



# Neste Oil Capital Markets Day

11 September 2014

London

**NESTE OIL**

# Agenda

12:30	<b>Creating value through competitiveness and growth</b>	Matti Lievonen
13:15	<b>Baltic Sea champion in refining</b>	Matti Lehmus
14:00	<b>Break</b>	
14:30	<b>Growth in global renewable feedstock-based markets</b>	Kaisa Hietala
15:15	<b>Focusing on performance and growth</b>	Jyrki Mäki-Kala
15:45	<b>General Q&amp;A</b>	
16:00	<b>Concluding remarks</b>	Matti Lievonen
16:15	<b>Cocktails</b>	

# Disclaimer

The following information contains, or may be deemed to contain, “forward-looking statements”. These statements relate to future events or our future financial performance, including, but not limited to, strategic plans, potential growth, planned operational changes, expected capital expenditures, future cash sources and requirements, liquidity and cost savings that involve known and unknown risks, uncertainties and other factors that may cause Neste Oil Corporation’s or its businesses’ actual results, levels of activity, performance or achievements to be materially different from those expressed or implied by any forward-looking statements. In some cases, such forward-looking statements can be identified by terminology such as “may,” “will,” “could,” “would,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” or “continue,” or the negative of those terms or other comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Future results may vary from the results expressed in, or implied by, the following forward-looking statements, possibly to a material degree. All forward-looking statements made in this presentation are based on information presently available to management and Neste Oil Corporation assumes no obligation to update any forward-looking statements. Nothing in this presentation constitutes investment advice and this presentation shall not constitute an offer to sell or the solicitation of an offer to buy any securities or otherwise to engage in any investment activity.

# Speakers



**Matti Lievonen**  
(born 1958)

**President & CEO, Chairman of the Neste Executive Board**  
**B.Sc. (Eng.), eMBA.**  
**President & CEO since 1 December 2008.**

Joined the company in 2008. Served as President of the Fine and Speciality Papers Division at UPM-Kymmene Corporation, and in a number of other senior positions at UPM, 1986 and 2008, and prior to that at ABB. Member of UPM-Kymmene's Executive Board 2002–2008. Chairman of the Boards of the Chemical Industry Federation of Finland and Nynas AB. Member of the Board of SSAB. Member of the Board of the Confederation of Finnish Industries. Chairman of the Supervisory Board of Ilmarinen Mutual Pension Insurance Company and member of the Advisory Board, National Emergency Supply Agency. Member of the Supervisory Board of The Finnish Fair Corporation.



**Jyrki Mäki-Kala**  
(born 1961)

**Chief Financial Officer**  
**M.Sc. (Econ.)**  
**Member of the Neste Executive Board since 2013.**

Joined the company in 2013. Responsible for the Group's financial management, investor relations, and risk management. Served in various business and corporate financial positions at Kemira in 2005–2013. Previously worked for Finnish Chemicals.

# Speakers



**Matti Lehmus**  
(born 1974)

**Executive Vice President, Oil Products**  
**M.Sc. (Eng.) and eMBA.**

**Member of the Neste Executive Board since 2009.**

Joined the company in 1997. Responsible for the Oil Products business area. Previously served as Executive Vice President of the Oil Products and Renewable Fuels (2011-2014), Executive Vice President of the Oil Products (2009–2010), Vice President of the Base Oils business in the Specialty Products Division (2007–2009), Vice President of Oil Refining Business Development (2007) and Gasoline Exports and Trading Manager (2004–2007) in the Oil Refining Division. Vice Chairman of the Board of the Finnish Petroleum Federation.



**Kaisa Hietala**  
(born 1971)

**Executive Vice President, Renewable Products**  
**Master of Science (M.Sc., Finland), Master of Philosophy (MPhil, UK)**  
**Member of the Neste Executive Board as of 16 June 2014.**

Joined the company in 1998. Responsible for the Renewable Products business area. Served in several positions at Neste Oil, most recently as Vice President of the Renewable Fuels business (2011–2014), Vice President of Supply in Singapore (2009-2011), Commercial Director in Singapore (2008), and Feedstock Manager in the Renewable Fuels Business operations (2006-2008).



# Creating value through competitiveness and growth

Matti Lievonen, President & CEO

# Delivering on targets

## Executing global growth strategies



- Renewable Products business established globally and feedstock range expanded.
- Share of waste and residues reached 66%

## Focusing on profitable markets and customer segments



- Solid additional margin development in Oil Products and Renewable Products

## Ensuring operational and cost efficiency



- Renewable Products' plants capable of running at high utilization rates of 120%.
- Oil refineries have not met targets

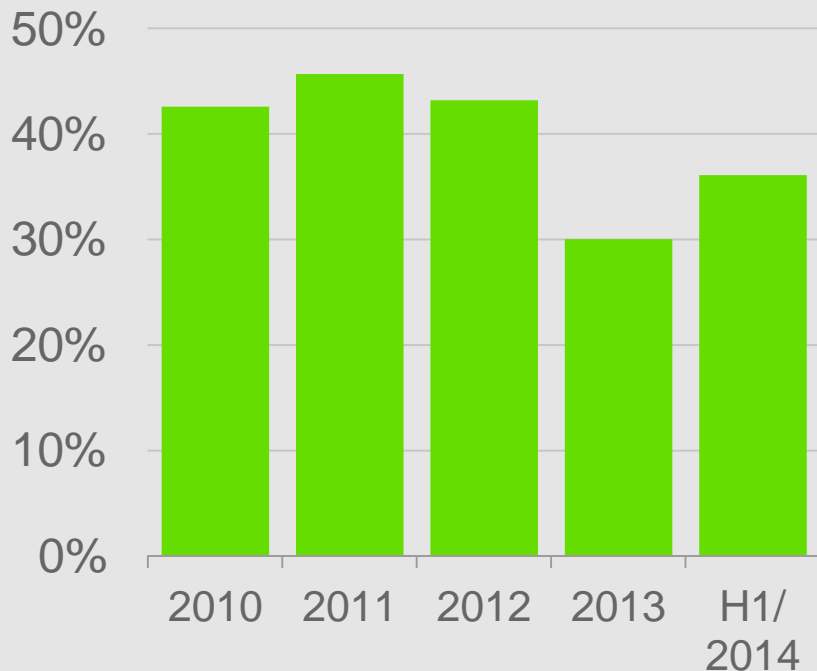
## Focusing investments and restructuring low-performing assets



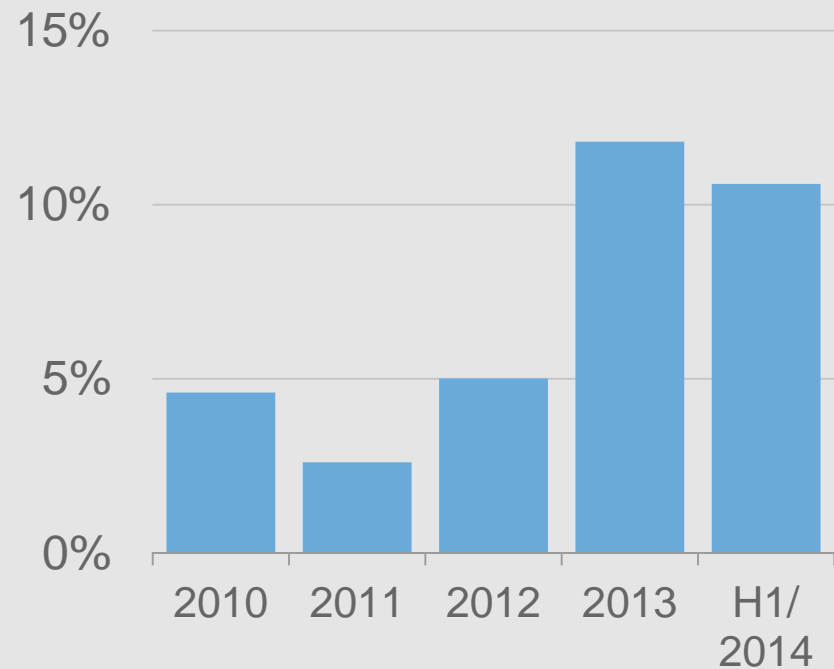
- Restructuring of shipping
- Investment in isomerization
- Over-the-fence hydrogen production

# Results visible in financial performance

## Leverage



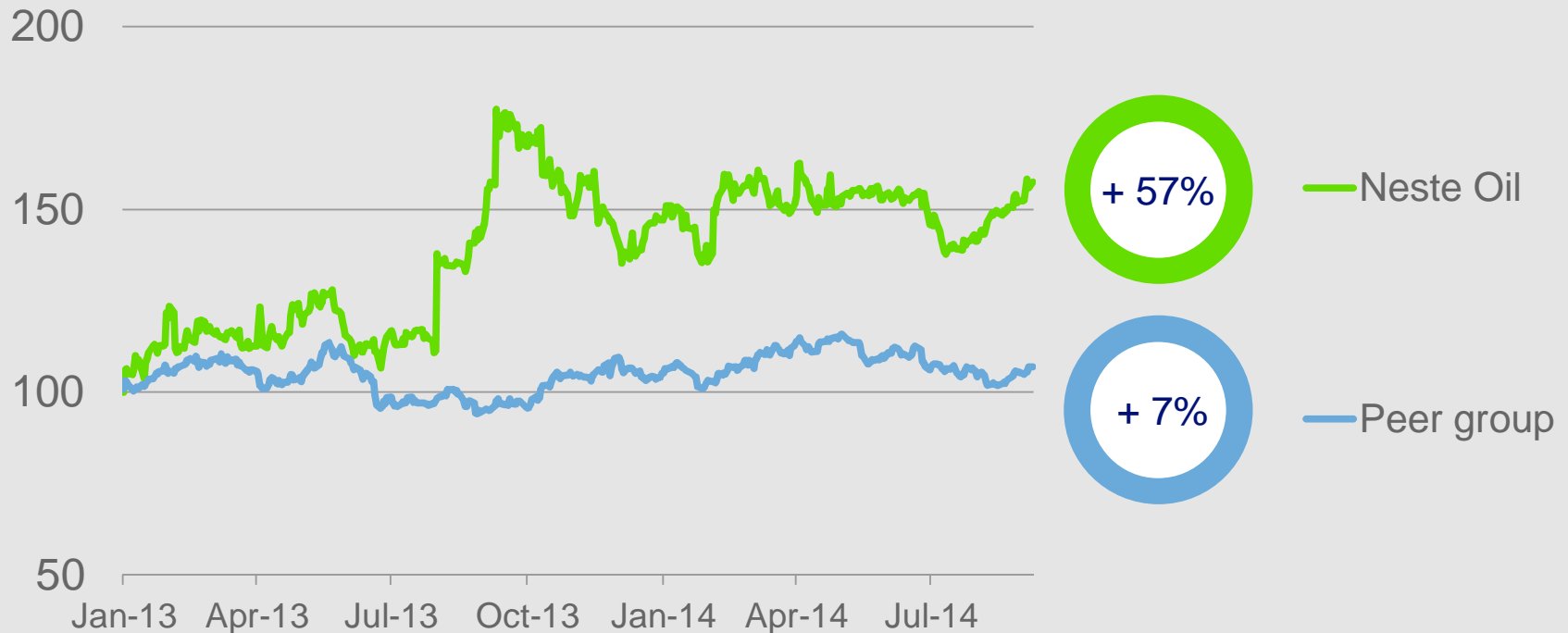
## ROACE (rolling 12 months)





# Share price outperforming the peers

## Relative share price peer group\* index average



\*Peer group: ERG, Hellenic Petroleum, Lotos, MOL, Motor Oil Hellas, PKN Orlen, Saras, Tesoro, Tupras, Valero Energy

# Headwinds from challenging markets

Demand for oil products weak in Europe

High diesel imports from the US, Russia and Middle East

Overcapacity and low utilization rates in European refining

Competition continues to intensify

Regulatory uncertainties and protectionism impacting markets

Feedstock price volatility expected to continue

# Addressing the challenges



**Focusing on  
our strategy**

**Enhancing  
competitiveness**

**Creating growth**

# Our vision sets the direction

**To be the  
preferred  
partner for  
cleaner traffic  
fuel solutions**



# Two strategic objectives based on strong competitive advantages

## Baltic Sea downstream champion



- Complex capacity
- Logistical advantage
- Ability to optimize operations over the whole value chain
- Unique offering with renewable products
- Strong brand

## Growth in global renewable feedstock-based markets



- Strong market position
- Technology and know-how
- Excellence in feedstock supply chain and sustainability
- Flexibility of production platform
- Opportunities with new drop-in fuel and non-fuel applications

# Enhancing competitiveness

**Leader in  
efficiency  
and  
productivity**



- Continuous performance improvement
- Optimized operations
- Restructuring of low performing assets

**Customer  
focused**



- Understanding customers and their needs
- Developing people and enhancing the way of working

# Creating growth within existing and new businesses

**Baltic Sea  
downstream  
champion**

- Investments to increase additional refining margin
- Enhancing position in captive oil retail market

**Growth in  
global  
renewable  
feedstock-based  
markets**

- Adding value in production by investing in bio propane
- New applications such as renewable aviation fuel
- New market entries

