

# Capital Markets Day

Rotterdam  
21 September 2011

NESTE OIL

refining the future



# Focus on value creation

Matti Lievonon  
President & CEO

Capital Markets Day 2011

21 September 2011



The background features a large green circle on the left, a smaller green circle on the right, and a vertical green line on the far right. The text 'Results and outlook' is centered between the two circles.

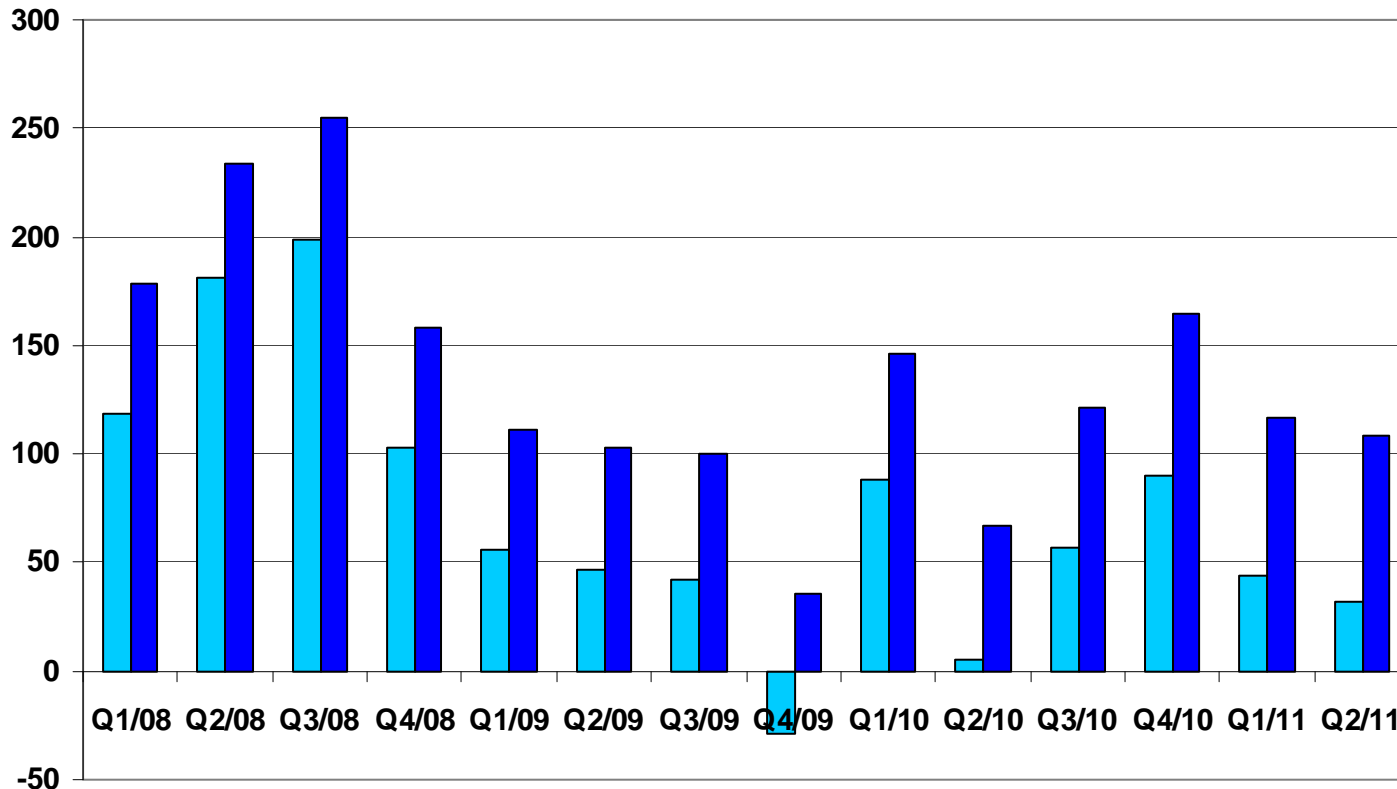
# Results and outlook

**NESTE OIL**

# EBITDA shows our ability to generate cash flow

Comparable EBITDA has been over EUR 100 million, even in a low-margin environment

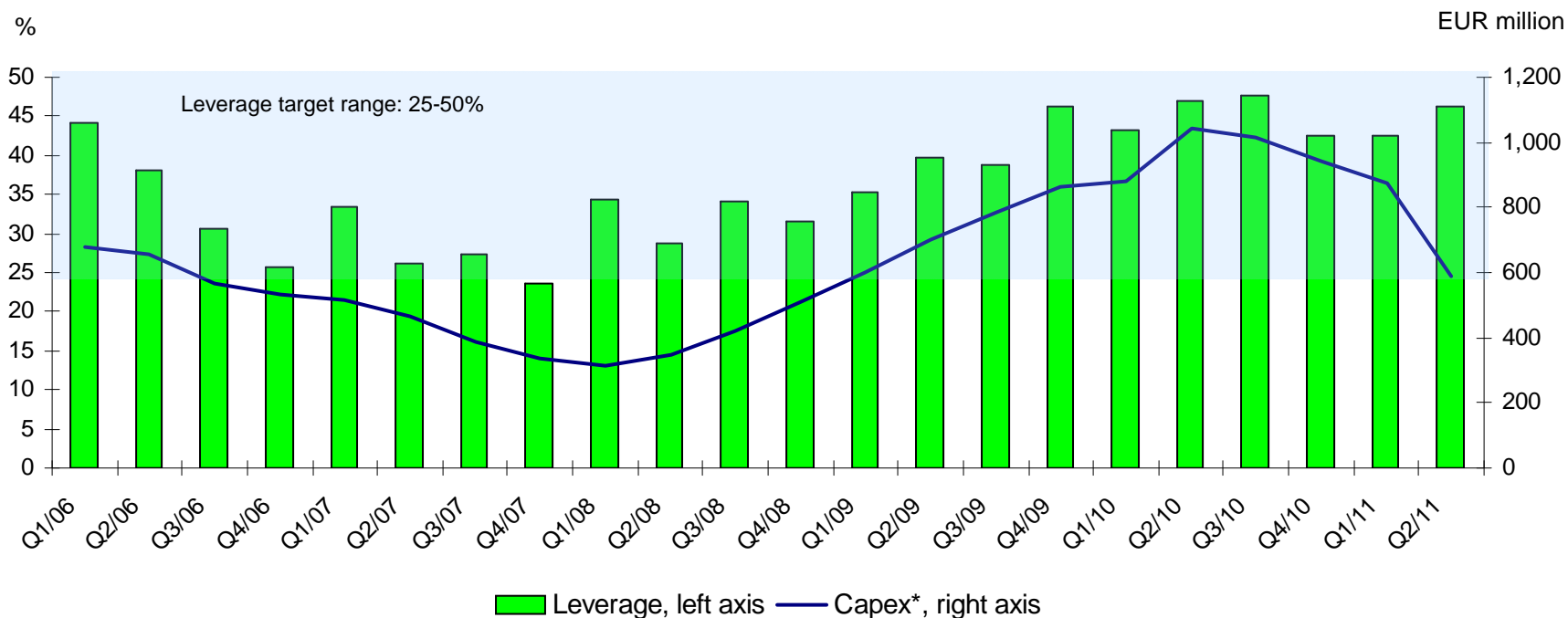
EUR million



■ Comparable EBIT ■ Comparable EBITDA

# We have kept our leverage under 50%

Large investments have now been completed



\*12-month rolling  
Leverage = net debt to capital

# Updated short-term outlook

## Oil Products

- **Reference margin Q3-to-date average is roughly USD 4.6/bbl, compared to USD 4.5/bbl in Q2 (new)**
- Production Line 4 at the Porvoo refinery to be off-line for 4 weeks in Q4 due to decoking maintenance (unchanged)
- Full-year 2011 comparable operating profit set to be higher than in 2010 (unchanged)

## Other

- Retail's performance to be similar to 2010 (unchanged)
- Fixed costs roughly EUR 650 million and cash investments EUR 300 million in 2011 (unchanged)

## Renewable Fuels

- Q3 is expected to be weaker than Q2 as high unit costs and start-up of the Rotterdam plant will impact results (unchanged)
- Sales volumes to double in the third quarter, thanks to new customers in Europe (unchanged)
- **Sales volumes will continue to increase in Q4 (new)**
- **As a result, Q4 comparable operating profit is expected to improve but will remain negative (new)**

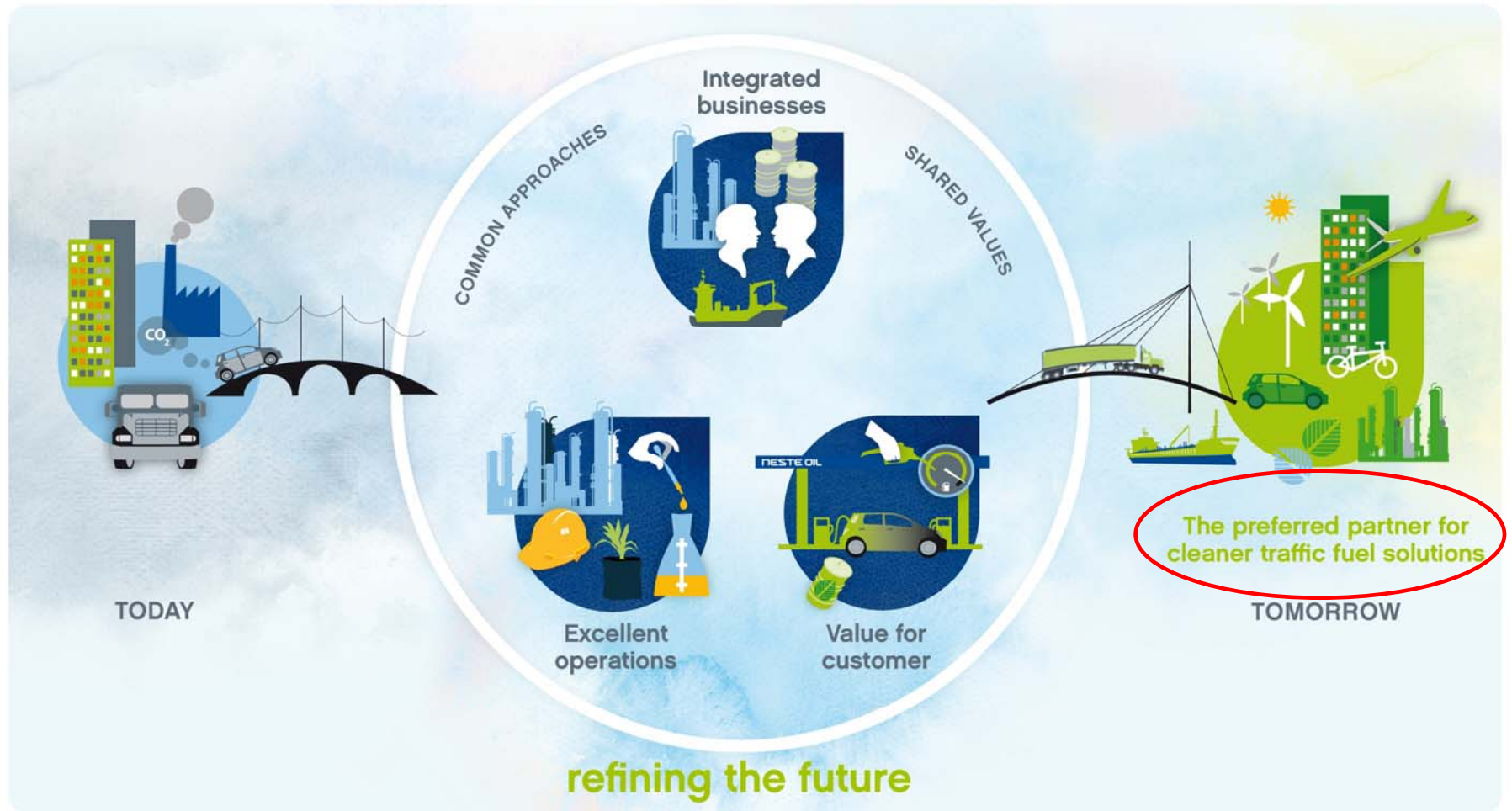


# Strategy and vision

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# Our strategy is unchanged but the vision is sharpened





# Vision:

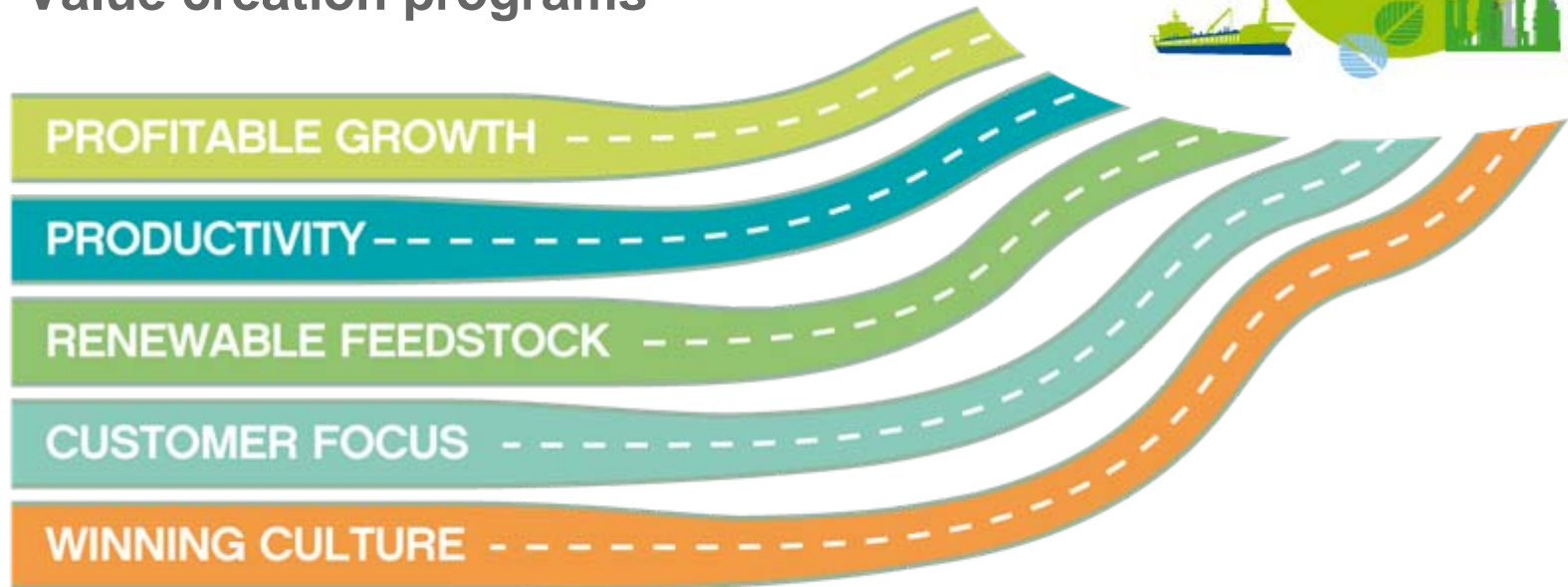
## The preferred partner for cleaner traffic fuel solutions



- Profitable over the cycle
- Forerunner and quality leader in cleaner traffic fuels
- Customer's number-one choice
- Solution provider
- Fully sustainable value chain
- Broad feedstock base, maximizing use of waste

# Implementing our vision through coordinated value creation programs

Value creation programs



# Our journey of change

FROM	TO
Cost & Profit	Outperforming the competition
Baltic Sea mindset	Globally local
Supplier	Customer-focused
Product	Solution
Internal focus	Active partnering
Functional	Cross-functional collaboration
Suitable feedstock	Wider feedstock range
Technology	Customers & technology



# Roles of Businesses and Production & Logistics

<b>Oil Products</b>	Maximizing cash flow from refinery products
<b>Base Oils</b>	Capturing value from a growing premium base oils market
<b>Renewable Fuels</b>	Generating profitable growth in the renewable fuels market
<b>Oil Retail</b>	Maximizing cash flow from existing business and leveraging market opportunities for growth and captivity
<b>Production &amp; Logistics</b>	Improving the efficiency of production and logistics assets





# Our aim is to be number one or the runner-up on our core markets

<b>Oil Products</b>	① on the home markets
<b>Base Oils</b>	② in Europe in Group III ③ globally
<b>Renewable Fuels</b>	① in high-quality renewable diesel
<b>Oil Retail</b>	Finland: ①      St Petersburg area: ② Estonia: ② Latvia: ② Lithuania: ② Poland: ④

