

ANNUAL REPORT 1997



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.

*Neste in 1997*

*Net sales rose somewhat and profit improved; cooperation between Neste and Imatran Voima (IVO) was explored; a letter of intent was signed on the sale of the Borealis holding*

*Management review*

*Neste is preparing for changes that will affect the European energy market and is planning a northern transmission route for oil and gas; Neste people are ready to tackle change*

*Divisional reviews*

*A new base oil plant and a gas turbine power plant were commissioned at Porvoo; the best divisional performance was delivered by Exploration & Production; the expansion of Finland's natural gas network was completed; Neste Chemicals' business portfolio was focused*



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## DIVISIONS

### OIL

OIL DIVISION has a strong presence in the Baltic Rim

- Crude oil and feedstock supply
- Refining
- Petroleum product marketing
- International trading in crude oil and petroleum products
- Logistics

### ENERGY

ENERGY DIVISION pursues natural gas opportunities

- Natural gas
- Liquefied petroleum gas (LPG)
- Heat, steam, power
- Solar and wind energy

### CHEMICALS

NESTE CHEMICALS focuses on two product groups

- Adhesive resins
- Industrial gelcoats

### EXPLORATION & PRODUCTION

operates in three areas

- Norway
- Middle East
- Russia

### OTHER BUSINESS UNITS

#### CORPORATE TECHNOLOGY

- Technology research and development

#### NESTE ENGINEERING

- Internal engineering resource

## CORPORATE GOALS

- *Increase shareholder value*
- *Maintain strong financial position*
- *Employ strengths in power business*
- *Build a North European energy bridge*
- *Reinforce environmental competitiveness*
- *Establish a quality culture*

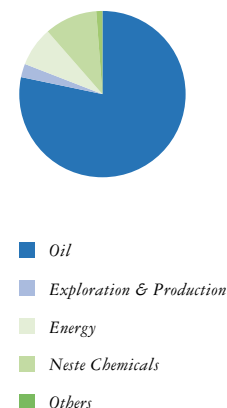
## SHARED VALUES

- *Openness and Candour*
- *Caring and Respect*
- *Dedication and Desire for Renewal*

## NESTE IN 1997

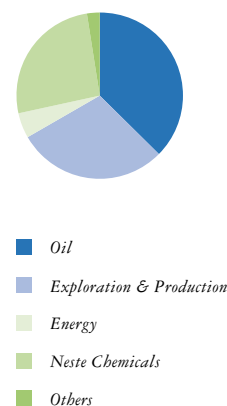
|   |             | 1997   | 1996   |
|---|-------------|--------|--------|
| Net sales                                   | FIM million | 45 660 | 43 375 |
| Operating profit                            | FIM million | 1 617  | 1 078  |
| Profit before extraordinary items and taxes | FIM million | 983    | 566    |
| Investments                                 | FIM million | 2 913  | 2 048  |
| Interest-bearing debt                       | FIM million | 11 915 | 10 847 |
| Return on capital employed                  | %           | 7.5    | 5.7    |
| Return on shareholders' equity              | %           | 7.8    | 2.9    |
| Equity-to-assets ratio                      | %           | 38.0   | 39.4   |
| Gearing                                     | %           | 81.7   | 74.9   |
| Earnings per share                          | FIM         | 9.26   | 3.14   |
| Shareholders' equity per share              | FIM         | 121.93 | 122.05 |
| Average number of personnel                 |             | 8 704  | 8 662  |

NET SALES BY DIVISION



- In September, we signed a letter of intent on the sale of our Borealis holding to OMV of Austria and IPIC (International Petroleum Investment Company) of Abu Dhabi.
- A planned five-week turn-around shutdown was carried out at the Porvoo refinery in September. Following the re-start of the refinery, a new unit manufacturing very high viscosity index (VHVI) base oils and a gas turbine power plant were commissioned at the site.
- A decision was made to merge our Neste and Kesoil retail operations during 1998.
- Advances were made in the development of the Åsgard field and the building and installation of the related natural gas transmission pipelines.
- Expansion of the domestic natural gas pipeline network was completed.
- In July, Neste and the Russian natural gas company RAO Gazprom set up a joint venture company known as North Transgas Oy. The company has started a feasibility study into the construction of a natural gas pipeline from Russia, via Finland, to the European market.
- In line with Neste Chemicals' business development strategy, we disposed of the polystyrene business. To further develop our adhesive resins business and expand in the sector, we acquired the synthetic resins business of Condea, a subsidiary of RWE-DEA of Germany, as well as a majority holding in Krems Chemie AG, which is listed on the Vienna Stock Exchange.
- The capacity of the Edmonton MTBE facility, owned jointly by Neste and Chevron, was upgraded from 530,000 tonnes to 770,000 tonnes.
- In June, the Ministry of Trade and Industry (MTI) of Finland announced its plan to carry out a review of the state's ownership of Neste Oy and the power producer Imatran Voima Oy (IVO). In December, the MTI proposed that the companies combine to establish a competitive Nordic energy company. It is intended that the state's shares in IVO and Neste will be transferred to a new holding company. The new company will be floated, and Neste's share will cease to be listed on the Helsinki Stock Exchange.

INVESTMENTS BY DIVISION





*Jukka Viinanen and Jaakko Ihamuotila*

The European energy market is undergoing profound changes now that the wave of liberalisation has swept through the power business. As early as the beginning of the 21<sup>st</sup> century, at least one-third of the European Union power market is expected to be deregulated. The United Kingdom as well as the Nordic countries, in particular Finland, Sweden, and Norway, are at the forefront of this development. With the forthcoming approval of the European Union gas market directive, the liberalisation of natural gas networks will also gradually begin to take place.

For Neste, 1997 was a historic year. In our 50<sup>th</sup> year of business, we played an integral role in the rearrangements concerning the Finnish energy industry. These preparations will lead to the establishment of a new Finnish energy group, which will be well positioned in the competitive international marketplace. During the past year, we also consolidated our capacity to invest in our core businesses by signing a letter of intent on the sale of our holding in the petrochemicals group Borealis.

Change is always a door to new opportunities. We at Neste began to prepare ourselves for these openings prior to the present review period.

In spring 1997, Neste's annual general meeting decided to amend the paragraph of our articles of association that defines our line of business by adding the power business to it.

The plans announced by the Finnish Ministry of Trade and Industry in the summer, concerning the state's ownership of Neste and the power producer Imatran Voima, led to the solution achieved at the end of the year whereby the state will transfer its stakes in the two companies to a new holding company. Reflecting an international trend, the government will thus establish a diversified energy house, which will possess sufficient resources to be a noteworthy competitor in the liberalising and globalising energy markets. It is extremely important to us that the interests of our minority shareholders will be taken care of in these rearrangements so that the confidence of investors will be maintained.

### *Energy connections in the Baltic Rim*

Meeting Europe's energy demands with the massive hydrocarbon reserves of the north and east, in particular those of Russia, is an issue of great importance to Europe. In view of Finland's geographic location, it is only natural that Neste is taking part in the preparations for building a northern transmission route for Russian oil and gas to Europe, and in advocating the Nordic gas market. The stand adopted by Finland and the European Union in matters of energy policy supports these projects. Baltic Rim energy connections are a concrete manifestation of the Nordic dimension promoted by the Union.

The Baltic Sea region constitutes the home market of our largest business, the Oil Division. The new petroleum product terminal in Latvia and the construction of an import terminal for petroleum products in St Petersburg effectively complement our highly capable transportation, storage and distribution logistics in the region. Moreover, some one hundred Neste service stations in Russia, the Baltic states, and Poland are already

providing the best possible service and supply security to our customers. It is our intention to continue to consolidate our position as a leading Baltic Rim oil company with environmentally superior products and operations.

### *Focusing Neste Chemicals*

During the review period, we completed the reorganisation of our chemicals portfolio. Continuing the work that commenced in 1994, we have by now disposed of the polystyrene, PVC and composite businesses and focus on adhesive resins and industrial coatings. In 1997, we became the leading global adhesive resins manufacturer, following the acquisition of Krems Chemie AG of Austria and the synthetic resins business of RWE-DEA of Germany.

With the sale of our Borealis holding we will also withdraw from the plastics industry. The divestment will release a substantial amount of funds to be used in strategically important targets.

### *Ample room for profit improvement*

Looking at our annual performance, 1997 was an unsatisfactory year. Although the Oil Division achieved a substantial improvement in profit, its overall result was modest. Our downstream performance was weakened by the planned turn-around shutdown carried out at the Porvoo refinery in the autumn, as well as by the slump in the price of crude oil which resulted in inventory losses. Moreover, refining margins remained narrow throughout the year. Finnish trading conditions were also tough because motor fuels are subject to heavy taxation and competition in the retail sector is intense. In addition, fuel oil demand was adversely affected by the mild weather conditions.

Our efforts to enhance our downstream profitability continued, however, in particular at the Naantali refinery and in our marketing companies. The results of these initiatives, coupled with the investments completed at the Porvoo refinery during the shutdown, will start to show in 1998. In addition, we have systematically been cutting our crude oil trading volumes, whilst increasing our own industrial business.

Thanks to favourable prices, the best annual divisional performance was delivered by Exploration & Production. The performance of the Energy Division met last year's satisfactory level, despite a temporary decline in natural gas deliveries. Neste Chemicals' result was adversely affected by a slump in the price of some key products, and was therefore unsatisfactory.

### *Neste people are ready to tackle change*

Neste, which celebrated its 50<sup>th</sup> anniversary at the beginning of this year, employs a committed and highly competent staff who choose to work for the company for many years. The profound rearrangements introduced last year are seen as a challenge by Neste people, for they are used to tackling great changes affecting their company, its market or the operating environment.

Neste's half-century history spans many extremely different stages throughout which the company has had a great impact on its home country and her industry. As we are approaching the end of the millennium, change is increasingly rapid and diverse by nature. To respond to changing circumstances, we have initiated Group-wide renewal projects that are set to alter our work procedures fundamentally. We are creating a working community which relies on mutual trust and respect. Our values, leadership practices and the quality of our operations are the key elements of our future success.

The most far-reaching reforms have been implemented in our downstream oil. As a result, we are now providing improved and increasingly competitive products, and boast a more efficient organisation, which looks after its customers and is able to capture the opportunities delivered by change. These developments are crucial to the growth in our shareholder value.

Espoo, March 1998

Jaakko Ihamuotila  
Chairman and CEO

Jukka Viinanen  
President and COO







# Oil

|  | 1997   | 1996   |
|--|--------|--------|
| <i>Net sales (FIM million)</i>           | 37 270 | 35 844 |
| <i>Operating profit (FIM million)</i>    | 477    | 196    |
| <i>Identifiable assets (FIM million)</i> | 9 537  | 9 649  |
| <i>Investments (FIM million)</i>         | 1 090  | 842    |
| <i>Average number of employees</i>       | 4 337  | 4 456  |

## *Goals*

- *improve profitability fundamentally*
- *maintain a strong home market position*
- *expand in the Baltic Rim retail market*
- *utilise restructuring of the Baltic Rim oil market*
- *generate growth in the motor fuel component business*

The Oil Division is an integrated chain of Neste's downstream oil business, encompassing crude oil and feedstock supply, refining, marketing of petroleum products, international sales of crude oil and petroleum products, as well as logistics. The division's product range also includes lubricants and motor fuel components.

The downstream oil chain is managed in accordance with process thinking in such a manner that refining, marketing, and sales are flexibly aligned with customer and market needs.

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 are environmentally compatible.

In Finland we are the market leader in the retail and direct sales of petroleum products, and have an important share of the market in the other Baltic Rim countries. We also export our products beyond the Baltic Sea region.

Our maritime and inland transportation systems as well as our terminal facilities form an integrated Logistics Group, thereby giving us a significant competitive edge.

### *Marketing and Sales*

Our retail and direct sales unit, Neste Marketing Ltd, sells petroleum products to end users in Finland and other Baltic Rim countries. Significant quantities of other products and services that motorists need are also sold through our retail network.

#### Competition tightened in Finland

Our retail and direct sales in Finland totalled 3.2 million tonnes, which is close to the previous year's level. Gasoline accounted for 33.5% (down 1.4 percentage points) of the market, diesel fuel 44.2% (down 1.1 percentage points), light fuel oil 41.3% (no change), and heavy fuel oil 44.0% (down 2.2 percentage points). The competitive climate in Finland turned markedly harsher as new entrants were attempting to penetrate the gasoline and diesel fuel markets with an aggressive pricing policy.

At the end of 1997, we had a total of 1,143 service stations, diesel fuel outlets and other sales points in Finland. Of these, Neste- and Kesoil-branded outlets totalled 724 and 419 respectively. The number of service stations fell by 58 as ageing facilities with low sales volumes were closed down.

In the autumn we decided to merge the Kesoil and Neste retail operations. Hence, our Kesoil service stations will be rebranded to Neste's blue and green livery during 1998.

Sales from convenience stores, cafés and restaurants, car washes and other non-fuel services continued to increase substantially. In fact, the number of our service stations incorporating a Neste Quick Shop rose by ten new sites, totalling 37. Our service stations featuring a Motorest restaurant totalled 39, one less than

in 1996. We are improving our Quick Shop and Motorest concepts and increasing the number of service stations equipped with these facilities.

In the direct sales of all of our main products we retained our position as a clear market leader in Finland.

#### Growth in the Baltic Rim

Strong growth continued in retail and direct sales in north-west Russia, the Baltic states, and Poland. Our gasoline sales in these countries totalled 1.3 billion litres. This accounted for one-quarter of our total gasoline production. Diesel fuel sales in the Baltic Rim countries amounted to 300 million litres. More than one-half of this came from Sweden.

Our service stations and other sales outlets in the Baltic Rim–Finland excluded—rose to number close to one hundred. Among these new sites were our first service station with a Quick Shop in St Petersburg and our first diesel fuel outlet in Sweden serving commercial traffic.

### *Bulk Sales and Supply*

The Bulk Sales and Supply Group is responsible for petroleum product bulk sales, for the supply of feedstocks and products used in refining, and for oil price hedging operations. It also trades in feedstocks, petroleum products, and motor fuel components. During 1997, our bitumen, solvents and speciality fuels businesses were incorporated with the group.

#### A larger share of the Finnish bulk sales market

Petroleum product sales declined in Finland compared to the previous year, totalling 8.8 million tonnes. Gasoline sales grew 2.5% partly as a



*Neste's downstream production units employ a total of 1,300 people.*

result of stockpiling by consumers who reacted to the forthcoming tax increases for 1998. Diesel fuel sales climbed 7.4%, thanks to economic growth, increased deliveries, and advance purchases in anticipation of tax hikes to be imposed on diesel fuels, too. Demand for light and heavy fuel oil fell, however, mainly due to mild weather conditions.

Our share of the Finnish bulk sales market expanded. Our domestic deliveries totalled some 8.4 million tonnes, up 12% on the previous year.

In the motor fuels sector, the domestic market was supplied with our reformulated gasolines and diesel fuels only, which are considerably less polluting than traditional blends. Furthermore, the majority of our bulk sales customers continued to purchase our light fuel oil designed for heating purposes, the sulphur content of which is significantly below the official standards in force in Finland.

### Bitumen demand up

We are the 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.

Bitumen demand in Finland took an upward turn in the review period. Our total sales of road and industrial bitumens rose by more than one-fifth over the previous year, reaching 330,000 tonnes.

We also expanded into our nearby market—north-west Russia and the Baltic states. In fact, exports to Russia exceeded all our expectations.

Our main focus in solvents and speciality fuels was on exports to our traditional nearby market and particularly to central Europe.

### Turn-around shutdown cut back exports

Our petroleum product exports totalled 3.8 million tonnes. More than one-half of this was gasoline, while middle distillates and aviation fuels accounted for well over one-third. Total exports fell short of the previous year's figure, however, due to the turn-around shutdown at the Porvoo refinery.

Our most important export markets were Sweden and the Baltic states, where we continued to consolidate our position. Deliveries to Estonia rose 15% over the previous year. In fact, we delivered more than 3 million tonnes of petroleum products to the Baltic Rim and Russia. This represents an increase of 10% relative to 1996.

The Californian market in the USA was supplied with our reformulated gasoline that meets the most stringent US environmental requirements. Sales fell in relation to the previous year, however.

### One-half of crude from the North Sea

Crude and other feedstock imports totalled 12 million tonnes. Of crude imports, light and low-sulphur Norwegian, UK and Danish (North Sea) crudes accounted for 51%. Imports from the former Soviet Union climbed to 48% as a result of increased rail deliveries. A small quantity of speciality feedstocks required for bitumen manufacture were imported from Venezuela. During autumn, we bought petroleum products from foreign refineries to replace the reduced yield from the Porvoo refinery.

Our oil trading volumes were cut by one-fifth. During the year, we also divested some of our associated companies in North America. Our crude trading contracts are concluded mainly with partners in Europe, the Middle East, and south-east Asia, while petroleum product trading is dominated by north-west Europe and Canada.

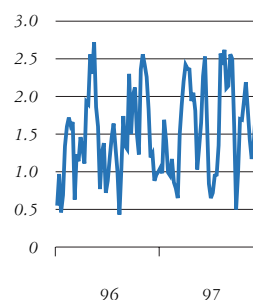
### Refining

The combined annual capacity of Neste's two refineries is some 13 million tonnes. In 1997, feedstock consumption at the Porvoo refinery totalled 9.0 million tonnes, which was 1.4 million tonnes less than in 1996. In contrast, feedstock intake at the Naantali refinery amounted to 2.7 million tonnes, up 15% on the previous year.

The main activities at the Porvoo refinery during the year were improvement of operational reliability, commissioning of new investments, completion of a demanding turn-around shutdown, and preparation of environmental, health and safety (EHS) management systems in coop-

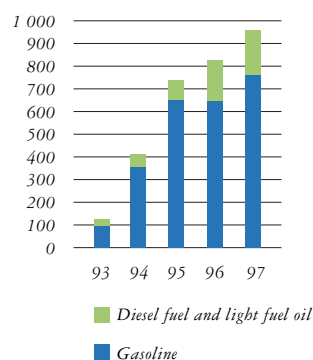
### REFINING MARGIN IN ROTTERDAM

(Brent complex, USD/bbl, weekly average)



### RETAIL AND DIRECT SALES IN THE ST PETERSBURG REGION AND THE BALTIC STATES

(1 000 t)



eration with the Naantali refinery. An internal development project is also being conducted at Naantali to instigate substantial improvements in productivity and cut costs.

A planned five-week turn-around shutdown took place at the Porvoo refinery in September, as a result of which the annual utilisation of conversion capacity was 82.2% (93.7% in 1996). In November, the refinery made a new record in distillation, reaching 1,064 tonnes per hour. Total yield from the Porvoo refinery was 8.6 million tonnes. The main emphasis was on maximising the share of cleaner-burning motor fuels.

During the shutdown we completed an investment programme of close to FIM 900 million at the Porvoo refinery. A FIM 210 million unit representing state-of-the-art technology for the production of very high viscosity index (VHVI) base oil was commissioned in December. At the end of the year, we also commissioned a FIM 250 million gas turbine power plant.

Utilisation of capacity conversion at the Naantali refinery rose to 90.9% (83.9% in 1996), which is a new record since the current operational structure of the refinery was introduced. Output was increasingly dominated by light fractions. The share of high-quality middle distillates—diesel

fuel and light fuel oil in particular—increased. Production of specialities, among them bitumens, also continued to grow. Total product yield from the Naantali refinery stood at 2.5 million tonnes.

In August, the Naantali refinery celebrated its 40th anniversary.

### *Growth Businesses*

A unit known as Growth Businesses was set up within the Oil Division. It comprises base oils and lubricants, motor fuel components, oil research and development, and specific development projects. The aim of the unit is to innovate and develop new businesses based on the competencies of the division.