# Enabling growth in new businesses

Drop-in product features

Scale of operation

Opportunities for further processing

Capabilities through global supply chain



# Several applications and markets identified

## Potential applications

### NEXBTL isoalkane

- Functional fluids
- Lubricants



## Indicative market sizes by 2020

Total market size for biobased lubricants 2 Mton

### NEXBTL isoalkane distillates

- Solvents
- Inks
- Coatings
- Pharma and personal care



Total market size for aliphatic and aromatic solvents 6 Mton

### Refined NEXBTL

- Bio-plastics for e.g. packaging



Total market size for bio-plastics 3-5 Mton

# Value levers for customers

100%  
biocontent

Equal product  
qualities  
compared to fossil  
equivalent

Bio-premium  
through customer  
preference

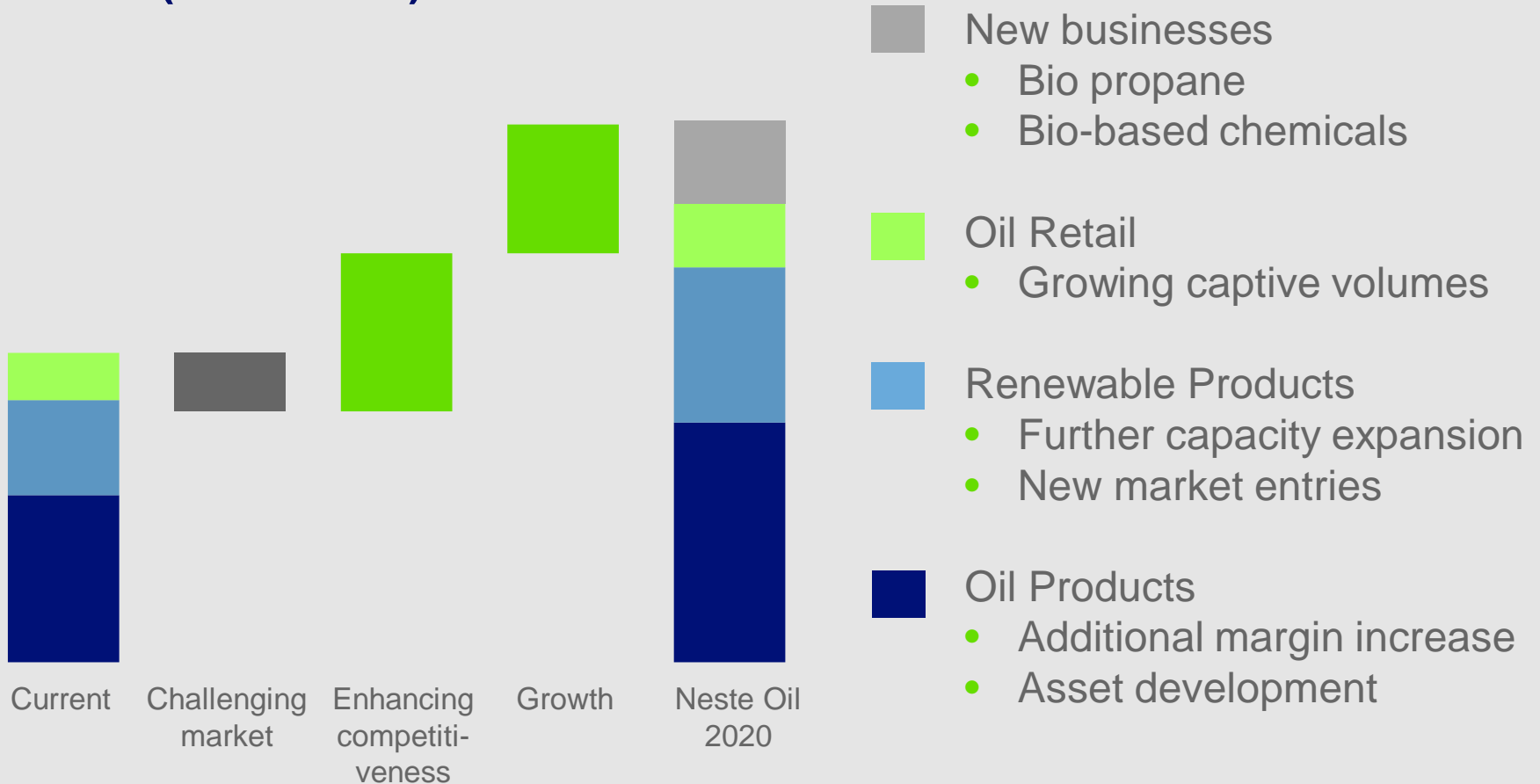
CO<sub>2</sub> footprint

Drop-in qualities  
in processing and  
production

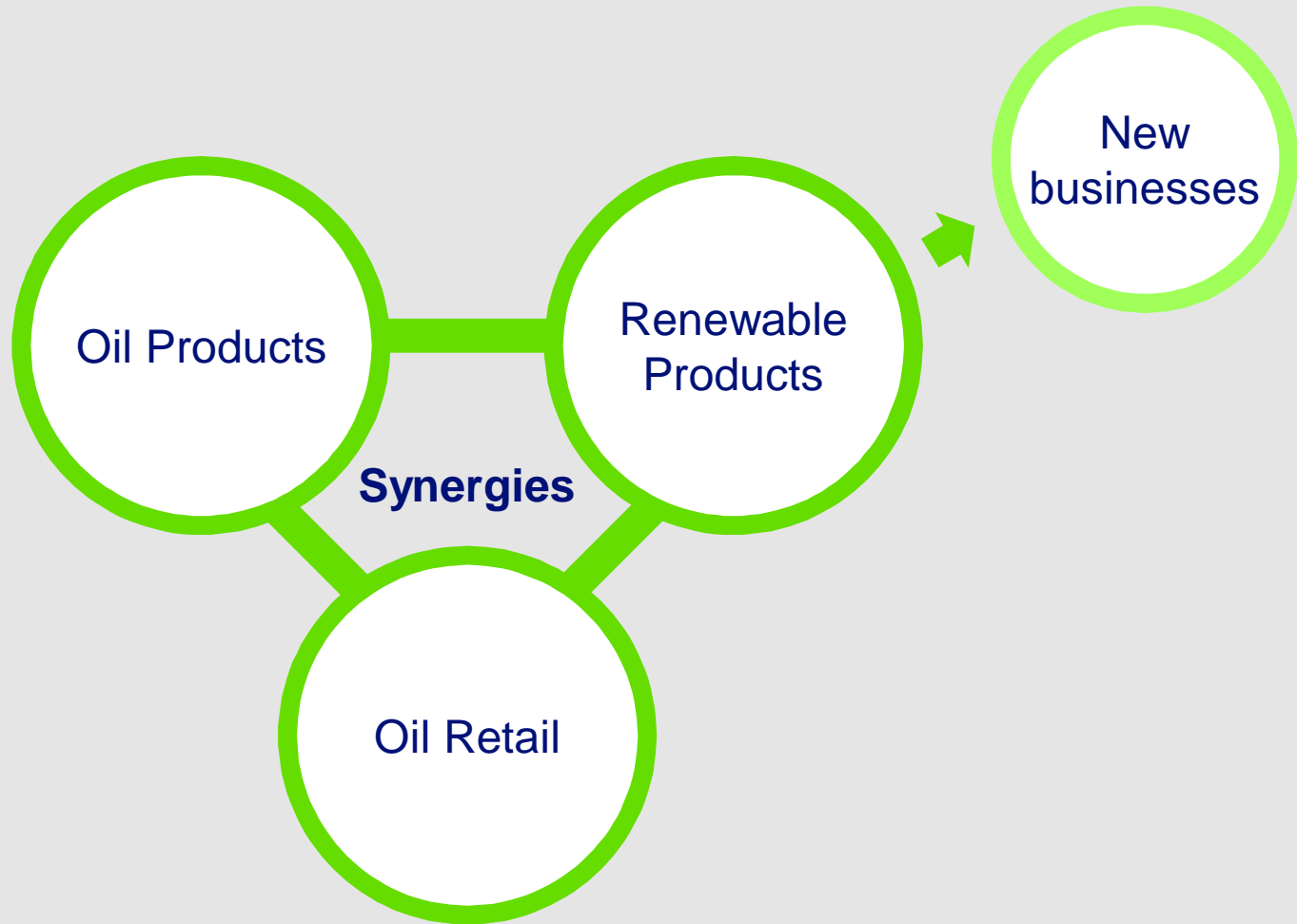
Sustainability  
throughout the  
value chain

# Strategic choices creating value

## Value (illustrative)



# Strong integrated business model



# Consistent cash allocation strategy



Investing in  
productivity and  
opportunities for  
growth

Reducing debt

Paying out  
stable dividends

# Short-term outlook

## Incident at Porvoo refinery's hydrogen unit

- Reduced refinery output and shutdown of Production Line 4
- Repairs to be completed by end of October
- Estimated EBIT impact M€ 60
- Stronger-than-expected market is estimated to compensate the impact by M€ 30

## Company outlook for 2014

- Neste Oil revised its outlook for 2014 on 29 August
- Comparable operating profit for 2014 expected to come in at under M€ 400

# Creating value through competitiveness and growth

Baltic Sea  
downstream  
champion

Growth in global  
renewable  
feedstock-based  
markets

Performance  
improvement  
actions

# Questions & answers





# Baltic Sea champion in refining

Matti Lehmus, EVP, Oil Products



# Business logic based on complex assets and strong home market position

**Feedstock flexibility as competitive advantage**

**Complex assets creating high value product mix**

**Strong market position in Baltic Sea**

# Delivering on targets

## Growing additional margin



- Average additional margin \$4.7/bbl in 1/2013-6/2014 (target > \$4/bbl)

## Enhancing productivity



- Targets reached in supply chain optimization and energy efficiency
- Availability development unsatisfactory

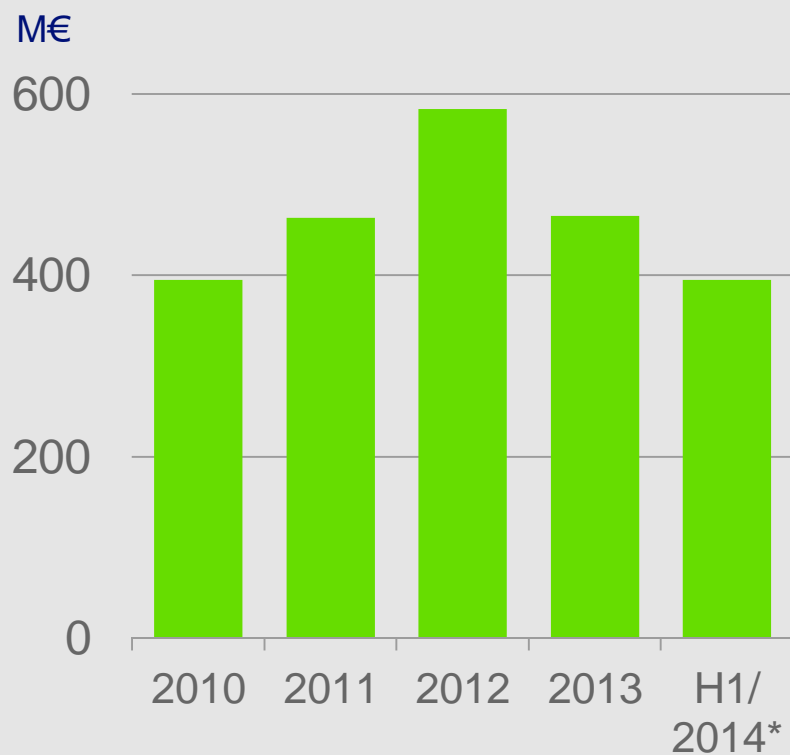
## Strong position in home markets



- Continued high share of sales volumes to Baltic Sea area (64% in 1/2013-6/2014)

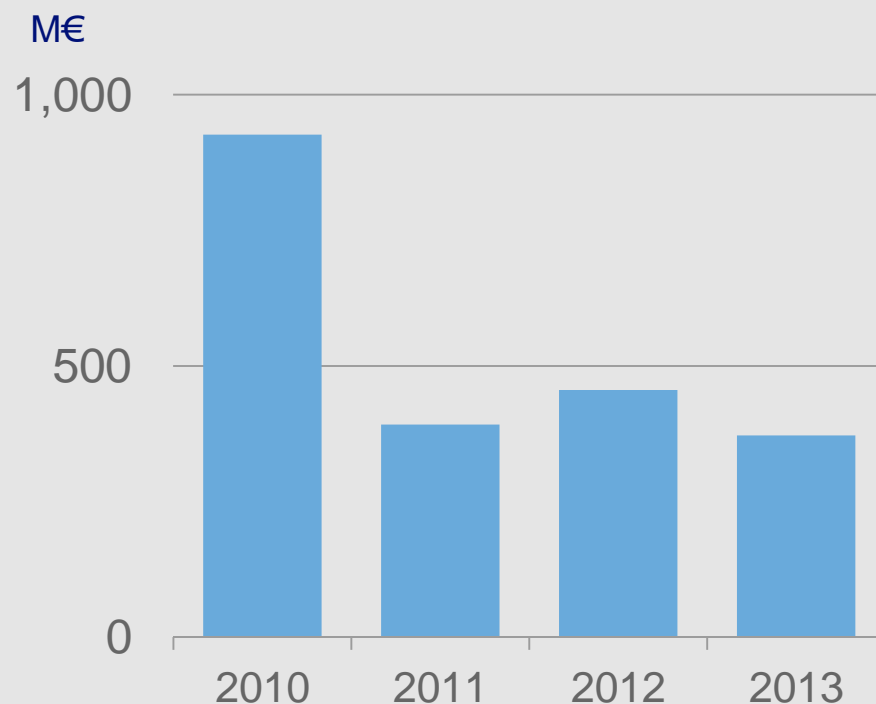
# Generating strong EBITDA and cash flow