○ = our current position

# Trends in the business environment

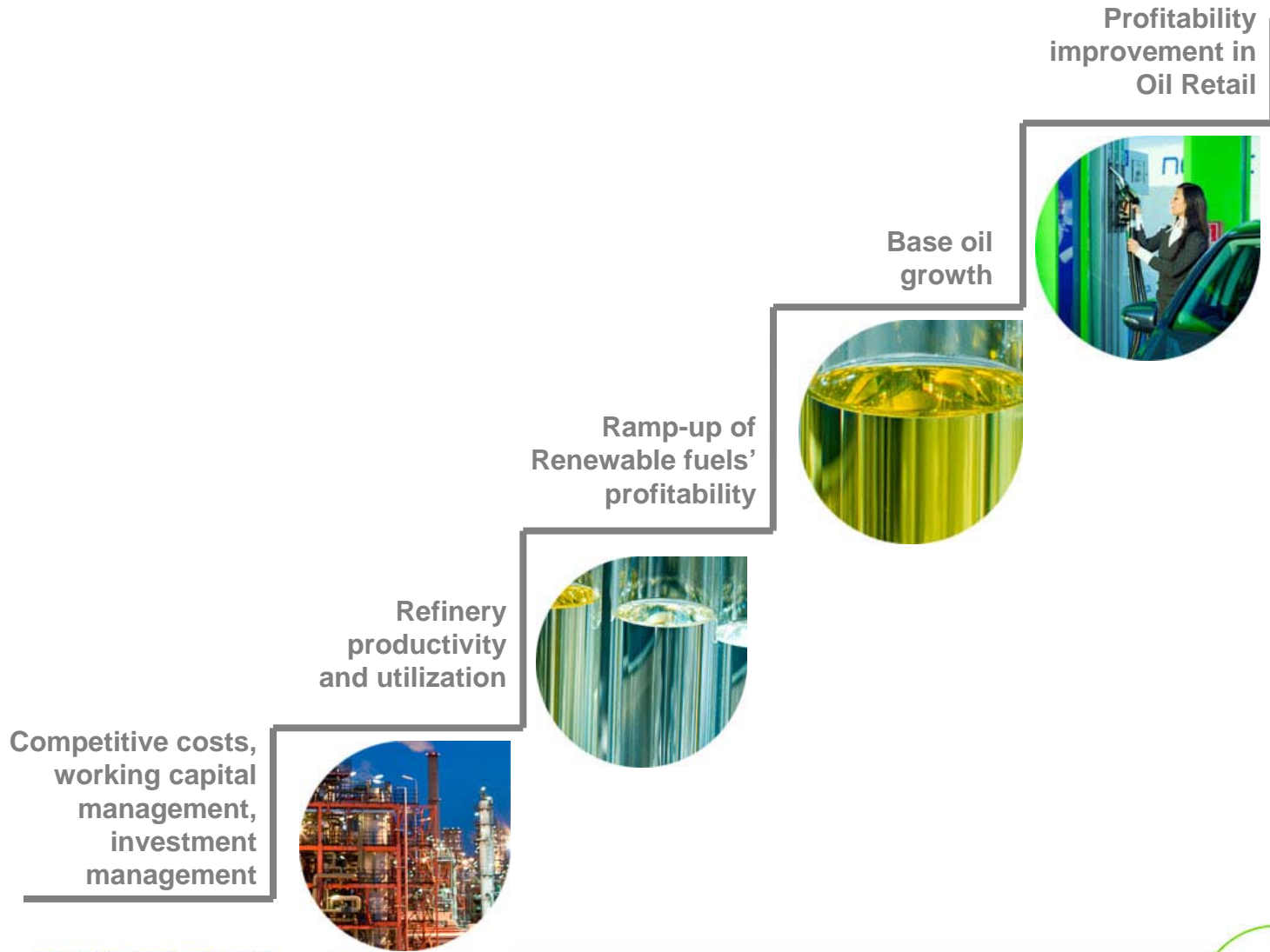
<b>World economy</b>	Economic growth outlook is uncertain but oil prices are likely to remain moderately high
<b>Refining margin</b>	Margins are dependent on the global economic development
<b>Base oil market</b>	Demand for premium base oils is expected to match strong supply growth
<b>Biofuels market</b>	Demand is projected to continue growing High-quality products offer real value for customers Overcapacity in traditional biodiesel
<b>Biofuel regulations</b>	Proceeding but some regional delays and uncertainties
<b>Biofeedstock</b>	Current feedstocks will be used in the foreseeable future Prices to stay volatile Alternatives emerging slowly
<b>Freight market</b>	Expected to remain challenging
<b>Retail market</b>	Shift to diesel will continue, growing volumes in NW Russia, market to stay highly competitive

# Our responses to current market challenges

<b>World economy</b>	Focus on cash flow Competitive costs Proactive financing and healthy liquidity
<b>Refining margin</b>	Higher productivity and focus on the home markets to support the additional margin
<b>Base oil market</b>	Globalization of the business
<b>Biofuels market</b>	Expansion of the customer base and new solutions Active advocacy
<b>Biofeedstock</b>	Maximizing use of waste and sidestreams Hedging possibilities to manage volatility Focused R&D program to develop alternative feedstocks
<b>Freight market</b>	Reduced number of vessels and high fleet utilization
<b>Retail market</b>	Continued focus on efficiency, customer loyalty and network development



# Value creation roadmap







**refining the future**

NESTE OIL

# Oil Products – Creating value from high-quality assets

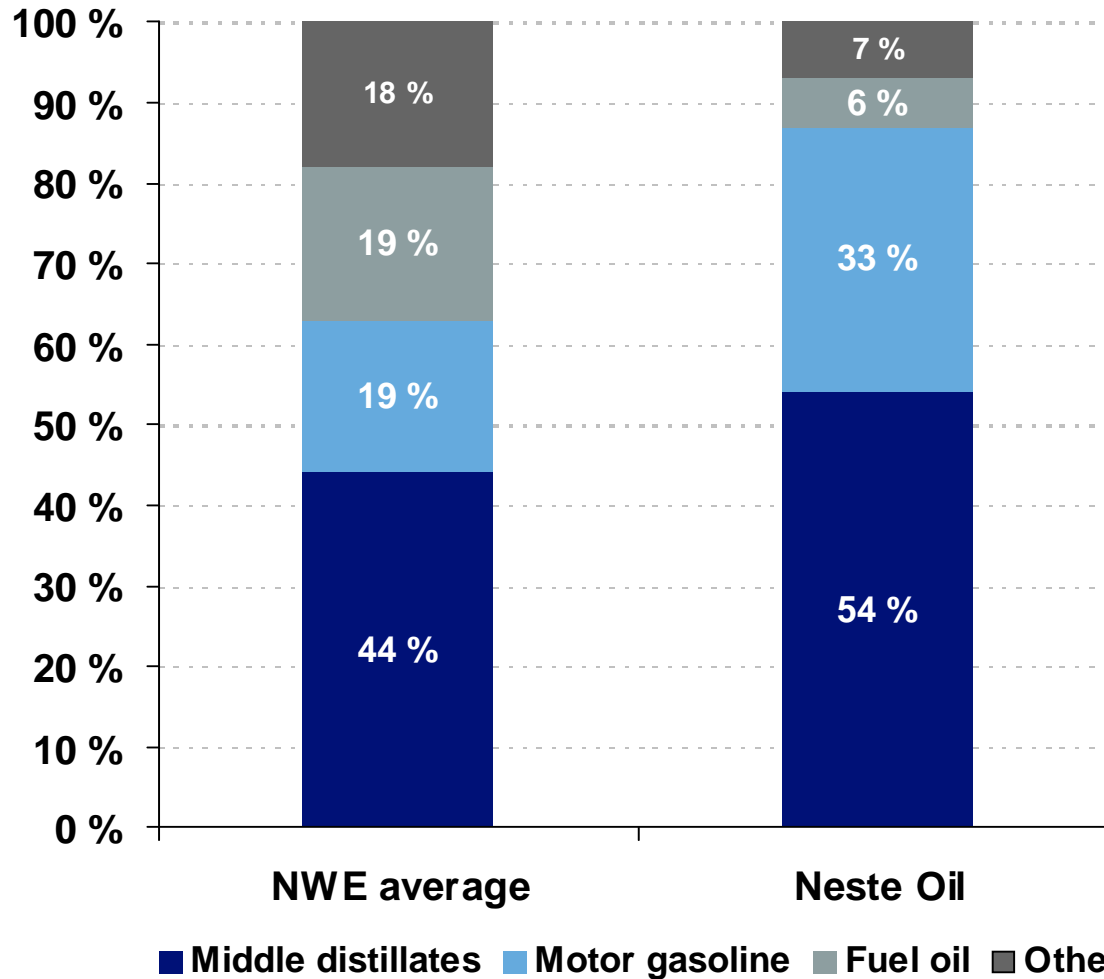
Matti Lehmus, EVP

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# A complex refiner focused on middle distillates

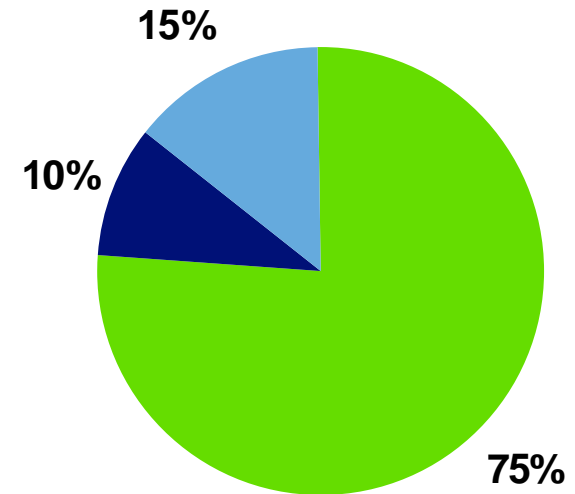


- High share of middle distillates
- High share of gasoline
- Low share of fuel oil

Source: NWE 2011 data from WoodMackenzie

# Strategic focus on the Baltic Sea states continues

- Share of the Baltic Sea states' volumes has grown in 2009-2011
- Solution concept
  - Logistics flexibility
  - Biomandate services
  - Tailored products and blends
- Logistics advantage versus other regions



**Oil Products' sales volumes in 1-7/11**

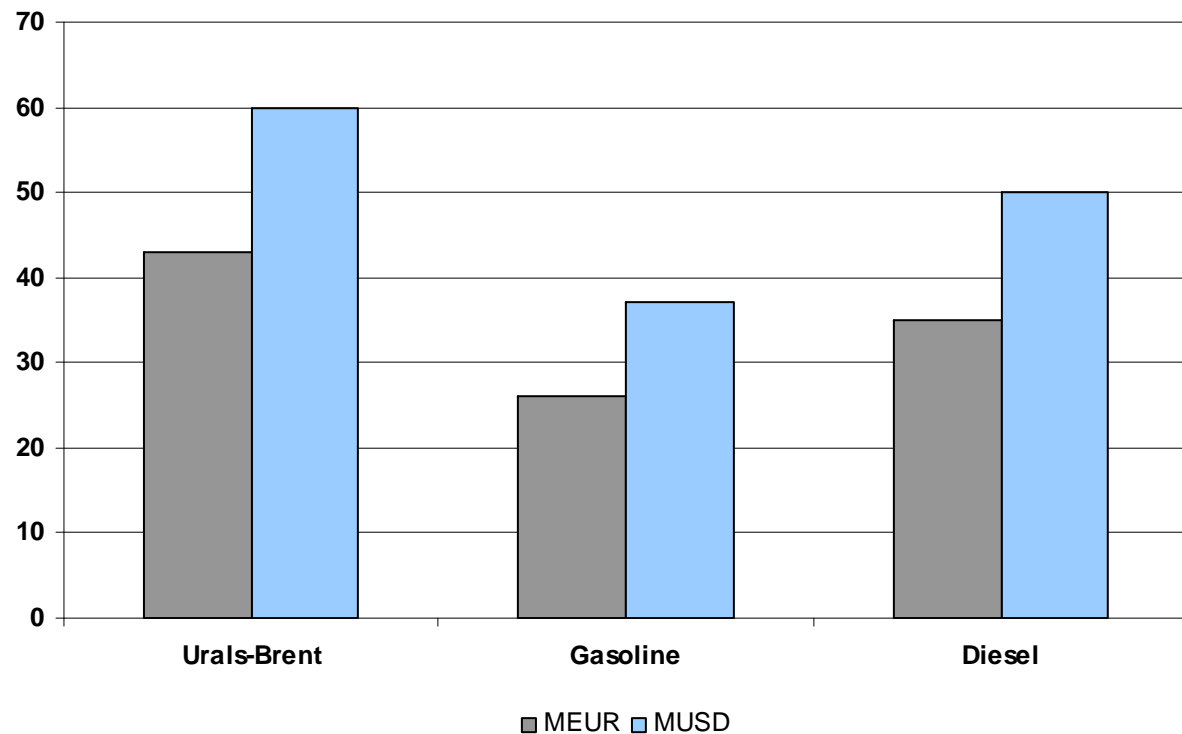
- **Baltic Sea states**
- **Other Europe**
- **Other continents**



# Key market drivers for Neste Oil

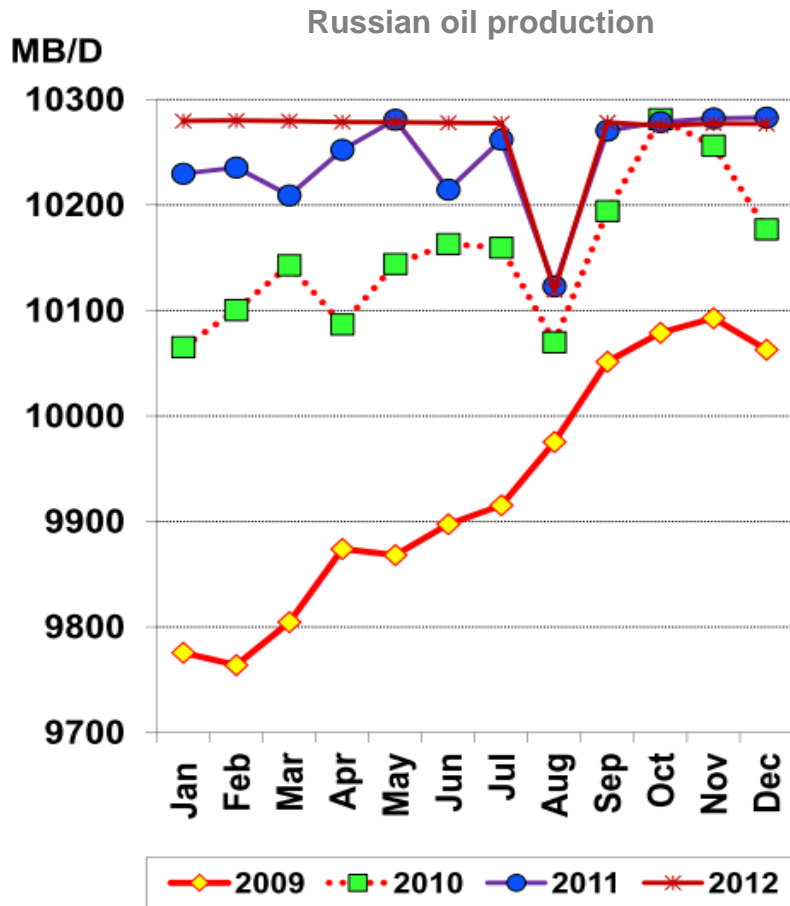
Estimated impact of \$1/bbl change in key market parameters on Oil Products' annual comparable EBIT

- REB price differential versus Brent
- Cracking margin, in particular diesel and gasoline margin
- Fuel oil versus diesel price differential



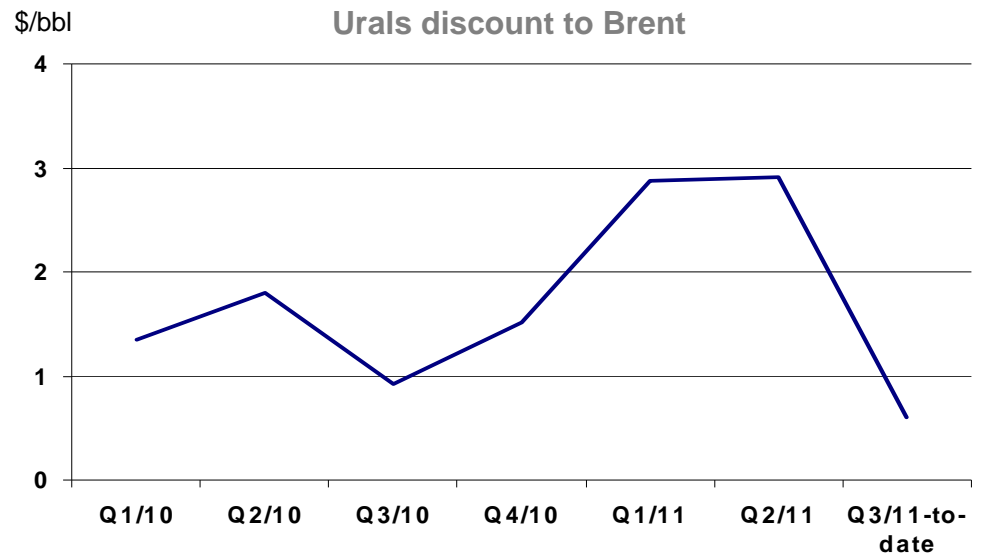
Calculations are based on USD/EUR exchange rate of 1.42