#### **New base oils and lubricants**

Neste specialises in the development and marketing of synthetic, pro-environmental industrial and automotive lubricants. In the wake of continuous product development and ever-tightening requirements on fuel quality, demand for these products is increasing while the use of traditional mineral oils is subsiding in both Finland and the international markets. In process industry applications, we concentrate on developing comprehensive lubrication solutions for industry, with the emphasis on the operational reliability and usability of the equipment.

Production of a new generation of base oils started in a new unit commissioned at the Porvoo refinery late in 1997. These products belong to the so-called very high viscosity index (VHVI) product family, but we market them under the name EHVI (extra high viscosity index). They are similar to synthetic base oils that are suitable for the manufacture of high-quality lubricants for traffic and industry. We have captive use of our EHVI base oils in our own lubricant production, and market them to other manufacturers in Finland and abroad.

In Beringen, Belgium, we manufacture polyalphaolefin (PAO), which is the main component of synthetic lubricants. Our Beringen PAO plant operated at full capacity throughout the year. Sales of PAO products rose around 12% over the previous year. We now account for some 30% of the European PAO market. At the end of the year, Neste PAO N.V.'s environmental management system was awarded the ISO 14001 certificate.

#### **Component production on the increase**

Methyl tert-butyl ether (MTBE) is a high-quality, oxygen-rich gasoline component which contributes to improved combustion and reduces harmful emissions. We produce MTBE at our Porvoo refinery in Finland and our Sines facilities in Portugal, and are partners in MTBE joint ventures in Edmonton, Canada, and Al Jubail, Saudi Arabia. In 1997, we sold some 750,000 tonnes of MTBE mainly to oil companies in the USA, western Europe, and south-east Asia.

In October, the capacity of the Edmonton facility was upgraded to 770,000 tonnes, of which we account for one-half. In November, Neste, Alu-

#### **BREAKDOWN OF REFINERY OUTPUT**

| 1000 t                                | 1993  | 1994   | 1995   | 1996   | 1997   |
|---------------------------------------|-------|--------|--------|--------|--------|
| <i>Liquefied petroleum gases</i>      | 373   | 370    | 350    | 410    | 346    |
| <i>Motor fuel</i>                     | 3 394 | 4 114  | 4 124  | 4 209  | 3 707  |
| <i>Diesel fuel and light fuel oil</i> | 3 881 | 4 628  | 4 639  | 4 568  | 4 315  |
| <i>Heavy fuel oil and bitumen</i>     | 1 337 | 1 373  | 1 116  | 1 445  | 1 394  |
| <i>Other products</i>                 | 629   | 914    | 844    | 1 185  | 1 075  |
| <i>Total output</i>                   | 9 614 | 11 399 | 11 073 | 11 817 | 10 837 |

jain of Saudi Arabia, and Ecofuel of Italy signed an agreement on a joint venture, which is set to build a 900,000 tonne MTBE plant at Yanbu, Saudi Arabia. The final investment decision on the plant will be made during 1998.

In components we are also actively seeking to generate profitable growth in the tertiary amyl ether (TAME) business and in the production and marketing of high-quality middle distillates.

### Logistics

The purpose of the Logistics Group is to provide our customers and Neste with high-quality, competitive and effective inland and maritime transportation and terminal services.

During the review period, we improved our domestic terminal operations. Hence, we now have our own storage facilities at Kemi, northern Finland, and Kokkola, north-west coast of Finland. We also cooperate with other oil companies in Oulu (north), Vaasa (north-west coast), and Varkaus (eastern central Finland). This enables us to cut unit costs and improve quality.

Early in 1998, a new terminal will be completed in Riga, Latvia, to improve logistics for the Baltic Rim. Construction of a terminal at St Petersburg was started in December 1997.

### Product carrier fleet is being renewed

At the end of the year, our fleet totalled 14 Neste-owned vessels, two partly owned vessels, and 10 vessels time-chartered for periods of diffe-

rent length. The total carrying capacity of the fleet was 1,058,616 dwt. During the year, we prepared a plan for renewing our product carrier fleet by the end of 2007. As part of the plan, a time-charter contract was signed with a Swedish shipping company on a new 13,000 dwt tanker, which we will receive early in 1999. The Suula tanker was returned from Germany, and she now sails under the Finnish flag.

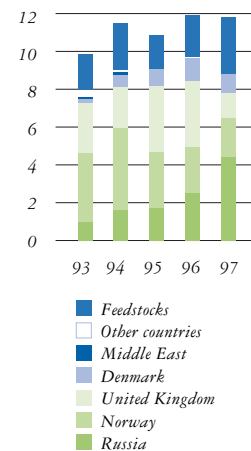
As specialists in Arctic shipping we have been taking care of Greenland's petroleum product deliveries for 21 years, and have been shipping petroleum products and feedstocks in the North-East Passage for five consecutive years. In fact, our Uikku tanker made history in the North-East Passage in 1997 by navigating the entire route from Murmansk to the Bering Strait.

Our Logistics Group continued its work on the enhancement of quality and environmental management systems. Its inland logistics and ship management functions, including technical maintenance and crewing, were awarded the ISO 14001 environmental certificate. This was a world first in maritime transportation.

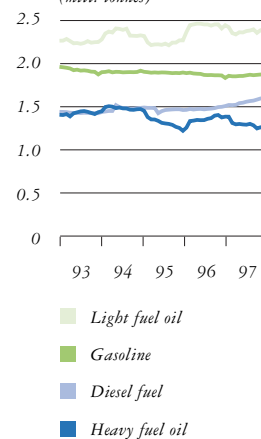
The feasibility study on the construction of a crude oil pipeline from Russia to Porvoo continued. The study is being conducted jointly by five Russian and six international oil companies, among them Neste.

Our overall downstream performance was weakened by the turnaround shutdown at the Porvoo refinery and the inventory losses resulting from changes in the oil price.

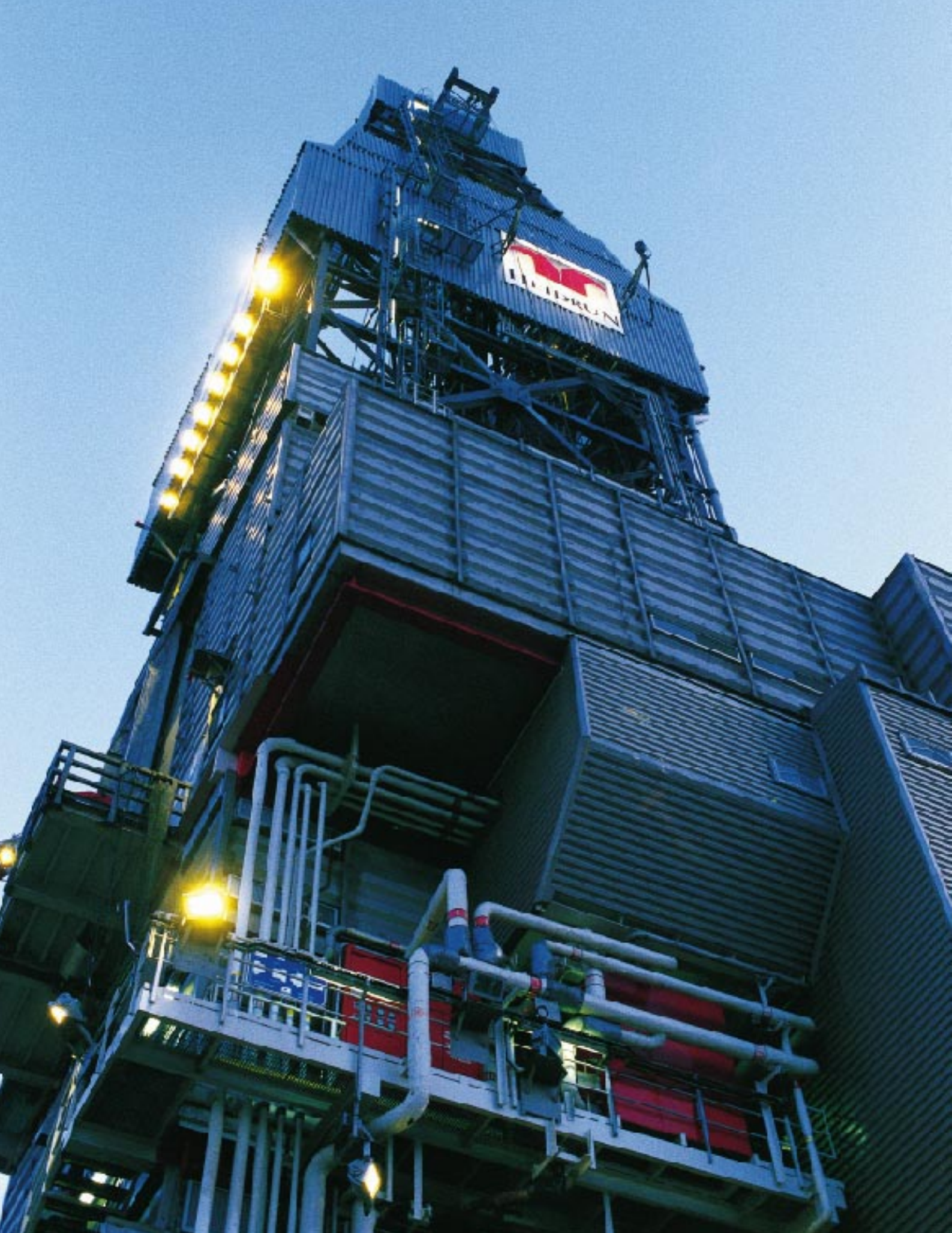
NESTE'S CRUDE OIL AND FEEDSTOCK IMPORTS INTO FINLAND (mill. tonnes)



CONSUMPTION OF PETROLEUM PRODUCTS IN FINLAND (mill. tonnes)









# Exploration & Production

|  | 1997  | 1996  |
|--|-------|-------|
| <i>Net sales (FIM million)</i>           | 1 244 | 1 229 |
| <i>Operating profit (FIM million)</i>    | 532   | 459   |
| <i>Identifiable assets (FIM million)</i> | 4 272 | 3 404 |
| <i>Investments (FIM million)</i>         | 852   | 396   |
| <i>Average number of employees</i>       | 81    | 79    |

## Goals

- *grow in current core areas*
- *generate long-term growth*
- *increase share of gas*
- *search for synergies with the Oil and Energy Divisions*

Our oil production is dominated by Norway and the Middle East. In Russia we are continuing field studies on a proven oil deposit. We produce oil and gas in two fields in Norway—Brage and Heidrun—and oil in several fields in Oman, the most important of which is the Safah field in the Suninah concession. Our oil exploration activities are essentially focused on our core production areas.

Our aim is to rise our annual oil and gas production from the present 1.7 million oil equivalent tonnes to some 3 million tonnes at the beginning of the next millennium. The bulk of this growth will be derived from the fields in the Åsgard venture that are currently under development in Norway. These oil and gas reserves account for more than one-half of our proven reserves. The Åsgard project involves bringing on stream three oil and gas fields and investing in pipelines and installations required for the transmission and handling of natural gas obtained from the fields. We are also pursuing start-up of production in north Russia, where we have stakes in two joint ventures.

## EXPLORATION AND PRODUCTION

Our 1997 oil and gas production totalled on average 32,550 oil equivalent barrels per day, corresponding to some 1.7 million tonnes per year. Total production remained virtually unchanged relative to 1996. The world oil price fell dramatically, especially at the end of the year. Sluggish world prices notwithstanding, we sold our production at a slightly higher price than last year—at USD 19.9 per barrel—thanks to successful hedging operations. With the benefits of the strong US dollar, our operating profit improved by close to 16%

### *Production up in Norway*

In 1996, the Norwegian Ministry of Oil and Energy granted a development licence to the Åsgard field and the associated natural gas transportation system. Located in the Haltenbanken area on the Norwegian continental shelf, Åsgard comprises the Midgard, Smørbukk, and Smørbukk Sør gas, condensate, and oil fields. We have a 7% holding in Åsgard. First oil is due to flow at the beginning of 1999, while gas production is set to begin in 2000. The produced oil will be pumped directly to the carrier vessels, whereas the wet gas will be fed via a pipeline to the Kårstø terminal north of Stavanger. The Åsgard transmission pipeline will be the first pipeline connecting Haltenbanken gas production to the North Sea gas grid. Following wet gas recovery at the Kårstø terminal, the processed dry gas will be fed to continental Europe via new and existing pipelines. The most recent of these is the NorFra pipeline, completed in 1997, which extends from the North Sea to France.

Total production from the Heidrun field, located 50 kilometres north of Åsgard, was some 240,000 oil equivalent barrels per day. Of this, associated gas, which is further refined into methanol, accounted for slightly more than 3%. Heidrun's daily production rate has markedly exceeded the original production capacity estimate of 200,000 barrels per day. Our 5%

share of the field's output yielded on average 12,000 barrels per day (some 0.6 million tonnes per annum).

We also own 5% of the Haltenpipe gas pipeline extending from the Heidrun field to the Norwegian coast, and redeem our stake as methanol. The gas is converted at a plant located west of Trondheim. Our 5% share translates into more than 40,000 tonnes of methanol per year. The methanol is used in Finland either in the production of methyl tert-butyl ether (MTBE) or as feedstock for refined chemical products.

The Brage field in the North Sea continued producing at last year's level, totalling on average 110,000 oil equivalent barrels per day. Our 12.3% stake in the field corresponded to 13,000 barrels per day (some 0.7 million tonnes per annum). Associated gas accounted for some 3% out of the field's production. The Sognefjord discovery, which is partly located above the main producing source rock levels of the Brage field, came on stream in November. The associated Sognefjord oil production and reserves are accounted for in Brage's figures.

### *New exploration licences*

In 1997, we participated in drilling two exploration wells on the Norwegian continental shelf. No commercial amounts of hydrocarbons were discovered, however. In May we were granted two new exploration licences in the Norwegian waters of the Barents Sea. They cover several blocks totalling more than 5,000 square kilometres. Our stake in Loppa High—the northernmost of these licences—is 10 per cent. This venture is operated by Saga Petroleum. The second licence of some 1,000 square kilometres is situated closer to the coast in the Hammerfest Basin and is operated by Agip of Italy. Our stake in this venture is 15%.

### *New record in Oman*

The rate of production in Oman's Su-neinah concession continued to in-



*All available space on the production platform is effectively used.*

crease for the fifth consecutive year. In November, the daily production rate exceeded 51,000 barrels. Average daily production during the year in the concession amounted to 41,600 barrels. Our share of the produced oil was 7,600 barrels per day (some 0.4 million tonnes per annum), due to the production sharing contracts with the host government. Oil production has increased considerably in the area due to a continuing stream of commercial discoveries. Accordingly, the work programme geared to increase the number of producing wells is continuing.

In Algeria, we drilled our second obligation well in a licence area operated by us. The drilling was completed in co-operation with the Algerian national oil company Sonatrach. We own one-third of the licensed area, while the third shareholder is Gulf Canada. The exploration drilling revealed hydrocarbon deposits in two

different sediment layers. It is the aim that the flow-tests, which determine the amount and quality of oil and gas in the discovery, will be started as soon as possible.

### *Field studies in north Russia*

In north Russia, we have an onshore exploration licence in the Timan-Pechora area and an offshore licence right along the Pechora Bay shoreline. The Yushno-Shapkinskoye onshore field is managed by SeverTEK, of which we own 20%. The other joint venture partners are KomiTEK of Russia and Elf Aquitaine of France, which own 50% and 30% respectively. Field studies began in 1996 by reopening and testing one of the existing wells. The test results were good.

The offshore exploration licence is held by the Pechormorneft joint venture company, which is one of the outcomes of The Finnish-Russian Offshore Technology and Scientific Working Group. The Finnish joint venture partners are Neste with a 39% holding and Kvaerner Masa Yards. Seismic studies were conducted in the area in the summer. In addition, environmental studies continued in the Barents Sea region as part of the above mentioned Working Group Consortium

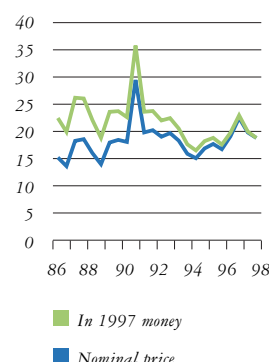
Together Neste, Gazprom, Norsk Hydro, Conoco and Total are continuing economical feasibility studies on the massive Stockmanovskoye gas field located in the Barents Sea. We are also taking part in a survey titled the Northern Gateway, which has members from international and Russian oil companies. The goal of the project is to find the best and the most profitable maritime transport passage for the produced Russian crude via the Arctic Sea to the world market.

### *Growth of commercial reserves came to a halt*

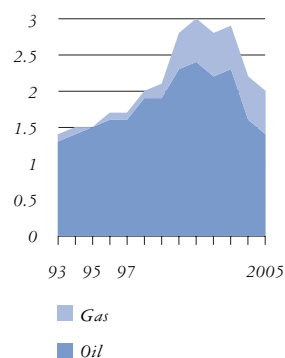
Our oil and gas reserves fell by 5.8% in 1997. The replacement ratio was 10%. At the end of the year, our commercially exploitable reserves, which include both proven and probable oil and gas reserves, stood at 258 million oil equivalent barrels (36 million tonnes). Of these, proven reserves accounted for 177 million oil equivalent barrels (25 million tonnes). These figures do not include our share of SeverTEK's oil reserves.

Production notwithstanding, the present value of our discounted cash flow after taxes, calculated using the production of our remaining reserves, rose from FIM 4.9 billion in 1996 to FIM 5.0 billion.

**BRENT SPOT PRICE**  
(USD/bbl, six-month average)



**PRODUCTION FORECAST VINTAGES**  
(mill. toe)



#### **FIELD STAKES AND COMMERCIAL RESERVES**

*Commercial reserves as of 31 Dec.*

| <i>Field</i>      | <i>Stake (%)</i> | <i>Operator</i>    | <i>Neste's share (mill. boe)</i> |
|-------------------|------------------|--------------------|----------------------------------|
| <i>Norway</i>     |                  |                    | 238                              |
| • <i>Brage</i> *) | 12.3             | <i>Norsk Hydro</i> | 25                               |
| • <i>Heidrun</i>  | 5.0              | <i>Statoil</i>     | 57                               |
| • <i>Åsgard</i>   | 7.0              | <i>Statoil</i>     | 156                              |
| <i>Oman</i>       |                  |                    | 20                               |
| • <i>Safab</i>    | 35.0             | <i>Occidental</i>  | 16                               |
| • <i>Salmab</i>   | 35.0             | <i>Occidental</i>  | 2                                |
| <i>Others</i>     | 35.0             | <i>Occidental</i>  | 2                                |
| <b>Total</b>      |                  |                    | <b>258</b>                       |

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





# Energy

|  | 1997  | 1996  |
|--|-------|-------|
| <i>Net sales (FIM million)</i>           | 3 653 | 3 280 |
| <i>Operating profit (FIM million)</i>    | 364   | 350   |
| <i>Identifiable assets (FIM million)</i> | 1 577 | 1 459 |
| <i>Investments (FIM million)</i>         | 143   | 377   |
| <i>Average number of employees</i>       | 430   | 438   |

## *Goals*

- *expand natural gas business in northern Europe*
- *develop heat and power business*
- *utilise emerging LPG markets*
- *consolidate presence in renewable sources of energy*

The Energy Division encompasses our natural gas, liquefied petroleum gas (LPG), and energy supply business as well as a unit specialising in solar and wind energy. The division runs and seeks to expand our presence in the energy market.

Our natural gas business is run by Gasum Oy, owned by Neste Oy (75%) and the Russian natural gas company RAO Gazprom (25%). Local distribution is handled by Helsinkikaasu Oy and Kotkan Kaasuenergia Oy in south and south-east Finland. Our domestic LPG business is run by Tehokaasu Oy, while responsibility for our global LPG trade lies with LPG International. The division's unit Neste Lämpö Oy supplies heat and process steam to industry, district heat utilities and the public sector in Finland. Our 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.