## Comparable EBITDA



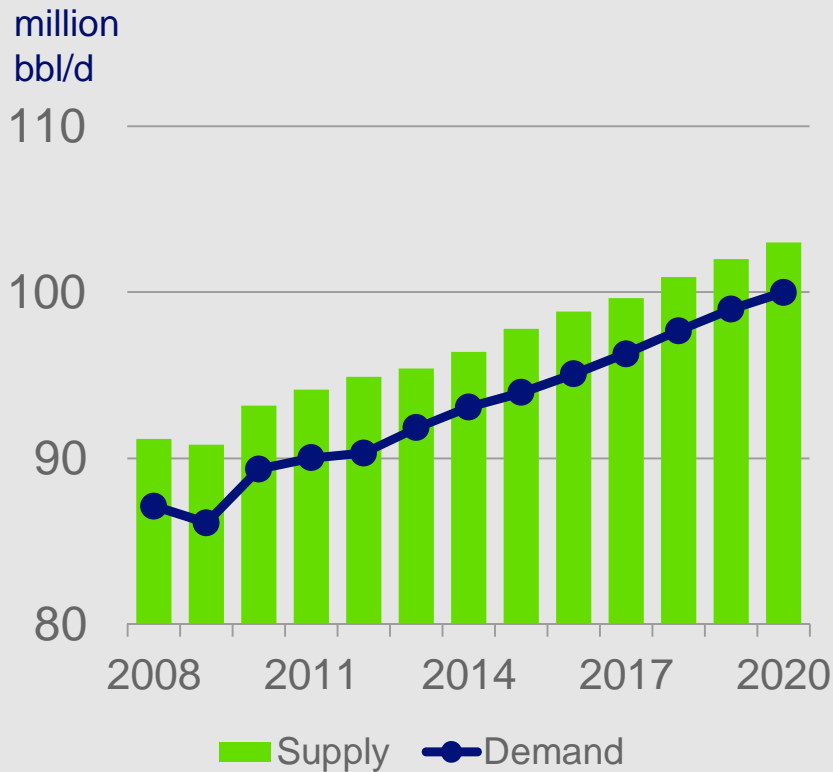
\*rolling 12 months

## Cash flow

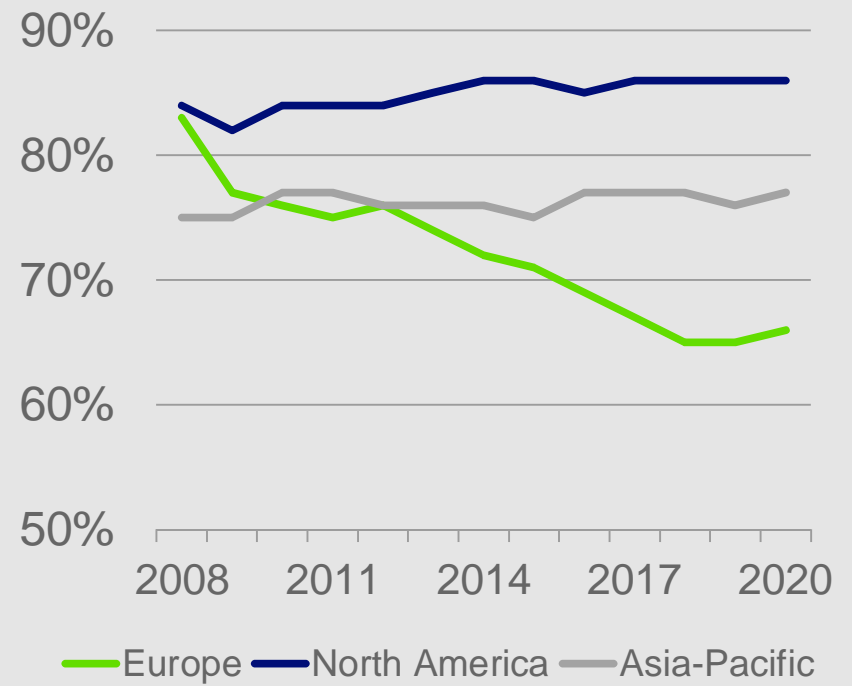


# European supply-demand outlook continues to be challenging

## Global oil product demand and supply



## Refinery utilization rates by region

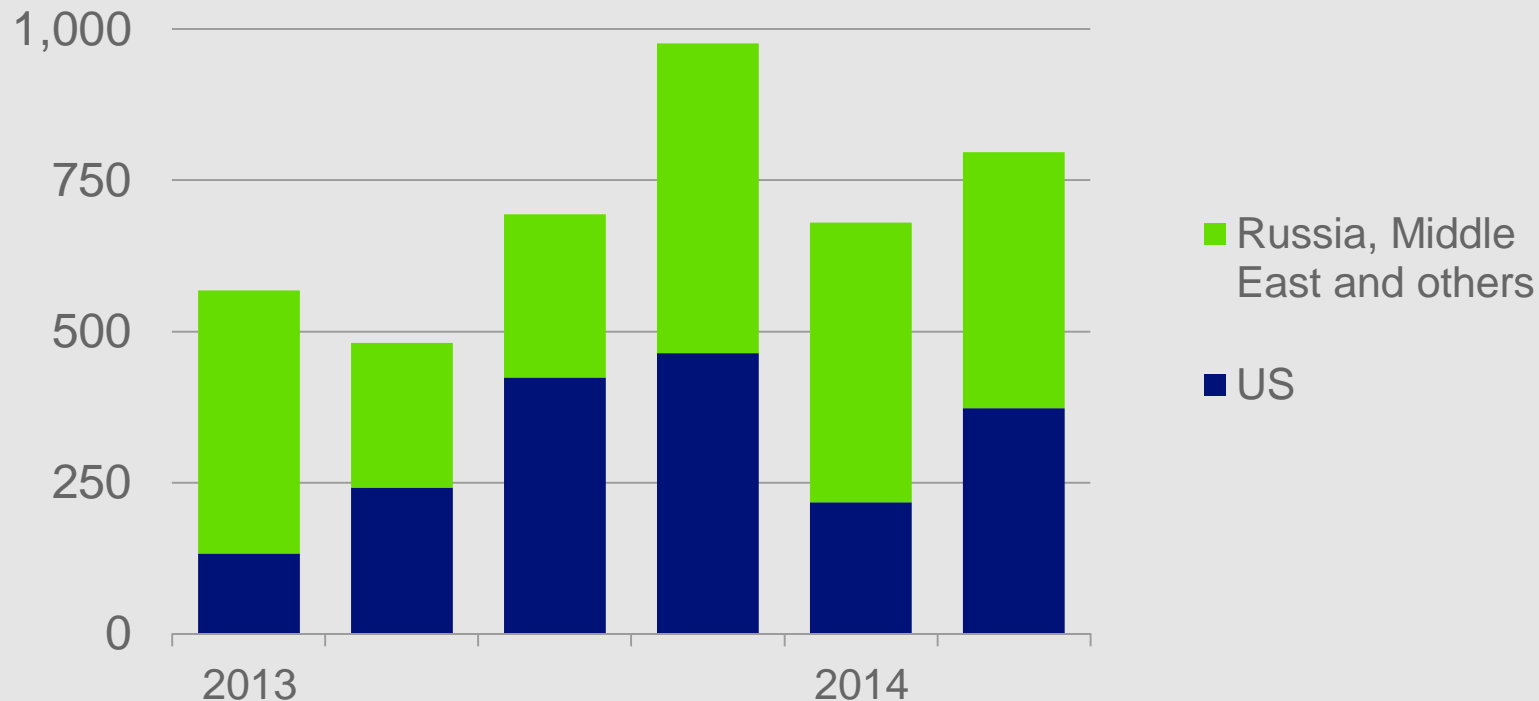


Source: Wood Mackenzie

# Growing diesel imports from US, Russia and Middle East

## Diesel imports to Europe

thousand  
bbl/d

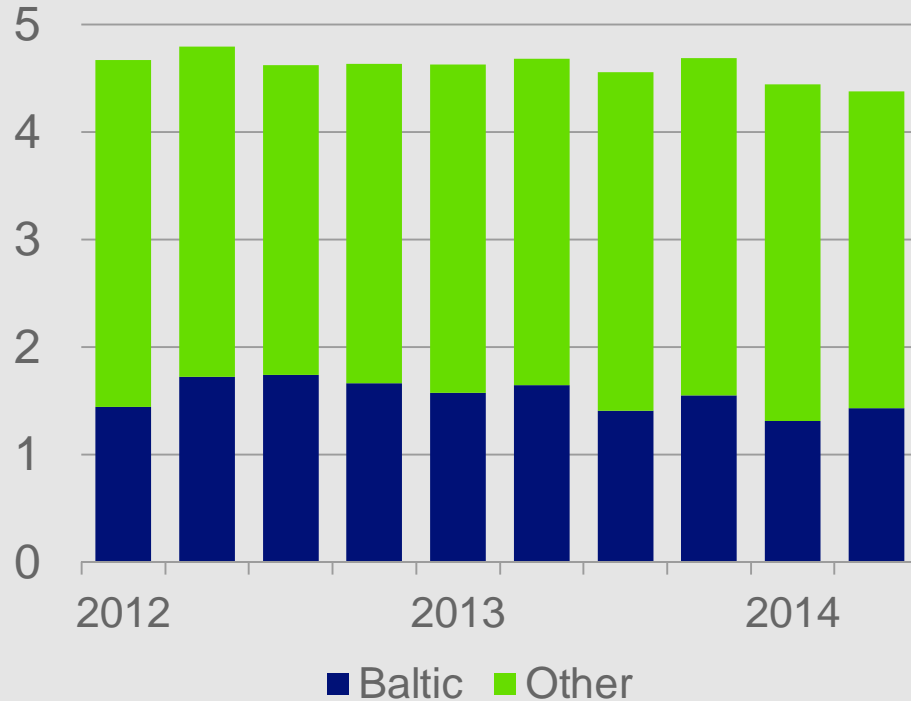


Source: Neste Oil analysis

# Russian crude export volumes unaffected by political situation

## Russian crude oil export

million  
bbl/d

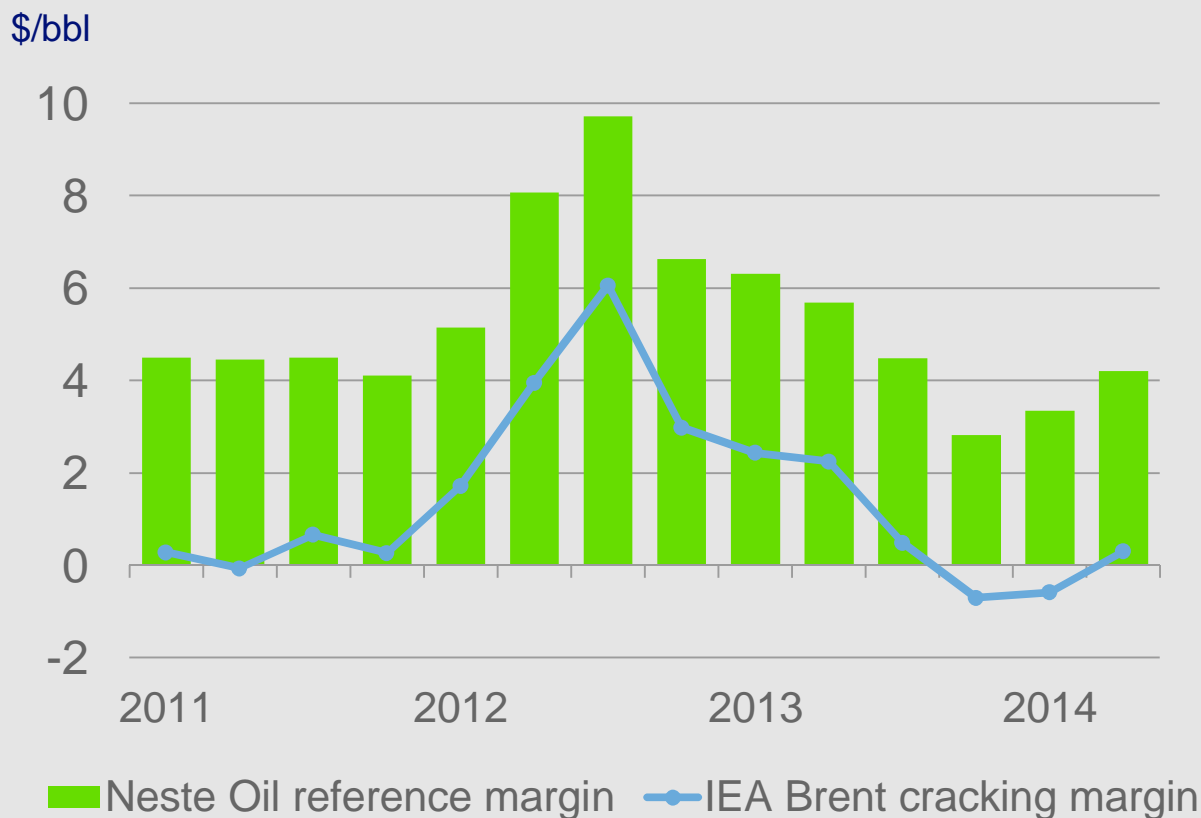


- Export volume level 250 Mton/a (EU share ~60%)
- Export volume via Northern routes expected to be stable in spite of increased logistical options

Source: Neste Oil analysis

# European refining margin environment challenging in 2014

## Neste Oil reference and IEA Brent cracking margin



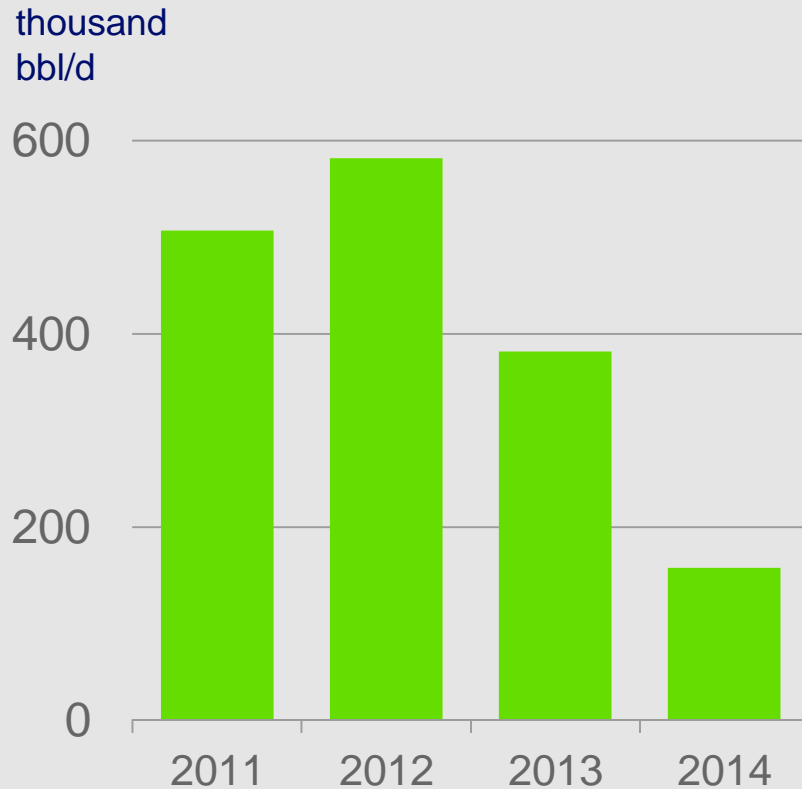
Reference margin averages	
2011	\$4.4/bbl
2012	\$7.4/bbl
2013	\$4.8/bbl
1-8/2014	\$4.2/bbl

Source: IEA, Neste Oil

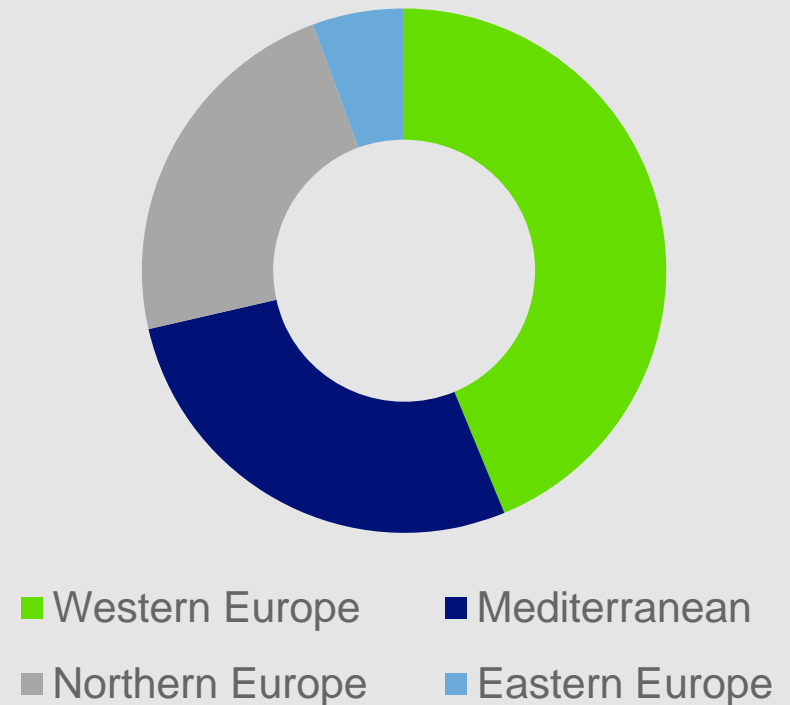


# European refinery rationalization progressing, albeit slowly

## European refinery closures



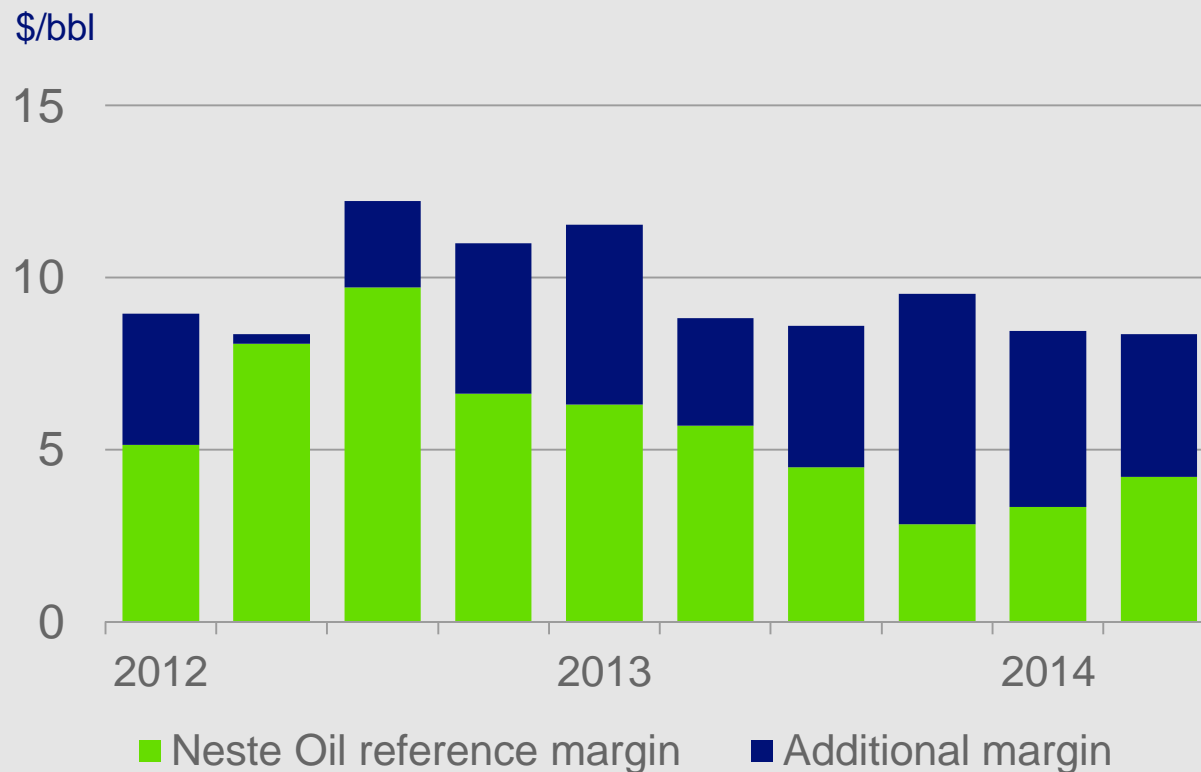
## Over 1,600 kbpd refinery capacity closed in Europe in 2011-2014



