
deputy to executive vice president

Bulk Sales and Supply
Kai Laurén

Marketing and Sales
Matti Oksanen

Specialty Products
Harri Turpeinen

Commercial Coordination
Jukka Laaksovirta

Refining
Pekka Sylvander

Logistics Services
Erkki Grönqvist

EXPLORATION & PRODUCTION

Bo Lindfors
executive vice president

Kalervo Mäkinen
business development and strategic planning

Norway Business Unit
Hans Kristian Rød

International Business Unit
Paul Keighley

Russian Business Unit
Pertti Aalto

ENERGY

Tapio Harra
executive vice president

Gasum Oy
Antero Jännes
LPG International
Per-Erik Wallgren
NAPS

Tapio Alvesalo
Neste Lämpö Oy
Seppo Vesapuisto

Tehokaasu Oy
Ingmar Dahlbom
Business projects
Jaakko Mustonen

CHEMICALS

Georges Marzloff
executive vice president

Pertti Silanterä
Neste Oxo and Neste Polyester
Kyösti Sysiö
Neste Resins

Neste Resins
Tapio Hovi

Neste Polyester
Esa Lahtela

Neste Oxo
Inge Pettersson

Corporate Management Committee

Jukka Viinanen
chairman
Veli-Matti Ropponen
deputy chairman
Tapio Harra
Bo Lindfors
Georges Marzloff
Risto Riekkö
Juha Laaksonen
corporate controller
Risto Rinne
vice president,
corporate planning
(secretary)

Supervisory Board

Members

Tuulikki Hämäläinen
member of Parliament, chairman
(1997)

Kaarina Dromberg
member of Parliament,
vice chairman (1999)

Sirkka-Liisa Anttila
member of Parliament (1997)

Gustav Hägglund
commander-in-chief of the Finnish
defence forces (1998)

Tytti Isohookana-Asunmaa
member of Parliament (1998)

Timo Laaksonen
member of Parliament (1998)

Per-Erik Lundh
chairman of the Finnish Metal-
workers' Union (1997)

Erkki Tuomioja
member of Parliament (1997)

Taisto Turunen
head of the Department of
Energy/Ministry of Trade and
Industry (1998)

Matti Vanhanen
member of Parliament (1997)

Stig Östdahl
mayor (1999)

Staff representatives:

Keijo Kolehmainen
technical staff representative
(1997)

Hannu Mykrä
mechanic (1998)

Pentti Paajanen
mechanic (1998)

Jukka Sorvisto
site business manager (1997)

Marja Tarkki
secretary (deputy) (1997)

Auditors

Arthur Andersen Kihlman Oy,
auditor with the main
responsibility
Hannu Vänskä
authorised public accountant

The expiry of the current term in brackets.

ADDRESSES

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telefax +1-713-622 5570

Neste Petroleum, Inc.
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SHAREHOLDER INFORMATION

The Annual General Meeting of the Neste Group will be held on Tuesday, 8 April 1997, at 4.00 pm, in the Group Head Office at Keilaniemi, Espoo.

Shareholders wishing to attend the AGM are requested to notify the Finnish Central Securities Depository Ltd by 4 April 1997 either by letter addressed to Finnish Central Securities Depository Ltd, P.O. Box 1260, FIN-00101 Helsinki, or by telephone, +358 9 612 3121 or +358 9 686 20230.

PAYMENT OF DIVIDEND

The Board of Directors will propose to the AGM that a dividend of FIM 2.00 per share be paid on the 1996 financial period. The record date for dividend payment is 11 April, and the dividend payment date is 16 April 1996.

INTERIM REPORTS

Interim Report 1 January - 30 April 1997	11 June 1997
Interim Report 1 January - 31 August 1997	10 October 1997

The Annual Report and the Interim Reports are available in Finnish, Swedish, and English, and they can be ordered from Corporate Communications by telephone, +358 204 501, by telefax +358 204 50 4798, or by E-mail neste.communications@neste.com.



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