# Urals-Brent price differential outlook

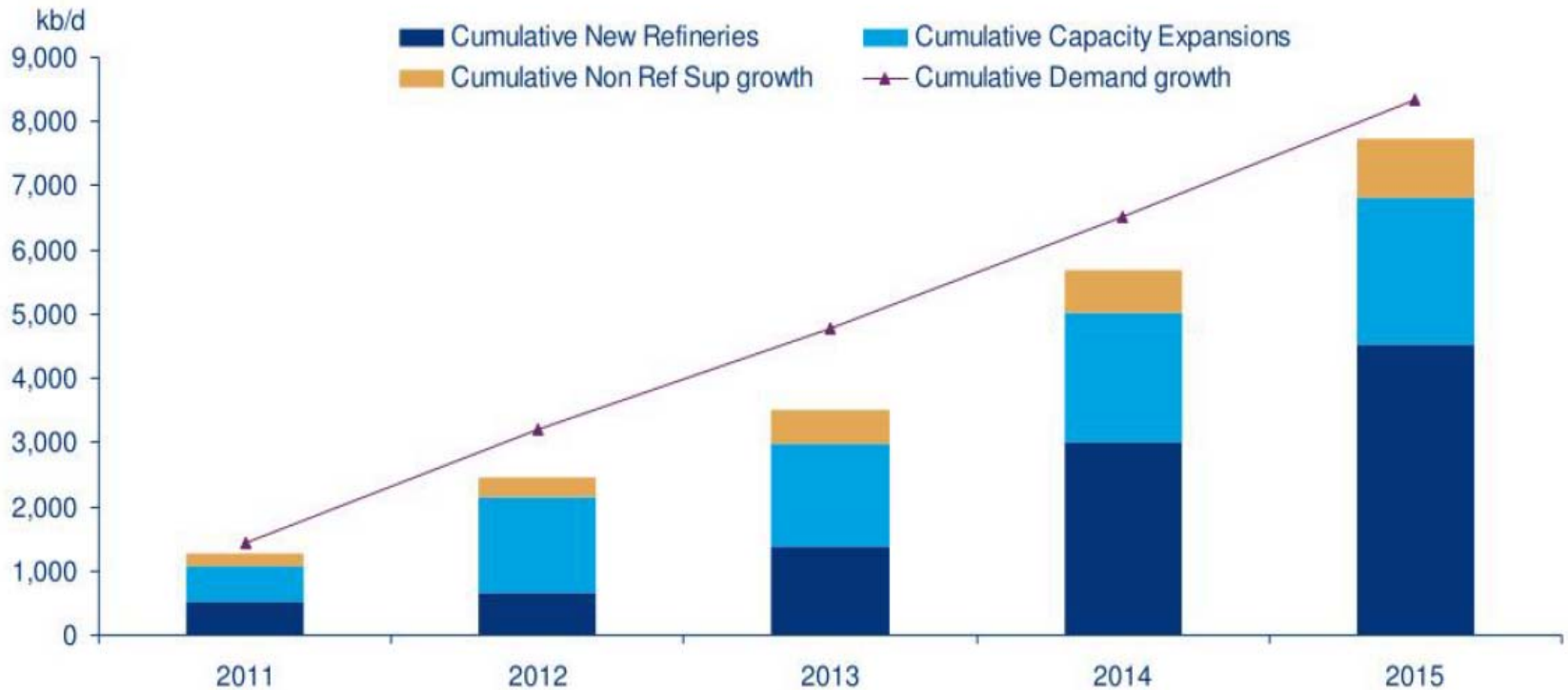


Source: PIRA

- Russian oil production is expected to increase slightly in 2012
- Proposed lower export tax could increase export volumes
- Brent-Urals price differential is expected to average USD 1.5 to 2.5/bbl



# Global supply-demand outlook relatively balanced

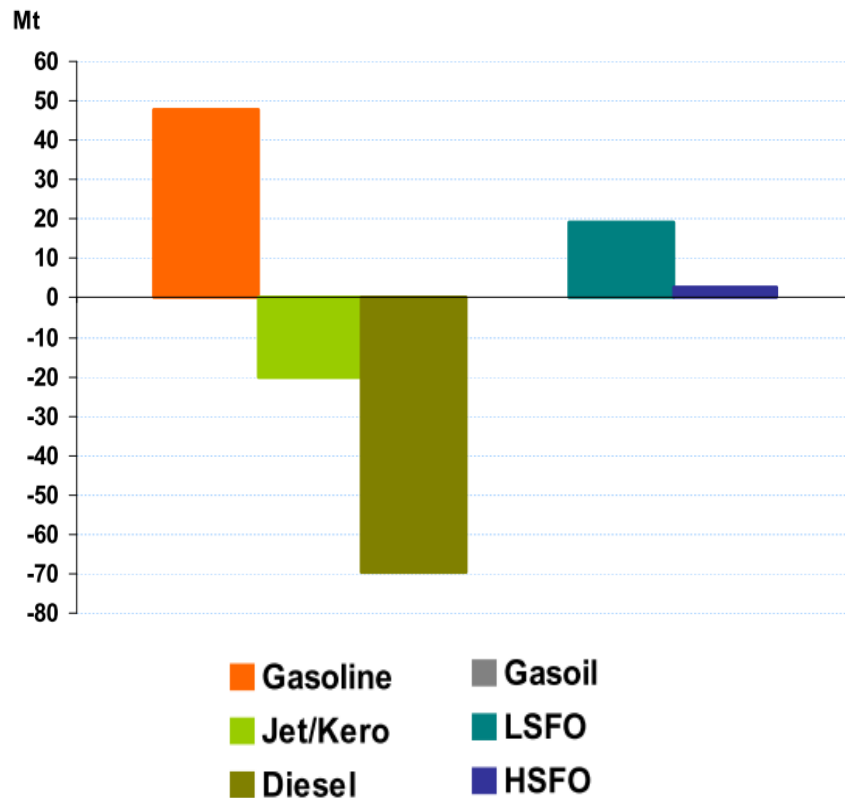


Source: Wood Mackenzie June 2011

- Asia and the Middle East are driving both demand and supply growth – balance sensitive to demand fluctuations

# Regional balances - Europe to stay short of diesel

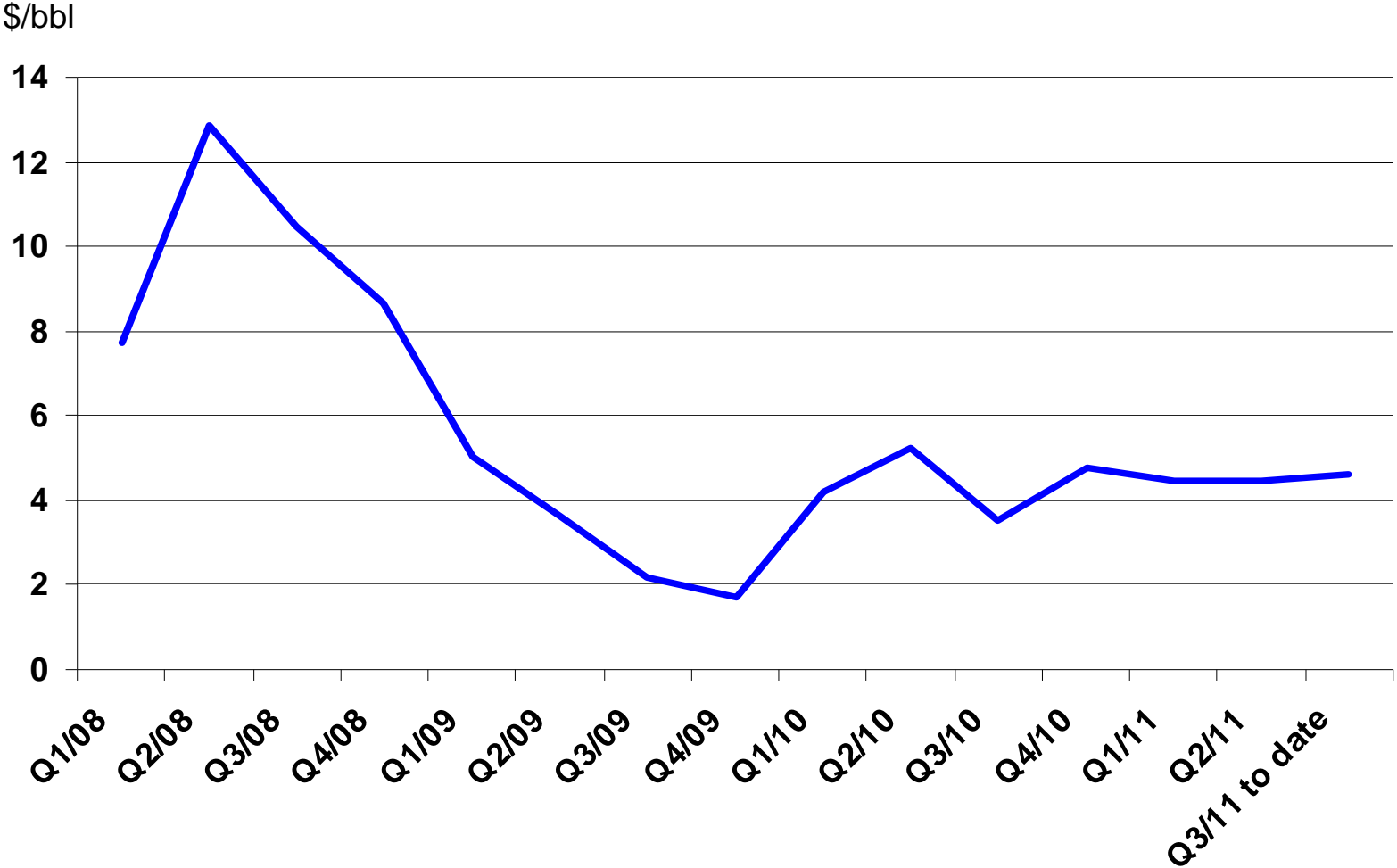
Estimated product balances in Greater Europe in 2015



Source: Wood Mackenzie 2011

- **European demand trends**
  - Middle distillate demand growing, gradual growth in need for imports
  - Gasoline demand shrinking, surplus is growing
- **Regional highlights in the Baltic Sea states**
  - Quality fragmentation due to bioregulation
  - Winter diesel balance tight

# Neste Oil's reference refining margin development



Market environment expected to be similar to 2010-11 in the foreseeable future

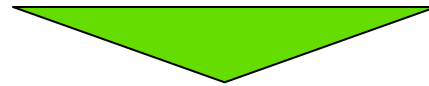


# Oil Products strategy focus areas

Productivity  
improvement

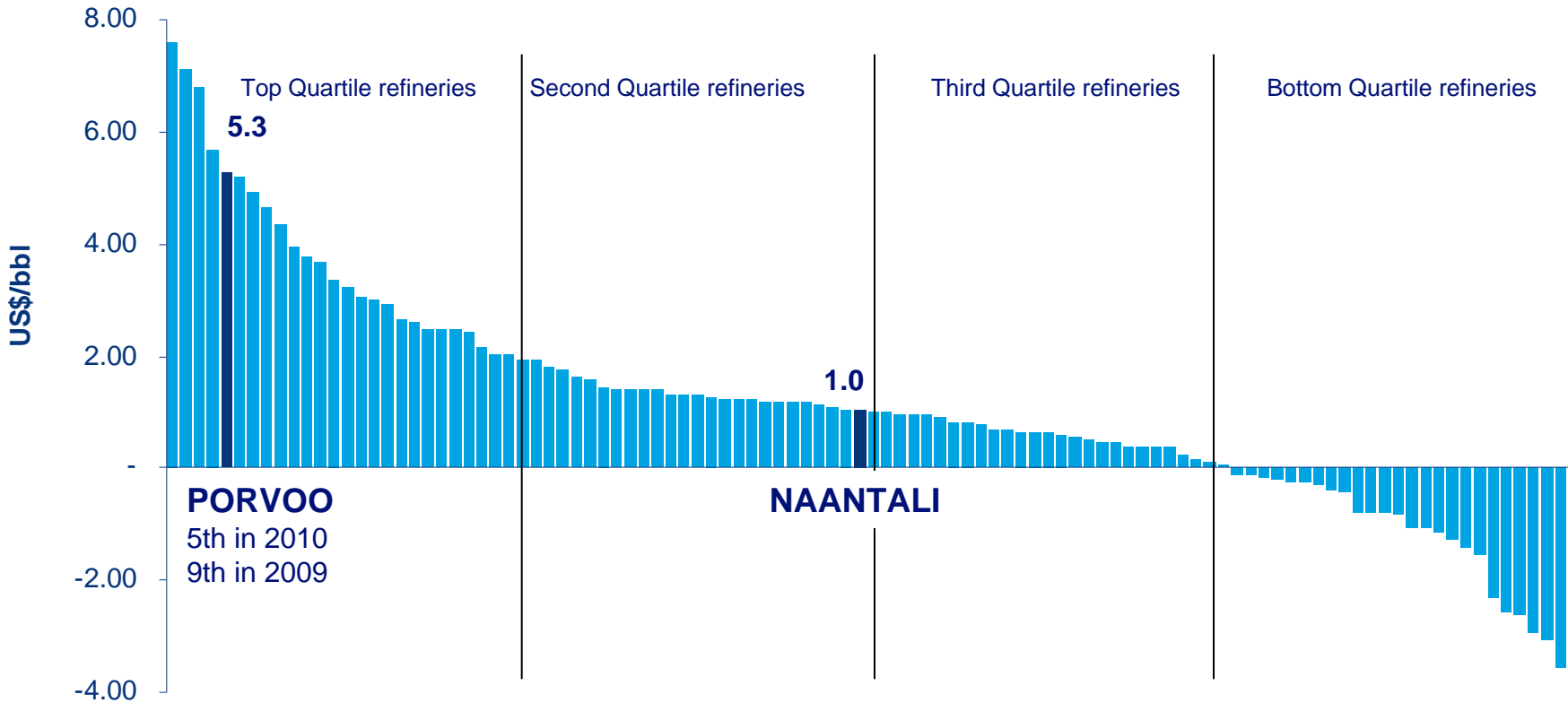
Product value  
maximization

Working capital  
management



Maximize cash flow generation

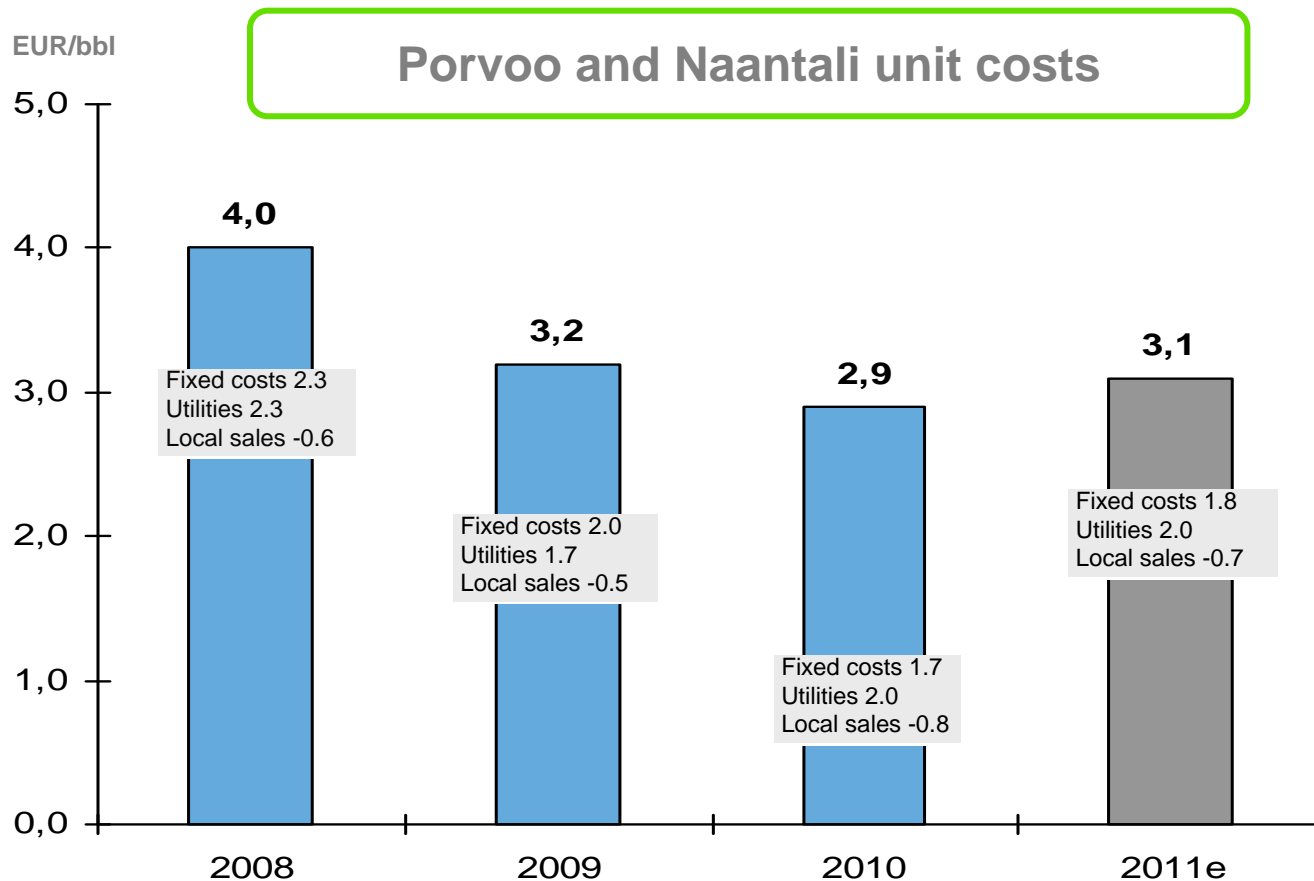
# Productivity – Comparison of European refineries' net cash margins in 2010