Source: Wood Mackenzie

# Strategy focused on strengthening additional margin

## Total refining margin



Additional margin average \$3.9/bbl in 1/2012-6/2014

# Targeting >\$5/bbl additional margin



**Focus on  
feedstock  
flexibility**

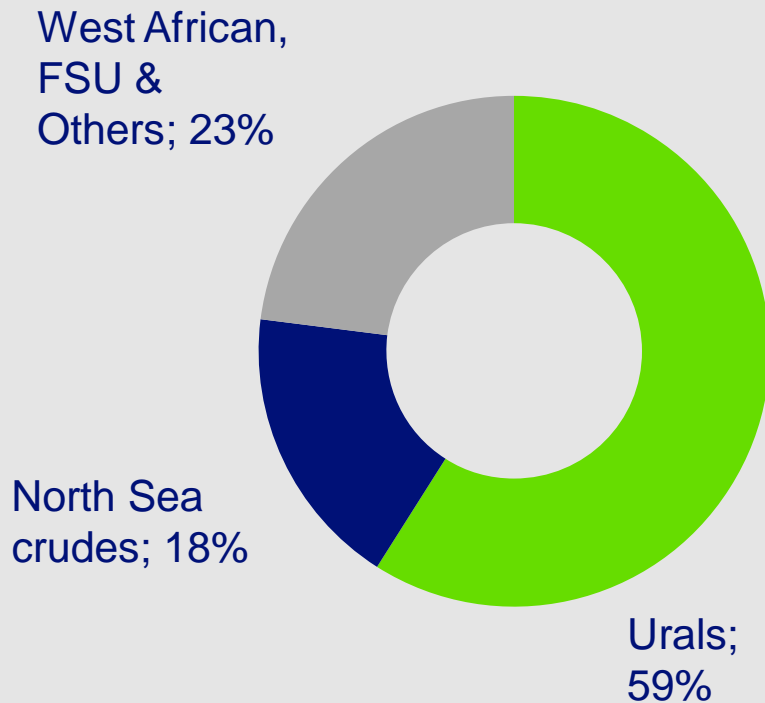
**Performance  
improvement in  
production and  
optimization**

**Asset  
development**

**Market position  
development**

# Value of feedstock flexibility growing

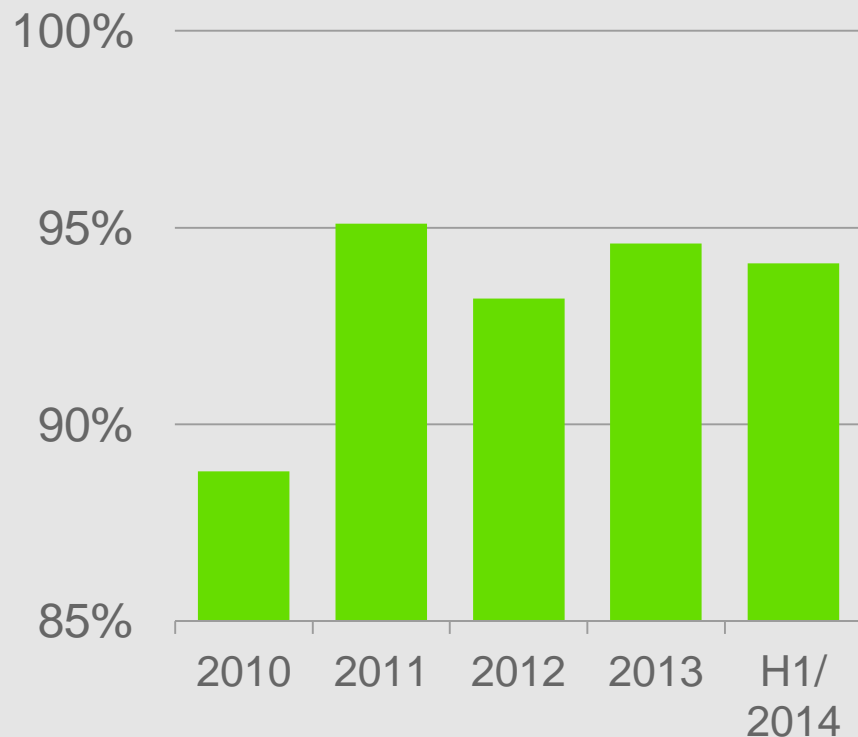
## Feedstock split, H1/2014



- Shale oil growth has changed market dynamics and increased availability of new crudes in European market
- Neste Oil has good feedstock flexibility with capability to process different crudes

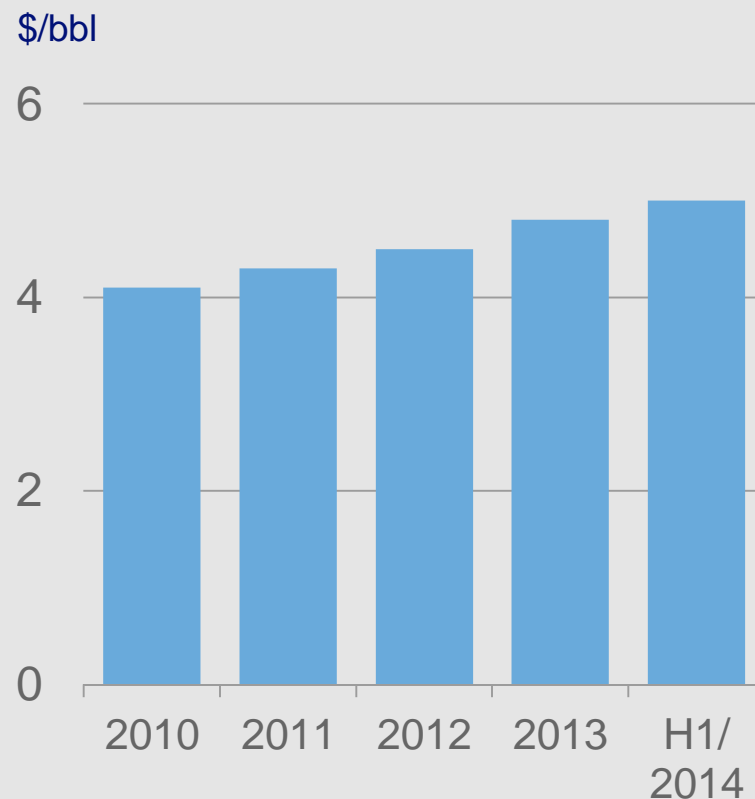
# Performance improvement focusing on availability and production costs

## Oil refineries' operational availability



## Production costs

Porvoo and Naantali refineries



# Performance improvement will be reached through specific measures

## Availability improvement



- Maintenance development program
- Increase predictive maintenance and inspections for critical equipment

## System optimization



- Close integration of Porvoo and Naantali
- Organization restructuring

## Production cost improvement



- Energy efficiency improvement target >M€ 15/a by 2017
- Maintain fixed cost level

# Asset development focusing on additional margin growth

## Asset development principles

High-return  
productivity  
investments

Outsourcing  
selected  
investments

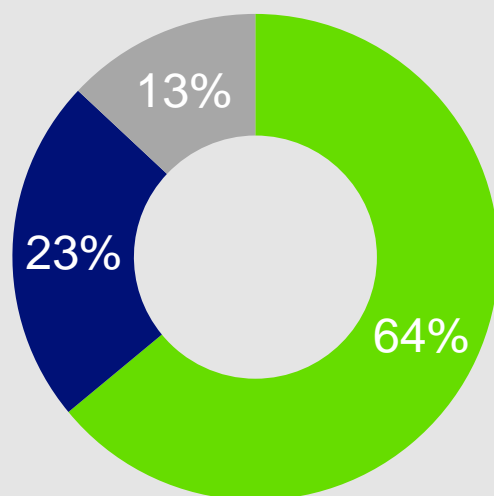
Restructuring  
of low  
performing  
assets

## Case study: Isomerization

- Start-up Q1/15, capex M€ 80
- Converting 600,000 tons/a naphtha and other streams to high-octane gasoline components
- Expected payback time less than 4 years

# Strong market position with unique customer offering in Baltic Sea area

**Sales allocation by region**  
H1/2014



- Baltic Sea area
- Other Europe
- Other continents

**Differentiated offering supported by cross-business synergies**

Combined offering of fossil and renewable products

Maximizing opportunities for captive sales through Oil Retail



# Capitalizing on market opportunities

## Case: Sulphur directive introduction

### Market change

#### **Sulphur directive 1.1.2015**

Switch to 0.1% S bunker fuel as widely used approach



### Neste Oil response

- Introduction of marine diesel offering and distribution to the Baltic Sea market
- Product development of low-sulphur marine fuels ongoing
- Sales growth in home market driving additional margin

# Baltic Sea champion in refining

Performance improvement focusing on availability and competitive costs

Further strengthening of Baltic Sea market position

Asset development to strengthen additional margin

# Questions & answers



The background features several overlapping circles in shades of green and blue. A central image shows a rural landscape with a road, a fence, and rolling hills under a green sky.

# Growth in global renewable feedstock-based markets

Kaisa Hietala, EVP, Renewable Products

# Global leader in renewable products

**Flexible  
feedstock  
supply**

**Global supply  
chain**

**Drop-in  
solutions for  
customers**

# Delivering on targets

## Feedstock flexibility increased

- Waste & residue share 64% in H1/14
- New double-countable raw material introduced: used cooking oil

## Capacity increased

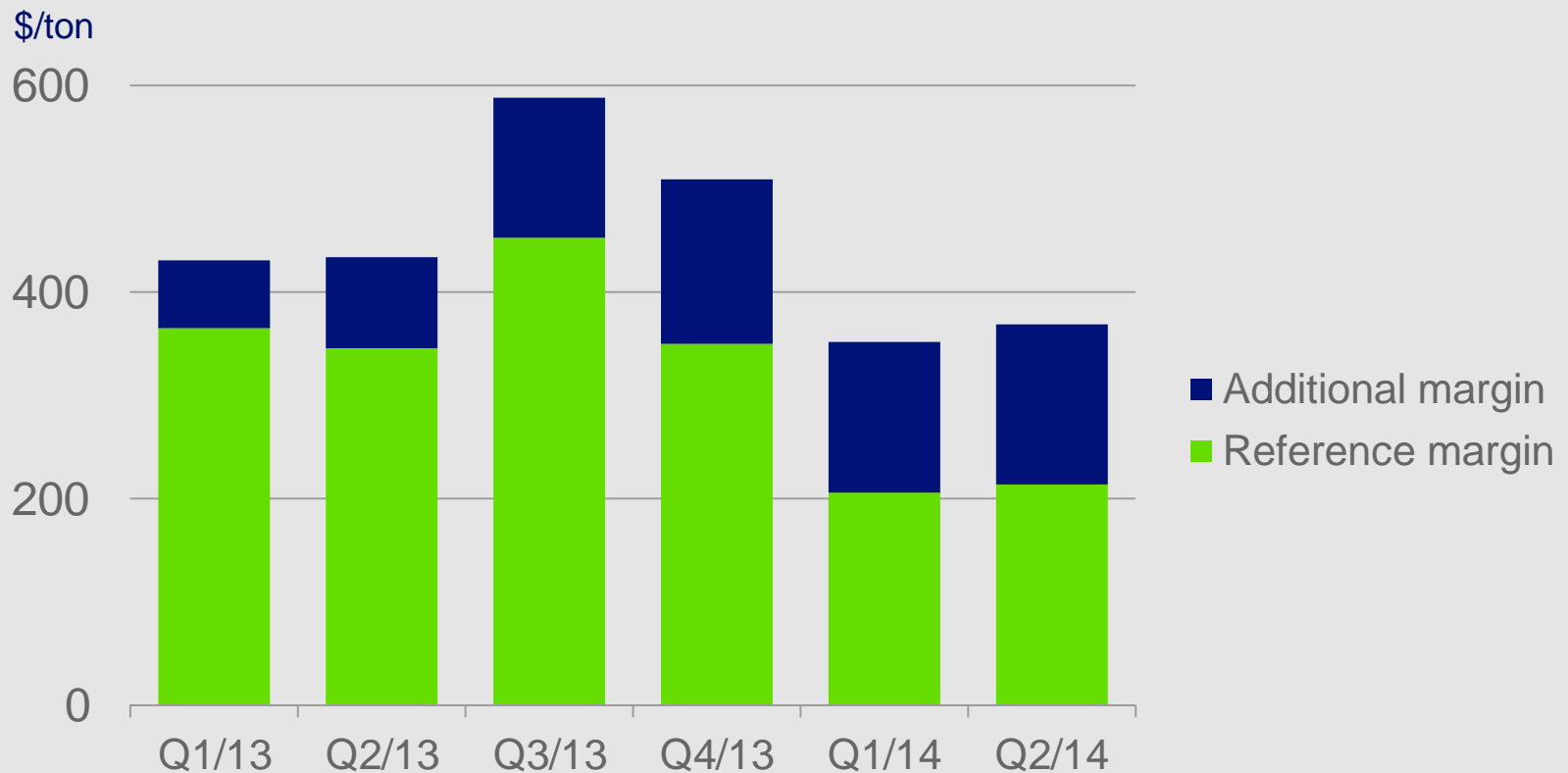
- 104% utilization rates in H1/14
- 120% capacity will be achieved in 2014

## Customer and market base expansion

- New customers in traffic fuel, petrochemical and industry sectors such as mining

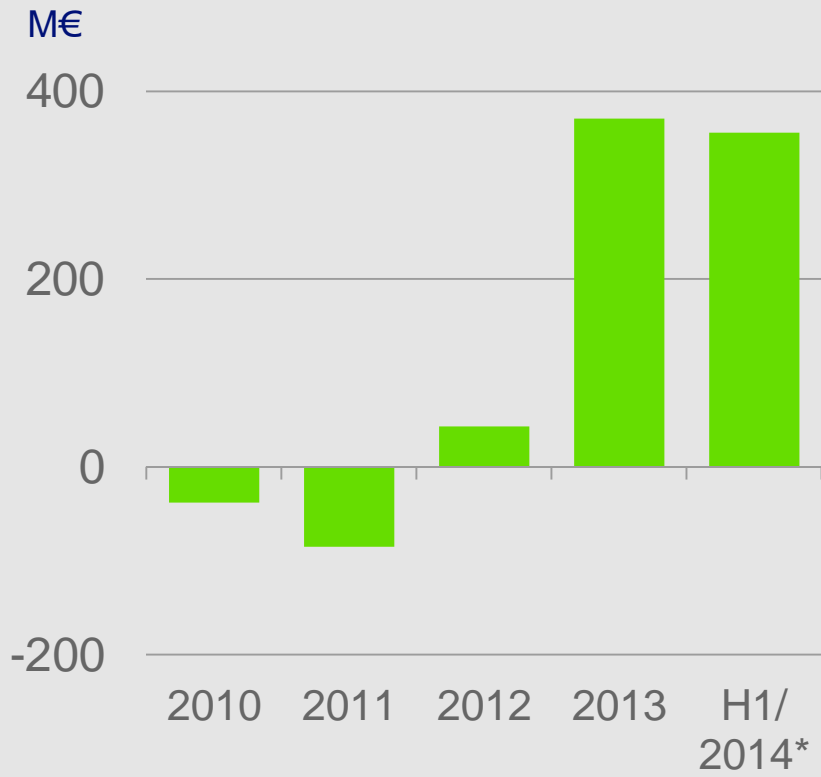
# Solid performance in volatile environment