## ENERGY

For our Energy Division, 1997 was an exceptional year due to a change in the energy tax scheme, introduced at the beginning of the year, which adversely affected the competitiveness of natural gas. As this coincided with an oversupply in the short-term power market, which in turn resulted from the liberalisation of the power market, natural gas consumption fell for the first time since 1984. Thanks to the completion of new power plant investments, however, consumption perked up at the end of the year to reflect the planned growth curve.

In contrast, sales of power, heat, steam, and LPG grew as expected. Thus, the division's overall financial performance improved over the previous year.

A joint project between Nordic gas companies, co-financed by the EU, was launched during the year to explore the construction of a Nordic gas grid.

Our joint venture with RAO Gazprom known as North Transgas Oy started an extensive feasibility study on the construction of a natural gas export pipeline from Russia, via Finland, to the European market.

In Finland, several important natural gas projects are pending which may be completed in the next millennium. Due to movements in energy taxation and the power market, however, utilities are withholding their investments for the time being.

### *New natural gas plants were commissioned*

Five new combined cycle power plants running on natural gas began operations in Finland in 1997. The extremely low power price in the liberalised Nordic power market, combined with changes in the energy tax

scheme, cut the use of natural gas for power generation, however. Moreover, weather conditions in 1997 were milder than in 1996. Hence, our natural gas sales totalled 33.9 TWh (3.4 billion cubic metres). We are expecting to see natural gas consumption rise to well over four billion cubic metres in 1998, however.

There were no disruptions in natural gas deliveries during the year. With net sales amounting to FIM 2.2 billion—slightly up on 1996—Gasum Oy's profitability was on a par with the last year's level.

The three-year expansion project to increase the transmission capacity of the domestic natural gas pipeline network by one-third was completed on schedule at the end of October. The technical objectives of the project were met, and costs were kept below the cost estimate. In fact, the expansion project was chosen as Project of the Year 1997 by the Project Management Association Finland.

RAO Gazprom's subsidiary Len-transgaz completed its part of a planned parallel pipeline on the Karelian Isthmus. The pipeline came on stream at the end of the year. Early in 1998, a compressor station was commissioned at Severnaya.

### *Heat and steam sales grew*

Our 1997 heat and steam sales amounted to 1.35 TWh, up 8% on 1996. Contracted sales rose by 50 MW; total power was 800 MW.

An engine-based combined heat and power (CHP) plant was built at Ikaalinen, western Finland, in cooperation with a local power utility. The electrical power of the plant is 5.4 MW and thermal power 6.2 MW. The project also included construc-



*Underground natural gas pipelines are cleaned and inspected by using pieces of equipment known as "pigs" that move through the pipeline with the flow of natural gas.*

tion of a 15-km natural gas pipeline from the neighbouring municipality to Ikaalinen.

A similar engine-based plant running on heavy fuel oil was built at Säkylä, also in western Finland, as a joint project with a local power utility. The plant's electrical and thermal power are 5 MW and 6 MW respectively. A power plant built by Neste's and Pohjolan Voima's joint venture company Nokian Lämpövoima Oy came on stream at the end of the year. The thermal power of the plant is 205 MW and electrical power 100 MW.

### *More LPG to industry*

Domestic LPG sales rose 13.9% over the previous year. The majority of this increase was made up by bulk deliver-



ies to industry. Consumption of bottled gas by households subsided slightly, but this drop was compensated for by deliveries to industry.

Tehokaasu consolidated its market position in bulk deliveries, whereas its share of the bottled gas market diminished.

An LPG storage facility together with the necessary LPG-feed systems, built in the vicinity of a steel plant at Raahe on Finland's north-west coast, were inaugurated in the autumn. The investment was completed on schedule, and deliveries from the plant have been running smoothly.

In December, the international LPG price slumped unexpectedly. As a result, Tehokaasu suffered inventory losses as it had stored large amounts of LPG in the Tornio rock cavern in north Finland to meet demand over the winter months.

### *An LPG terminal in China*

The world LPG market expanded by three million tonnes in 1997, to total 168 million tonnes. New production came on stream mainly in Africa. At the end of the year, the international LPG price sank due to a mild start to the winter and the economic crisis in south-east Asia.

Neste Gas Ltd, based in London, established new business contacts with Turkey and China. Neste Gas AB in Sweden retained its strong market position in the Swedish industrial market.

Together with Pipeline Bureau, a subsidiary of China Oil & Gas, we set up an LPG joint venture in China known as Qingdao Dragon Gas. Exploiting Neste's rock cavern technology, the company will build an LPG import terminal in the town of Qingdao.

Geological studies were conducted at the beginning of the year, after which construction of a test tunnel was started. The terminal is set to be commissioned at the end of the year 2000.

In 1997, we started trading in natural gas in the UK.

### *Reorganising NAPS*

Our solar and wind energy unit, NAPS, continued to improve its operations throughout 1997. Marketing operations were centralised and logistics were established in Finland.

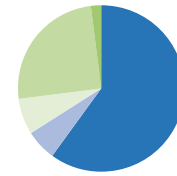
Development of new crystalline solar panels was completed, and production was started in cooperation with European partners. A major R & D project titled "Solar electricity in Finland" was started under the auspices of Technology Development Centre Tekes, Finland.

NAPS' most important projects during 1997 were the supply of a grid-connected solar electricity system—the largest in Scandinavia—to the international furnishing store Ikea in Sweden, and the supply of a solar power system to 24 link stations serving a telecommunications trunk line in Mongolia. NAPS also delivered power supply facilities to the Shengen village located in the highlands of Qinghai province. In addition, commercialisation of NAPS' new solar heat solutions started.

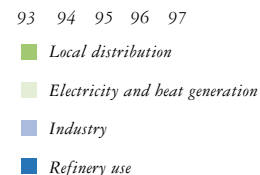
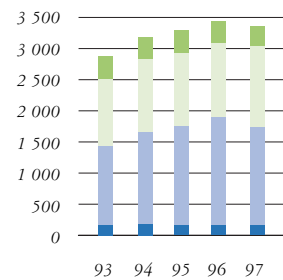
### *Active in power trade*

We have been monitoring developments in the deregulating Nordic power market and are an active trader on the Nordic power exchanges (Nord Pool and EL-EX) and in the bilateral market. We are working on improving our sales and information technology systems to equip us for handling power sales to end users.

ENERGY DIVISION  
NET SALES



NATURAL GAS SALES  
(mill. m<sup>3</sup>n)



# Chemicals

|  | 1997  | 1996  |
|--|-------|-------|
| <i>Net sales (FIM million)</i>           | 4 871 | 4 442 |
| <i>Operating profit (FIM million)</i>    | 178   | 332   |
| <i>Identifiable assets (FIM million)</i> | 2 651 | 2 103 |
| <i>Investments (FIM million)</i>         | 756   | 340   |
| <i>Average number of employees</i>       | 2 379 | 2 426 |

## *Goals*

- *improve profitability*
- *focus on industrial adhesives and coatings*
- *boost organic growth in oxo products and resins*
- *consolidate operations in Europe and North America*
- *grow in Asia*

In chemicals we are developing our customer base in selected industrial adhesives and coatings markets. Neste Chemicals' product range includes adhesive resins, oxo intermediates, unsaturated polyesters and gelcoats, paper chemicals, as well as chemicals trading and toll manufacturing.

Neste Chemicals has 36 production units in 17 countries in Europe, North America, and Asia. Our global network of Neste Chemicals sales offices covers our most important market areas.

Neste Chemicals develops products that are environmentally preferred throughout their life cycle.

## CHEMICALS

The aim of Neste Chemicals is to become a leader in chosen industrial coatings and adhesives markets. In pursuing this aim, we acquired nearly 90% of the share capital of the Austrian-based Krems Chemie AG, as well as the synthetic resins business of the German-based Condea Chemie GmbH. Our polystyrene activities were sold to Radnor Holdings Corporation, USA.

In order to generate organic growth in our core chemicals businesses, we are paying special attention to market orientation and to increasingly focused research and development activities. In fact, our fo-

cused research has enabled us to launch a number of new products, such as low-styrene-emission polyester resins and gelcoats as well as new oxo intermediates for the coatings industry.

Neste Chemicals' 1997 financial result was below the previous year's performance, due to high raw material costs and a somewhat tense market situation, mainly in the oxo market.

### *The world's largest adhesive resins manufacturer*

Formaldehyde-based adhesive resins are used by the mechanical wood industry in plywood, oriented strand board (OSB), particleboard and fibreboards, laminated beams and joinery, abrasives, as binders in insulation wools, in paper impregnation for laminates, in paints and moulding powders, as well as in other applications. Following the acquisition of Krems Chemie AG, Neste Chemicals is the



*Oxo intermediates are used to manufacture industrial coatings, while adhesive resins find use as binders in parquet flooring.*

largest manufacturer of formaldehyde-based resins in the world.

Established in 1948, Krems Chemie AG was listed on the Vienna Stock Exchange in 1989. The company

#### PRODUCTION UNITS AND CAPACITIES 1997, (tonnes)

| EUROPE                        |                         |
|-------------------------------|-------------------------|
| <u>Austria<sup>1)</sup></u>   |                         |
| Adhesive Resins               | 370,000                 |
| Formaldehyde 37%              | 265,000                 |
| Paper Chemicals               | 89,000                  |
| Industrial Coatings           | 15,000                  |
| Industrial Chemicals          | 52,000                  |
| Polyesters                    | 10,000                  |
| <u>Belgium</u>                |                         |
| Coatings Intermediates        | 50,000                  |
| Formaldehyde 37%              | 40,000                  |
| <u>France</u>                 |                         |
| Polyesters                    | 30,000                  |
| Gelcoats                      | 5,000                   |
| <u>Finland</u>                |                         |
| Plasticizers                  | 30,000                  |
| Polyesters                    | 20,000                  |
| Gelcoat, Topcoat              | 2,000                   |
| Adhesive Resins               | 190,000                 |
| Formaldehyde 37%              | 80,000                  |
| SB Latexes <sup>2)</sup>      | 20,000                  |
| PVC <sup>3)</sup>             | 90,000                  |
| Hardeners                     | 7,000                   |
| <u>Germany<sup>2)</sup></u>   |                         |
| Adhesive Resins               | 27,000                  |
| Paraffin Emulsions            | 13,000                  |
| Alkyd Resins                  | 10,000                  |
| Polymer Dispersions           | 20,000                  |
| <u>Hungary<sup>1)</sup></u>   |                         |
| Adhesive Resins               | 30,000                  |
| Formaldehyde                  | 13,000                  |
| <u>The Netherlands</u>        |                         |
| Adhesive Resins               | 200,000                 |
| Formaldehyde 37%              | 370,000                 |
| <u>Poland</u>                 |                         |
| Paper Chemicals <sup>1)</sup> | 20,000                  |
| Gelcoats                      | 1,500                   |
| <u>Russia<sup>1)</sup></u>    |                         |
| Paper Chemicals               | 2,500                   |
| <u>Sweden</u>                 |                         |
| Oxo-aldehydes                 | 300,000                 |
| 2-Ethylhexanol                | 125,000                 |
| Butanols                      | 100,000                 |
| Plasticizers                  | 80,000                  |
| Phthalic Anhydride            | 35,000                  |
| Coatings Intermediates        | 8,000                   |
| Oxo-acids                     | 30,000                  |
| <u>Turkey<sup>1)</sup></u>    |                         |
| Paper Chemicals <sup>1)</sup> | 5,000                   |
| NORTH AMERICA                 |                         |
| <u>Canada</u>                 |                         |
| Adhesive Resins               | 300,000                 |
| Formaldehyde 37%              | 220,000                 |
| <u>Mexico</u>                 |                         |
| Adhesive Resins               | 40,000                  |
| Formaldehyde 37%              | 15,000                  |
| <u>USA</u>                    |                         |
| Adhesive Resins               | 900,000                 |
| Formaldehyde 37%              | 450,000                 |
| Gelcoats                      | 18,000                  |
| ASIA                          |                         |
| <u>China</u>                  |                         |
| Gelcoats                      | 3,000                   |
| <u>India<sup>5)</sup></u>     |                         |
| Adhesive resins               | 6,000                   |
| <u>Malaysia<sup>2)</sup></u>  |                         |
| Adhesive Resins               | 60,000                  |
| Formaldehyde 37%              | 30,000                  |
| Over-laying Films             | 40 mill. m <sup>2</sup> |

<sup>1)</sup> Krems Chemie incl. group companies / <sup>2)</sup> Affiliated company / <sup>3)</sup> Tolling agreement for Rovin / <sup>4)</sup> Tolling agreement with Condea / <sup>5)</sup> Tolling agreement with Cibatul

manufactures adhesive resins, paper chemicals, polyesters, and industrial coatings. At the end of 1997, it employed a staff of 669. Krems Chemie's 1997 net sales totalled ATS 2,092 million (FIM 890 million). Besides Austria, Krems Chemie operates in Hungary, Poland, Russia, and Turkey.

Resins products saw demand rise slightly over 1996. In North and South America the market situation remained satisfactory. Hence, the production capacity of our resins plant in Durango, Mexico, was expanded. Due to overcapacity, however, the European market situation remained less satisfactory

### *Oxo production up in Belgium*

Oxo products are intermediate chemicals used as solvents, plasticizers and raw materials in the manufacture of other products particularly in the paint, coatings, and plastics industries. We are among the top five oxo producers in western Europe. Despite a slight weakening in some areas, the overall market situation was good. To meet demand we invested in expanding the production of speciality oxo products in Ghent, Belgium.

### *Gelcoat plant commissioned in Poland*

Unsaturated polyester resins are used in coatings applications, and rein-

forced with glass fibre to make boats, vehicle components, and construction materials. In process industries, unsaturated polyester resins find use in acid-resistant piping, storage tanks, and other related equipment. Demand for these products improved slightly, but generally the market remained volatile. Central and eastern European markets continued to grow, however. An investment in a new gelcoat plant near Gdansk, Poland, was completed, and the unit started production at the end of 1997.

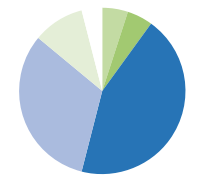
In 1997, Neste signed an exclusive licensing agreement for antibacterial technology with the US-based Microban Products Company. This is a proprietary technology that inhibits the growth of a broad range of bacteria, mould, and fungus.

### *Pursuing new opportunities*

In 1997, we set up a new business unit known as New Developments to innovate and foster new business opportunities emerging in our present chemicals sectors.

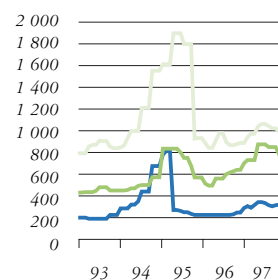
In view of the ongoing structural changes in the chemicals industry, combined with the sound basis of our own chemicals business, we are well poised to take advantage of potential growth in our selected markets. In particular, we are paying special attention to measures that will improve our financial performance.

NESTE CHEMICALS  
NET SALES BY COUNTRY



- Finland
- Other Nordic countries
- Rest of Europe
- North America
- Asia
- Rest of the world

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



- Styrene
- Propylene
- Methanol

## RESEARCH AND DEVELOPMENT

Together the Corporate Technology Unit and the divisions as well as universities of technology and other research institutes initiated several long-term research projects in 1997. Via these projects we are deepening our competence in the fields of catalysis, organic synthesis, and energy technology. In Scientific Services we are focusing our activities on divisional and corporate R & D project work through concrete partnerships.

The Oil Division concentrated on improving the properties of motor fuels. The aim is to maintain our position as a leading manufacturer and supplier of pro-environmental fuels beyond the year 2000. The increasingly stringent criteria on exhaust gases that will be enforced in Europe at the turn of the millennium will imply, and have already instigated, changes in engine structures. These changes will impose new demands on the quality of fuels whilst providing opportunities to develop increasingly low-emission gasolines and diesel fuels.

To respond to these demands, we are devoting resources to the development of greener fuels and their manufacturing technologies. Advances were made during the year in a research project developing a revolutionary cracking method known as NExCC, which will replace traditional fluid catalytic cracking. We are now testing the technology at a test plant. Our future intention is to develop a NExCC plant aiming at commercial production.

In lubricating oils the emphasis was on lubricants and process oils incorporating our own extra high viscosity index (EHVI) base oil. In particular, our intention was to accommodate new European and international motor oil requirements. A cen-

tral theme through all our product development work is environmentally compatible solutions.

The prime research area in the Energy Division was NAPS' technologies employing renewable sources of energy such as solar electricity, solar heat, wind energy, and biomass. This research culminated in a new type of solar module based on amorphous silicon, which was launched in 1997. Advances were made in the development of a solar module featuring poly-crystalline silicon. This product will be added to NAPS' standard portfolio early in 1998. Improved versions of NAPS' power packs and vaccine refrigerators will also be introduced in the first part of 1998.

In 1997, NAPS began commercialisation, on a test basis, of hydrogen-based new energy storage systems.

Neste Chemicals pursued the development of environmentally preferred resins, adhesives, and coatings. The oxo business is renewing its product range by integrating with speciality chemicals used in the manufacture of industrial coatings and paints. Neste Resins' R & D activities are guided by two main application areas: resins used in gluing wood-based products, and resins used for industrial applications. The focus in 1997 was on the alignment of production technologies by employing best practice databases, and on market-driven product development projects. Advances were also made in the development of new concepts for wood adhesives.

Neste Engineering has been coordinating projects on reactive distillation and the modelling of batch reactors under the European Union's fourth R & D framework programme. The aim is to develop calculation for-



*Regular sampling is an important part of quality control.*

mulas in order to reduce large-scale testing operations. Tests are being conducted with small-scale equipment to develop models that can be applied in production-scale to enable process design and production optimisation.

At the end of 1997, Neste Group's R & D functions employed a staff of some 530. The Group's R & D expenditure amounted to FIM 290 million.

In 1997, Neste registered a total of 63 inventions, and lodged 27 basic patent applications in Finland and 48 abroad. A total of 14 and 42 Finnish and foreign patents were approved, respectively.

Neste's Researcher of the Year 1997 award was given to NAPS' research and development team in the Energy Division. The team has developed innovative, commercial solar energy systems featuring comprehensive control engineering that optimises energy conversion and storage. An example of the team's work is the GENIO control unit, which has gained considerable commercial success.



We continued our efforts on plant environmental management systems based on the ISO 14001 standard. Besides environmental matters, the systems also cover safety and health aspects. Ten of our production plants are now certified according to ISO 14001. In addition, achieving a world first in maritime transportation, our shipping unit was awarded environmental certification in 1997. Furthermore, in January 1998, the Oil Division's Espoo operations, inland oil transportation, and our oil terminal at Kokkola, north-west coast of Finland, were awarded environmental certificates. Hence, we are advancing towards the certification of our entire downstream oil business.

Reinforcement of environmental competitiveness was chosen as one of our Group-wide strategic targets. Our aim is to develop products that are superior to the corresponding

products of our competitors. Advances have been made as our reformulated gasoline already exceeds the quality requirements applicable as of 2000, which were proposed by the European Commission in 1997.

Eco-competitiveness will have an increasingly pronounced role in the future. Sustainable development will be possible if societal, business, and environmental targets can be aligned.

Our corporate environmental progress report for 1996 won wide national and international acclaim among expert bodies: it was ranked Finland's best and the world's third best corporate environmental report, as well as the world's best environmental report by an oil company. The report for 1997, which will be available in spring 1998, will be our sixth corporate environmental progress report.