Source Wood Mackenzie 2011

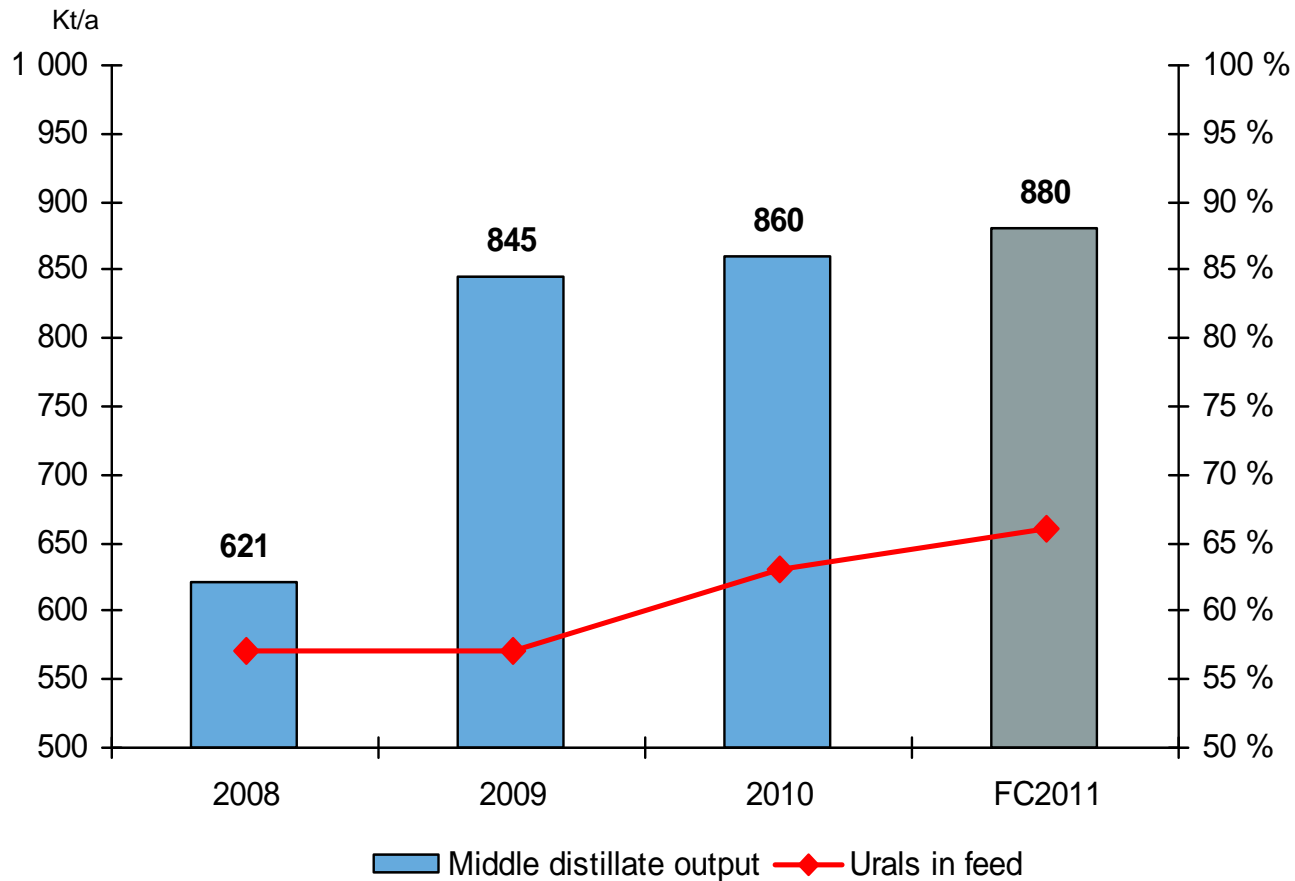
Note: 24% (36%) of European refineries operating below breakeven in 2010 (2009)

# Productivity improvement – positive fixed cost development

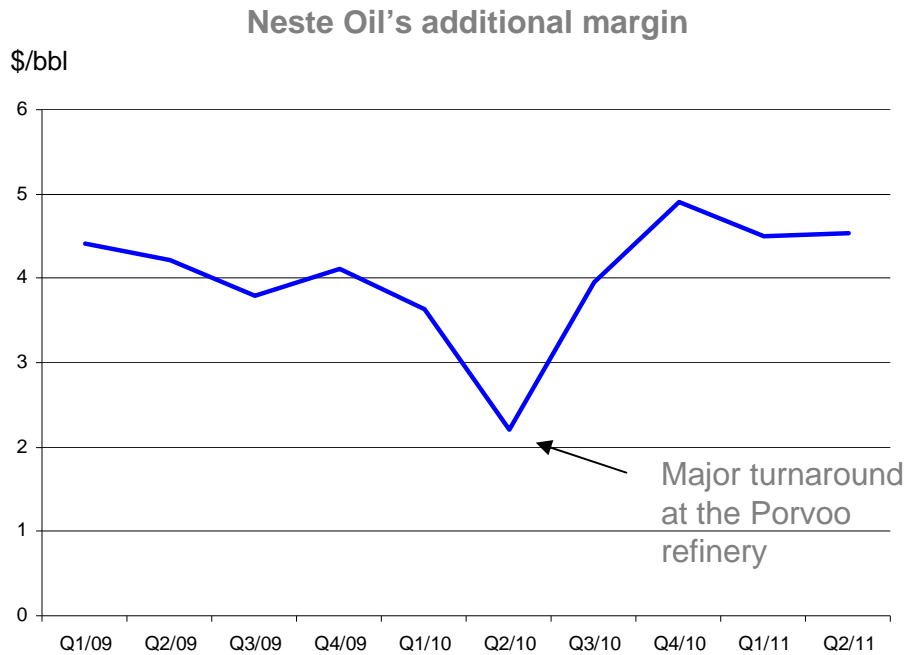


Note: Local sales include sales of utilities and services to other companies at the Porvoo industrial site

# Productivity improvement – Production Line 4 performance



# Product value maximization – Additional margin increase

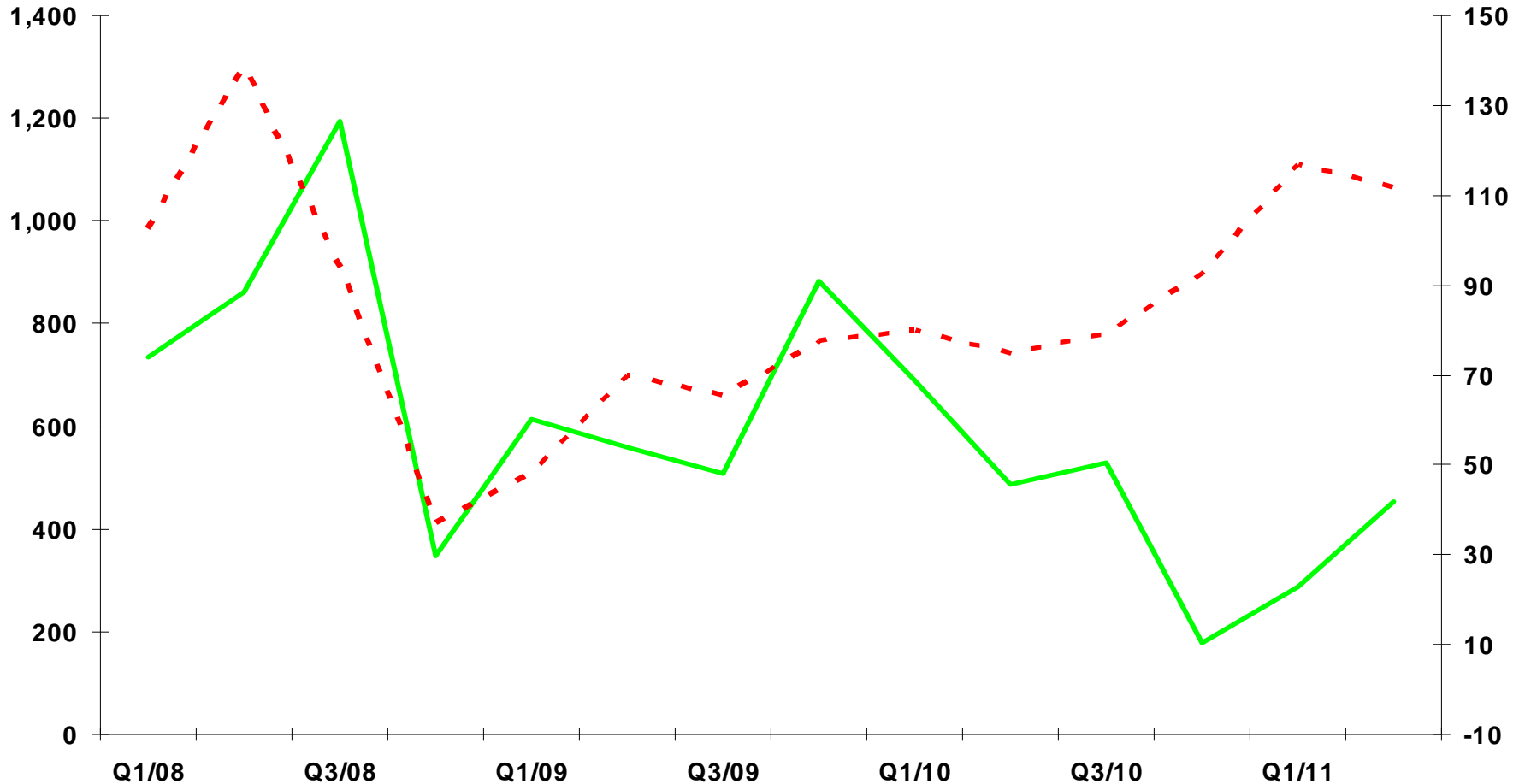


- **Focus on highest value customers and market segments**
  - Focus on the Baltic Sea states
  - Export value maximization by leveraging quality flexibility
  - Base oils
- **Product and crude slate optimization**
- **Leveraging logistical flexibility**



# Successful working capital management

EUR million



— Oil Products' net working capital, left axis - - - Brent dated, right axis

# Value from high-quality assets



Future potential

Focus on highest value customers and markets

Energy efficiency

Reliability and productivity

Working capital management and optimization



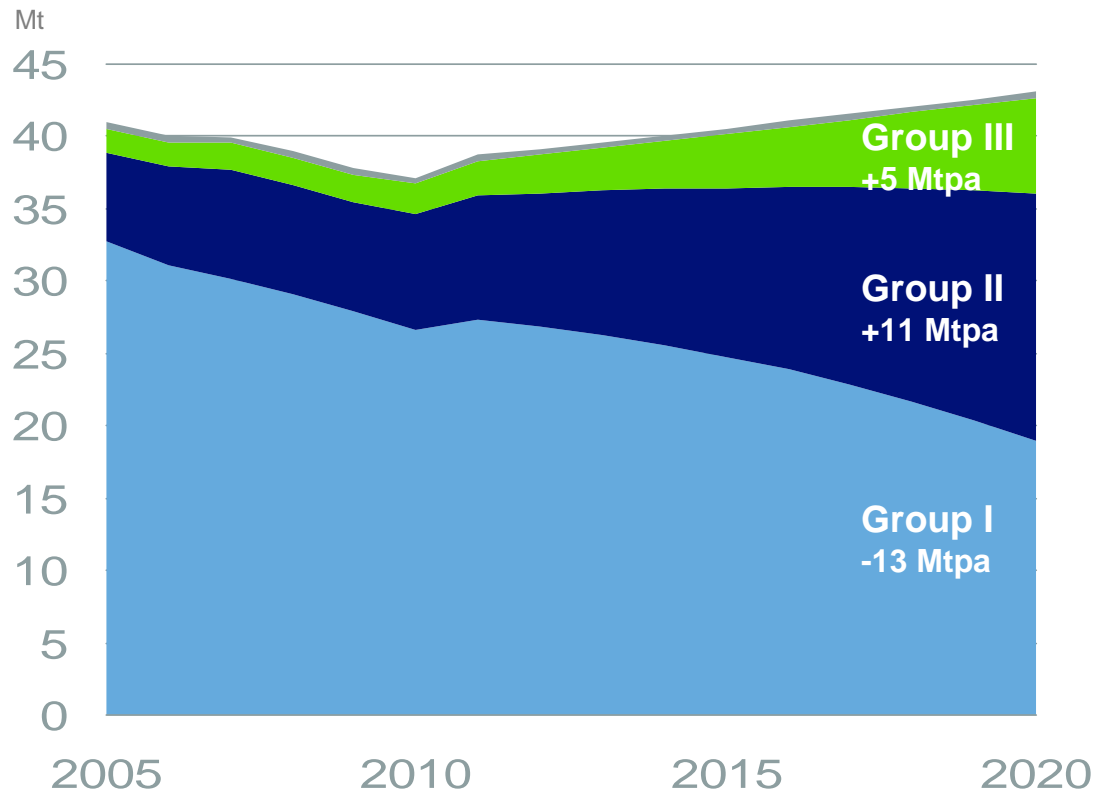


## **Base Oils –**

**Globalizing in an attractive  
growth market**

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# Demand for high-performance base oils is growing at more than 10% annually



## Growth drivers:

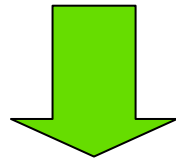
- Emission legislation
- Fuel economy
- Oil drain intervals

Source: In-house estimates

# Group III NEXBASE<sup>®</sup> Base Oil

## Improved traffic energy efficiency

- Base oils designed for improved fuel economy
- High-stability base oils
- Emission reduction
- Extremely low sulfur and aromatic content

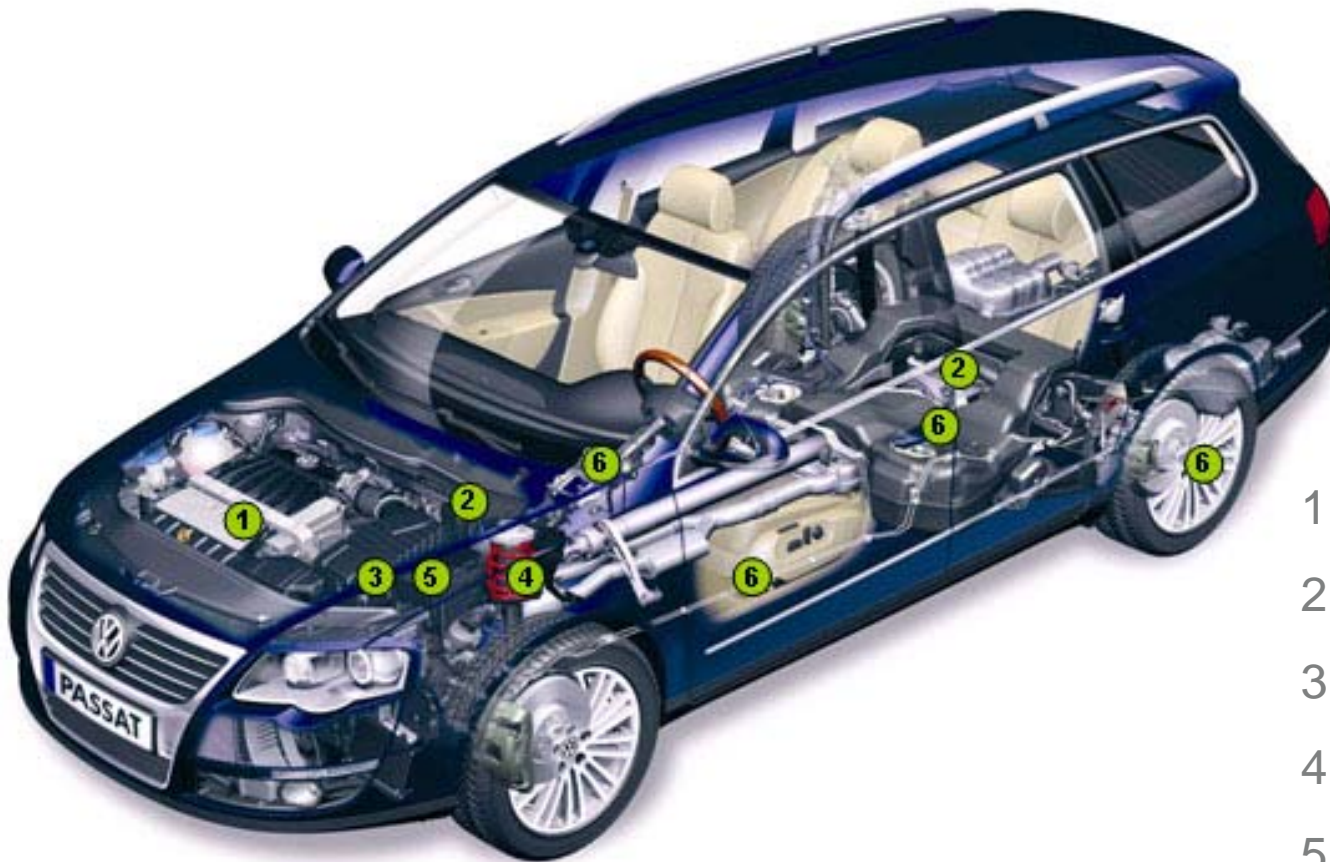


High-quality products that meet increasingly stringent environmental and performance requirements