## Renewable Products margins



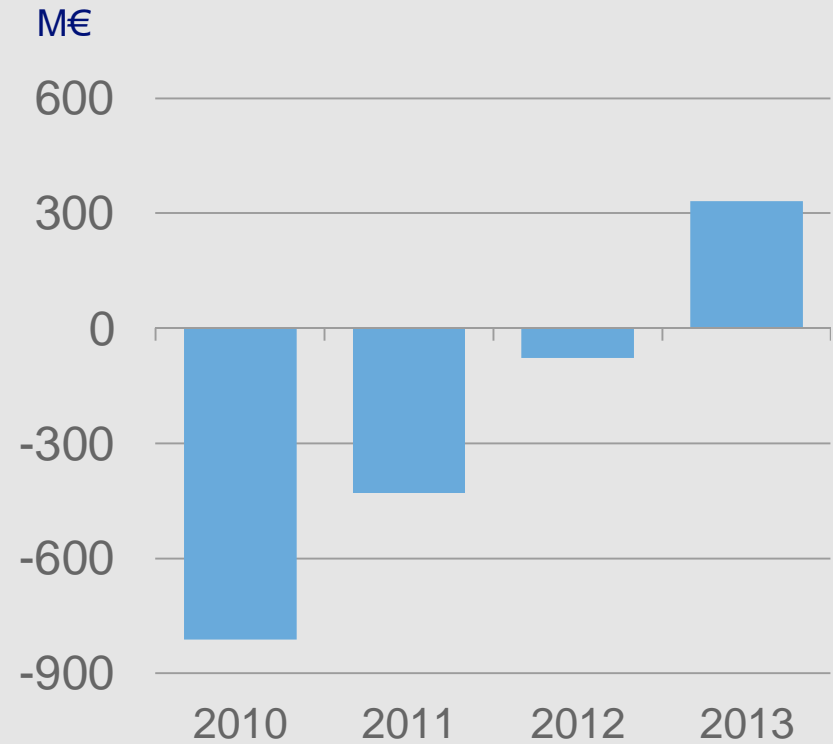
# Established business proved profitable

## Comparable EBITDA



\* Rolling 12 months

## Cash flow



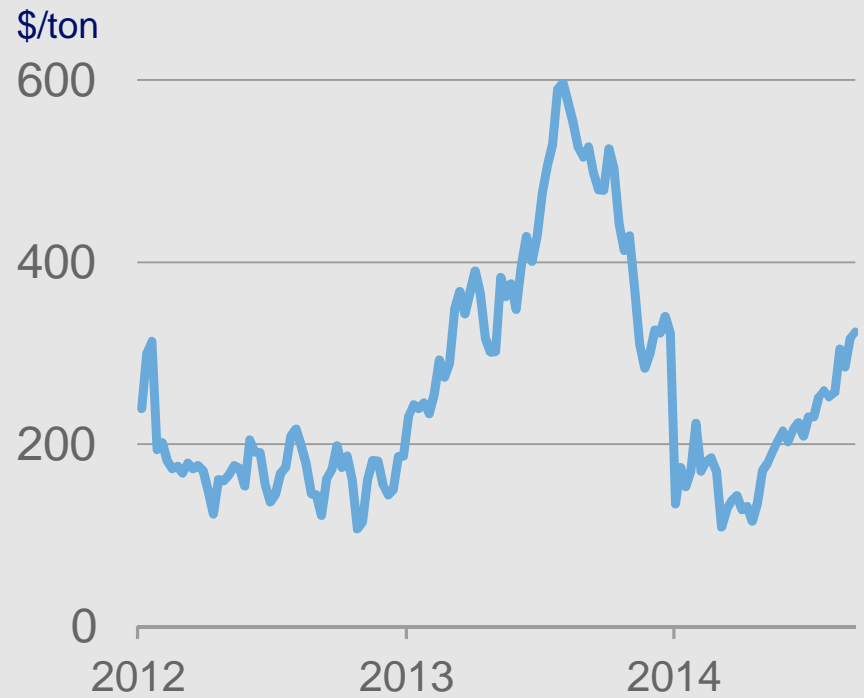


# Margin drivers impacted by feedstock markets and regulatory uncertainties

## FAME RED Seasonal vs. Palm oil price\* differential



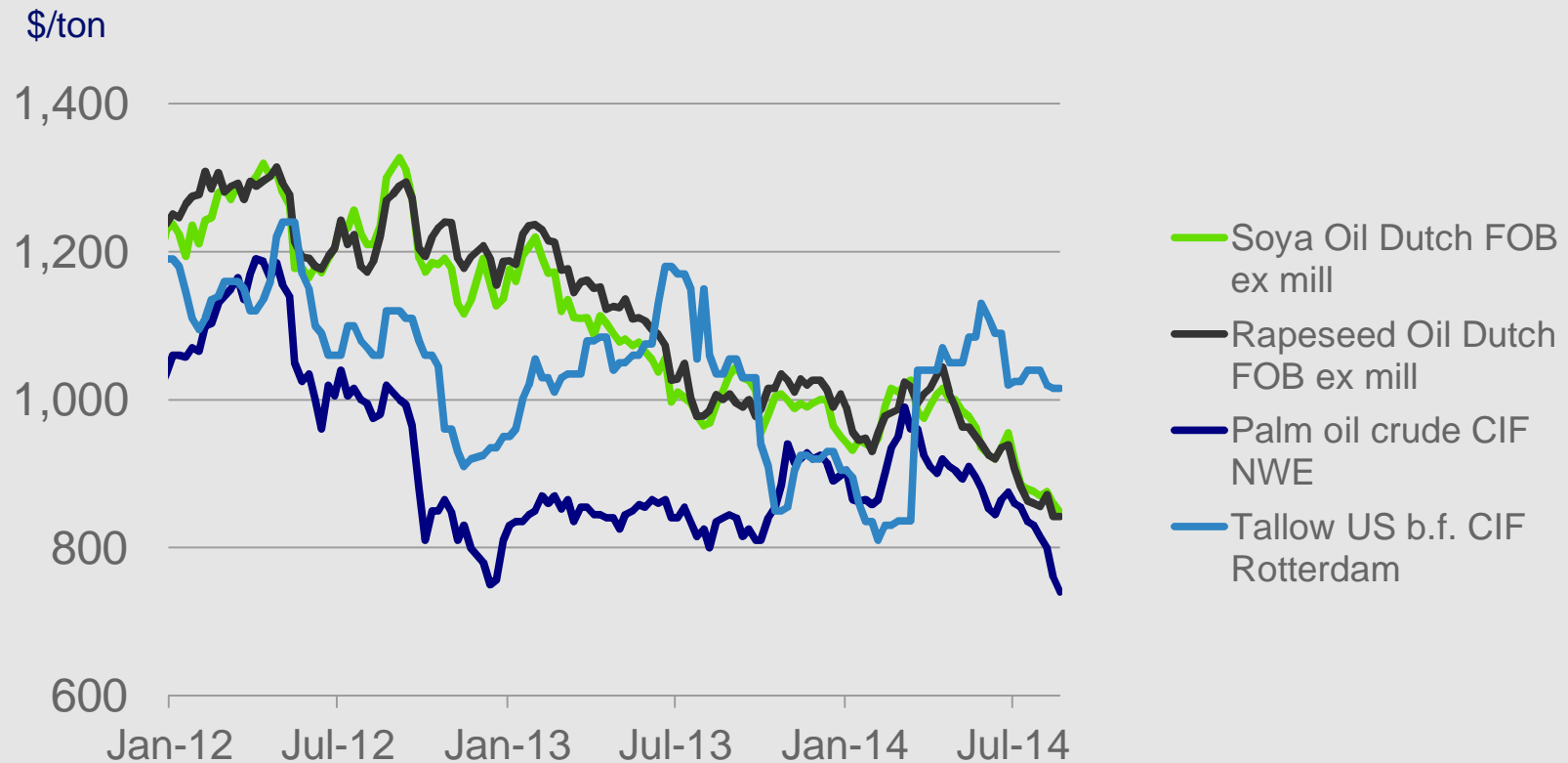
## SME vs. Soybean oil price differential



\*Including \$70/ton freight

# Feedstock price volatility continues

## Vegetable oil and animal fat prices\*



\*Quotations in NWE, source: Oil World

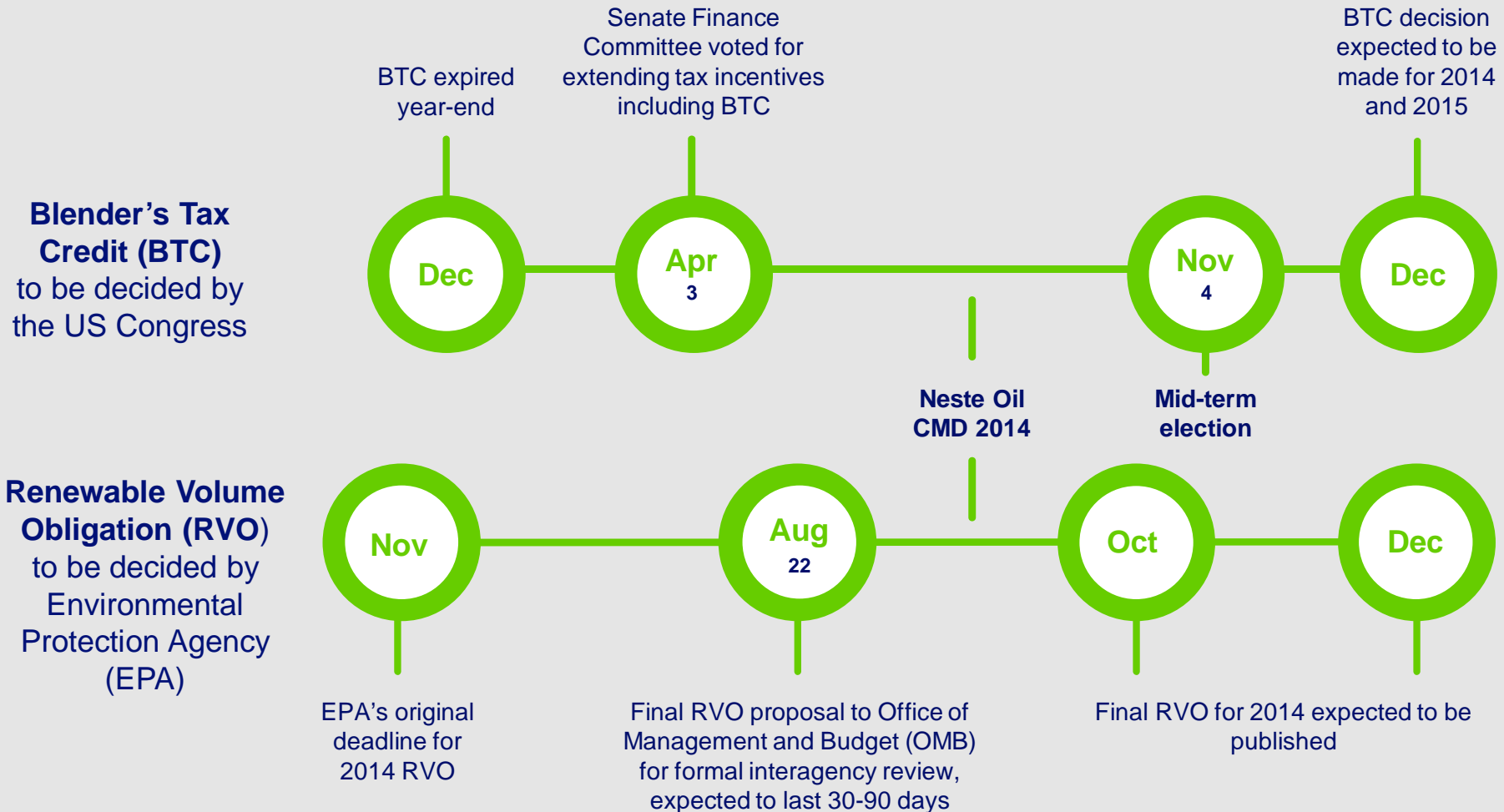
# Positive regulatory development in EU

Germany moving  
to GHG based  
regulation

Polish market  
opening for  
NEXBTL

EU 10% biofuel  
target 2020  
firmly in place

# US regulatory decisions pending



# Driving additional margin increase



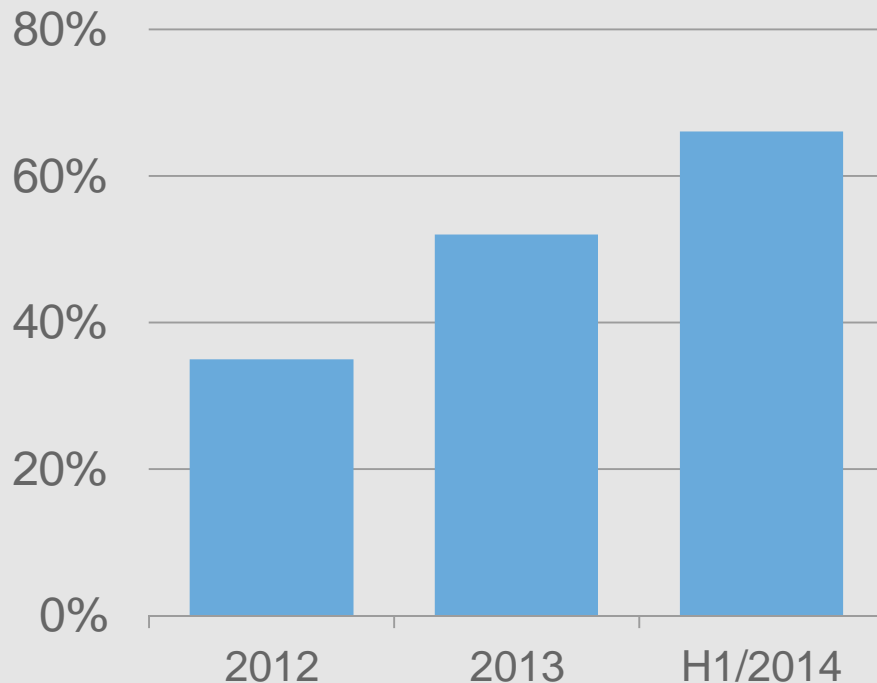
**Feedstock  
flexibility**

**Productivity  
growth**

**Product value  
maximization**

# Targeting 100% waste and residue processing capability by 2017

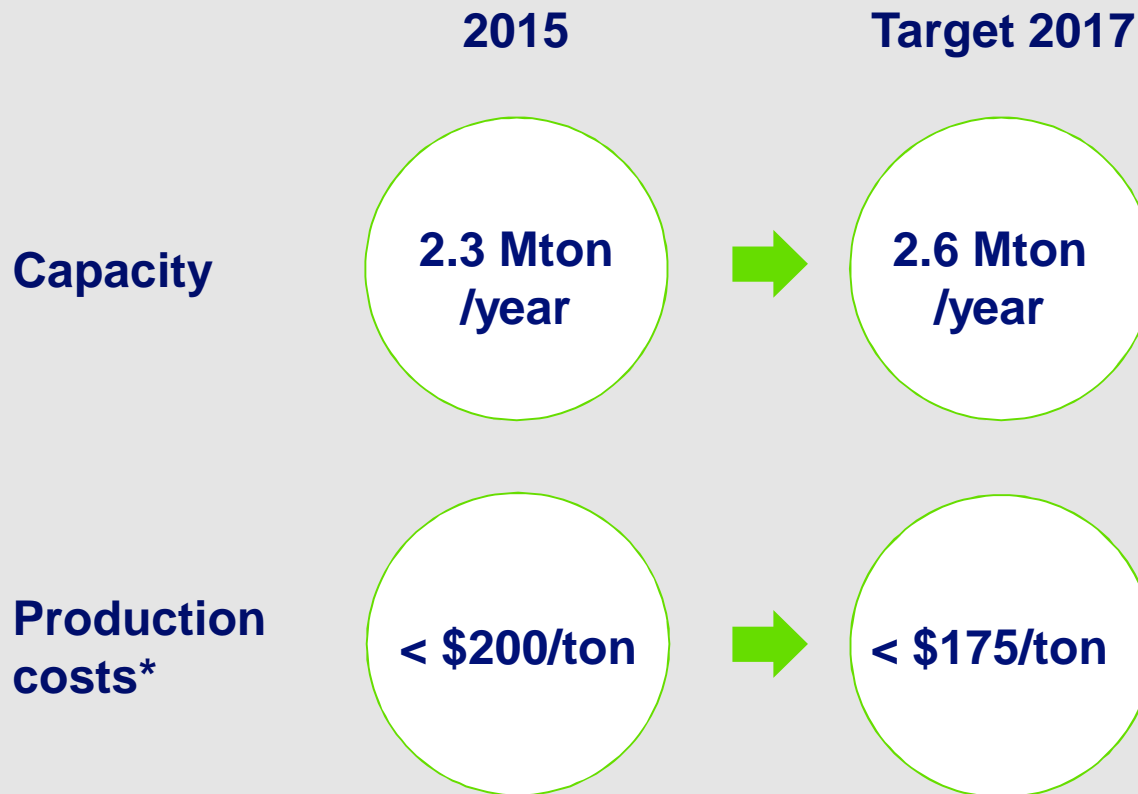
## Share of waste and residue feedstock



## Actions to reach 100% capability

- Further development of global supply chain
- Continuous R&D to evaluate new lower-quality feedstock
- Successful test runs with 100% waste and residue blends
- Debottlenecking processing constraints