**NESTE GROUP'S RESPONSIBLE CARE TARGETS AND PROGRESS DURING 1997**

|   | <i>Base year</i> | <i>Achieved in 1997</i> | <i>Target for the year 2000</i> |
|---|------------------|-------------------------|---------------------------------|
| <i>Volatile organic compounds (VOC)</i> | 1988             | -48%                    | -55%                            |
| <i>SO<sub>2</sub> emissions</i>         | 1980             | -81%                    | -80%                            |
| <i>Waste to final disposal</i>          | 1990             | -36%                    | -50%                            |
| <i>Lost workday injuries</i>            | 1992             | -47%*                   | -80%                            |
| <i>Energy efficiency</i>                | 1990             | +7%**                   | +15%                            |
| <i>Fires</i>                            | 1995             | -50%                    | -50%                            |
| <i>Uncontained spills</i>               | 1995             | 22 incidents***         | 0                               |

\* One fatality occurred in the USA. A truck driver was killed in a traffic accident.

\*\* The result of the Energy Intensity Index (EII) for 1996 prepared by Solomon Associates.

\*\*\* A total of 197 cubic metres of various compounds in liquid or gaseous form escaped uncontained into the environment at Neste operations worldwide. The spills have been cleaned up, but a total of 0.5 cubic metres of liquid compounds remain in the environment. The remediation of a spill of 15 cubic metres is ongoing. No serious environmental impact was caused by these spills.

**NESTE ENGINEERING**

Our 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 and future growth. In addition, the unit develops, applies and commercialises technologies developed in cooperation with our production plants and research units. At the end of 1997, the unit employed a staff of 518.

In 1997, nearly one-third of Neste

Engineering's business was made up of investment projects carried out for the Oil Division, in particular for the Porvoo and Naantali refineries and for petroleum product logistics. Together the completion of Gasum Oy's project to build a natural gas parallel pipeline in Finland, and the investment and development projects carried out for Borealis at Porvoo, accounted for nearly 40 per cent of the unit's workload.

The most important plant invest-

ments concluded in 1997 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 power plant project, the base oil plant, and the turn-around shutdown, all at Porvoo.

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



*General*

The most important events during the year were the preparations in respect of the deepening of cooperation between Neste and the state-owned power producer Imatran Voima Oy, as well as the letter of intent on the sale of our Borealis holding to the Austrian-based OMV and IPIC (International Petroleum Investment Company) of Abu Dhabi. At the end of the year, the Finnish government decided to request authority from parliament to transfer the state's shares in Neste and Imatran Voima to a new holding company during 1998. As a result, a new state-controlled Finnish oil, energy and chemicals group will be created.

At the time of the closing of the accounts, negotiations on the final sales agreement regarding the Borealis holding were underway. Once completed, the deal will markedly improve our solidity, thereby enhancing our capacity to further develop our core businesses.

Neste Chemicals continued to focus on its selected core businesses by disposing of the polystyrene business.

*Market*

Crude oil prices reached their 1997 peak in January, when the dated quotation of Brent Blend climbed close to USD 25 per barrel. Brent hit bottom right at the end of the year, when it fell to USD 16. For 1997 as a whole, Brent averaged USD 19.09 per barrel compared to an average of USD 20.68 in 1996. Despite a slight improvement over 1996, industry refining margins remained narrow throughout the year. The margin for a complex refinery using Brent Blend in north-west Europe averaged USD 1.60 per barrel.

Petroleum product sales in Finland totalled 8.8 million tonnes, down two per cent on the previous year. This drop was mainly attributable to the mild weather conditions at the beginning of the year, as a result of which sales of fuel oils for heating purposes declined. Consumption of light and heavy fuel oil fell 3.5% and 10.5% respectively. In contrast, consumption of motor fuels rose, spurred on by economic buoyancy. Sales of diesel fuel, used mainly by commercial traffic, increased 7.4%, while gasoline sales grew 2.5%. The bulk of this growth was due to stockpiling at the end of the year in anticipation of tax hikes to be imposed in 1998. Moreover, passenger mileage increased during 1997.

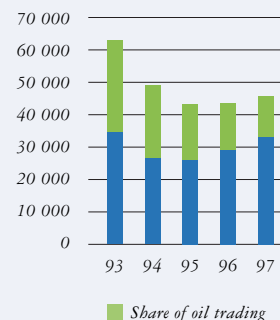
Demand for motor fuels continued to grow in our important nearby market comprising the Baltic states, Poland, the St Petersburg region, and Russia.

International crude freights rose during 1997. In respect of crude carriers in excess of 200,000 dwt, freights rose on average by more than 40%, and in respect of smaller vessels by more than 20%. In contrast, freights for petroleum product carriers declined. With the benefit of a stronger US dollar, however, shipping companies improved their overall results.

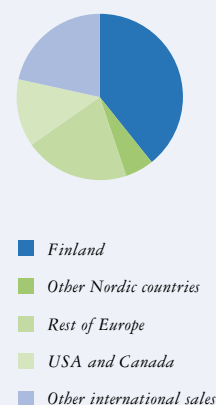
Natural gas consumption in Finland fell slightly for the first time since 1984. Total sales were 33.9 TWh, which is 2.4% less than in 1996. This drop was attributable to a change in the energy tax scheme, introduced at the beginning of the year, and a surplus in the short-term power market, which in turn resulted from the liberalisation of the power market.

Market conditions for adhesive resins used in the mechanical forest industry remained satisfactory in North and South America. In Europe, however, the situation was hampered by an overcapacity in the field. In contrast, oxo markets remained buoyant in spite of the strong volatility of the Asian market, which ad-

GROUP NET SALES, FIM mill.



GROUP NET SALES BY MARKET AREA



versely affected demand towards the end of the year. Polyesters continued to suffer from difficult market conditions, despite demand growth in the central and eastern European market. In contrast, demand for plastics improved, and plastics prices remained satisfactory.

## Performance

Neste Group's 1997 net sales totalled FIM 45,660 million (FIM 43,375 million in 1996). All divisions improved their net sales including Oil, despite the continued plan to cut crude trading volumes. Net sales were boosted by both larger sales volumes and higher prices.

Net sales by division were as follows:

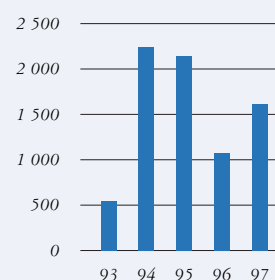
| FIM million                | 1997   | 1996   | Change, % |
|----------------------------|--------|--------|-----------|
| Oil *)                     | 37 270 | 35 844 | 4.0       |
| Exploration and Production | 1 244  | 1 229  | 1.2       |
| Energy                     | 3 653  | 3 280  | 11.4      |
| Neste Chemicals            | 4 871  | 4 442  | 9.7       |
| Others                     | 570    | 511    | 11.5      |
| Total                      | 47 608 | 45 306 | 5.1       |
| Internal invoicing         | -1 948 | -1 931 | 0.9       |
| Net sales                  | 45 660 | 43 375 | 5.3       |
| *)including trading        | 12 591 | 14 232 |           |

In 1997, Neste delivered an operating profit of FIM 1,617 million (FIM 1,078 million). The best result improvement was achieved by the Oil Division, where Trading as well as Marketing and Sales improved their performances. In contrast, Refining and Bulk Sales were adversely affected by a slump in the price of crude oil, which mainly affected the strategic petroleum inventories required by law. Furthermore, the planned turn-around shutdown held at the Porvoo refinery in the autumn was costly and resulted in a loss of five weeks' production. Improved performances were also delivered by Exploration & Production in the upstream as well as Energy, but their overall contribution was affected by Neste Chemicals' weakened result. The results of the other units were affected by a FIM 50 million charge in respect of an early retirement package. The operating profit includes a profit of FIM 361 million (a loss of FIM 18 million), representing Neste's share of the results of associated companies. The most important associated companies, the Danish petrochemicals group Borealis and the Finnish conglomerate Asko, both improved their performances. Other operating income, comprising gains on the sales of assets and rent income, amounted to FIM 126 million (FIM 286 million).

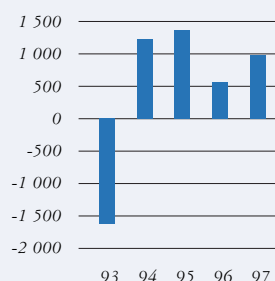
Operating profit by division was as follows:

| FIM million                | 1997  | 1996  |
|----------------------------|-------|-------|
| Oil                        | 477   | 196   |
| Exploration and Production | 532   | 459   |
| Energy                     | 364   | 350   |
| Neste Chemicals            | 178   | 332   |
| Associated companies       | 361   | -18   |
| Others                     | -292  | -242  |
| Total                      | 1 620 | 1 077 |
| Eliminations               | -3    | 1     |
| Operating profit           | 1 617 | 1 078 |

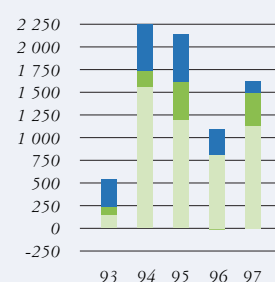
OPERATING PROFIT,  
FIM mill.



PROFIT BEFORE EXTRAORDINARY ITEMS,  
FIM mill.



BREAKDOWN OF OPERATING PROFIT  
FIM mill.



■ Other operating income  
■ Share of profits of associated companies  
■ Running operations

Neste's profit after financing items totalled FIM 983 million (FIM 566 million).

Extraordinary income comprised mainly gains on the sale of the polystyrene business and the shares in Finnair Oyj. Extraordinary expenses include a write-off of Neste's stake in Borealis, based on the probable sales price. The write-off is higher than anticipated in the Interim Report for January-August due to Borealis' better-than-expected performance in the last quarter of 1997, which increased the balance-sheet value of the shares, consolidated using the equity method.

The parent company released its voluntary reserves by FIM 1,415 million. Mainly as a result of this, deferred tax liabilities were cut by FIM 420 million, and the Group's tax expenses for the period amounted to a credit of FIM 265 million.

The Group's profit for the year totalled FIM 195 million (FIM 489 million), and earnings per share were FIM 9.26 (FIM 3.14).

### Investing activities

The Group's investments totalled FIM 2,913 million. This sum includes interest-bearing net debt of subsidiaries as of the acquisition date amounting to FIM 212 million. Investments in 1996 stood at FIM 2,048 million. The most significant investments in 1997 were the acquisition of a majority holding in the Austrian-based Krems Chemie AG, development of the Åsgard field in Norway, expansion of Finland's natural gas pipeline network, the construction of a plant producing base oils for lubricants at Porvoo, as well as the Porvoo power plant project.

Investments by division were as follows:

| FIM million                   | 1997         | 1996         |
|-------------------------------|--------------|--------------|
| Oil                           | 1 090        | 842          |
| Exploration and Production    | 852          | 396          |
| Energy                        | 143          | 377          |
| Neste Chemicals <sup>1)</sup> | 756          | 340          |
| Others                        | 72           | 96           |
| <b>Total</b>                  | <b>2 913</b> | <b>2 051</b> |
| Eliminations                  | -            | -3           |
| <b>Investments</b>            | <b>2 913</b> | <b>2 048</b> |

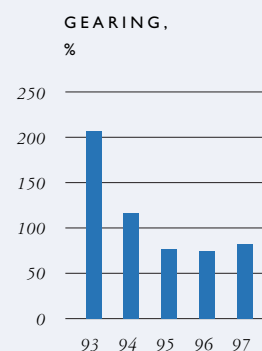
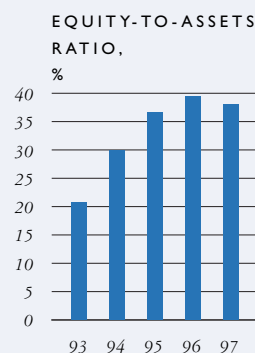
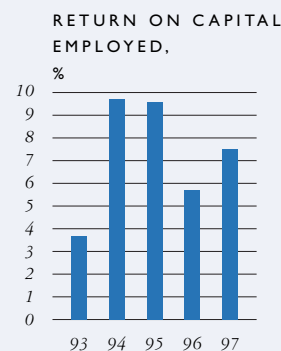
<sup>1)</sup> Includes interest-bearing net debt of subsidiaries at the acquisition date amounting to FIM 212 million in 1997.

### Financing

At the year-end, Neste's interest-bearing debt totalled FIM 11,915 million (FIM 10,847 million) and interest-bearing net debt FIM 10,150 million (FIM 9,288 million). First and foremost, this increase was attributed to the strengthening of the US dollar—our most important debt currency—against the Finnish markka. The Group's gearing ratio at the year-end stood at 82% (75%) and the equity-to-assets ratio at 38.0% (39.4%). Neste's net financing expenses amounted to FIM 634 million (FIM 512 million) and accounted for 20% (20%) of the operating margin (operating profit before depreciation). The Group's liquid funds on the balance-sheet date stood at FIM 1,765 million (FIM 1,559 million).

In 1997, Neste drew USD 200 million (some FIM 1.1 billion) out of a syndicated loan. Other long-term loan drawdowns during the review period were substantially smaller in amount and contracted by subsidiaries. Long-term loans were paid off to the total amount of FIM 2.2 billion.

Neste Oy satisfies its short-term financing needs through a Domestic and



Euro Commercial Paper Programme. In February 1998, Neste signed an agreement to increase the maximum amount of the Domestic Commercial Paper Programme from FIM 1 billion to FIM 1.5 billion. Neste Oy's 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.

Most of Neste's borrowings are in US dollars (some 62%) and Finnish markka (some 32%). Neste's year-end average loan interest rate, after hedging arrangements, was 6.5% (6.3%), and the average life-time of its long-term loans some 3.3 years (3.6 years).

### *Corporate governance*

In August 1996, the Supervisory Board made appointments concerning the Group management with effect from 1 January 1997. Jaakko Ihamuotila was appointed Chief Executive Officer and full-time Chairman of the Board of Directors. Jukka Viinanen, Vice Chairman of the Board, was appointed President and Chief Operating Officer. He continues as Vice Chairman of the Board.

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

At its meeting in October 1997, the Supervisory Board appointed Raimo Luoma as a new member of the Board of Directors.

### *Changes in Group company structure*

During the review period, Neste acquired 89.5% of the share capital of the Austrian-based Krems Chemie AG. Neste also controls a further 5% of the shares, which will be transferred to Neste within three years pursuant to a binding agreement. The Krems Group, which comprises 11 companies, produces and markets adhesive resins in several countries.

The associated company Lanor Oy, which is planned for dissolution during spring 1998, sold almost its entire AskO Oy holding. As a result, Neste's stake in AskO fell to 24.9%.

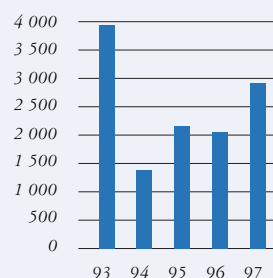
Neste's company structure was streamlined by carrying through and initiating a number of mergers between Group companies.

### *Research and development*

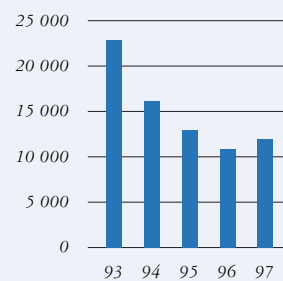
Together the Corporate Technology Unit and the divisions as well as universities of technology and other research institutes initiated several long-term research projects in 1997. Via these projects we are deepening our competence in the fields of catalysis, organic synthesis, and energy technology. The Oil Division concentrated on improving the properties of motor fuels. The focus in the Energy Division was on research into technologies employing renewable sources of energy, carried on by our solar and wind energy unit NAPS. Neste Chemicals followed its strategy and pursued the development of environmentally preferred resins, adhesives, and coatings.

At the end of 1997, Neste Group's R & D functions employed a staff of some 530. The Group's R & D expenditure amounted to FIM 290 million.

INVESTMENTS,  
FIM mill.



INTEREST-BEARING  
DEBT,  
FIM mill.



### Employees

The Group's average number of employees by division during the review period was as follows:

|                                   | 1997  | 1996  |
|-----------------------------------|-------|-------|
| <i>Oil</i>                        | 4 337 | 4 456 |
| <i>Exploration and Production</i> | 81    | 79    |
| <i>Energy</i>                     | 430   | 438   |
| <i>Neste Chemicals</i>            | 2 379 | 2 426 |
| <i>Others</i>                     | 1 477 | 1 263 |
| <i>Total</i>                      | 8 704 | 8 662 |

Neste's shared values were discussed by the entire personnel in all divisions and units. More than 700 Neste people participated in leadership training to instigate a new leadership culture at Neste. In addition, as part of a large-scale training programme people improved their basic abilities and deepened their professional skills and competencies.

### Borealis

Borealis' 1997 performance was good. The net profit for the period rose from DKK 628 million in 1996 to DKK 1,364 million in 1997. The company also entered directly in shareholders' equity a total of DKK 287 million of deferred tax assets from previous years. First and foremost, Borealis' good performance was driven by the persistently high demand for polyolefins plastics and the company's high utilisation of its production capacity. The result further includes a provision for restructuring costs amounting to DKK 250 million for carrying through a programme to enhance productivity. In 1997, Borealis paid Neste dividends amounting to FIM 123 million (FIM 412 million).

### Environment

We continued our efforts on plant environmental management systems based on the ISO 14001 standard. Besides environmental matters, the systems also cover safety and health aspects.

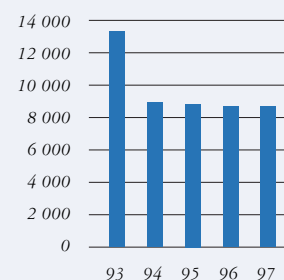
Reinforcement of environmental competitiveness was chosen as one of our Group-wide strategic targets. Our aim is to develop products that are environmentally superior to the corresponding products of our competitors.

### Prospects for 1998

The oil market will be characterised by uncertainties in respect of the crude oil price and international refining margins. While domestic oil consumption is unlikely to show an upturn, demand growth for petroleum products is anticipated to continue in our important nearby market comprising the St Petersburg region, the Baltic states, and Poland. We will also see a marked increase in natural gas sales in Finland, following the expansion of the domestic natural gas pipeline network and the commissioning of new power plants running on natural gas. Developments in Asia will be the greatest uncertainty affecting the chemicals market.

The Group's own business operations can be expected to deliver substantially better results in 1998 compared to 1997.