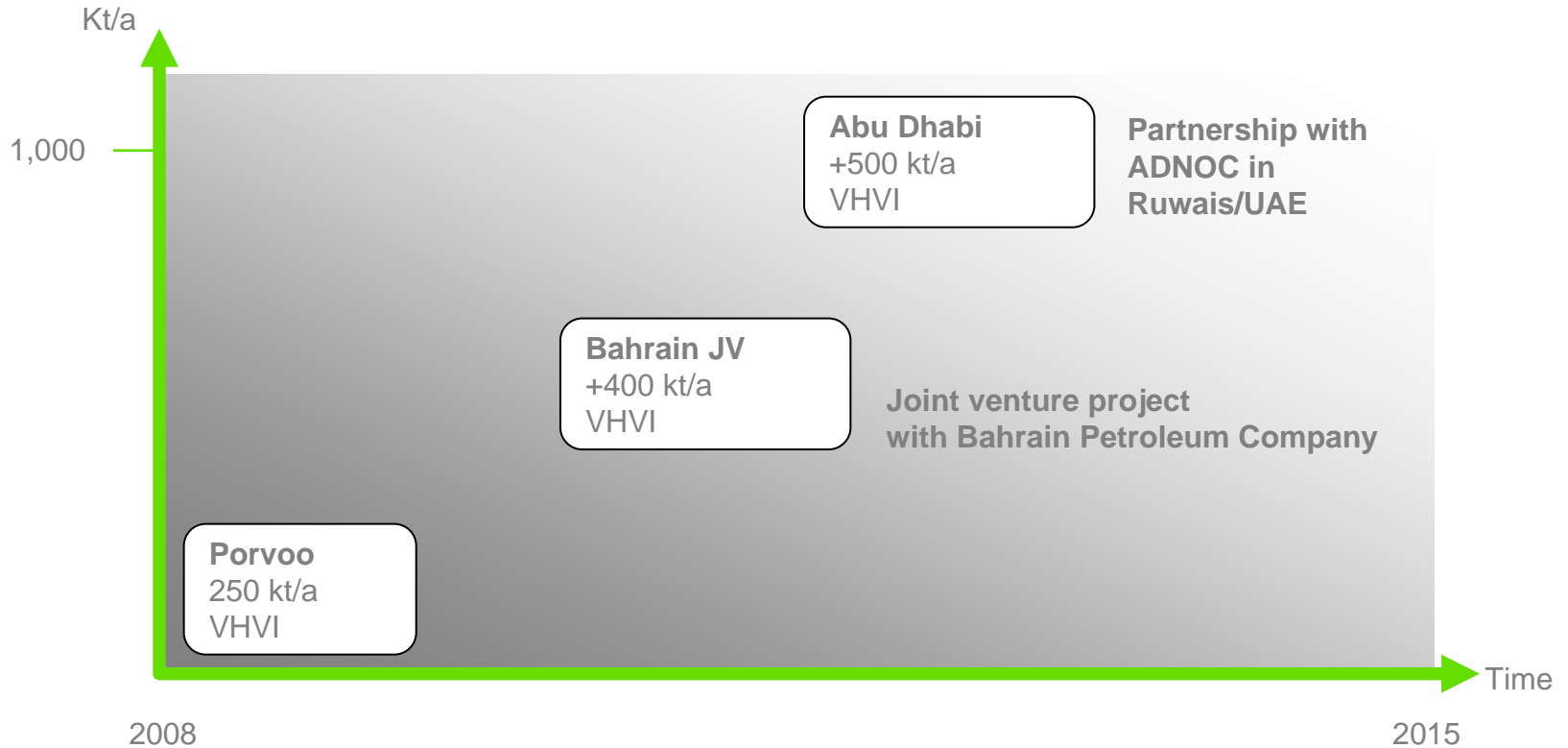


# Application areas for premium-quality base oils



1. Engine oil
2. Driveline fluids
3. Power steering fluid
4. Shock absorber fluid
5. Gear oil
6. Greases

# Neste Oil's base oil roadmap



Neste Oil is committed to grow with its customers and strives to be the preferred partner and solutions provider

# Our global presence



- Global sales office
- Production site
- Terminals currently in operation
- Terminal location under evaluation



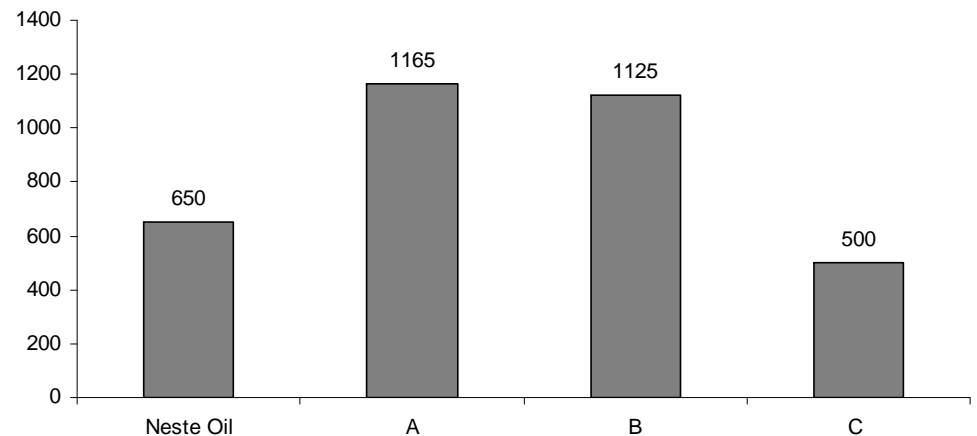
# Group III base oil market



## Neste Oil market position

- Top 3 player with global market share of approx. 20-25 %
- Non-integrated supplier
- Strong position in Europe

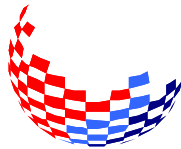
Group III competitor capacities 2012  
kt/a



# Partnership strategy to drive growth

## Bahrain JV with BaPco and OGHC

- USD 430 million investment
- Neste Oil's share is 45%
- Neste Oil responsible for marketing
- Commissioning of the site is ongoing
- Maximum utilization rate expected to be reached rapidly due to the positive market situation



شركة البحرين لزيت الأساس للتشحيم  
BAHRAIN LUBE BASE OIL COMPANY

## Abu Dhabi partnership

- 600 kt/a unit under construction at Adnoc's Ruwais refinery
- Neste Oil as marketing partner



VHVI site in Bahrain (September 2011)

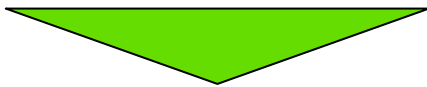
# Key business drivers

## Supply/demand balance

- Specification development
- Car sales driving factory fill demand

## Added value through

- Formulation development
- Quality and quality consistency

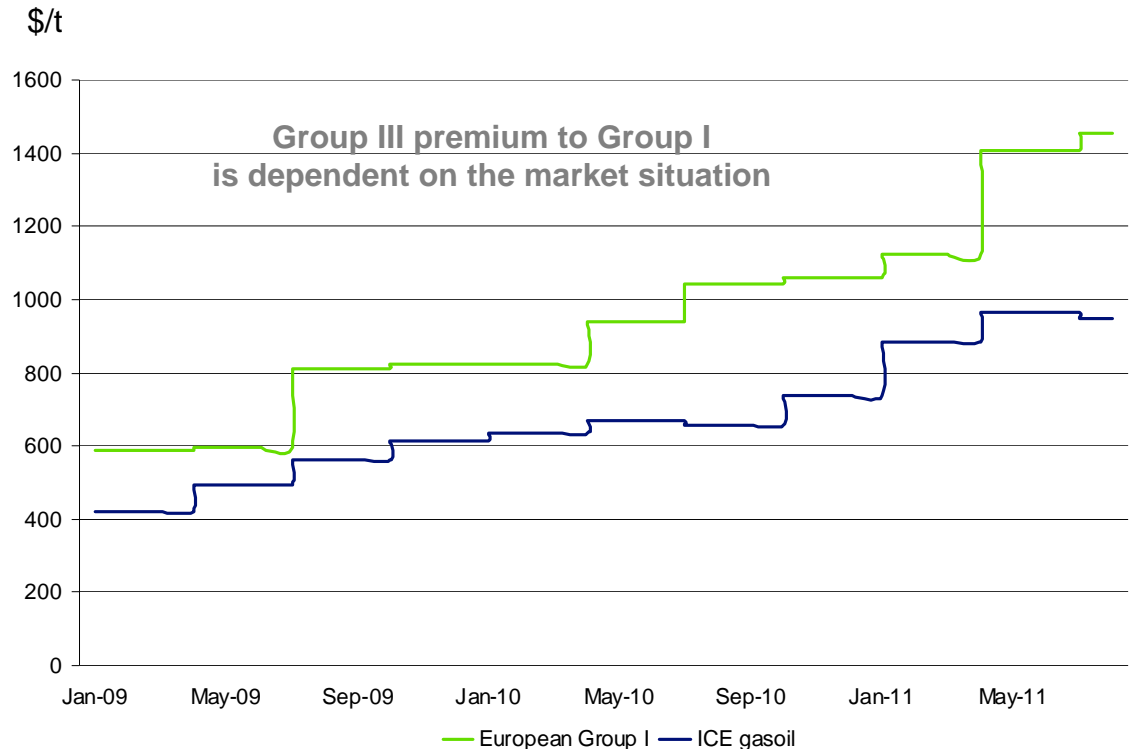


## Margin

VHVI base oil price differential versus feedstock

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## Group I premium to gasoil



Source: Argus 2011



# Globalization and growth



Future opportunities – leverage market position

Capacity growth- Abu Dhabi partnership



Expanding customer base and global supply chain optimization



Capacity growth - Bahrain joint venture



Solution concept- high-quality products and formulations





# **Renewable Fuels - Driving growth and profitability**

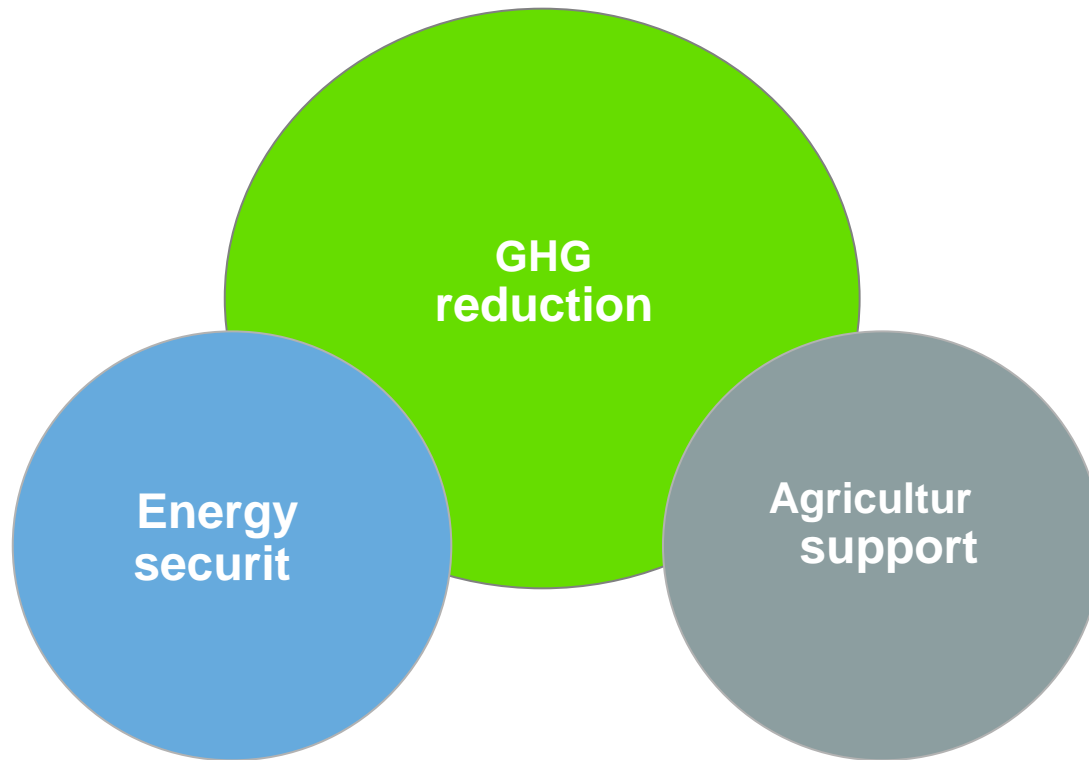
**Matti Lehmus, EVP**

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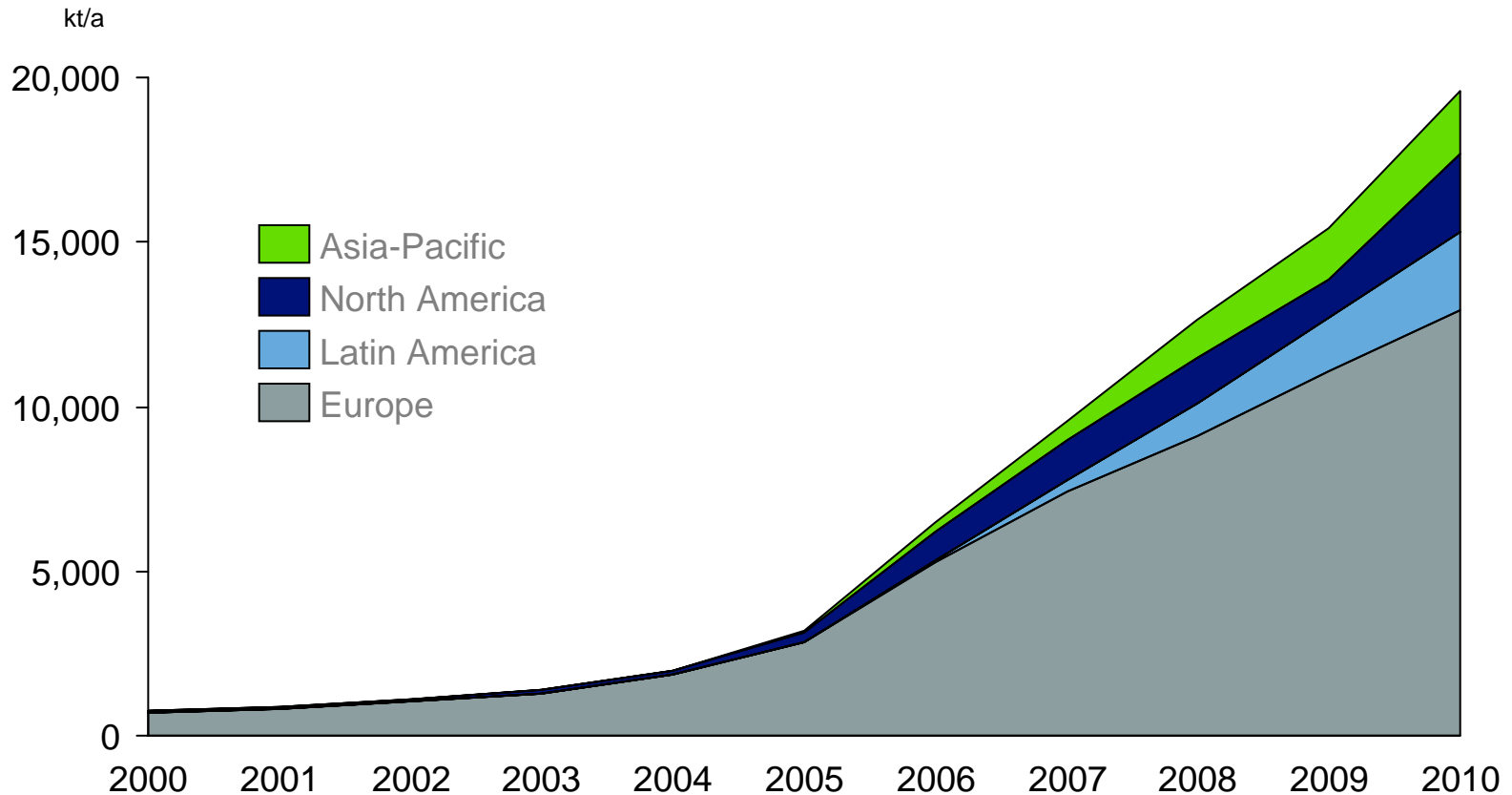
refining the future

# Policy forces are driving the adoption of biofuels



These factors have a different emphasis in different markets

# Biodiesel demand has grown rapidly since 2005, especially in Europe

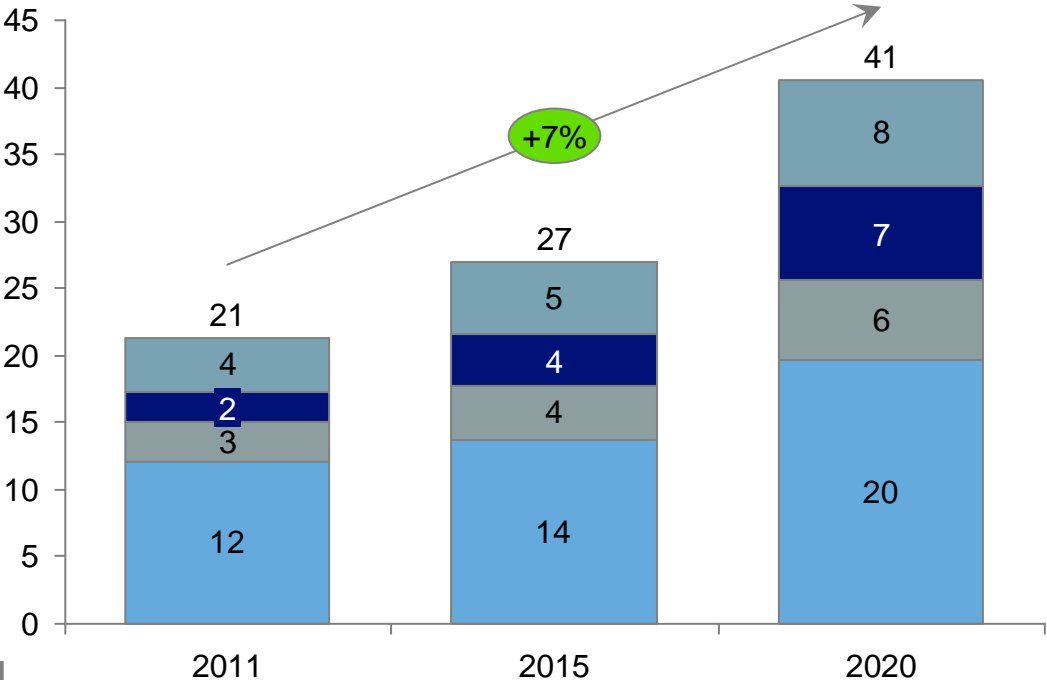


Source: Wood Mackenzie 2011

# Global bio/renewable diesel demand is expected to nearly double by 2020

Bio/renewable diesel to grow at ~7% p.a.