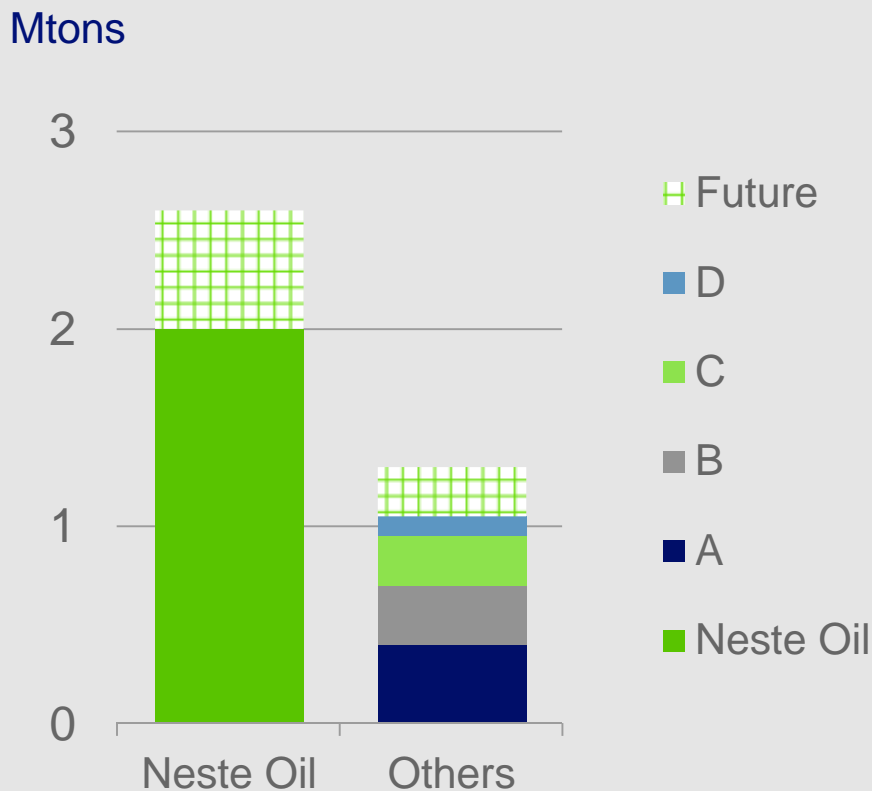
# Expanding existing annual capacity to 2.6 Mton by 2017



\*at full capacity utilization

# Renewable diesel capacity growing as demand for advanced drop-in solutions increases

## Global HVO capacity

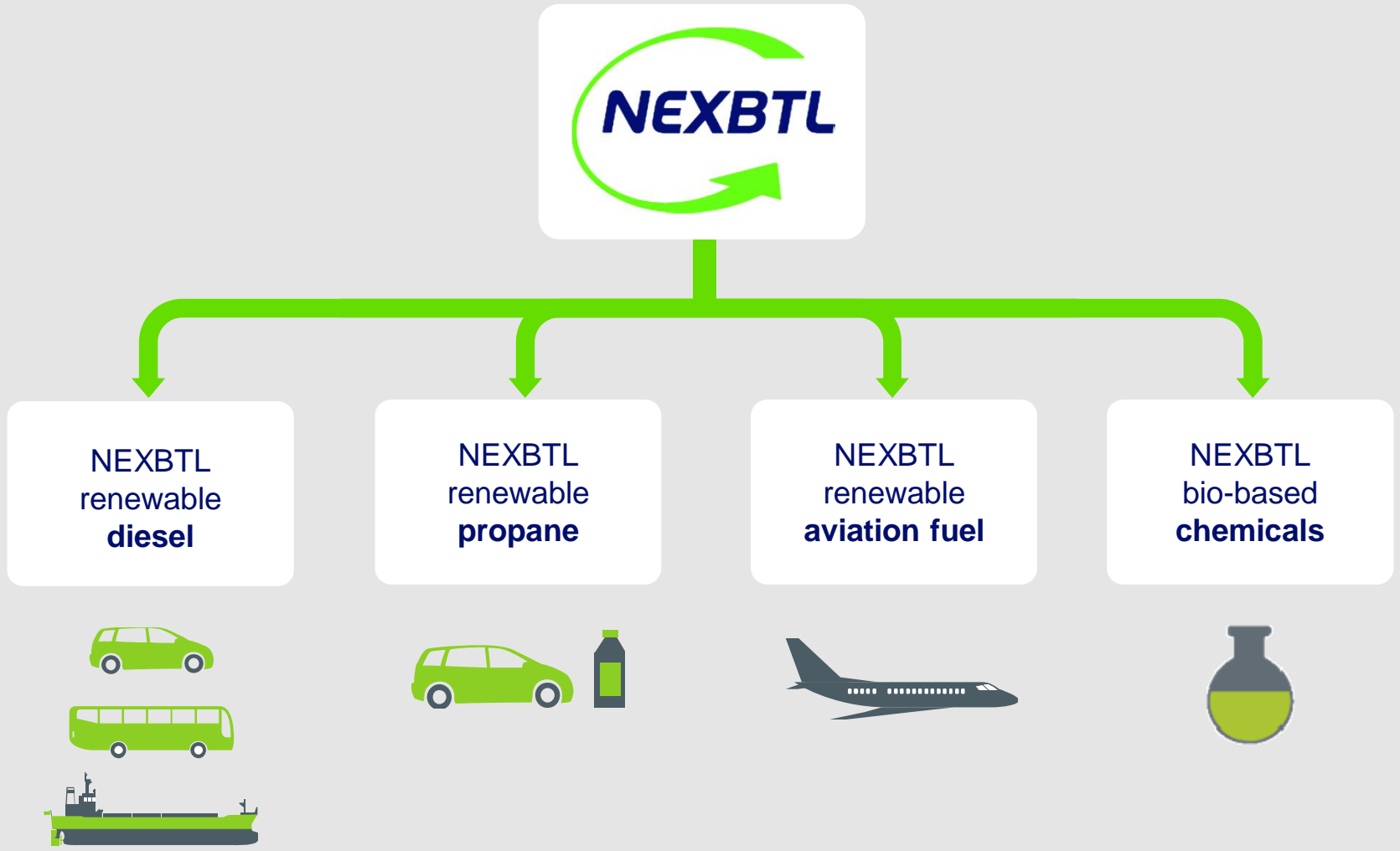


### **NEXBTL is preferred solution for global renewable feedstock-based markets**

- Drop-in solution replacing fossil alternative as fuel or feedstock
- Flexible technology maximizing use of waste and residue
- Global supply chain and industrial scale

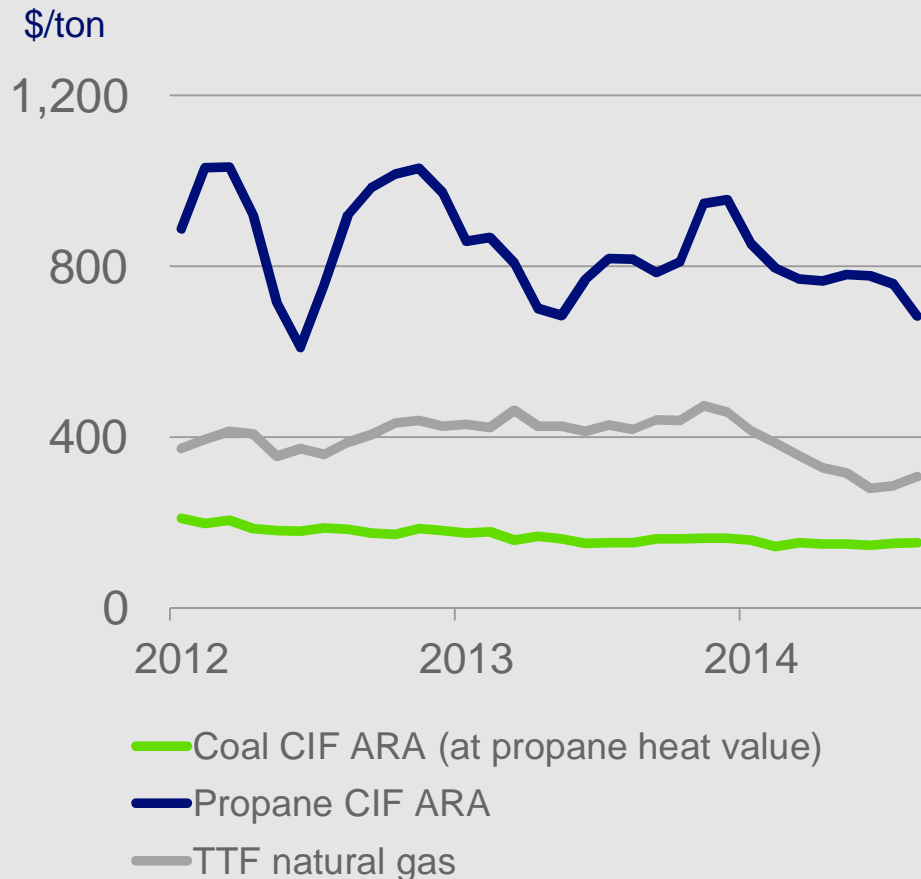


# Expanding renewable drop-in product portfolio



# Fuel gas side stream upgraded to bio propane in Rotterdam in 2016

## Fuel gas alternative prices



- Upgrading fuel gas stream to bio propane at Rotterdam refinery in 2016
- 2-year productivity investment project
- Volume 40,000 tons/a
- CAPEX approx. M€ 60
- Expected payback time less than 5 years

# Likely emergence of renewable aviation fuel with low blends

## Previous approach

- 50% renewable aviation fuel and 50% fossil aviation fuel
- ASTM standard approved
- Test flights done
- Commercial adoption pending due to price gap



## New approach

- NEXBTL as drop-in solution for aviation industry at low blends
- For example blending 2% of NEXBTL diesel into fossil aviation fuel
- Easy and cost efficient access to renewable fuel for aviation
- Seeking for ASTM approval