GROUP AVERAGE NUMBER OF EMPLOYEES



PERSONNEL BY COUNTRY

as of 31 Dec. 1997

|                          |       |
|--------------------------|-------|
| <i>Finland</i>           | 5 211 |
| <i>USA</i>               | 885   |
| <i>Austria</i>           | 585   |
| <i>Russia</i>            | 399   |
| <i>Sweden</i>            | 371   |
| <i>Poland</i>            | 332   |
| <i>Canada</i>            | 260   |
| <i>Netherlands</i>       | 145   |
| <i>France</i>            | 142   |
| <i>Rest of Europe</i>    | 496   |
| <i>Rest of the world</i> | 146   |
| <i>Total</i>             | 8 972 |

# INCOME STATEMENT

| <i>FIM million</i>   | <i>Group</i> |         | <i>Parent company</i> |         |         |
|--|--------------|---------|-----------------------|---------|---------|
|  | 1997         | 1996    | 1997                  | 1996    |         |
| <i>Net sales</i>   | (1)          | 45 660  | 43 375                | 25 358  | 25 678  |
| Change in product inventories                                |              | -23     | 148                   | -14     | 117     |
| Share of profits of associated companies                     |              | 361     | -18                   |         |         |
| Other operating income                                       | (1)          | 126     | 286                   | 200     | 295     |
| <i>Operating expenses</i>                                    | (2)          |         |                       |         |         |
| Materials and supplies                                       |              |         |                       |         |         |
| Purchases  |              | 37 774  | 36 545                | 21 525  | 23 312  |
| Change in inventories  |              | 110     | -16                   | 414     | -133    |
| Services   |              | 66      | 51                    | 23      | 13      |
| Personnel expenses   |              | 2 056   | 1 935                 | 1 152   | 1 046   |
| Rents  |              | 207     | 204                   | 96      | 93      |
| Other operating expenses                                     |              | 2 780   | 2 560                 | 1 917   | 1 677   |
|  |              | -42 993 | -41 279               | -25 127 | -26 008 |
| <i>Operating margin</i>                                      |              | 3 131   | 2 512                 | 417     | 82      |
| <i>Depreciation</i>  | (3)          |         |                       |         |         |
| Intangible and tangible assets                               |              | 1 489   | 1 411                 | 525     | 549     |
| Goodwill on consolidation                                    |              | 25      | 23                    |         |         |
|  |              | -1 514  | -1 434                | -525    | -549    |
| <i>Operating profit</i>                                      |              | 1 617   | 1 078                 | -108    | -467    |
| <i>Financial income and expenses</i>                         | (4)          |         |                       |         |         |
| Dividends  |              | 24      | 25                    | 576     | 1 013   |
| Interest income from long-term investments                   |              | 17      | 23                    | 210     | 170     |
| Other financial income                                       |              | 126     | 256                   | 62      | 117     |
| Interest expenses  |              | -769    | -786                  | -731    | -655    |
| Other financial expenses                                     |              | -32     | -30                   | -257    | -29     |
| Depreciation on investments                                  | (3)          | -       | -                     | -14     | -226    |
|  |              | -634    | -512                  | -154    | 390     |
| <i>Profit before extraordinary items, reserves and taxes</i> |              | 983     | 566                   | -262    | -77     |
| <i>Extraordinary items</i>                                   | (5)          |         |                       |         |         |
| Income   |              | 141     | 219                   | 465     | 260     |
| Expenses   |              | -1 138  | -40                   | -1 585  | -25     |
|  |              | -997    | 179                   | -1 120  | 235     |
| <i>Profit before reserves and taxes</i>                      |              | -14     | 745                   | -1 382  | 158     |
| <i>Change in reserves</i>                                    |              |         |                       |         |         |
| Depreciation above the plan                                  |              |         |                       | 169     | 331     |
| Voluntary reserves   |              |         |                       | 1 415   | 460     |
| <i>Direct taxes</i>  | (6)          |         |                       |         |         |
| For the financial period and previous periods                |              | -155    | -354                  | 5       | -140    |
| Change in deferred tax liabilities                           |              | 420     | 149                   |         |         |
|  |              | 265     | -205                  | 5       | -140    |
| <i>Minority interests</i>                                    |              | -56     | -51                   |         |         |
| <i>Net profit for the period</i>                             |              | 195     | 489                   | 207     | 809     |



## BALANCE SHEET

| <i>FIM million</i>                                  | <i>Group</i> |        | <i>Parent company</i> |        |
|---|--------------|--------|-----------------------|--------|
|   | 1997         | 1996   | 1997                  | 1996   |
| <b>ASSETS</b>                                       |              |        |                       |        |
| <i>Fixed assets and other long-term investments</i> |              |        |                       |        |
| Intangible assets (8)                               |              |        |                       |        |
| Intangible rights                                   | 96           | 104    | 45                    | 43     |
| Goodwill  | 260          | 241    | 110                   | 121    |
| Goodwill on consolidation                           | 451          | 334    |                       |        |
| Other long-term expenditure                         | 133          | 130    | 54                    | 54     |
|   | 940          | 809    | 209                   | 218    |
| Tangible assets (8)                                 |              |        |                       |        |
| Land and water areas                                | 353          | 311    | 132                   | 135    |
| Buildings and structures                            | 4 443        | 4 190  | 1 699                 | 1 692  |
| Machinery and equipment                             | 7 813        | 7 006  | 3 446                 | 3 111  |
| Other tangible assets                               | 1 408        | 1 225  | 122                   | 120    |
| Advances paid and construction in progress          | 1 432        | 1 165  | 252                   | 377    |
|   | 15 449       | 13 897 | 5 651                 | 5 435  |
| Other long-term investments (11,12)                 |              |        |                       |        |
| Shares in subsidiaries                              |              |        | 5 462                 | 5 289  |
| Other shares and holdings                           | 5 741        | 6 677  | 4 701                 | 6 223  |
| Loans receivable                                    | 306          | 348    | 4 499                 | 4 055  |
| Other investments                                   | 12           | 24     | 5                     | 11     |
|   | 6 059        | 7 049  | 14 667                | 15 578 |
| <i>Inventories and financial assets</i>             |              |        |                       |        |
| Inventories   |              |        |                       |        |
| Raw materials and supplies                          | 1 511        | 1 524  | 925                   | 1 200  |
| Work in progress                                    | 455          | 370    | 445                   | 361    |
| Products/finished goods                             | 943          | 1 027  | 274                   | 488    |
| Other inventories                                   | 98           | 96     | 70                    | 56     |
|   | 3 007        | 3 017  | 1 714                 | 2 105  |
| Debtors (13)  |              |        |                       |        |
| Trade receivables                                   | 4 813        | 4 683  | 3 566                 | 3 459  |
| Loans receivable                                    | 28           | 28     | -                     | -      |
| Accrued income and prepaid expenses                 | 244          | 274    | 172                   | 242    |
| Other debtors                                       | 507          | 290    | 606                   | 306    |
|   | 5 592        | 5 275  | 4 344                 | 4 007  |
| Investments   |              |        |                       |        |
| Other marketable securities                         | 222          | 156    | 195                   | 149    |
| Cash and cash equivalents                           | 1 543        | 1 403  | 689                   | 444    |
|   | 32 812       | 31 606 | 27 469                | 27 936 |

## BALANCE SHEET

| <i>FIM million</i>                                 | <i>Group</i> |        | <i>Parent company</i> |        |
|--|--------------|--------|-----------------------|--------|
|  | 1997         | 1996   | 1997                  | 1996   |
| <b>LIABILITIES AND EQUITY</b>                      |              |        |                       |        |
| <i>Shareholders' equity</i> (15)                   |              |        |                       |        |
| Restricted equity                                  |              |        |                       |        |
| Share capital                                      | 985          | 985    | 985                   | 985    |
| Other restricted equity                            | 1 278        | 1 291  | 1 093                 | 1 093  |
|  | 2 263        | 2 276  | 2 078                 | 2 078  |
| Non-restricted equity                              |              |        |                       |        |
| Retained earnings                                  | 9 554        | 9 260  | 4 899                 | 4 322  |
| Net profit for the period                          | 195          | 489    | 207                   | 809    |
|  | 9 749        | 9 749  | 5 106                 | 5 131  |
|  | 12 012       | 12 025 | 7 184                 | 7 209  |
| <i>Minority interests</i>                          | 416          | 373    |                       |        |
| <i>Reserves</i>                                    |              |        |                       |        |
| Accumulated depreciation above the plan (16)       |              |        | 3 946                 | 4 088  |
| Voluntary reserves (17)                            |              |        | -                     | 1 415  |
| <i>Provisions for liabilities and charges</i> (17) | 175          | 58     | 60                    | 13     |
| <i>Deferred tax liabilities</i>                    | 1 833        | 2 211  |                       |        |
| <i>Creditors</i> (18,19)                           |              |        |                       |        |
| Long-term  |              |        |                       |        |
| Bonds  | 3 543        | 3 085  | 1 455                 | 1 273  |
| Loans from financial institutions                  | 5 063        | 4 103  | 4 484                 | 3 503  |
| Pension loans                                      | 1 038        | 1 046  | 935                   | 947    |
| Advances received                                  | 82           | 95     | 82                    | 95     |
| Other long-term creditors                          | 98           | 169    | 2 908                 | 2 785  |
|  | 9 824        | 8 498  | 9 864                 | 8 603  |
| Current  |              |        |                       |        |
| Loans from financial institutions                  | 1 820        | 2 210  | 1 260                 | 1 480  |
| Pension loans                                      | 1            | 1      | -                     | -      |
| Advances received                                  | 52           | 40     | 23                    | 34     |
| Trade payables                                     | 3 555        | 3 819  | 2 318                 | 2 877  |
| Accruals and deferred income                       | 701          | 639    | 435                   | 304    |
| Other current creditors                            | 2 423        | 1 732  | 2 379                 | 1 913  |
|  | 8 552        | 8 441  | 6 415                 | 6 608  |
|  | 32 812       | 31 606 | 27 469                | 27 936 |

## STATEMENT OF CASH FLOW

| <i>FIM million</i>  | <i>Group</i> |               | <i>Parent company</i> |               |
|---|--------------|---------------|-----------------------|---------------|
|   | 1997         | 1996          | 1997                  | 1996          |
| <b><i>Cash flow from operating activities</i></b>                             |              |               |                       |               |
| Operating profit  |              |               |                       |               |
| Net profit and minority interests   | 251          | 540           | 207                   | 809           |
| Depreciation  | 1 514        | 1 434         | 539                   | 775           |
| Change in reserves and provisions   | 58           | -55           | -1 538                | -793          |
| Undistributed earnings of associated companies                                | -150         | 488           |                       |               |
| Divesting activities, net   | 1 050        | -281          | 1 387                 | -264          |
| Foreign exchange gains and losses   | 19           | -47           | 250                   | 11            |
| Interest expenses, net  | 637          | 573           | 465                   | 382           |
| Taxes   | -265         | 205           | -5                    | 140           |
| Operating profit before changes in working capital                            | 3 114        | 2 857         | 1 305                 | 1 060         |
| Changes in working capital  |              |               |                       |               |
| Decrease (+)/Increase (-) in trade and other short-term receivables           | -25          | -459          | -349                  | -234          |
| Decrease (+)/Increase (-) in inventories                                      | 140          | -171          | 419                   | -262          |
| Decrease (-)/Increase (+) in interest-free liabilities                        | 42           | 305           | -102                  | 419           |
|   | 157          | -325          | -32                   | -77           |
| <b><i>Funds generated from operations</i></b>                                 | <b>3 271</b> | <b>2 532</b>  | <b>1 273</b>          | <b>983</b>    |
| Interest paid, net  | -621         | -621          | -412                  | -429          |
| Realised foreign exchange gains and losses                                    | 69           | 23            | 181                   | 34            |
| Income taxes paid   | -139         | -285          | 114                   | -49           |
| <b><i>Net cash from operating activities</i></b>                              | <b>2 580</b> | <b>1 649</b>  | <b>1 156</b>          | <b>539</b>    |
| <b><i>Cash flow from investing activities</i></b>                             |              |               |                       |               |
| Capital expenditures  | -2 670       | -2 045        | -1 151                | -953          |
| Proceeds from sales of fixed assets   | 518          | 720           | 388                   | 509           |
|   | -2 152       | -1 325        | -763                  | -444          |
| <b><i>Cash flow before financing activities</i></b>                           | <b>428</b>   | <b>324</b>    | <b>393</b>            | <b>95</b>     |
| <b><i>Cash flow from financing activities</i></b>                             |              |               |                       |               |
| Capital investment by minority shareholders, increase (+), decrease (-)       | -26          | -22           |                       |               |
| Payment of (-)/Proceeds from (+) long-term liabilities                        | -1 110       | -2 590        | -904                  | -117          |
| Payment of (-)/Proceeds from (+) short-term borrowings                        | 974          | 194           | 1 089                 | 355           |
| Proceeds from (+)/Payment of (-) interest-bearing receivables                 | 48           | 281           | -89                   | -1 428        |
| Dividends paid  | -197         | -236          | -197                  | -236          |
| Other financing activities  | -1           | -1            | -1                    | -1            |
|   | -312         | -2 374        | -102                  | -1 427        |
| <b><i>Net increase (+)/decrease (-) in cash and marketable securities</i></b> | <b>116</b>   | <b>-2 050</b> | <b>291</b>            | <b>-1 332</b> |
| Reconciliation (cash and marketable securities)                               |              |               |                       |               |
| As reported for at the beginning of the period                                | 1 559        | 3 565         | 593                   | 1 925         |
| Foreign exchange adjustment   | 90           | 44            |                       |               |
|   | 1 649        | 3 609         | 593                   | 1 925         |
| As reported for at the end of the period                                      | 1 765        | 1 559         | 884                   | 593           |
| <b><i>Net increase (+)/decrease (-) in cash and marketable securities</i></b> | <b>116</b>   | <b>-2 050</b> | <b>291</b>            | <b>-1 332</b> |

## 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 the most 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 lifetime to a maximum of 20 years. In the case of subsidiaries acquired during 1997, 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. The same accounting practice has also been applied in previous years in respect of our North American subsidiaries. In calculating goodwill on consolidation in respect of the subsidiaries acquired during 1997, voluntary reserves and accumulated depreciation above the plan, less deferred tax liabilities, have been included in the equity.

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 the voting rights is between 20% and 50%, have been consolidated using the equity method. Accordingly, the Group's share of the net profit of an associated company and its share of other changes in the equity, 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 sales of business-related fixed assets as well as all other operating income not related to the sales 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 the 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 markka 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 posi-

tion 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. However, as revenue can 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. The loss for interest rate derivatives used for other purposes than hedging is valued at the interest rate on the balance sheet date and entered as expense in the income statement.

Neste also trades commodity derivatives. These instruments are marked to market, and any losses arising from the instruments used for other than hedging purposes are expensed. Gains or losses on the 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 - 15 years  |
| Other long-term investments | 5 - 10 years  |

## NOTES TO THE FINANCIAL STATEMENTS

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 practise of 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, taking into account the impact of possible hedging operations. In the case of some foreign subsidiaries, the acquisition cost also includes indirect expenses, in line with the practice of 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 Pension Foundation as well as the liabilities on pensions granted by the Group itself have 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.

### 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 reasonably 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 markka 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 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 1993-1997

The table below shows the most important exchange rates used in the financial statements between the years 1993 and 1997:

|     | Exchange rates<br>on the balance sheet date <sup>1)</sup> |        |        |        |        | Average exchange rates<br>during the accountig period <sup>2)</sup> |        |        |        |        |
|-----|---|--------|--------|--------|--------|---|--------|--------|--------|--------|
|     | 1993  | 1994   | 1995   | 1996   | 1997   | 1993  | 1994   | 1995   | 1996   | 1997   |
| USD | 5.7845  | 4.7432 | 4.3586 | 4.6439 | 5.4207 | 5.7296  | 5.2295 | 4.3714 | 4.5841 | 5.1670 |
| CAD | 4.3540  | 3.3780 | 3.1960 | 3.3900 | 3.7820 | 4.4298  | 3.8290 | 3.1838 | 3.3588 | 3.7238 |
| GBP | 8.5540  | 7.4090 | 6.7410 | 7.8690 | 8.9920 | 8.5892  | 7.9886 | 6.9134 | 7.1855 | 8.4880 |
| SEK | 0.6945  | 0.6358 | 0.6546 | 0.6748 | 0.6863 | 0.7304  | 0.6754 | 0.6153 | 0.6833 | 0.6782 |
| NOK | 0.7701  | 0.7014 | 0.6899 | 0.7209 | 0.7394 | 0.8063  | 0.7399 | 0.6906 | 0.7113 | 0.7340 |
| DKK | 0.8549  | 0.7794 | 0.7862 | 0.7809 | 0.7948 | 0.8846  | 0.8210 | 0.7810 | 0.7919 | 0.7862 |
| DEM | 3.3350  | 3.0615 | 3.0435 | 2.9880 | 3.0275 | 3.4631  | 3.2174 | 3.0559 | 3.0521 | 2.9960 |
| NLG | 2.9812  | 2.7337 | 2.7185 | 2.6624 | 2.6861 | 3.0833  | 2.8694 | 2.7276 | 2.7235 | 2.6620 |
| BEF | 0.1602  | 0.1490 | 0.1482 | 0.1449 | 0.1468 | 0.1657  | 0.1562 | 0.1486 | 0.1483 | 0.1452 |
| FRF | 0.9817  | 0.8873 | 0.8906 | 0.8862 | 0.9046 | 1.0124  | 0.9413 | 0.8789 | 0.8983 | 0.8901 |

1) Average exchange rate of the Bank of Finland

2) Average month-end exchange rates

| FIM million  | Group  |        | Parent company |        |
|--|--------|--------|----------------|--------|
|  | 1997   | 1996   | 1997           | 1996   |
| <b>1. Net sales and other operating income</b>   |        |        |                |        |
| <i>Net sales by division</i>   |        |        |                |        |
| Oil  | 37 270 | 35 844 | 24 119         | 24 772 |
| Exploration & Production   | 1 244  | 1 229  | 73             | - 35   |
| Energy   | 3 653  | 3 280  | 485            | 265    |
| Neste Chemicals  | 4 871  | 4 442  | 578            | 563    |
| Others   | 570    | 511    | 439            | 400    |
| Total  | 47 608 | 45 306 | 25 694         | 25 965 |
| Internal invoicing   | -1 948 | -1 931 | -336           | -287   |
| Net sales  | 45 660 | 43 375 | 25 358         | 25 678 |
| <i>Net sales by market area</i>  |        |        |                |        |
| Finland  | 17 932 | 16 068 | 9 872          | 8 208  |
| Other Nordic countries   | 2 539  | 2 489  | 1 916          | 2 007  |
| Rest of Europe   | 9 337  | 7 814  | 2 613          | 2 118  |
| USA and Canada   | 6 004  | 5 043  | 697            | 1 143  |
| Other international sales  | 9 848  | 11 961 | 10 260         | 12 202 |
| Net sales  | 45 660 | 43 375 | 25 358         | 25 678 |
| <i>Other operating income</i>  |        |        |                |        |
| Gains on the sales of fixed assets   | 75     | 152    | 46             | 150    |
| Reversals of previous write-offs   | -      | 68     | 103            | 78     |
| Other  | 51     | 66     | 51             | 67     |
| Total  | 126    | 286    | 200            | 295    |
| <b>2. Expenses</b>   |        |        |                |        |
| <i>Wages, salaries, and indirect employee costs</i>  |        |        |                |        |
| Wages, salaries, and fringe benefits   | 1 623  | 1 541  | 912            | 844    |
| Pension costs  | 214    | 164    | 152            | 109    |
| Other indirect employee costs  | 243    | 248    | 103            | 107    |
| Total  | 2 080  | 1 953  | 1 167          | 1 060  |
| The monetary value of fringe benefits is not included in the personnel expenses entered in the income statement. |        |        |                |        |
| <i>Salaries, wages and other remunerations paid</i>  |        |        |                |        |
| To supervisory boards, boards of directors and presidents  | 34     | 40     | 5              | 5      |
| Other personnel  | 1 538  | 1 468  | 868            | 822    |
| <i>Other charges</i>   |        |        |                |        |
| Write-offs and losses on mergers and sales of fixed assets   | 133    | 72     | 105            | 52     |
| Other  | 19     | 9      | -1             | 7      |
| Total  | 152    | 81     | 104            | 59     |
| <b>3. Depreciation</b>   |        |        |                |        |
| Depreciation according to plan   |        |        |                |        |
| Intangible rights  | 22     | 25     | 8              | 6      |
| Goodwill   | 33     | 30     | 16             | 16     |
| Other long-term expenditure  | 38     | 49     | 17             | 17     |
| Buildings and structures   | 257    | 235    | 76             | 76     |
| Machinery and equipment  | 1 034  | 986    | 403            | 429    |
| Other tangible assets  | 105    | 86     | 5              | 5      |
| Total  | 1 489  | 1 411  | 525            | 549    |
| Goodwill on consolidation  | 25     | 24     |                |        |
| Negative goodwill on consolidation   | 0      | -1     |                |        |
| Total  | 25     | 23     |                |        |
| <i>Depreciation on investments</i>   |        |        |                |        |
| Shares in subsidiaries   |        |        | 14             | 226    |