Bio/renewable diesel demand (Mt)



- Rest of World
- Asia-Pacific
- North America
- Europe

Share of global diesel/gasoil (weight-%)

1.7 %

2.0 %

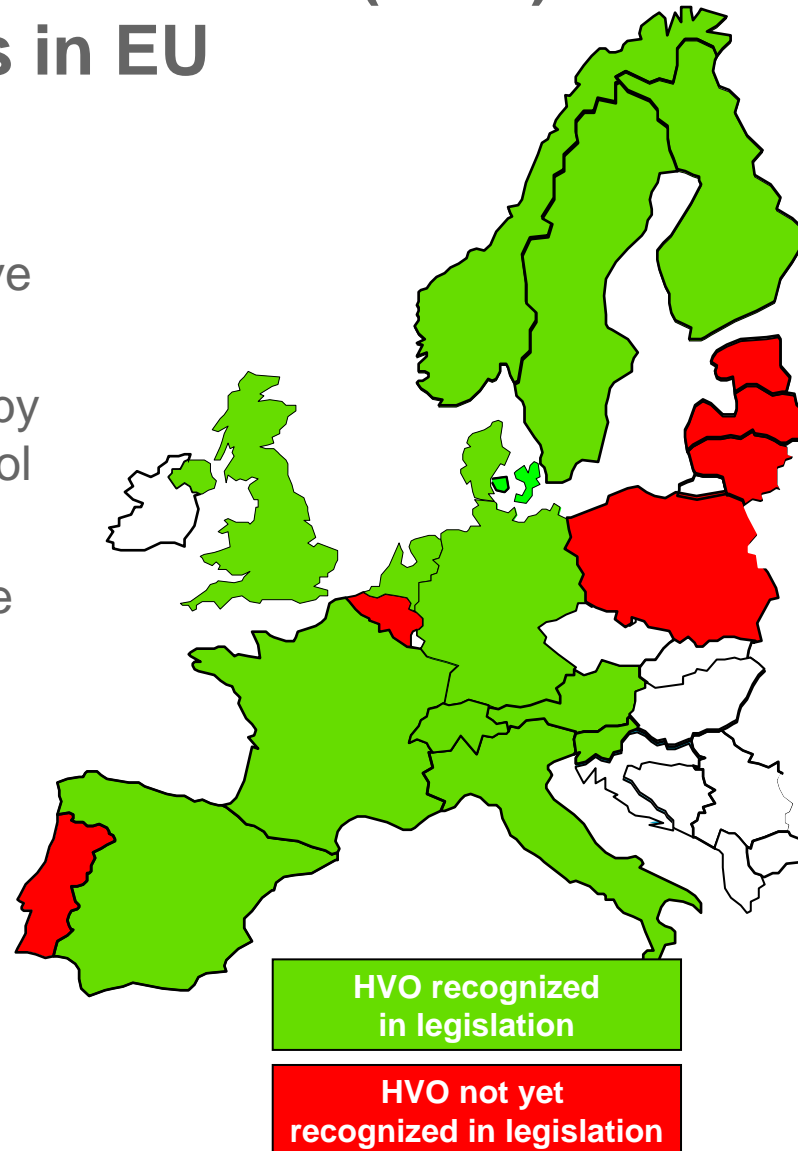
2.6 %



# Hydrogenated Vegetable Oils (HVO)

## – Legislative status in EU

- Renewable Energy Directive stipulates mandates
- Biofuels to represent 10% by energy of the traffic fuel pool by 2020
- Current level typically in the 4-6% range, depending on country



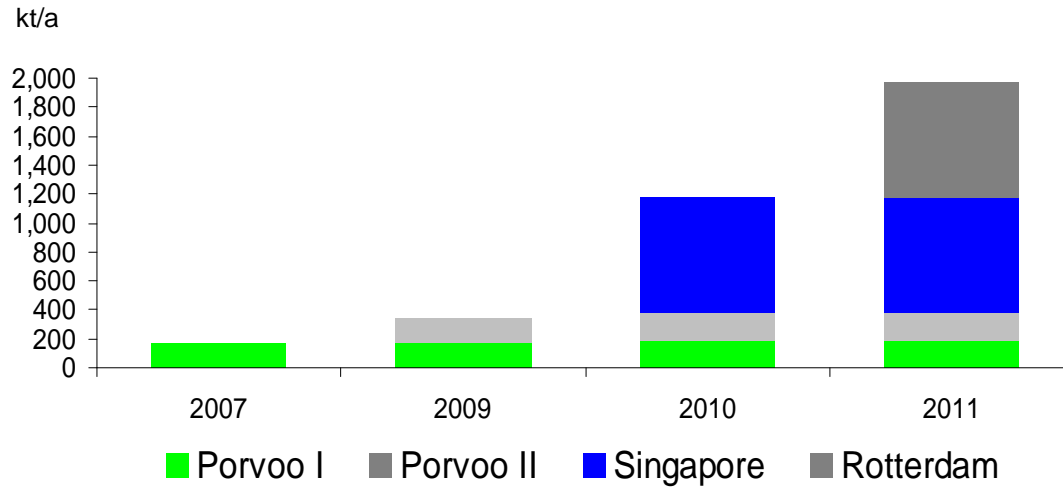
# Hydrogenated Vegetable Oils (HVO)

## – Legislative status in the US and Canada

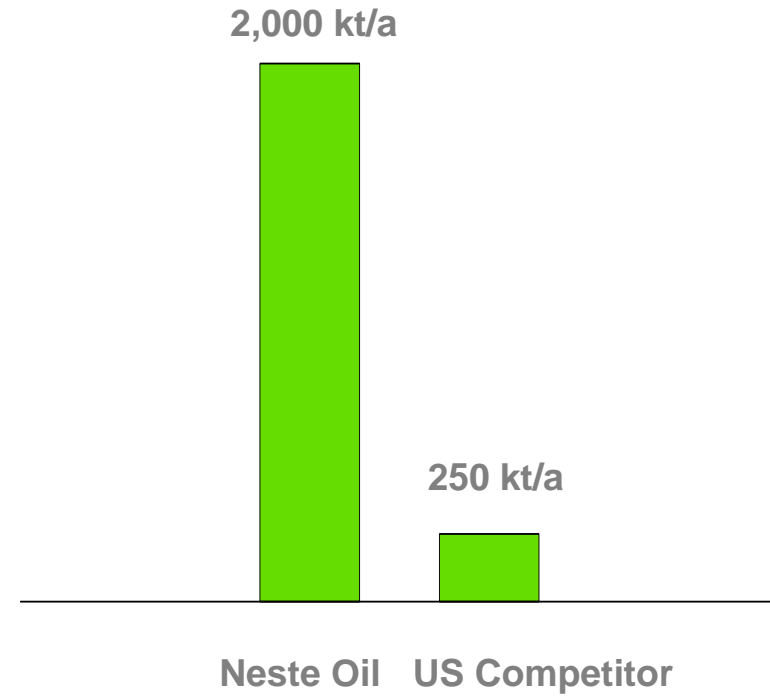
- **US**
  - Renewable Fuels Standard (RFS-2) stipulates minimum volumes of renewable fuels; approx. 20% of the traffic fuel pool by 2022
  - HVO approved as a biofuel but limited number of feedstocks are recognized for Advanced Biofuels
  - Definition of import procedures for Advanced Biofuels has been ongoing but has not been officially approved
- **Canada**
  - 2% biomandate in place at Federal level
  - HVO approved as a biofuel
  - Sustainability legislation under development

# Current HVO producers and capacity

## NExBTL capacity growth

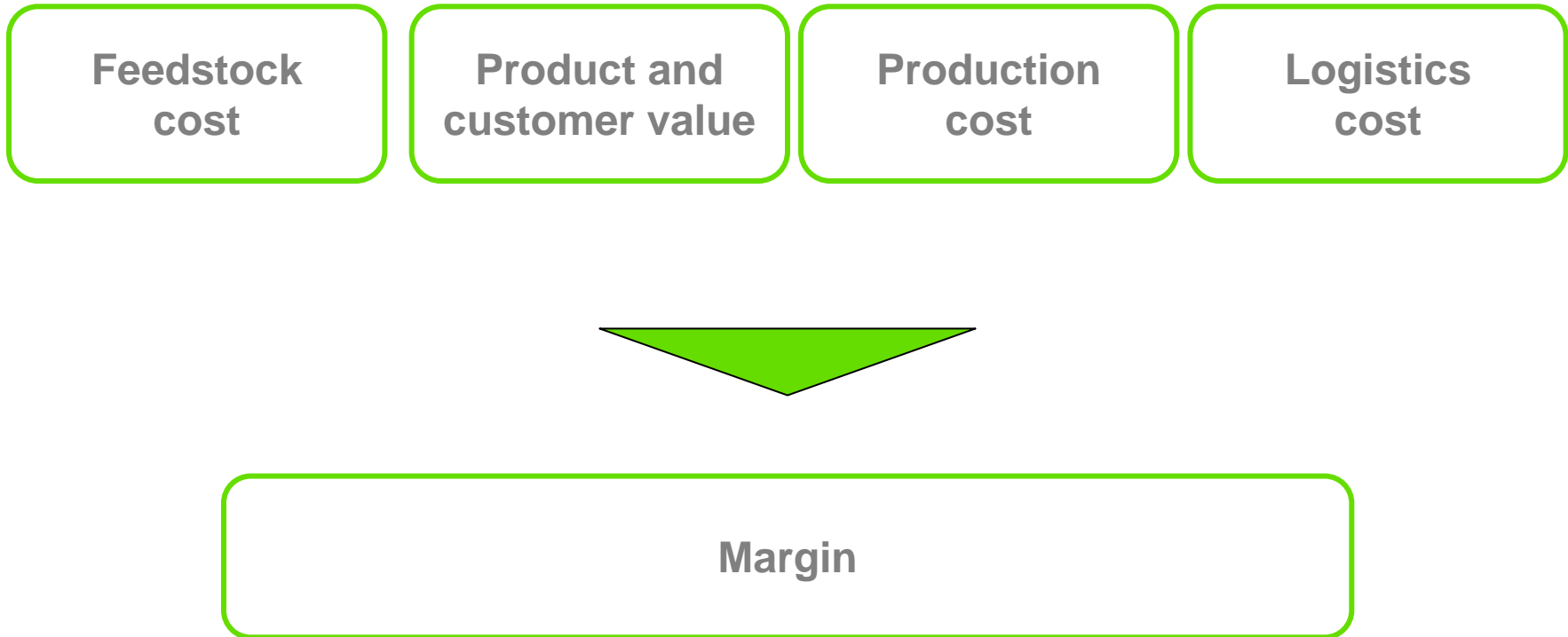


## Global HVO capacity



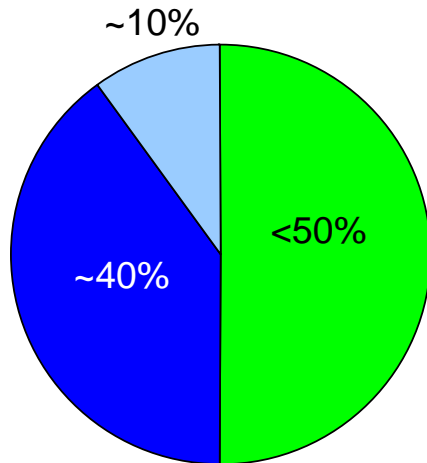


# Selected NExBTL business drivers



# Key business drivers - Feedstock

## Feedstock pool in 2011



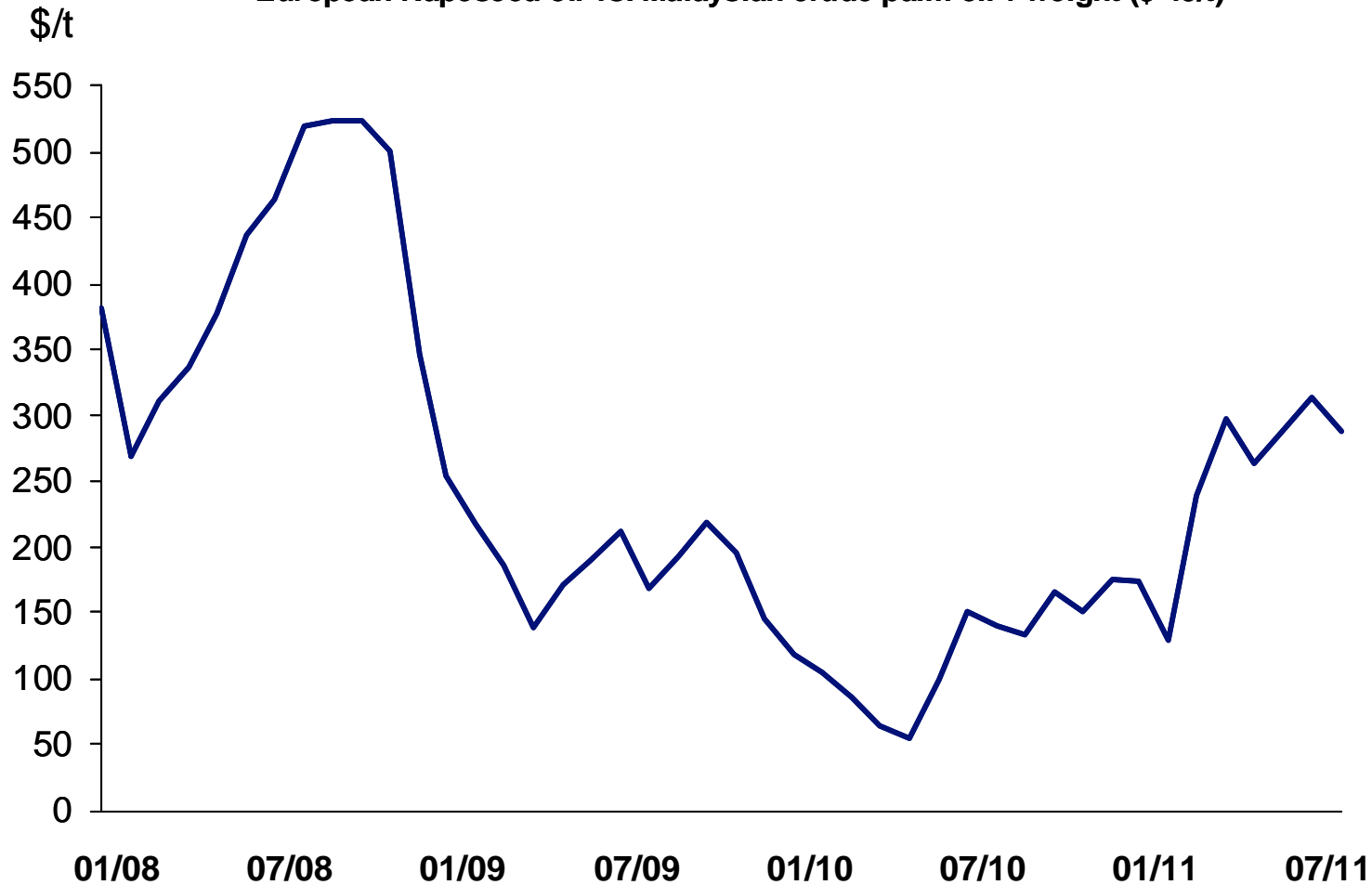
- Crude palm oil
- Waste and side streams (waste animal fat, PFAD, stearin)
- Other (e.g. rapeseed, jatropha, camelina)

## Feedstock strategy

- **Ensure sustainability of all feedstock used currently**
  - Certification schemes
  - Audit trail
  - Projects to further improve sustainability
- **Expand feedstock range**
  - Focus on waste, sidestreams and residues
  - Animal fat share will rise to >20 % during 2011
  - New feedstocks through focused R&D

# Feedstock flexibility is an important profitability driver

European Rapeseed oil vs. Malaysian crude palm oil + freight (\$ 45/t)