# Growth in global renewable feedstock-based markets

Capability to use high share of waste and residue feedstocks

Capacity increase

Expanding to new drop-in solutions

# Questions & answers



# Focusing on performance and growth

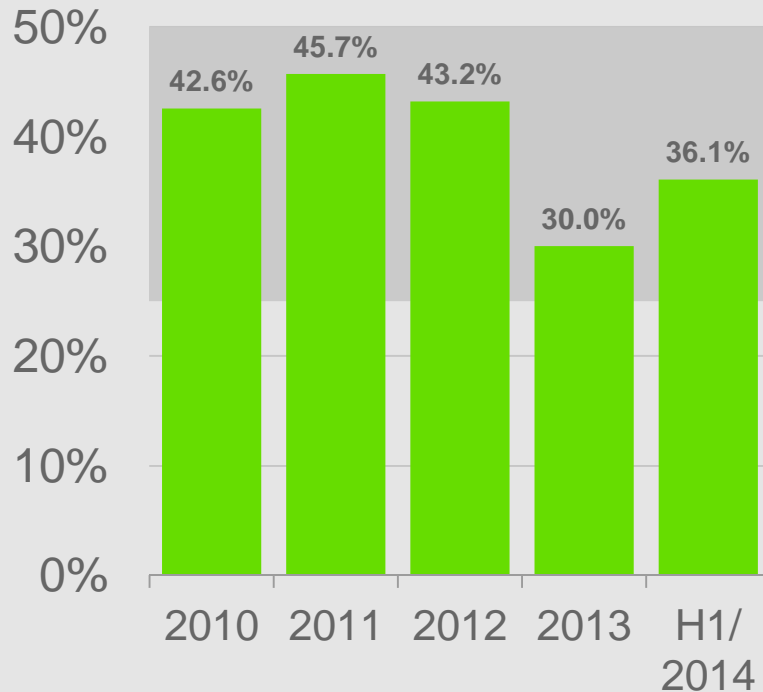
Jyrki Mäki-Kala, CFO



# Performance heading in right direction

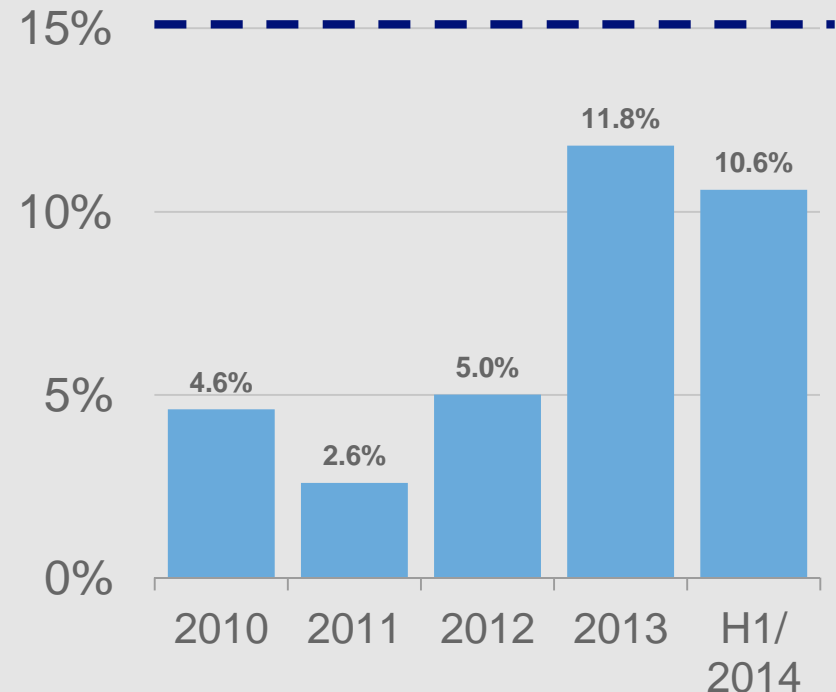
## Leverage

Target range 25-50%



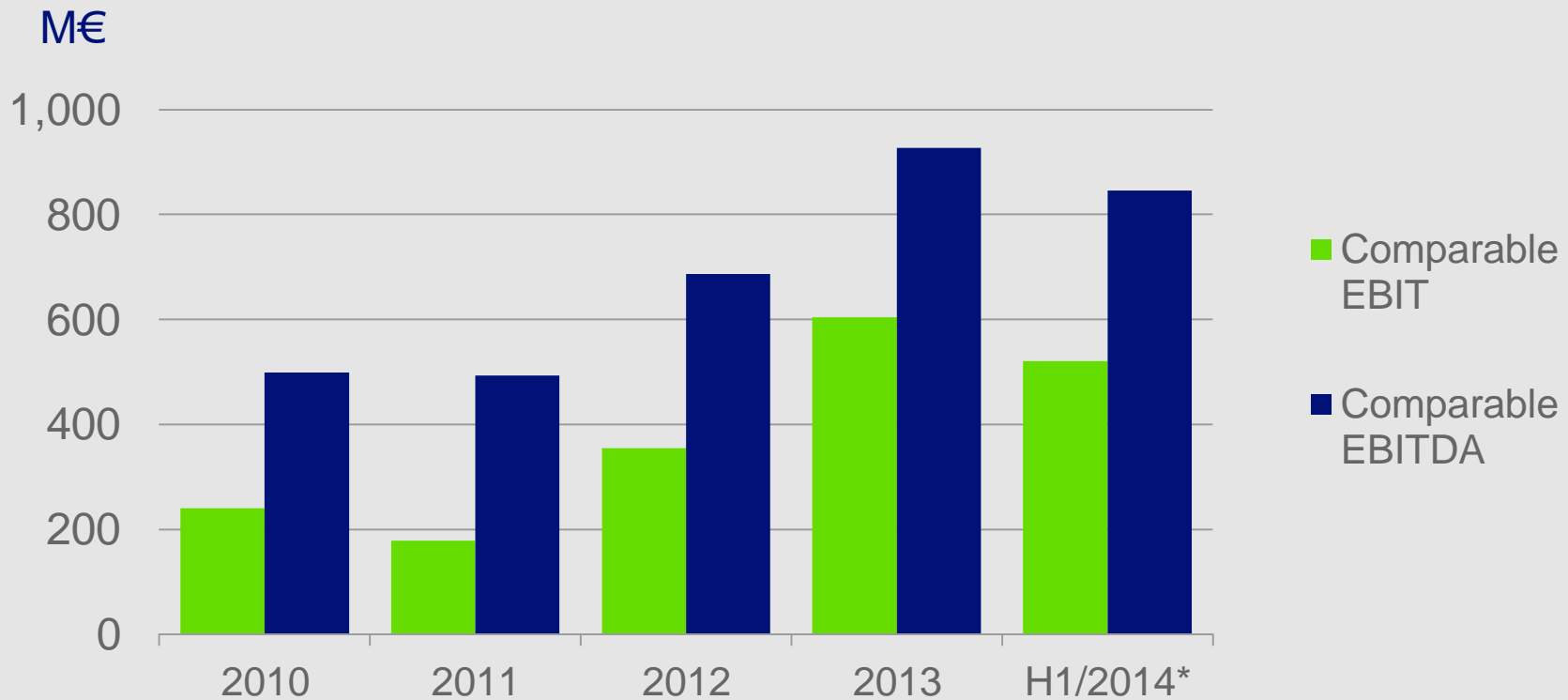
## ROACE (rolling 12 months)

Target 15%



# EBITDA providing basis for strong cash flow

## Comparable EBITDA and EBIT

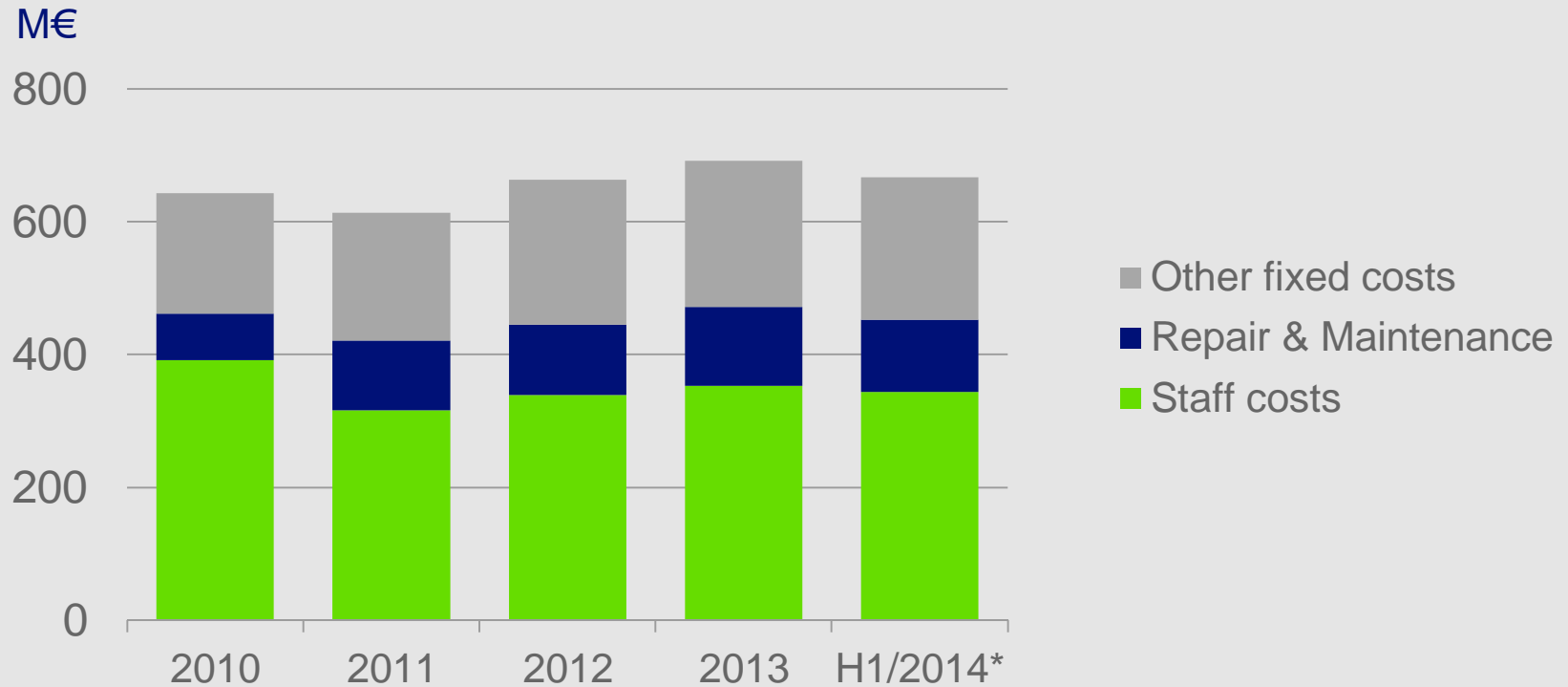


\* rolling 12 months  
as of 30 June 2014



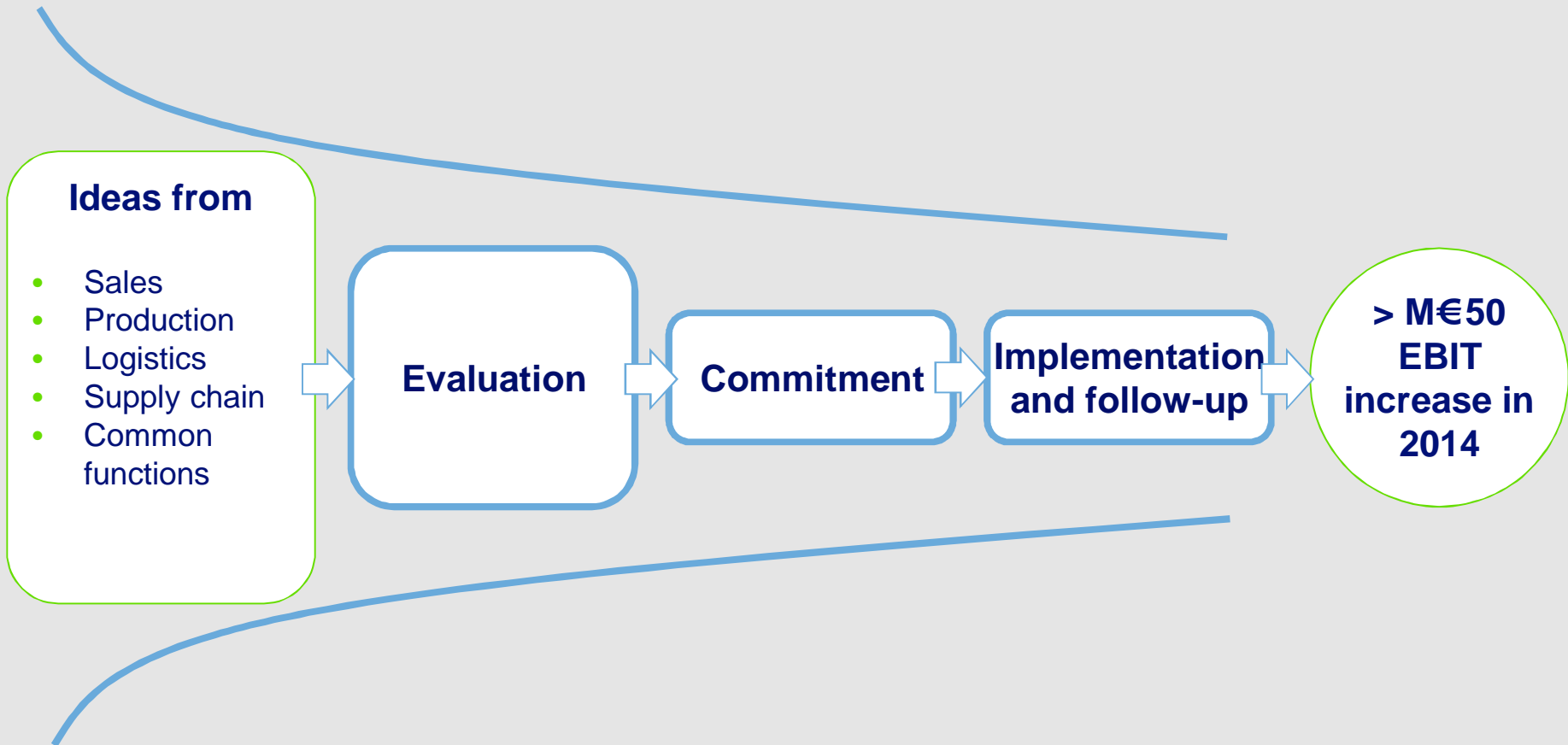
# Fixed costs under tight control

## Fixed costs



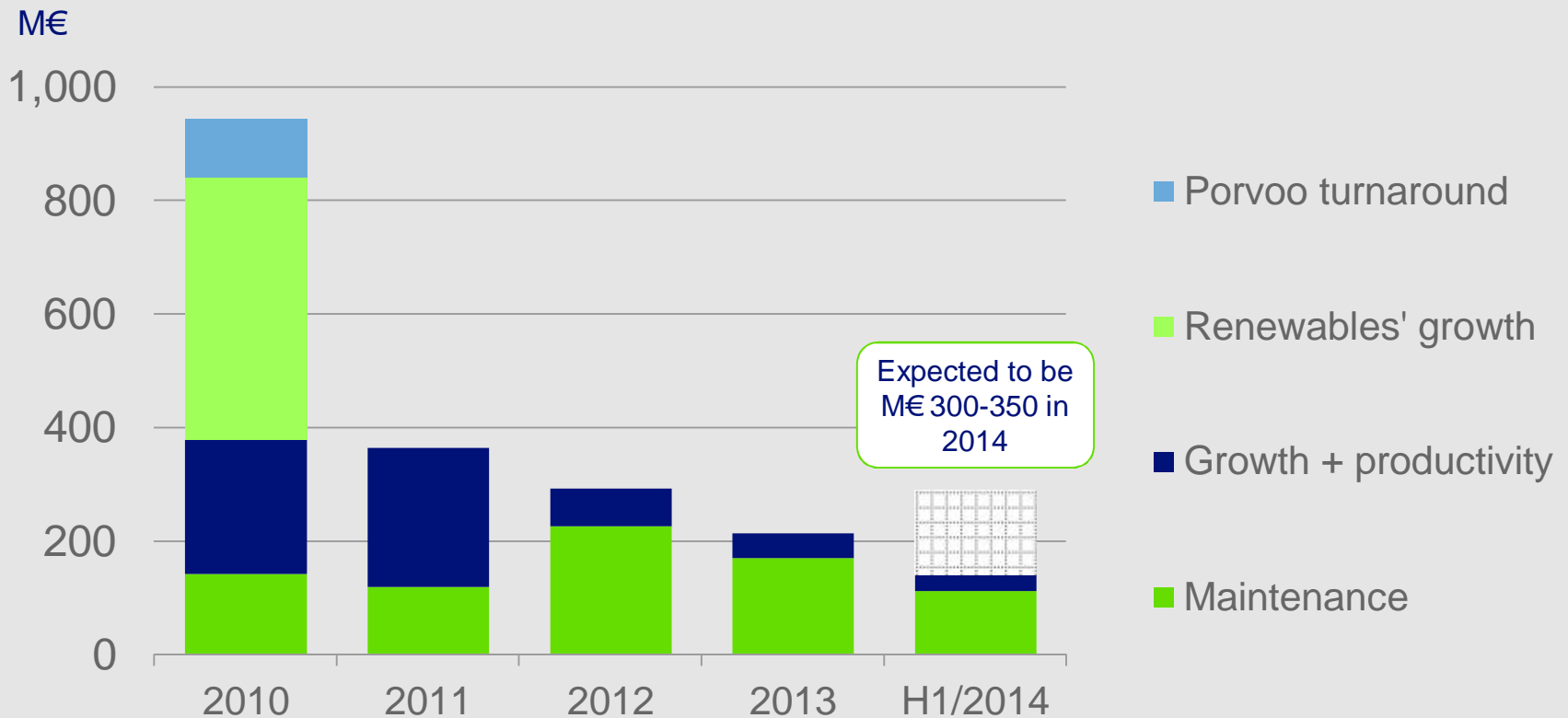
\* rolling 12 months  
as of 30 June 2013