## NOTES TO THE FINANCIAL STATEMENTS

| <i>FIM million</i>  | <i>Group</i>                            |  | <i>Parent company</i> |                  |                                 |                     |                                    |
|---|---|--|-----------------------|------------------|---------------------------------|---------------------|------------------------------------|
|   | 1997                                    | 1996   | 1997                  | 1996             |                                 |                     |                                    |
| <b>4. Financial income and expenses</b>   |   |  |                       |                  |                                 |                     |                                    |
| <i>Foreign exchange gains and losses in other financial income and expenses</i> | -19                                     | 47   | -250                  | -11              |                                 |                     |                                    |
| <i>Interest income in other financial income</i>                                | 115                                     | 190  | 57                    | 103              |                                 |                     |                                    |
| <i>Financial income received from Group companies</i>                           |   |  |                       |                  |                                 |                     |                                    |
| Dividends   |   |  | 375                   | 546              |                                 |                     |                                    |
| Interest income   |   |  | 195                   | 149              |                                 |                     |                                    |
| Other financial income  |   |  | 3                     | 5                |                                 |                     |                                    |
| Total   |   |  | 573                   | 700              |                                 |                     |                                    |
| <i>Financial expenses paid to Group companies</i>                               |   |  |                       |                  |                                 |                     |                                    |
| Interest expenses   |   |  | 220                   | 205              |                                 |                     |                                    |
| <b>5. Extraordinary items</b>   |   |  |                       |                  |                                 |                     |                                    |
| <i>Extraordinary income</i>   |   |  |                       |                  |                                 |                     |                                    |
| Gains on the sales of fixed assets  | 129                                     | 172  | 128                   | 96               |                                 |                     |                                    |
| Group contributions   |   |  | 337                   | 150              |                                 |                     |                                    |
| Other   | 12                                      | 47   | -                     | 14               |                                 |                     |                                    |
| Total   | 141                                     | 219  | 465                   | 260              |                                 |                     |                                    |
| <i>Extraordinary expenses</i>   |   |  |                       |                  |                                 |                     |                                    |
| Write-offs and sales losses   | 1 098                                   | 25   | 1 554                 | 25               |                                 |                     |                                    |
| Other   | 40                                      | 15   | 31                    | -                |                                 |                     |                                    |
| Total   | 1 138                                   | 40   | 1 585                 | 25               |                                 |                     |                                    |
| <b>6. Direct taxes</b>  |   |  |                       |                  |                                 |                     |                                    |
| Taxes for the period  | 179                                     | 257  | 4                     | 41               |                                 |                     |                                    |
| Taxes for previous periods  | -24                                     | 97   | -9                    | 99               |                                 |                     |                                    |
| Change in deferred tax liabilities  | -420                                    | -149   |                       |                  |                                 |                     |                                    |
| Total   | -265                                    | 205  | -5                    | 140              |                                 |                     |                                    |
| <b>7. Taxable value of fixed assets</b>   |   |  |                       |                  |                                 |                     |                                    |
| Land areas  |   |  | 119                   | 123              |                                 |                     |                                    |
| Buildings   |   |  | 331                   | 339              |                                 |                     |                                    |
| Shares in subsidiaries  |   |  | 4 740                 | 4 765            |                                 |                     |                                    |
| Other shares and holdings   |   |  | 4 878                 | 6 281            |                                 |                     |                                    |
| Total   |   |  | 10 068                | 11 508           |                                 |                     |                                    |
| <b>8. Fixed assets and other long-term expenditure, Group (FIM mill.)</b>       |   |  |                       |                  |                                 |                     |                                    |
|   | <i>Acquisition cost as of 1 January</i> | <i>Exchange rate differences 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> |
| Intangible rights   | 222                                     | 11   | 41                    | 14               | 164                             |                     | 96                                 |
| Goodwill  | 463                                     | 12   | 63                    | -                | 278                             |                     | 260                                |
| Goodwill on consolidation   | 676                                     | 12   | 146                   | 9                | 372                             |                     | 453                                |
| Negative goodwill on consolidation  | -21                                     | -  | -1                    | -                | -20                             |                     | -2                                 |
| Other long-term expenditure   | 469                                     | 7  | 35                    | 42               | 336                             |                     | 133                                |
| Total, intangible assets  | 1 809                                   | 42   | 284                   | 65               | 1 130                           |                     | 940                                |
| Land and water areas  | 250                                     | 5  | 45                    | 8                |                                 | 61                  | 353                                |
| Buildings and structures  | 6 334                                   | 137  | 630                   | 237              | 2 629                           | 208                 | 4 443                              |
| Machinery and equipment   | 13 938                                  | 550  | 1 986                 | 719              | 7 942                           |                     | 7 813                              |
| Other tangible assets   | 1 668                                   | 213  | 153                   | 32               | 594                             |                     | 1 408                              |
| Advances paid and construction in progress                                      | 1 165                                   | 86   | 205                   | 24               |                                 |                     | 1 432                              |
| Total, tangible assets  | 23 355                                  | 991  | 3 019                 | 1 020            | 11 165                          | 269                 | 15 449                             |
| Total   | 25 164                                  | 1 033  | 3 303                 | 1 085            | 12 295                          | 269                 | 16 389                             |
| Plants and machinery  |   |  |                       |                  |                                 |                     | 5 155                              |

|   | <i>Acquisition<br/>cost as of<br/>1 January</i> | <i>Increases</i> | <i>Decreases</i> | <i>Accumu-<br/>lated<br/>depreciation</i> | <i>Reval-<br/>uations</i> | <i>Balance<br/>sheet as of<br/>31 Dec.</i> |
|---|---|------------------|------------------|---|---------------------------|--|
| <b>Fixed assets and other long-term expenditure,<br/>Parent company (FIM mill.)</b> |   |                  |                  |   |                           |  |
| Intangible rights   | 85  | 35               | 27               | 48  |                           | 45   |
| Goodwill  | 158   | 5                |                  | 53  |                           | 110  |
| Other long-term expenditure   | 218   | 20               | 15               | 169                                       |                           | 54   |
| Total, intangible assets  | 461   | 60               | 42               | 270                                       |                           | 209  |
| Land and water areas  | 74  | 0                | 3                |   | 61                        | 132  |
| Buildings and structures  | 2 550   | 167              | 104              | 1 122                                     | 208                       | 1 699                                      |
| Machinery and equipment   | 7 299   | 855              | 375              | 4 333                                     |                           | 3 446                                      |
| Other tangible assets   | 197   | 8                | 2                | 81  |                           | 122  |
| Advances paid and construction in progress  | 376   | -102             | 22               |   |                           | 252  |
| Total, tangible assets  | 10 496  | 928              | 506              | 5 536                                     | 269                       | 5 651                                      |
| Total   | 10 957  | 988              | 548              | 5 806                                     | 269                       | 5 860                                      |
| Plants and machinery  |   |                  |                  |   |                           | 2 050                                      |

| <i>Group<br/>FIM million</i> | <i>Identifiable assets</i> |             | <i>Depreciation</i> |             |
|------------------------------|----------------------------|-------------|---------------------|-------------|
|                              | <i>1997</i>                | <i>1996</i> | <i>1997</i>         | <i>1996</i> |
| Oil                          | 9 537                      | 9 649       | 775                 | 772         |
| Exploration & Production     | 4 272                      | 3 404       | 392                 | 344         |
| Energy                       | 1 577                      | 1 459       | 75                  | 62          |
| Neste Chemicals              | 2 651                      | 2 103       | 212                 | 201         |
| Associated companies         | 5 320                      | 6 202       |                     |             |
| Others                       | 1 185                      | 1 140       | 60                  | 55          |
| Total                        | 24 542                     | 23 957      | 1 514               | 1 434       |

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

| <i>FIM million</i>              | <i>Group</i> |             | <i>Parent company</i> |             |
|---------------------------------|--------------|-------------|-----------------------|-------------|
|                                 | <i>1997</i>  | <i>1996</i> | <i>1997</i>           | <i>1996</i> |
| <b>9. Revaluations, 31 Dec.</b> |              |             |                       |             |
| Land areas                      | 61           | 61          | 61                    | 61          |
| Buildings                       | 208          | 212         | 208                   | 212         |
| Shares in subsidiaries          |              |             | 6                     | 6           |
| Other shares and holdings       | 44           | 74          | 44                    | 74          |
| Total                           | 313          | 347         | 319                   | 353         |

| <b>10. Proven crude oil, condensate and natural gas reserves<br/>in million of boe</b> |              |               |                    |
|--|--------------|---------------|--------------------|
|  | <i>Total</i> | <i>Norway</i> | <i>Middle East</i> |
| Net equity   |              |               |                    |
| 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                 |
| Revisions of previous estimates  | 1            | -             | 1                  |
| Increases due to improvement in recovery   | -            | -             | -                  |
| Extensions and discoveries   | 1            | -             | 1                  |
| Purchase/sale of reserves  | -1           | 0             | -1                 |
| Production   | -12          | -9            | -3                 |
| Reserves 31 December 1997  | 177          | 163           | 14                 |

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 5.0 billion as of 31 December 1997. 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 4.3 billion.

The proven and probable reserves at the end of 1997 were 258 million barrels.

| <i>FIM million</i>  | <i>Group</i> |       | <i>Parent company</i> |       |
|---|--------------|-------|-----------------------|-------|
|   | 1997         | 1996  | 1997                  | 1996  |
| <b>11. Shares, holdings, and loans receivable<br/>included in long-term investments</b> |              |       |                       |       |
| <i>Group companies</i>  |              |       |                       |       |
| Shares  |              |       | 5 462                 | 5 289 |
| Loans receivable  |              |       | 4 242                 | 3 731 |
| Total   |              |       | 9 704                 | 9 020 |
| <i>Associated companies</i>   |              |       |                       |       |
| Shares  | 5 319        | 6 202 | 4 321                 | 5 790 |
| Loans receivable  | 33           | 31    | 29                    | 27    |
| Total   | 5 352        | 6 233 | 4 350                 | 5 817 |

In 1997, loans receivable in respect of the Parent Company included subordinated loans to subsidiaries totalling FIM 24 million.

**Market value of listed companies' shares in other long-term investments**

| Other shares and holdings |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Book value                | 1 035 | 990   | 498   | 760   |
| Market value              | 1 110 | 1 040 | 1 109 | 1 039 |
|                           | 75    | 50    | 611   | 279   |

| <b>12. Most significant associated companies</b> |                 |  |                        |                      |
|--|-----------------|--|------------------------|----------------------|
| <i>Million currency unit</i>                     | <i>Currency</i> | <i>Shareholders' equity<br/>as of 31 Dec. 1997</i> | <i>Profit<br/>1997</i> | <i>Holding<br/>%</i> |
| Borealis Group                                   | DKK             | 9 063  | 1 364                  | 50                   |
| Asko Group                                       | FIM             | 2 430  | 450                    | 25                   |
| Nynäs Petroleum Group                            | SEK             | 1 147  | 138                    | 50                   |

| FIM million   | Group |       | Parent company |       |
|---|-------|-------|----------------|-------|
|   | 1997  | 1996  | 1997           | 1996  |
| <b>13. Financial assets</b>   |       |       |                |       |
| <i>Debtors due after one year</i>   | -     | -     | -              | -     |
| <i>Receivables from associated companies</i>  |       |       |                |       |
| Trade receivables   | 125   | 124   | 117            | 111   |
| Loans receivable  | 2     | 1     | -              | -     |
| Accrued income and prepaid expenses   | 1     | 2     | 1              | 2     |
| Other debtors   | 4     | 0     | 4              | 0     |
| Total   | 132   | 127   | 122            | 113   |
| <i>Receivables from Group companies</i>   |       |       |                |       |
| Trade receivables   |       |       | 1 446          | 1 017 |
| Accrued income and prepaid expenses   |       |       | 75             | 67    |
| Other debtors   |       |       | 352            | 171   |
| Total   |       |       | 1 873          | 1 255 |
| <b>14. Loans receivable from and pension commitments to corporate management (FIM 1,000)</b>  |       |       |                |       |
| Loans receivable  | 37    | 72    | 37             | 72    |
| 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 Pension Foundation. |       |       |                |       |
| <b>15. Changes in shareholders' equity</b>  |       |       |                |       |
| Restricted equity 1 Jan.  | 2 276 | 2 284 | 2 078          | 2 078 |
| + From non-restricted equity  | 26    | 52    | 34             | 49    |
| + Changes in revaluations   | -39   | -45   | -34            | -49   |
| + Changes in restricted equity of associated companies  | -     | -14   |                |       |
| + Translation differences and other changes   | -     | -1    |                |       |
| Restricted equity 31 Dec.   | 2 263 | 2 276 | 2 078          | 2 078 |
| Non-restricted equity 1 Jan.  | 9 749 | 9 532 | 5 131          | 4 608 |
| ./. Dividends   | 197   | 236   | 197            | 236   |
| ./. Transfer to restricted equity   | 26    | 52    | 34             | 49    |
| ./. Other distribution  | 1     | 1     | 1              | 1     |
| + Changes in non-restricted equity of associated companies  | -     | 12    |                |       |
| + Translation differences and other changes   | 29    | 5     |                |       |
| + Net profit for the period   | 195   | 489   | 207            | 809   |
| Non-restricted equity 31 Dec.   | 9 749 | 9 749 | 5 106          | 5 131 |
| Distributable equity  |       |       |                |       |
| Non-restricted equity   | 9 749 | 9 749 |                |       |
| ./. Reserves in equity <sup>1)</sup>  | 4 059 | 5 192 |                |       |
| Distributable equity 31 Dec.  | 5 690 | 4 557 |                |       |
| <b>16. Accumulated depreciation above the plan</b>  |       |       |                |       |
| Intangible assets   | 57    | 54    | 20             | 25    |
| Buildings and structures  | 1 695 | 1 645 | 941            | 952   |
| Machinery and equipment   | 3 723 | 3 786 | 2 939          | 3 066 |
| Other intangible assets   | 65    | 61    | 46             | 45    |
| Total   | 5 540 | 5 546 | 3 946          | 4 088 |
| <sup>1)</sup> Reserves in this context comprise accumulated depreciation above the plan and voluntary reserves.   |       |       |                |       |

## NOTES TO THE FINANCIAL STATEMENTS

| <i>FIM million</i>   | <i>Group</i> |        | <i>Parent company</i> |        |
|--|--------------|--------|-----------------------|--------|
|  | 1997         | 1996   | 1997                  | 1996   |
| <b>17. Reserves and provisions</b>                           |              |        |                       |        |
| <i>Voluntary reserves</i>                                    |              |        |                       |        |
| Transitional reserve   |              | 1 536  |                       | 1 415  |
| Other reserves   | 250          | 206    | -                     | -      |
| Total  | 250          | 1 742  | -                     | 1 415  |
| <i>Deferred tax liability in voluntary reserves</i>          |              |        |                       |        |
|  | 72           | 488    |                       |        |
| <i>Provisions for liabilities and charges</i>                |              |        |                       |        |
| Pensions   | 86           | 20     | 57                    | 13     |
| Other provisions   | 89           | 38     | 3                     | -      |
| Total  | 175          | 58     | 60                    | 13     |
| <b>18. Liabilities</b>                                       |              |        |                       |        |
| <i>Non-interest-bearing and interest-bearing liabilities</i> |              |        |                       |        |
| Non-interest-bearing liabilities                             | 6 461        | 6 092  | 4 468                 | 4 474  |
| Interest-bearing liabilities                                 | 11 915       | 10 847 | 11 811                | 10 737 |
| Total  | 18 376       | 16 939 | 16 279                | 15 211 |
| <i>Due dates of long-term liabilities</i>                    |              |        |                       |        |
| Year   |              |        |                       |        |
| 1998   | 395          | 703    |                       |        |
| 1999   | 2 240        | 1 952  |                       |        |
| 2000   | 333          | 336    |                       |        |
| 2001   | 1 822        | 1 236  |                       |        |
| 2002   | 3 067        | 2 240  |                       |        |
| 2003 and later   | 2 362        | 2 031  |                       |        |
| Total  | 10 219       | 8 498  |                       |        |
| <i>Creditors due in five years or later</i>                  |              |        |                       |        |
| Bonds  | 396          | 1 484  | -                     | 100    |
| Loans from financial institutions                            | 841          | 1 628  | 789                   | 1 583  |
| Pension loans  | 1 035        | 1 044  | 935                   | 947    |
| Other long-term creditors                                    | 90           | 115    | 1 624                 | 101    |
| Total  | 2 362        | 4 271  | 3 348                 | 2 731  |
| <i>Loans received from associated companies</i>              |              |        |                       |        |
| Long-term creditors  | -            | 19     | -                     | 0      |
| Trade payables   | 29           | 30     | 24                    | 26     |
| Accruals and deferred income                                 | 0            | 0      | 0                     | 0      |
| Other current creditors                                      | 279          | 5      | 257                   | 5      |
| Total  | 308          | 54     | 281                   | 31     |
| <i>Loans received from Group companies</i>                   |              |        |                       |        |
| Other long-term creditors                                    |              |        | 2 820                 | 2 653  |
| Advances received  |              |        | -                     | 9      |
| Trade payables   |              |        | 131                   | 245    |
| Accruals and deferred income                                 |              |        | 57                    | 44     |
| Other current creditors                                      |              |        | 455                   | 605    |
| Total  |              |        | 3 463                 | 3 556  |
| <b>19. Bonds</b>   |              |        |                       |        |
| Neste Finance B.V.   | 1992         | 2 088  | 1 788                 |        |
| Neste Marketing Ltd  | 1993 I       | 23     | 47                    |        |
| Neste Oy   |              |        |                       |        |
| 1989 USD loan  | no. 4/89/550 | 1 355  | 1 161                 | 1 355  |
| 1992 I   |              | 100    | 100                   | 100    |
| 1993 I   | no. 4/93/035 | 12     | 25                    | 12     |
| Total  |              | 3 578  | 3 121                 | 1 467  |
|  |              |        |                       | 1 286  |

| FIM million  | Group |       | Parent company |       |
|--|-------|-------|----------------|-------|
|  | 1997  | 1996  | 1997           | 1996  |
| <b>20. Contingent liabilities</b>                  |       |       |                |       |
| <b>Other contingent liabilities</b>                |       |       |                |       |
| Pledges granted                                    |       |       |                |       |
| Company loans                                      | 496   | 452   | 384            | 387   |
| Loans of Group companies                           |       |       | 12             | 9     |
| Total  | 496   | 452   | 396            | 396   |
| Real estate mortgages                              |       |       |                |       |
| Company loans and other commitments                | 416   | 394   | 271            | 310   |
| Loans of Group companies                           |       |       | -              | 22    |
| Total  | 416   | 394   | 271            | 332   |
| Company mortgages                                  |       |       |                |       |
| Company loans and other commitments                | 20    | 14    | -              | -     |
| Other mortgages                                    |       |       |                |       |
| Company loans and other commitments                | 310   | 327   | 310            | 327   |
| Guarantees   |       |       |                |       |
| Persons referred to in § 11:7 of the Companies Act | 0     | 1     | 0              | 1     |
| Subsidiaries                                       |       |       | 2 568          | 2 547 |
| Associated companies                               | 28    | 45    | 28             | 45    |
| Others   | 48    | 58    | 28             | 48    |
| Total  | 76    | 104   | 2 624          | 2 641 |
| Other contingent liabilities                       | 262   | 265   | 182            | 209   |
| Total  | 1 580 | 1 556 | 3 783          | 3 905 |
| <b>Leasing liabilities</b>                         |       |       |                |       |
| Due within a year                                  | 198   | 150   | 154            | 122   |
| Due after a year                                   | 472   | 556   | 193            | 320   |
| Total  | 670   | 706   | 347            | 442   |

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 natural gas compressor stations, on an air propane plant, and on vessels 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 143 million, and in respect of the vessels in 2000 with a redemption price of USD 5.3 million, and in 2006 with a redemption price of USD 7.2 million.

| FIM million  | Group |      |
|--|-------|------|
|  | 1997  | 1996 |
| <b>Group liabilities for which pledges, mortgages or other equivalent guarantees have been given</b> |       |      |
| Pledges  | 361   | 320  |
| Mortgages  | 659   | 625  |
| Total  | 1 020 | 945  |



| <i>Derivatives, Group, FIM million</i> | 1997                              |                   | 1996                              |                   |
|--|-----------------------------------|-------------------|-----------------------------------|-------------------|
|  | <i>Contract or notional value</i> | <i>Fair value</i> | <i>Contract or notional value</i> | <i>Fair value</i> |
| Interest and currency derivatives      |                                   |                   |                                   |                   |
| FRAs and bond futures                  | 7 284                             | 1                 | 20 817                            | 4                 |
| Interest rate swaps                    | 2 779                             | 48                | 2 595                             | 57                |
| Interest rate options                  | 1 355                             | -36               | 1 161                             | -41               |
| Forward foreign exchange contracts     | 16 919                            | -99               | 17 736                            | -4                |
| Currency swaps                         | 699                               | 62                | 849                               | -100              |
| Currency options                       |                                   |                   |                                   |                   |
| Purchased                              | 760                               | -4                | 130                               | -1                |
| Written                                | 733                               | 0                 | 130                               | 1                 |
| Oil futures and forward instruments    | <i>volume 1000 bbl</i>            |                   | <i>volume 1000 bbl</i>            |                   |
| Sales contracts                        | 12 867                            | 89                | 18 256                            | -65               |
| Purchase contracts                     | 9 132                             | -50               | 20 502                            | 74                |
| Options                                |                                   |                   |                                   |                   |
| Purchased                              | 275                               | 0                 | 540                               | -1                |
| Written                                | 600                               | 0                 | 5 734                             | -48               |

The fair value of off-balance-sheet hedging contracts is insignificant.