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Source: Neste Oil

# Key business drivers – Product and customer value

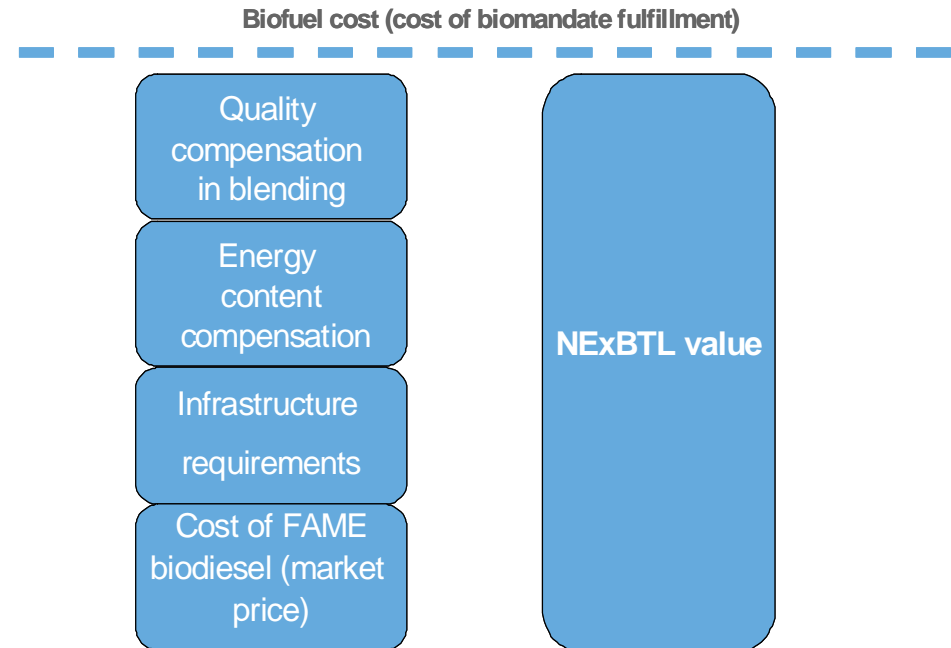
## Margin is dependent on

- Feedstock price differentials
- Biodiesel margin (e.g. FAME vs RSO)
- Additional margin (quality premiums)

## Different product pricing schemes, e.g.

- FAME + premium
- Gasoil + premium
- SME + premium

## Customer value creation via NExBTL



# Key business drivers – Production cost

Estimated cost per NExBTL ton produced  
(estimates published in 2009 in brackets)

	USD/t
Fixed costs	50 (50)
Hydrogen and utilities	170 (125)
<b>TOTAL</b>	<b>220 (175)</b>



## Production cost drivers

- Utilization rate
- Utility cost
- Yield

Production costs have been impacted by increased energy costs

Calculation is based on estimated average annual costs, assuming maximum utilization at all plants

# Driving growth and profitability



Value-added growth in new geographic markets and in new application areas (e.g. biojet)

Capacity creep and yield improvement opportunities at existing units

Focus on highest margin market segments and solution concepts

Expansion of competitive feedstock base

Working capital/supply chain optimization

Production efficiency through full capacity utilization





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# Firm grip on financials

Ilkka Salonen, CFO

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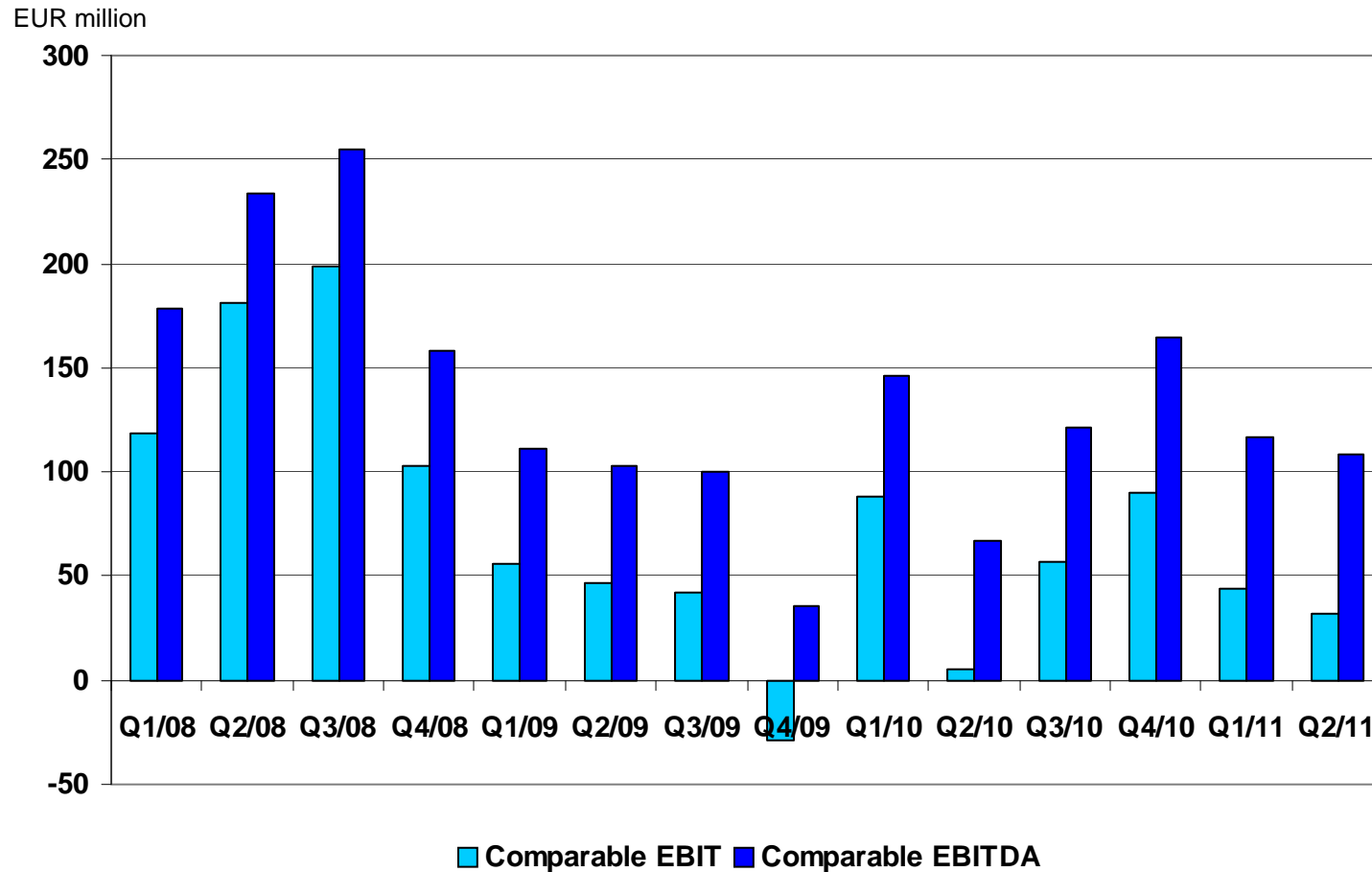


**Focus on cash flow**

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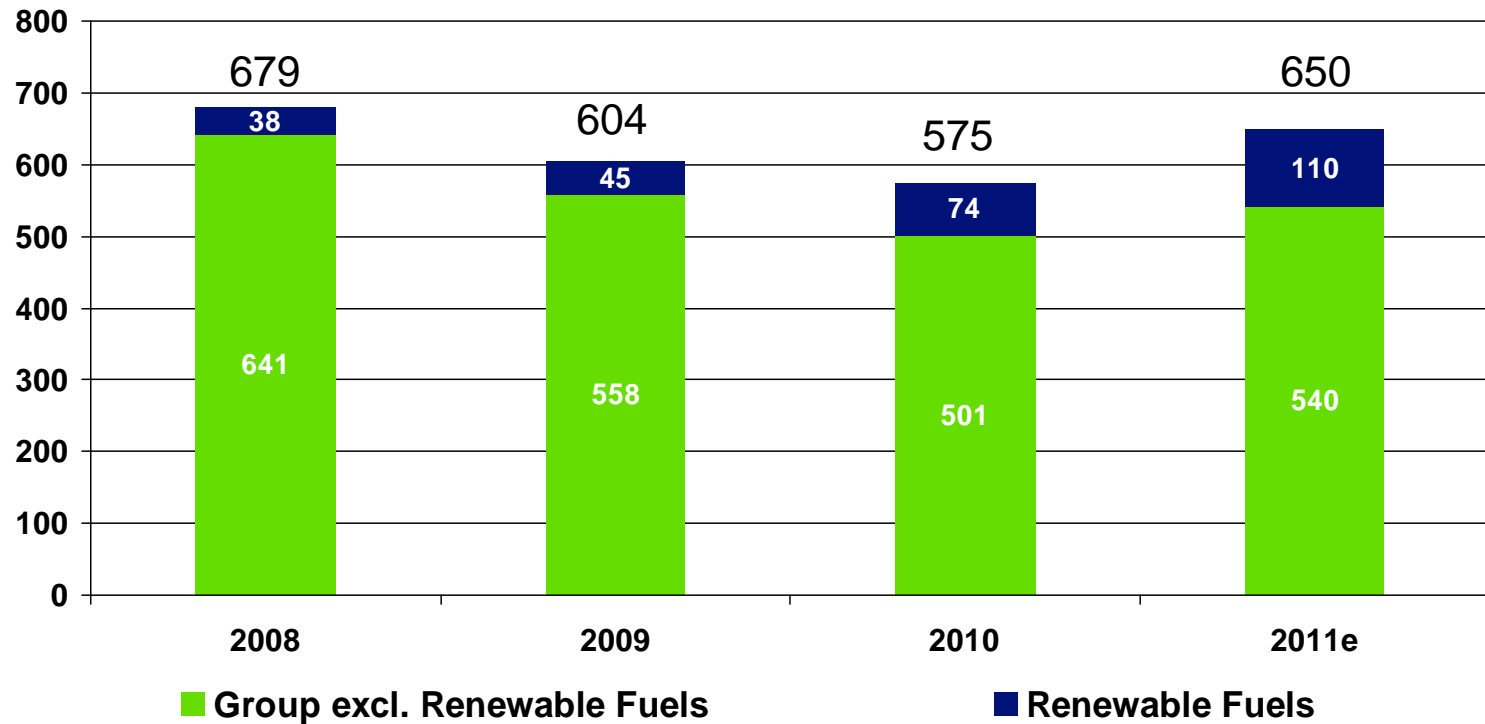
# EBITDA shows our ability to generate cash flow

Comparable EBITDA has been over EUR 100 million, even in a low-margin environment

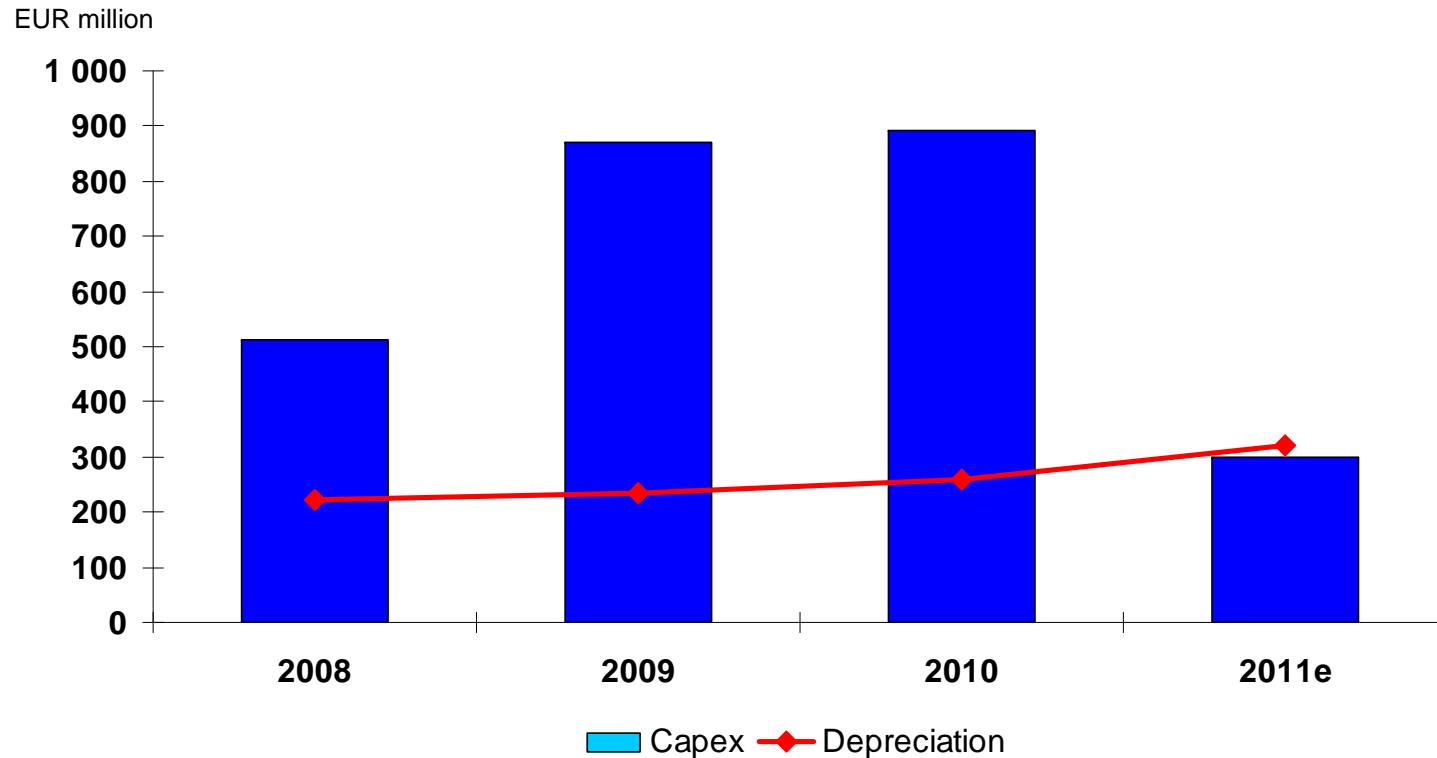


# Fixed costs are significantly lower than in 2008 when adjusting for Renewable Fuels growth

EUR million



# Capex to settle at the same level with depreciation



# Focus on working capital management



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# Dividend and financial targets

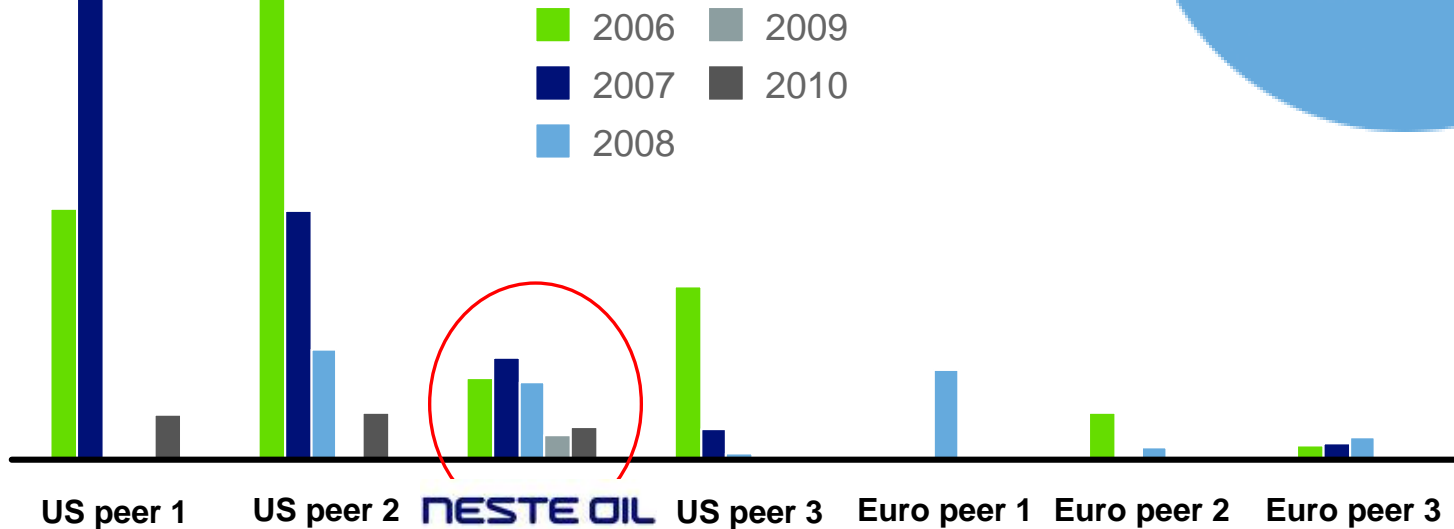
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# Dividend policy remains unchanged

We have paid a more consistent dividend than our peers

Dividend per share over the last 5 years  
USD per share

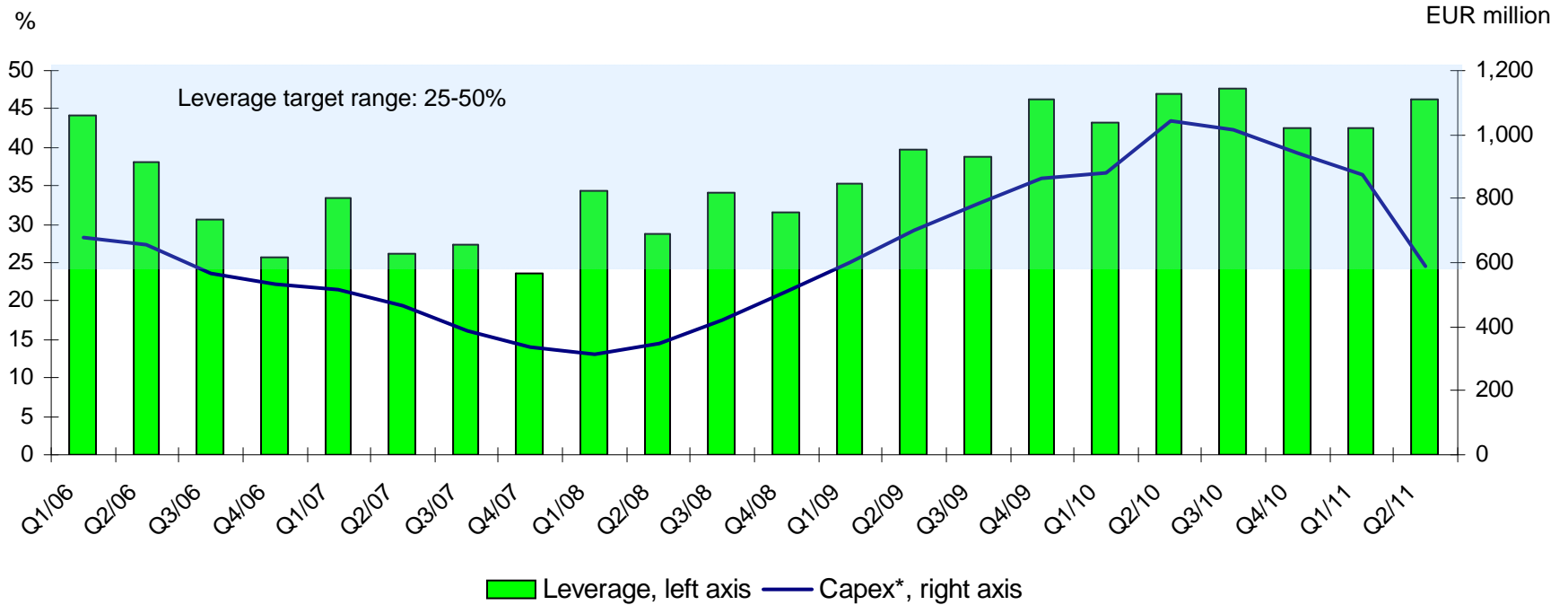


Target is to pay at least 33% of annual comparable net profit as dividend

SOURCE: CPAT database

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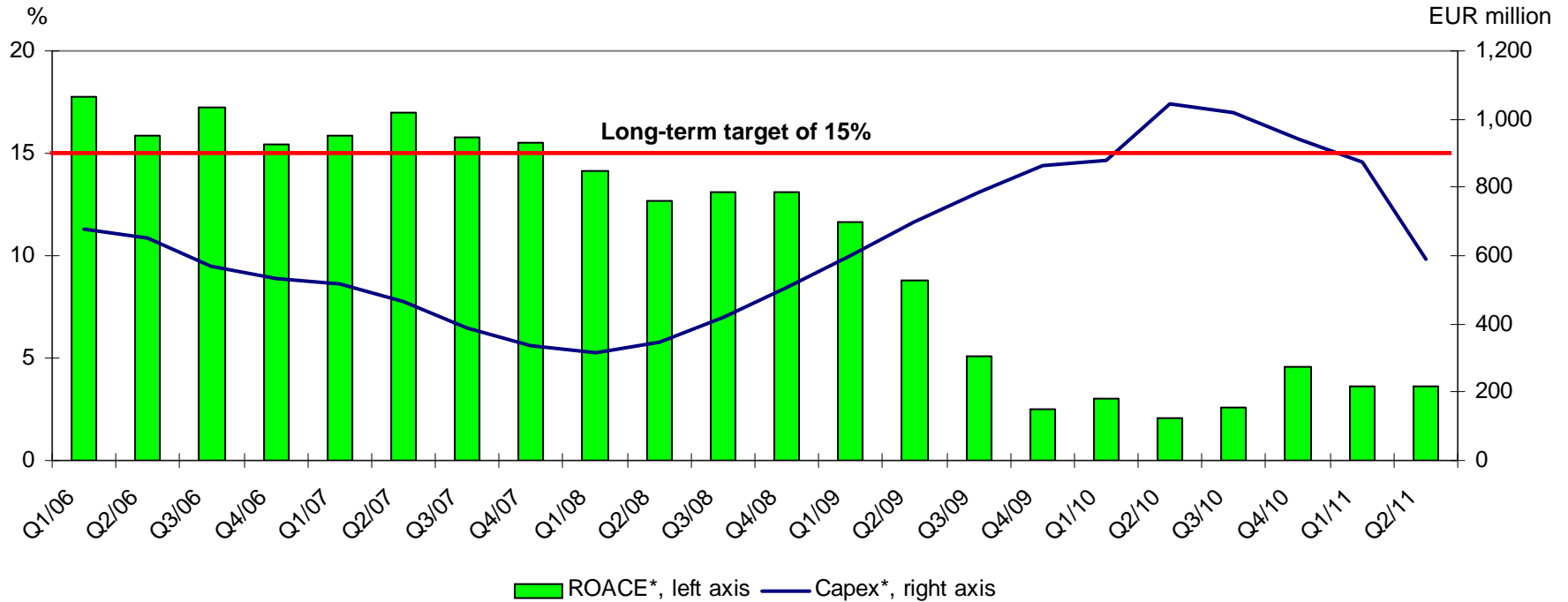
# Leverage target remains unchanged



\*12-month rolling

# Long-term ROACE target is also unchanged

Major investment program has impacted ROACE over the last few years



\*12-month rolling

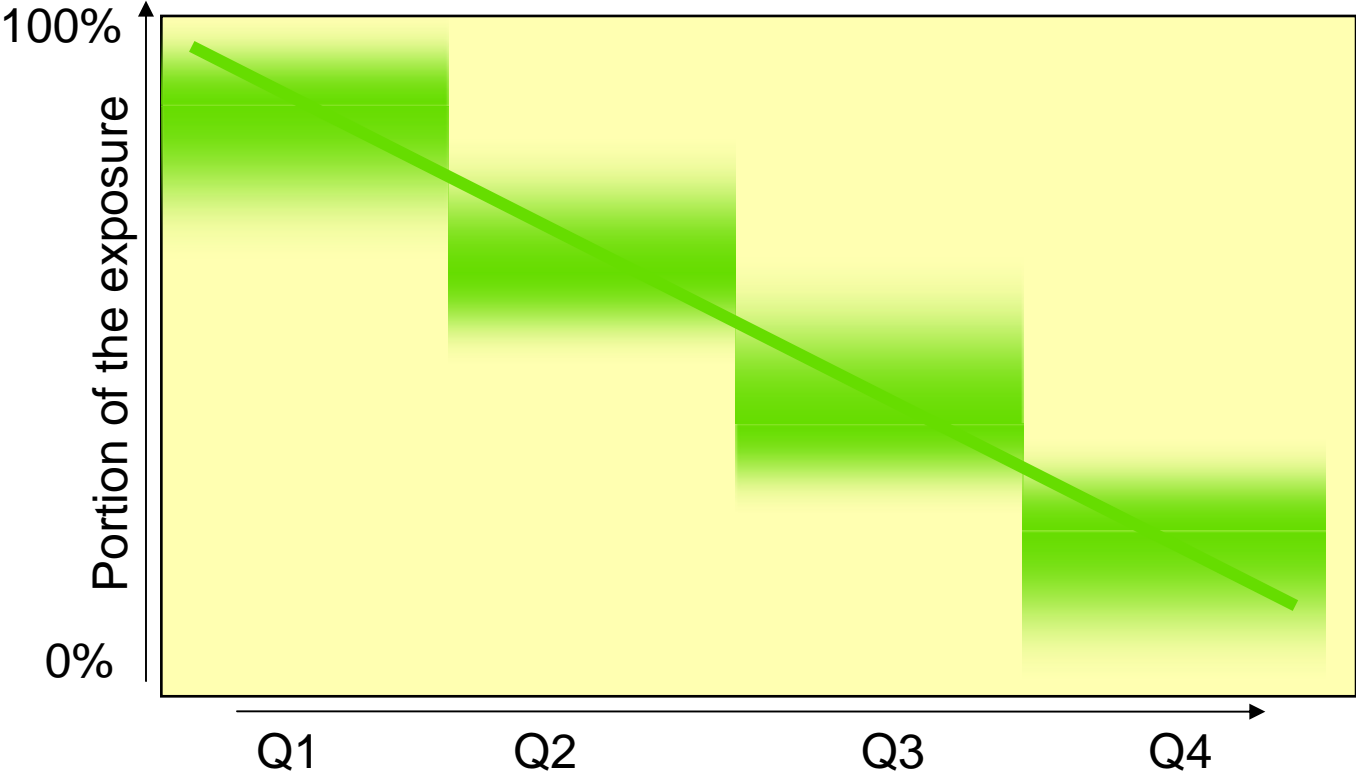


# **FX, margin hedging and liquidity**

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# Foreign exchange rate hedging

All material forecasted cash flow exposures are hedged for the rolling 12 month period



# Margin hedging

## Oil Products

High conversion refineries give us reasonable natural protection against low margin environment. Thus usual margin hedging ratio is relatively low.

Higher hedging ratio can be used if needed by the Group's financial position.

## Renewable Fuels

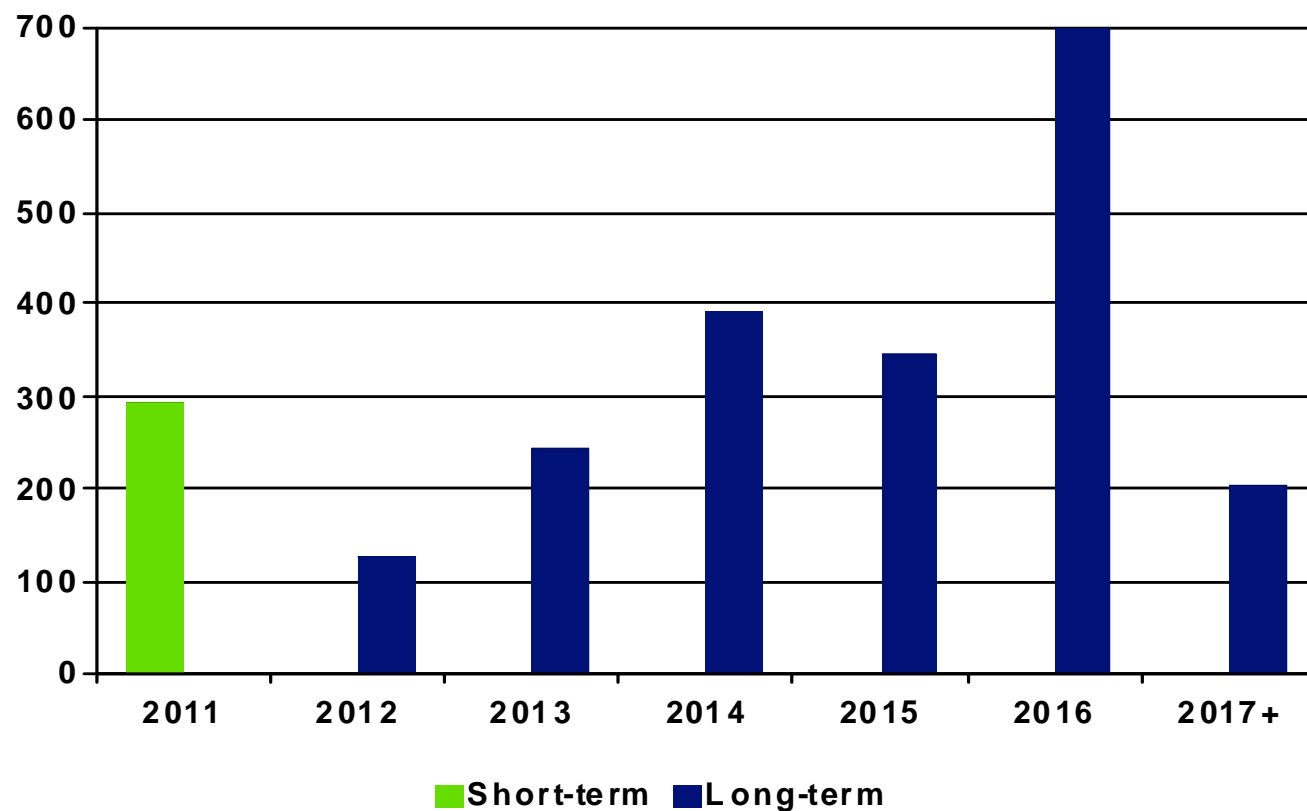
Due to lack of natural margin protection in renewable products, a notable portion of sales volume is hedged.

# Liquidity position on 30 June 2011

EUR million	<u>Size</u>	<u>Utilized</u>	<u>Available</u>
➤ Committed Credit Facilities			
- Short-term	150	0	150
- Long-term	1,575	400	1,175
➤ Cash and Cash Equivalents			140
<b>Total Cash and Committed Credit Facilities</b>			<b>1,465</b>
Uncommitted Programs			
➤ Commercial Papers	400	255	145

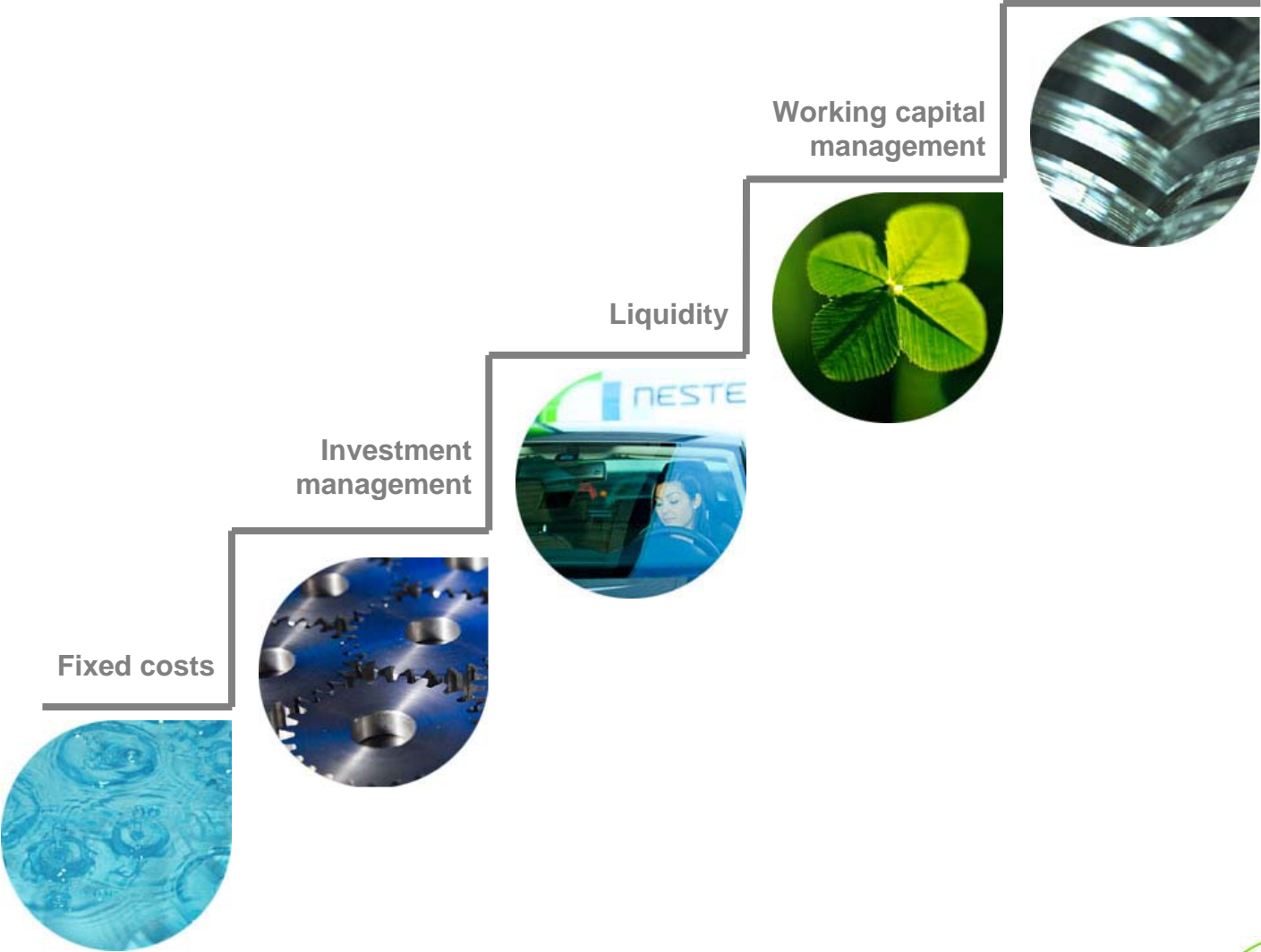
# Debt maturity profile

EUR million





# Targeting better and less volatile returns





**refining the future**

**NESTE OIL**