Other contingent liabilities 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.

#### 21. 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 exposure to interest rate risks arises primarily from the Group's liabilities, investments, and cash flows from operating activities. The currencies that currently are the most sensitive 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. Exposure is thus minimised because 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. Sensitivity analysis is used to measure and analyse exposure to interest rates in order to describe the effect of a change in the interest level on the market value of an interest position. In respect of the financial risk relating to cash flow, the average interest period is used to describe the effect of a change in the interest level on the Group's interest expenses. In respect of the market risk, interest risk limits have been determined using a measure based on modified duration.

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 effects of movements in exchange rates 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, and liabilities. In addition, foreign exchange exposure arises from investments in the shareholders' equity of foreign subsidiaries and associated companies.

Movements in the US dollar against the Finnish markka are the most material to Neste's business, because both raw materials and end products in Neste's core business areas are priced and/or invoiced mainly in US dollars. Other significant currencies are the D-Mark, the Swedish krona, and the British pound.

In respect of the financial risk relating to balance sheet position associated with investments in foreign subsidiaries and associated companies, the principal exposure is against the Danish krone. Other significant currencies in this respect are the Swedish krona, the Dutch guilder, the Belgian franc, and the US dollar.

Exposure to exchange rate risks arising from business operations is monitored against several base currencies on the basis of the net exposure. The risk involved in any open position is hedged with foreign currency forward agreements, 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.

Neste seeks to hedge all material exchange rate risks in accordance with the risk management policy. However, extensive

hedging against movements in exchange rates is not possible nor even practicable in countries whose currencies lack advanced financial markets. Such countries include Russia, the Baltic states, and Poland.

The above table 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.

## 22. LEGAL PROCEEDINGS

#### SEO

Suomalainen Energiaosuuskunta (SEO) pursued the arbitration proceedings initiated by it in 1996 respect of Neste's 1993 ex-refinery pricing. SEO's claim is based on a strict cost justification based on Neste's own costs. It is Neste Oy's view that the legally binding ruling given by the Finnish Competition Council on 24 October 1996 and the below-mentioned Comfort Letter issued by the European Commission confirm that Neste Oy has the right to price its products in its ex-refinery sales against its customers' import parity and the costs related herewith. On the basis of the above, in Neste's opinion SEO has not suffered any damage, and nor is there any reason for compensation on any other grounds. Hence, it is the understanding of Neste's management that the claim for compensation will not have any impact on Neste's profits.

On 9 December 1997, DG IV of the European Commission issued a Comfort Letter (case no. 35.923) to a notification filed by Neste Oy to the Commission concerning the 1996 supply contracts between Neste and its wholesale customers possessing storage facilities, in order to have the lawfulness of these contracts approved. The notification was later supplemented with the corresponding contracts for 1997.

The Commission had also received the decisions made by the Finnish Competition Council and the Supreme Administrative Court in respect of the SEO case. Neste Oy's main claim in the notification was that its ex-refinery pricing is always done against its customers' import parity, which thus reflects a genuine competitive situation. In the light of the information made available to the Commission, the Commission found that, by virtue of articles 85.1 and 86 of the Treaty of Rome, there are no grounds on which the Commission should interfere with Neste's pricing.

The arbitration proceedings were interrupted as of 15 December 1997 due to a difference in opinion on a matter subject to business secret.

#### MAGNETI MARELLI

A court of arbitration resident in Brussels gave its ruling on 27 June 1997. All the claims presented against Neste Oy were rejected as unfounded. The court of arbitrators further obliged the plaintiff to compensate to Neste Oy all the costs arising from the arbitration proceedings as well as other legal expenses. The plaintiff initiated legal proceedings on the invalidation of the ruling by the court of arbitrators at a court of first instance in Brussels. The hearing of the case began on 12 November 1997. It is the understanding of Neste's management that the proceedings will not have any impact on Neste Oy'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

| <i>FIM 1 000 / currency unit</i>  | <i>Profit/loss<br/>FIM</i> | <i>No. of<br/>shares</i> | <i>Holding<br/>%</i> |     | <i>Nominal<br/>share value</i> | <i>Book value<br/>31 Dec. 1997</i> |
|---|----------------------------|--------------------------|----------------------|-----|--------------------------------|------------------------------------|
| <b>Group shares (book value more than FIM 10 million)</b>                                       |                            |                          |                      |     |                                |                                    |
| Eastex Crude Company (General Partnership)  | 18 224                     |                          | 70.00                | USD | -                              | 23 754                             |
| EPS Downstream Danmark A/S  | 68                         | 13 300                   | 100.00               | DKK | 13 300                         | 25 187                             |
| Estonian Transoil A/S   | -1 177                     | 400                      | 100.00               | EEK | 40 000                         | 18 873                             |
| Gasum Oy  | 86 269                     | 39 750 000               | 75.00                |     | 795 000                        | 795 000                            |
| HelsinkiKaasu Oy  | 1                          | 120 000                  | 75.00                |     | 6 000                          | 27 707                             |
| Kotkan Kaasuenergia Oy  | 4                          | 380                      | 71.25                |     | 1 900                          | 10 541                             |
| *Krems Chemie AG  | 9 938                      | 760 970                  | 89.53                | ATS | 760 970                        | 257 563                            |
| Latvian Traffic Service   | -2 492                     | 5                        | 100.00               | LVL | 202                            | 15 967                             |
| NCT Hong Kong Ltd.  | 4 071                      | 200                      | 100.00               | HKD | 200                            | 18 889                             |
| NCT (U.S.A.) Inc.   | 191                        | 1 000                    | 100.00               | USD | 1                              | 25 060                             |
| Neste Chemicals Benelux Holding B.V.  | 32 186                     | 173 406                  | 100.00               | NLG | 78 380                         | 173 822                            |
| Neste Chemicals GmbH  | -6 205                     | 1                        | 100.00               | DEM | 1 052                          | 15 296                             |
| Neste Chemicals Holding Inc.  | 37 719                     | 1 000                    | 100.00               | USD | 1                              | 110 994                            |
| Neste Chimie France S.A.  | -2 149                     | 302 992                  | 99.99                | FRF | 30 299                         | 26 799                             |
| Neste Coordination Center N.V.  | 29 104                     | 572 500                  | 100.00               | BEF | 5 725 000                      | 730 861                            |
| Neste Corporate Holding Inc.  | 39 088                     | 142                      | 100.00               | USD | 0                              | 220 493                            |
| Neste Crude Oil Inc.  | -6 200                     | 1 000                    | 100.00               | USD | 1                              | 13 114                             |
| Neste Deutschland Holding GmbH  | 2 756                      | 50                       | 100.00               | DEM | 50                             | 22 777                             |
| Neste Eesti A/S   | 5 926                      | 1 246                    | 100.00               | EEK | 1 246                          | 16 361                             |
| Neste Finance B.V.  | 109 248                    | 237 001                  | 100.00               | NLG | 237 001                        | 1 315 341                          |
| Neste Gas Aktiebolag  | 40                         | 50 000                   | 100.00               | SEK | 5 000                          | 10 295                             |
| Neste Investments   | 8 117                      | 30 910 002               | 100.00               | USD | 30 910                         | 464 229                            |
| Neste Kemi Danmark A/S  | 20                         | 14 000                   | 100.00               | DKK | 7 000                          | 22 205                             |
| UAB Neste Lietuva   | -9 931                     | 1                        | 100.00               | LTL | 1 202                          | 16 070                             |
| Neste Lämpö Oy  | 86                         | 2 000                    | 100.00               |     | 10 000                         | 49 940                             |
| Neste Markkinointi Oy   | -4 487                     | 20 352 000               | 100.00               |     | 203 520                        | 1 100 972                          |
| Neste MTBE S.A.   | 1 688                      | 600 000                  | 100.00               | PTE | 600 000                        | 12 410                             |
| Neste Oel GmbH  | -10 759                    | 1                        | 100.00               | DEM | 6 457                          | 19 548                             |
| Neste Oil Holding (U.S.A.) Inc  | 4 108                      | 1 000                    | 100.00               | USD | 1                              | 204 566                            |
| Neste Oil Inc.  | -1 473                     | 3 000                    | 100.00               | USD | 3                              | 78 555                             |
| Neste Oil Poland Ltd.   | 2 789                      | 6 809                    | 100.00               | PLZ | 1 815                          | 69 504                             |
| Neste Oil Services Inc.   | 770                        | 1 000                    | 100.00               | USD | 1                              | 139 263                            |
| Neste Oxo Aktiebolag  | 2 478                      | 100                      | 100.00               | SEK | 100                            | 37 942                             |
| Neste PAO N.V.  | 858                        | 55 000                   | 100.00               | BEF | 550 000                        | 80 509                             |
| Neste Petroleum (Canada) Inc.   | -18 928                    | 25 025 000               | 100.00               | CAD | 25 025                         | 95 469                             |
| Neste Polyester S.A.  | 1 266                      | 90 394                   | 99.98                | FRF | 22 599                         | 76 891                             |
| Neste Resins B.V.   | 9 825                      | 76 000                   | 100.00               | NLG | 16 188                         | 118 188                            |
| Neste Resins Corporation  | 43 289                     | 200                      | 100.00               | USD |                                | 176 303                            |
| Neste Resins Oy   | 248                        | 10 000                   | 100.00               |     | 10 000                         | 41 487                             |
| Neste Sverige AB  | 54 246                     | 5 980 530                | 100.00               | SEK | 598 053                        | 580 151                            |
| Petro Service A/O   | 864                        | 100                      | 100.00               | RUR |                                | 18 727                             |
| Tehokaasu Oy  | 17                         | 7 200                    | 100.00               |     | 18 000                         | 23 190                             |
| Tidelands Oil Production Company Partnership  | 7 234                      |                          | 80.00                | USD | -                              | 23 591                             |
| Asunto Oy Kuutoset  | -5                         | 7 893                    | 100.00               |     | 789                            | 21 085                             |
| <b>Associated companies (book value more than FIM 10 million)</b>                               |                            |                          |                      |     |                                |                                    |
| Asko Oyj  |                            | 8 702 015                | 24.66                |     | 87 020                         | 368 371                            |
| Borealis A/S  |                            | 2 000 000                | 50.00                | DKK | 2 000 000                      | 3 614 000                          |
| Closed Joint Stock Company SeverTek   |                            | 20 000                   | 20.00                | RUR |                                | 29 431                             |
| Creative Pultrusions Inc.   |                            | 4 355                    | 25.00                | USD | 4                              | 21 683                             |
| Kuljetusristikko Oy   |                            | 3 786                    | 45.19                |     | 189                            | 18 565                             |
| Lanor Oy  |                            | 145 864                  | 47.09                |     | 145 864                        | 297 560                            |
| Neste Trifinery Petroleum Services Company Partnership  |                            |                          | 50.00                | USD |                                | 21 710                             |
| AB Nynäs Petroleum  |                            | 33 765                   | 49.99                | SEK | 33 765                         | 272 225                            |
| <b>Other shares and boldings (book value more than FIM 10 million)</b>                          |                            |                          |                      |     |                                |                                    |
| Finnair Oyj   |                            | 1 097 620                | 1.35                 |     | 5 488                          | 25 607                             |
| Kesko Oyj   |                            | 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  |                            | 359 420                  | 0.58                 |     | 1 797                          | 15 341                             |
| Saudi European Petrochemical Company Ibn Zahr   |                            | 98 832                   | 10.00                | SAR | 98 832                         | 88 301                             |
| Silja Oy Ab   |                            | 1 203 836                | 5.52                 |     | 24 077                         | 44 542                             |
| Vattenfall Naturgas AB  |                            | 31 610                   | 10.00                | SEK | 1 517                          | 53 296                             |
| Housing and real estate shares  |                            |                          |                      |     |                                | 90 882                             |
| Associated companies and other shares and holdings (book value less than FIM 10 million)        |                            |                          |                      |     |                                | 85 324                             |
| Shares in telephone companies and connection fees   |                            |                          |                      |     |                                | 21 315                             |
| Associated companies and other shares and holdings, total                                       |                            |                          |                      |     |                                | 5 138 292                          |
| * New Group company   |                            |                          |                      |     |                                |                                    |
| A complete list of shares and holdings is included in Neste Oy's official financial statements. |                            |                          |                      |     |                                |                                    |

## SELECTED FINANCIAL DATA 1993-1997

|   |              | 1993   | 1994   | 1994 <sup>1)</sup> | 1995   | 1996   | 1997   |
|---|--------------|--------|--------|--------------------|--------|--------|--------|
| <b>Income statement</b>                             |              |        |        |                    |        |        |        |
| Net sales   | FIM mill.    | 63 089 | 49 201 |                    | 43 335 | 43 375 | 45 660 |
| Operating profit                                    | "            | 540    | 2 243  |                    | 2 142  | 1 078  | 1 617  |
| (% of net sales)                                    | %            | 0.9    | 4.6    |                    | 4.9    | 2.5    | 3.5    |
| Financial expenses, net                             | FIM mill.    | -2 061 | -1 012 |                    | -778   | -512   | -634   |
| Profit before extraordinary items                   | "            | -1 521 | 1 231  |                    | 1 364  | 566    | 983    |
| (% of net sales)                                    | %            | -2.4   | 2.5    |                    | 3.1    | 1.3    | 2.2    |
| Profit before reserves and taxes                    | FIM mill.    | -1 429 | 1 175  |                    | 1 338  | 745    | -14    |
| (% of net sales)                                    | %            | -2.3   | 2.4    |                    | 3.1    | 1.7    | 0.0    |
| Net profit for the period                           | FIM mill.    | 1 120  | 1 353  | 942                | 661    | 489    | 195    |
| <b>Statement of cash flow</b>                       |              |        |        |                    |        |        |        |
| Funds generated from operations                     | FIM mill.    | 3 448  | 3 454  |                    | 3 146  | 2 532  | 3 271  |
| Net cash from operating activities                  | "            | 1 893  | 1 889  |                    | 2 000  | 1 649  | 2 580  |
| Proceeds from sales of fixed assets                 | "            | 4 555  | 1 926  |                    | 1 344  | 720    | 518    |
| Total capital expenditure                           | "            | -8 575 | -2 241 |                    | -2 165 | -2 045 | -2 670 |
| <b>Balance sheet</b>                                |              |        |        |                    |        |        |        |
| Cash and marketable securities                      | FIM mill.    | 3 372  | 3 828  |                    | 3 565  | 1 559  | 1 765  |
| Total assets  | "            | 45 342 | 35 700 |                    | 33 423 | 31 606 | 32 812 |
| Shareholders' equity                                | "            | 3 268  | 4 658  | 10 280             | 11 816 | 12 025 | 12 012 |
| Reserves  | "            | 8 117  | 7 530  |                    |        |        |        |
| Interest-bearing debt                               | "            | 22 835 | 16 172 |                    | 12 943 | 10 847 | 11 915 |
| Capital employed                                    | "            | 34 398 | 28 701 | 26 813             | 25 122 | 23 245 | 24 343 |
| <b>Key ratios</b>                                   |              |        |        |                    |        |        |        |
| Return on shareholders' equity                      | %            | neg.   | 7.4    | 10.1               | 6.5    | 2.9    | 7.8    |
| Return on capital employed                          | "            | 3.4    | 9.1    | 9.7                | 9.6    | 5.7    | 7.5    |
| Equity-to-assets ratio                              | "            | 25.3   | 35.2   | 29.9               | 36.6   | 39.4   | 38.0   |
| Gearing   | "            | 169.9  | 98.5   | 116.0              | 77.0   | 74.9   | 81.7   |
| Investments   | FIM mill.    | 3 941  | 1 376  |                    | 2 167  | 2 048  | 2 913  |
| (% of net sales)                                    | %            | 6.2    | 2.8    |                    | 5.0    | 4.7    | 6.4    |
| Research and development expenditure                | FIM mill.    | 477    | 267    |                    | 284    | 270    | 290    |
| (% of net sales)                                    | %            | 0.8    | 0.5    |                    | 0.7    | 0.6    | 0.6    |
| Average number of employees                         |              | 13 332 | 8 948  |                    | 8 840  | 8 662  | 8 704  |
| <b>Per share data</b>                               |              |        |        |                    |        |        |        |
| Earnings (loss) per share (EPS) <sup>2)</sup>       | FIM          | -18.36 | 9.98   | 11.37              | 7.59   | 3.14   | 9.26   |
| Shareholders' equity per share                      | "            | 129.96 | 135.92 | 114.64             | 119.93 | 122.05 | 121.93 |
| Dividend per share                                  | "            | 0.60   | 1.17   |                    | 2.40   | 2.00   | 3.00   |
| Dividend per earnings                               | %            | neg.   | 11.7   | 10.3               | 31.6   | 63.6   | 32.4   |
| Dividend yield                                      | "            |        |        |                    | 3.1    | 1.8    | 2.3    |
| Price / earnings (P/E)                              |              |        |        |                    | 10.3   | 35.5   | 14.3   |
| Adjusted share prices:                              |              |        |        |                    |        |        |        |
| Share price at the end of the period                | FIM          |        |        |                    | 77.90  | 111.45 | 132.15 |
| Average share price                                 | "            |        |        |                    | 80.14  | 91.63  | 131.98 |
| Highest share price                                 | "            |        |        |                    | 83.00  | 113.50 | 150.00 |
| Lowest share price                                  | "            |        |        |                    | 77.60  | 65.50  | 110.00 |
| Market capitalisation at the end of the period      | FIM mill.    |        |        |                    | 7 675  | 10 980 | 13 020 |
| Number of shares traded during the period           | 1 000 shares |        |        |                    | 1 771  | 8 632  | 8 219  |
| Adjusted average number of shares during the period | 1 000 shares | 87 608 | 87 863 |                    | 90 570 | 98 523 | 98 523 |
| Adjusted number of shares at the end of the period  | 1 000 shares | 87 608 | 89 673 |                    | 98 523 | 98 523 | 98 523 |

<sup>1)</sup> Deferred tax liabilities have been taken into account.

<sup>2)</sup> 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. Tax effects of extraordinary items have been excluded in 1997.

<sup>3)</sup> Board of Directors' proposal.

Key to the financial ratios is on page 48.

## KEY TO THE FINANCIAL RATIOS

|                                    |   |       |  |
|------------------------------------|---|-------|--|
| Capital employed                   | = |       | Total assets - non-interest-bearing liabilities - deferred tax liabilities - provisions  |
| Return on shareholders' equity (%) | = | 100 x | $\frac{\text{Profit before extraordinary items - taxes}}{(\text{Shareholders' equity} + \text{minority interests}) \text{ average}}$                                 |
| Return on capital employed (%)     | = | 100 x | $\frac{\text{Profit before extraordinary items} + \text{interest and other financial expenses}}{\text{Average capital employed}}$                                    |
| Equity-to-assets ratio (%)         | = | 100 x | $\frac{\text{Shareholders' equity} + \text{minority interests}}{\text{Total assets} - \text{advances received}}$   |
| Gearing (%)                        | = | 100 x | $\frac{\text{Interest bearing liabilities} - \text{cash and marketable securities}}{\text{Shareholders' equity} + \text{minority interests}}$                        |
| 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     | = |       | $\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the period}}$  |
| Dividend per share                 | = |       | $\frac{\text{Dividend for the financial period}}{\text{Adjusted average number of shares during the period}}$  |
| Dividend per earnings (%)          | = | 100 x | $\frac{\text{Dividend for the financial period}}{\text{Earnings per share}}$   |
| Dividend yield (%)                 | = | 100 x | $\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the period}}$   |
| 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 x 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 Oy's minimum share capital is FIM 800 million and maximum share capital FIM 3,200 million. Within these limits, the share capital can be increased or decreased without changing the articles of association. Neste Oy's share capital on 31 December 1997, paid in its entirety and entered in the trade register, was the same as in 1996, totalling FIM 985,230,820.

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

Neste Oy has increased its share capital during 1990-1997 as follows:

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

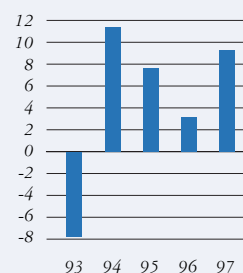
In 1994, the nominal value of the shares was split from FIM 10,000 to FIM 10 by giving an equal number of new shares.

### Shareholders

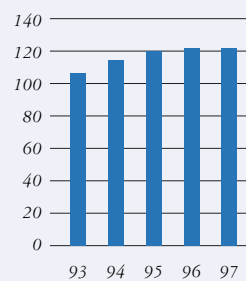
The ownership of Neste shares as of 31 December 1997 was divided as follows:

| Shareholders                                      | No. of<br>shares | Holding<br>% |
|---|------------------|--------------|
| <i>Finnish state</i>                              | 81 939 979       | 83.17        |
| <i>The Local Government Pension Institution</i>   | 1 321 800        | 1.34         |
| <i>Alko-yhtiöt Oy</i>                             | 1 267 399        | 1.29         |
| <i>Pension Insurance Company Ilmarinen Ltd</i>    | 924 300          | 0.94         |
| <i>Pohjola Insurance Company Ltd</i>              | 834 800          | 0.85         |
| <i>Neste Pension Foundation</i>                   | 731 163          | 0.74         |
| <i>Finnish Captive &amp; Risk Services Oy Ltd</i> | 550 000          | 0.56         |
| <i>Vakuutusosakeyhtiö Eläke-Sampo</i>             | 540 000          | 0.55         |
| <i>Alko Joint Pension Foundation</i>              | 539 000          | 0.55         |
| <i>The Suomi Mutual Life Assurance Company</i>    | 465 100          | 0.47         |
| <i>Nominee registrations</i>                      | 1 266 999        | 1.29         |
| <i>Other shareholders in total</i>                | 8 142 542        | 8.25         |
| <i>Total</i>                                      | 98 523 082       | 100.00       |

EARNINGS PER SHARE,  
FIM



EQUITY PER SHARE,  
FIM



## SHARES AND SHAREHOLDERS

### DISTRIBUTION OF OWNERSHIP OF SHARES AS OF 31 DECEMBER 1997:

| <i>No. of shares</i>  | <i>No. of shareholders</i> | <i>% of shareholders</i> | <i>No. of shares owned</i> | <i>% of share-capital</i> |
|---|----------------------------|--------------------------|----------------------------|---------------------------|
| 1 - 100   | 9 829                      | 48.20                    | 391 946                    | 0.40                      |
| 101 - 500   | 8 320                      | 40.80                    | 1 651 865                  | 1.68                      |
| 501 - 1 000   | 1 287                      | 6.31                     | 861 643                    | 0.87                      |
| 1 001 - 10 000  | 876                        | 4.30                     | 1 495 395                  | 1.52                      |
| 10 001 - 100 000  | 61                         | 0.30                     | 1 922 645                  | 1.95                      |
| 100 001 - 1 000 000   | 16                         | 0.08                     | 6 443 363                  | 6.54                      |
| 1 000 001 - 10 000 000  | 3                          | 0.01                     | 3 814 970                  | 3.87                      |
| over 10 000 000   | 1                          | 0.00                     | 81 939 979                 | 83.17                     |
|   | 20 393                     | 100.00                   | 98 521 806                 | 100.00                    |
| <i>unregistered/uncleared transactions as of 31 Dec. 1997</i> |                            |                          |                            |                           |
|   |                            |                          | 1 276                      | 0.00                      |
| <i>Total</i>  |                            |                          | 98 523 082                 | 100.00                    |
| <i>of which nominee registrations</i>                         |                            |                          | 1 266 999                  | 1.29                      |

### DISTRIBUTION OF OWNERSHIP OF SHARES BY OWNER CATEGORY:

| <i>Owner category</i>                            | <i>% of owners</i> | <i>% of share-capital</i> |
|--|--------------------|---------------------------|
| <i>Private non-financial corporations</i>        | 0.82               | 0.36                      |
| <i>Public non-financial corporations</i>         | 0.02               | 1.31                      |
| <i>Financial and insurance institutions</i>      | 0.34               | 5.28                      |
| <i>General government</i>                        | 0.17               | 87.36                     |
| <i>Non-profit organisations</i>                  | 0.38               | 0.39                      |
| <i>Households</i>                                | 98.03              | 4.00                      |
| <i>Outside Finland and nominee registrations</i> | 0.24               | 1.31                      |
| <i>Unregistered/uncleared</i>                    |                    | 0.00                      |
| <i>Total</i>                                     | 100.00             | 100.00                    |

### *State ownership*

The Finnish state owns 83.17% of Neste's share capital and voting rights. There were no changes in the state's ownership of Neste shares in 1997. However, parliament has authorised the Council of State to reduce the state's holding in Neste to 50.1% of the share capital and voting rights.

### *Bonds with warrants for management and management holdings*

The bond loan with warrants issued in 1996 to company executives totalled FIM 1,200,000. Of this sum, the subscription of Neste Marketing Ltd totalled FIM 226,000. 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 807 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 6,432 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

The Annual General Meeting of Neste Oy, which convened on 8 April 1997, authorised the Board to decide within one year on the issue of one or more convertible bonds and on the increase of the share capital via one or more rights issues in such a way that together, the convertible bonds and the rights issues would raise the share capital by at most FIM 98,523,080 on the share price determined by the Board and in compliance with any terms and conditions laid down by the Board. The Board was also authorised to decide that the shares may be subscribed for against property in kind or in compliance with other specific terms and conditions.

By virtue of this authorisation, the Board may raise Neste's share capital by at most FIM 98,523,080, which equals at most one-tenth of the Company's registered share capital and total voting rights as of the effective date of the decision. The Board may disapply the pre-emptive subscription rights of the shareholders and subscribe for shares and convertible bonds provided that there is material reason for Neste Oy to do so, such as an investment, an acquisition, or a need to strengthen the Company's balance sheet.

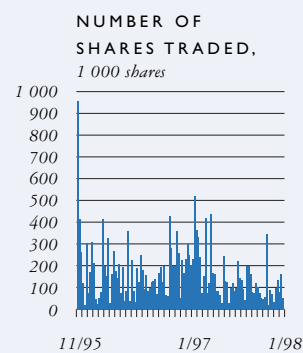
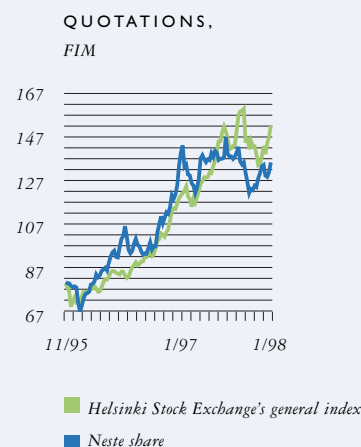
### Quotation of shares

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 1997 was FIM 150.00 (FIM 113.50 in 1996) and the lowest FIM 110.00 (FIM 65.50). The average quotation on the last trading day of the year was FIM 132.15 (FIM 111.45). Our market capitalisation at the end of the year was FIM 13,020 million (FIM 10,980 million).

A total of 8.2 million (8.6 million) shares for a total value of some FIM 1,085 million (FIM 791 million) were traded during 1997. The number of shares traded represented 8.34% of the average number of shares during the review period. The average quotation of our share in 1997 was FIM 131.98 (FIM 91.63).



## PROPOSAL FOR THE DISTRIBUTION OF RETAINED EARNINGS

The Group's non-restricted equity as of 31 December 1997 stood at FIM 9,749 million, of which the amount of distributable equity totalled FIM 5,690 million. The Parent Company's distributable equity stood at FIM 5,106 million.

The Board of Directors proposes that Neste Oy should pay a dividend of FIM 3.00 per share totalling FIM 295,569,246, and should set aside a sum of FIM 3,000,000 for the purposes of public utility.

Espoo, 23 February 1998

JAAKKO IHAMUOTILA  
VELI-MATTI ROPPONEN  
L.J. JOUHKI  
RAIMO LUOMA

JUKKA VIINANEN  
EERO AITTOLA  
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. - 31.12.1997. The financial statements, which include the report of the Board of Directors, the consolidated and parent company income statements, the balance sheet, 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 of 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 (11 June and 10 October 1997). In our opinion, they have been prepared according to the rules and regulations governing the interim reporting of public companies in Finland.

Espoo, 23 February 1998

ARTHUR ANDERSEN KIHLMAN OY  
AUTHORISED PUBLIC ACCOUNTANTS

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 1997, 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 proposes 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 1998 Annual General Meeting: Gustav Hägglund, Tytti Isohookana-Asunmaa, Timo Laaksonen, and Taisto Turunen.

Espoo, 24 February 1998

|                     |                          |                |
|---------------------|--------------------------|----------------|
| TUULIKKI HÄMÄLÄINEN | KAARINA DROMBERG         |                |
| GUSTAV HÄGGLUND     | TYTTI ISOHOOKANA-ASUNMAA | TIMO LAAKSONEN |
| PER-ERIK LUNDH      | ERKKI TUOMIOJA           | TAISTO TURUNEN |
| MATTI VANHANEN      | MARKKU VUORENSOLA        | STIG ÖSTDAHL   |



## U.S. GAAP RECONCILIATION

Financial statements prepared according to Finnish Accounting Standards (FAS) and according to 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 and 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 were valued using the book values of net assets transferred, which have been adjusted to comply with U.S. GAAP. Due to the write-off of Borealis shares, there is no valuation difference left.

### *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 the FAS financial statements, time-charter contracts are treated as operating leases.

### *Foreign exchange differences*

In 1996, exchange rate differences, which are recorded against translation adjustments or shown as valuation items in FAS, were reversed to the income statements under U.S. GAAP. In 1997, equity hedging practice is in accordance with U.S. GAAP.

### *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, until 1996 only the next year's portion of possible future losses resulting from the valuation of derivatives and other trading contracts using year-end market values is recorded in the income statement. 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 proven reserves are used.

In the FAS financial statements, provision is made for 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 values increase in future years.

### *Pension costs*

Under U.S. GAAP, future salary increases and possible excess funding have to be taken into consideration when calculating pension liabilities. 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 and book-values of the funded assets.

### *Deferred taxation*

Under U.S. GAAP, a deferred tax liability is recognised 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.

| <i>FIM million</i>                                      | 1997   | 1996   |
|---|--------|--------|
| <i>Net profit reconciliation</i>                        |        |        |
| Net profit under Finnish GAAP                           | 195    | 489    |
| Capitalisation of costs of constructing fixed assets    | 38     | 16     |
| Overhead costs of inventories                           | -11    | -14    |
| Depreciation on goodwill on consolidation               | 22     | 23     |
| Sale and leaseback transaction                          | -18    | -86    |
| Borealis  | 0      | -211   |
| Lease contracts   | -78    | -53    |
| Foreign exchange differences                            | 1      | -7     |
| Financial instruments                                   | 0      | 0      |
| Commodity transactions                                  | 39     | 228    |
| Oil and gas accounting                                  | 60     | 72     |
| Pension costs   | 2      | 159    |
| Deferred taxation                                       | 160    | 511    |
| <i>Approximate net profit under U.S. GAAP</i>           | 410    | 1 127  |
| <i>Shareholders' equity reconciliation</i>              |        |        |
| Shareholders' equity under Finnish GAAP                 | 12 012 | 12 025 |
| Capitalisation of costs of constructing fixed assets    | 644    | 606    |
| Overhead costs of inventories                           | 50     | 61     |
| Depreciation on goodwill on consolidation               | -313   | -374   |
| Depreciation on goodwill on consolidation               | 287    | 285    |
| Sale and leaseback transaction                          | 389    | -372   |
| Lease contracts   | -154   | -76    |
| Foreign exchange differences                            | 1      | -1     |
| Financial instruments                                   | 171    | 91     |
| Commodity transactions                                  | 0      | -63    |
| Oil and gas accounting                                  | -948   | -857   |
| Pension costs   | 106    | 105    |
| Deferred taxation                                       | 598    | 410    |
| <i>Approximate shareholders' equity under U.S. GAAP</i> | 12 064 | 11 840 |

## ORGANISATION AS OF 1 MARCH 1998



*The members of Neste's Board of Directors, from left: L.J. Joubki, Jaakko Ihamuotila, Raimo Luoma, Eero Aittola, Jukka Viinanen, Veli-Matti Ropponen and Eero Tuomainen*

### *Board of Directors*

**JAAKKO IHAMUOTILA**  
born 1939  
M.Sc. (Eng.)  
board member since 1979  
chairman & CEO since 1980  
(31 Dec. 2000)

**JUKKA VIINANEN**  
born 1948  
M.Sc. (Eng.)  
board member since 1990,  
vice chairman since 1996  
president since 1997  
COO since 1995  
executive vice president,  
Neste Chemicals 1988-90  
joined Neste 1973  
(31 Dec. 1999)

**VELI-MATTI ROPPONEN**  
born 1949  
M.Sc. (Eng.), B.Sc. (Econ.)  
board member since 1994  
deputy COO & executive director,  
Oil 1997  
CFO 1994-96  
executive vice president,  
Shipping 1988-94  
joined Neste 1973  
(31 Dec. 1998)

**EERO AITTOLA**  
born 1942  
B.Sc. (Econ.)  
board member since 1997  
CFO since 1997  
corporate controller 1991-96  
joined Neste 1990  
(31 Dec. 1998)

**L.J. JOUKKI**  
born 1944  
M.Sc. (Econ.)  
president, CEO,  
Thomesto Trading Companies  
Ltd  
board member since 1995  
(31 Dec. 2000)

**EERO TUOMAINEN**  
born 1938  
Licentiate (Pol. Sc.)  
general manager, Postipankki Oy  
board member since 1995  
(31 Dec. 1999)

**RAIMO LUOMA**  
born 1959  
LL.M.  
CEO, Raimo Luoma Law Oy  
board member since October  
1997  
(31 Dec. 1999)

*(The expiry of the current term is in brackets)*

## Divisional Management

### OIL



VELI-MATTI  
ROPPONEN  
executive director

RISTO RIEKKO  
executive vice president, growth  
businesses

ERKKI GRÖNQVIST  
logistics

JORMA HAAVISTO  
planning & control

JUKKA LAAKSOVIRTA  
commercial coordination

KAI LAURÉN  
bulk sales and supply

MATTI OKSANEN  
marketing and sales

PEKKA SYLVANDER  
refining

### EXPLORATION & PRODUCTION



BO LINDFORS  
executive vice  
president

PERTTI AALTO  
capabilities and communication

PAUL KEIGHLEY  
development

KALERVO MÄKINEN  
planning and finance

HANS KRISTIAN RØD  
production

**NESTE ENGINEERING**  
ERKKI LIIMATAINEN  
executive vice president

**CORPORATE  
TECHNOLOGY**  
LARS GÄDDA  
vice president

### ENERGY



TAPIO HARRA  
executive vice  
president

TAPIO ALVESALO  
NAPS

INGMAR DAHLBLOM  
Tehokaasu Oy

ANTERO JÄNNES  
Gasum Oy

JAAKKO MUSTONEN  
business projects

BIRGER SANDSTRÖM  
finance & administration

SEPPO VESAPUISTO  
Neste Lämpö Oy

PER-ERIK WALLGREN  
LPG International

### CHEMICALS



GEORGES  
MARZLOFF  
senior executive  
vice president

PERTTI SILANTERÄ  
Neste Oxo and Neste Polyester

KYÖSTI SYSIÖ  
Neste Resins

EERO SIHVONEN  
finance & control

### Supervisory Board

TUULIKKI HÄMÄLÄINEN  
member of Parliament,  
chairman (2000)

KAARINA DROMBERG  
member of Parliament,  
vice chairman (1999)

GUSTAV HÄGGLUND  
commander-in-chief of the Finn-  
ish 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 (2000)

ERKKI TUOMIOJA  
member of Parliament (2000)

TAISTO TURUNEN  
head of the Department of Ener-  
gy/ Ministry of Trade and Indus-  
try (1998)

MATTI VANHANEN  
member of Parliament (2000)

MARKKU VUORENSOLA  
member of Parliament (1999)

STIG ÖSTDAHL  
mayor (1999)

### STAFF REPRESENTATIVES

KEIJO KOLEHMAINEN  
technical staff representative  
(2000)

HANNU MYKRÄ  
mechanic (1999)

PENTTI PAAJANEN  
mechanic (1999)

MARJA TARKKI  
secretary (2001)

TIMO NYMAN  
process engineer (deputy) (1999)

### Auditors

ARTHUR ANDERSEN  
KIHLMAN OY  
authorised public accountants

AUDITOR WITH THE MAIN  
RESPONSIBILITY  
Hannu Vänskä  
authorised public accountant

### Corporate Manage- ment Committee

JUKKA VIINANEN  
chairman

VELI-MATTI ROPPONEN  
deputy chairman

TAPIO HARRA

JUHA LAAKSONEN

BO LINDFORS

GEORGES MARZLOFF

RISTO RIEKKO

RISTO RINNE

### Corporate Centre management

JOUKO HUUMONEN  
safety

KARI KESKIIVARI  
Neste Data

JAAKKO KIVINEN  
information technology

JUHA LAAKSONEN  
corporate control and accounting

NIILLO OKSA  
human resources

PÄIVI PESOLA  
internal auditing

RISTO RINNE  
planning

HANNO RUUTU  
services

MATTI SAARINEN  
communications

CAROLA TEIR-LEHTINEN  
environment & product safety

MERJA TUOMAS-  
KETTUNEN  
purchasing

MARKKU TUOMI  
legal affairs & contracts

SEPPO VIITANEN  
finance

## ADDRESSES

### FINLAND

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### CANADA

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sion Tower  
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### ESTONIA

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### FRANCE

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Neste Oel GmbH  
Neste Shipping GmbH  
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### NETHERLANDS

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Neste Oxo AB  
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### UNITED ARAB EMIRATES

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Neste Petroleum, Inc.  
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telefax +1-713-407 4480

Neste Resins Corporation  
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## SHAREHOLDER INFORMATION

The Annual General Meeting of the Neste Group will be held on Tuesday, 15 April 1998, 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 9 April 1998 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 3.00 per share be paid on the 1997 financial period. The record date for dividend payment is 20 April, and the dividend payment date is 23 April 1998.

### *Interim Reports*

|   |                |
|---|----------------|
| Interim Report I January - 30 April 1998  | 10 June 1998   |
| Interim Report I January - 31 August 1998 | 9 October 1998 |

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](mailto:neste.communications@neste.com).





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