# Committed to performance improvement



# Normal year cash-out investment level M€ 300-350

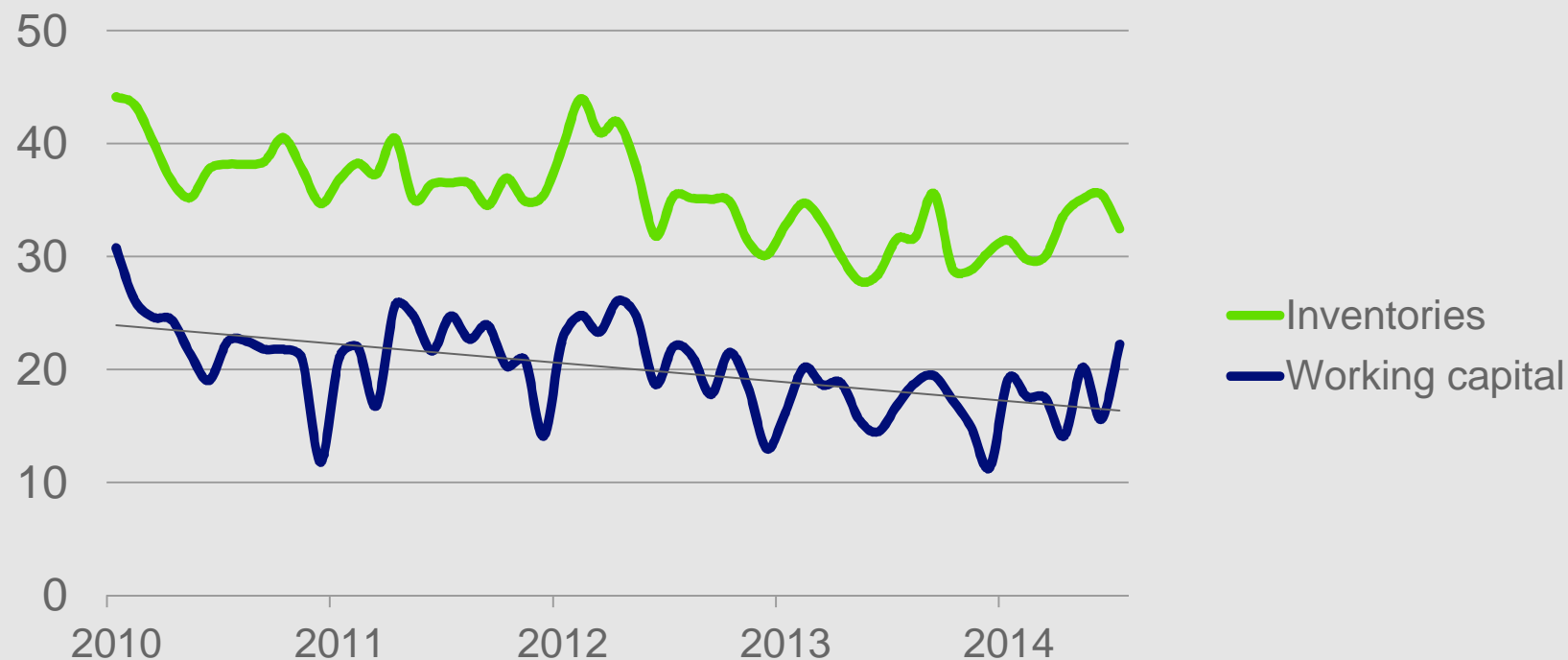
## Capex



# Inventory management key for lower working capital

## Working capital, rolling 12 monts

days  
outstanding



# Three elements of cash allocation strategy



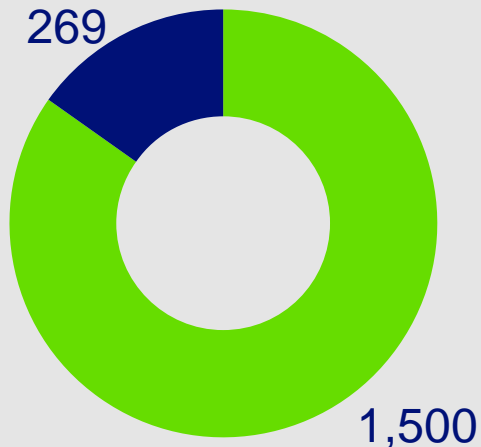
Investing in productivity and opportunities for growth

Reducing debt

Paying out stable dividends

# Solid liquidity position of M€ 2,200

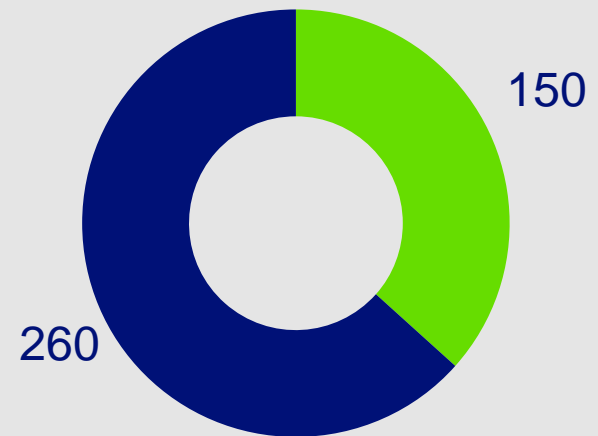
## Committed liquidity\*, M€



■ RCF ■ Cash

Total available committed  
liquidity M€ 1,769

## Uncommitted liquidity\*, M€



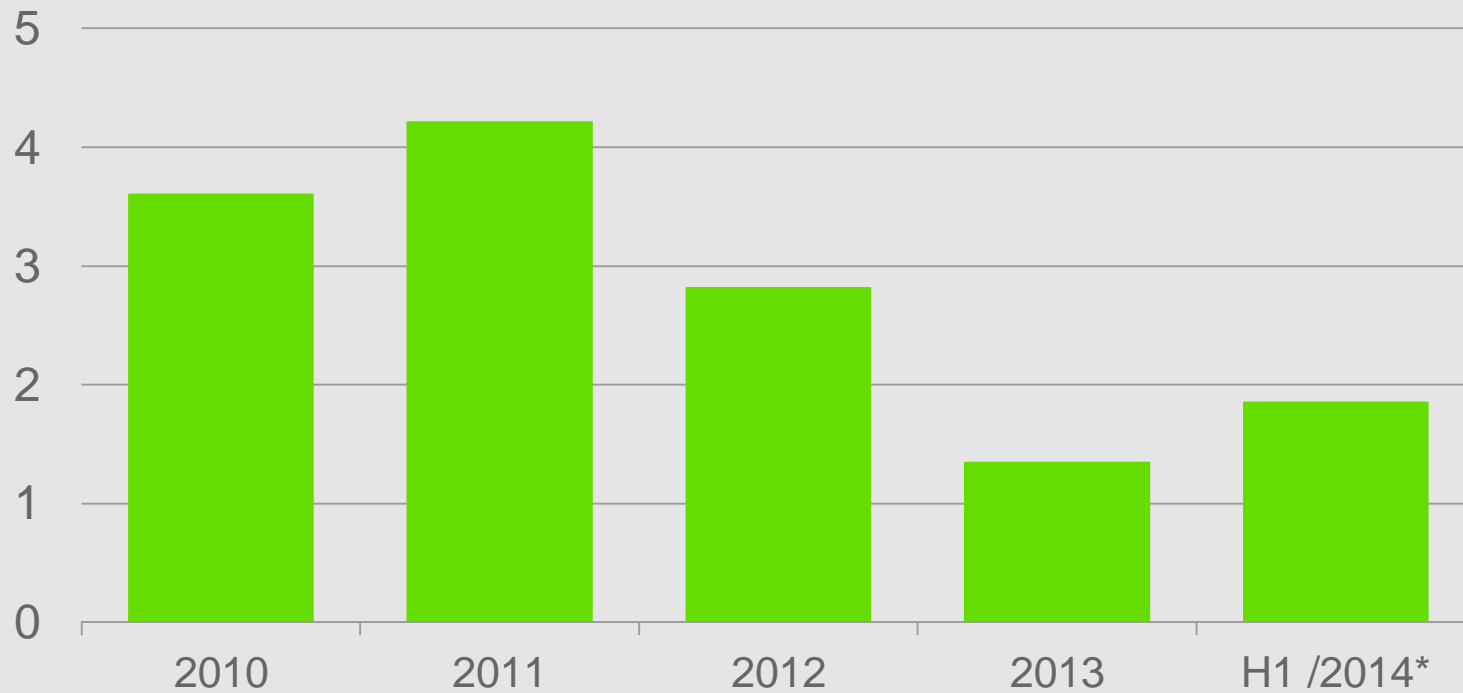
■ Overdrafts ■ CP

Total available uncommitted  
liquidity M€ 410

\*as of 30 June 2014

# Healthy net debt / EBITDA ratio

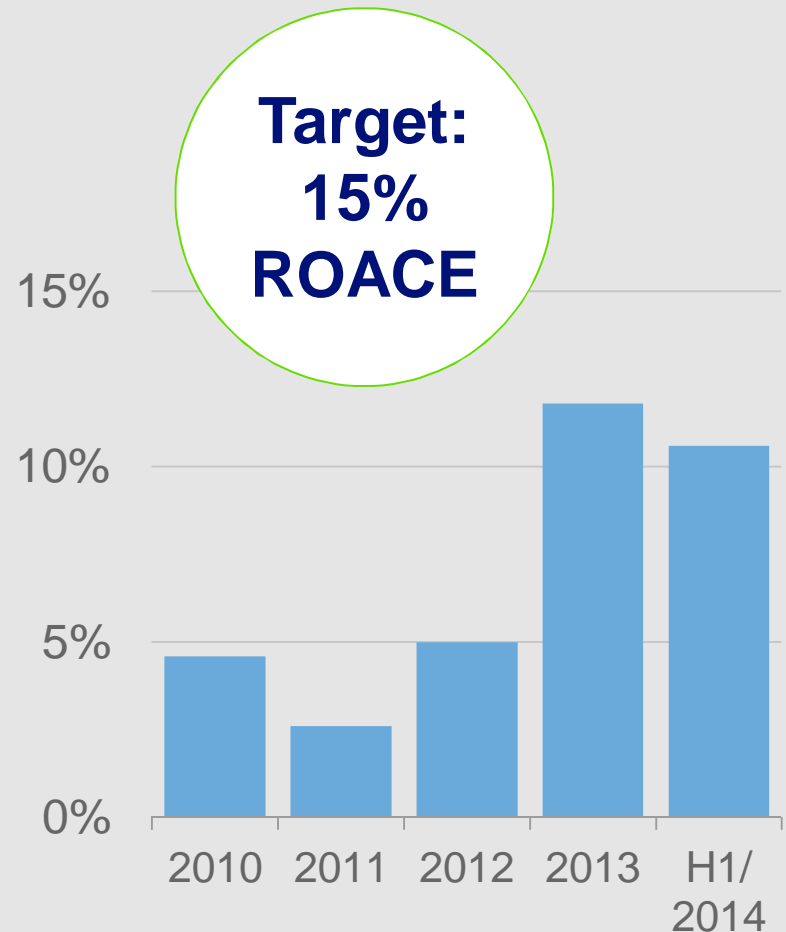
## Net debt / Comparable EBITDA



\* rolling 12 months  
as of 30 June 2014

# All improvement elements needed to reach 15% ROACE

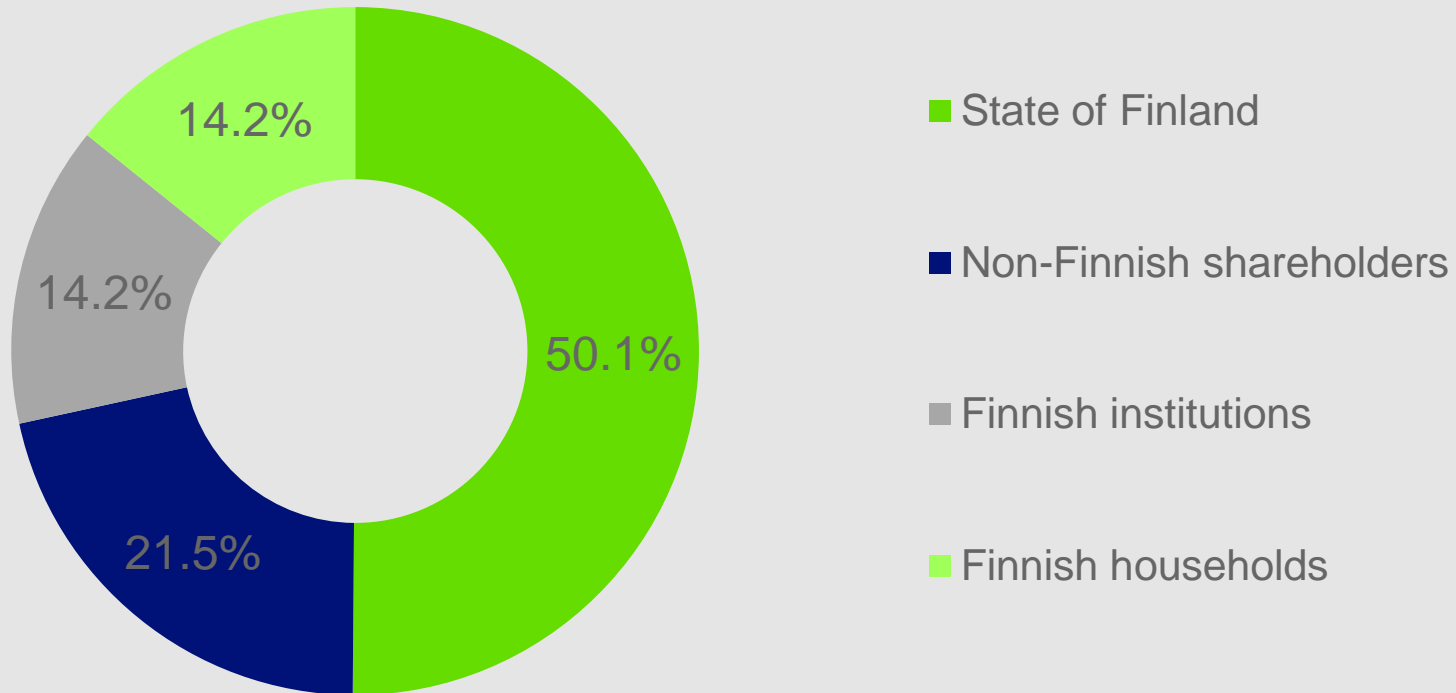
- Growth in all businesses
- Performance improvement in all areas
- Continuous working capital management
- Focused capital expenditure
- Fixed asset management





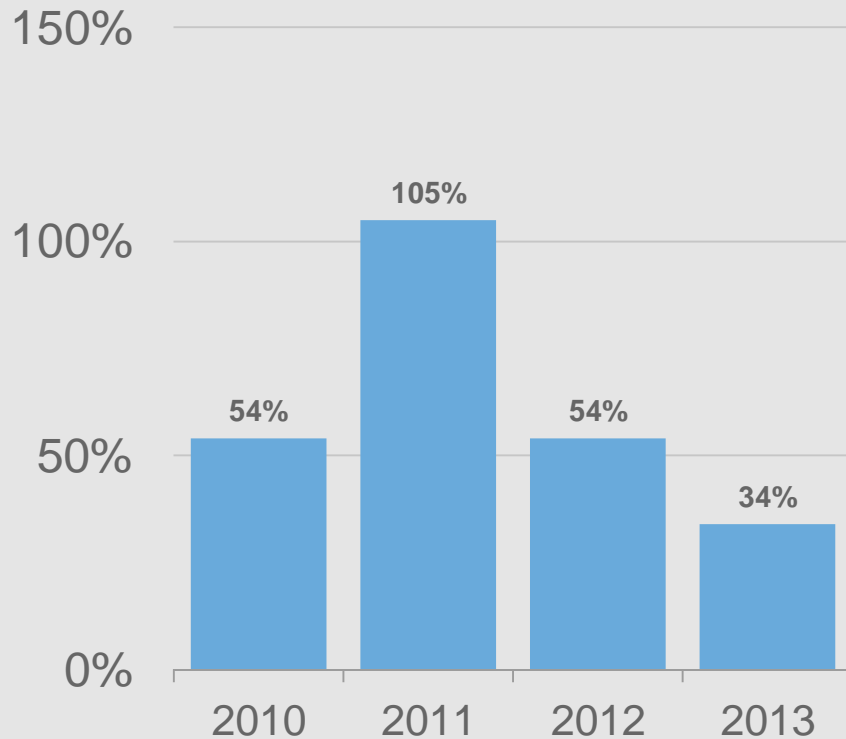
# Significant international ownership

Ownership structure as of August 31, 2014

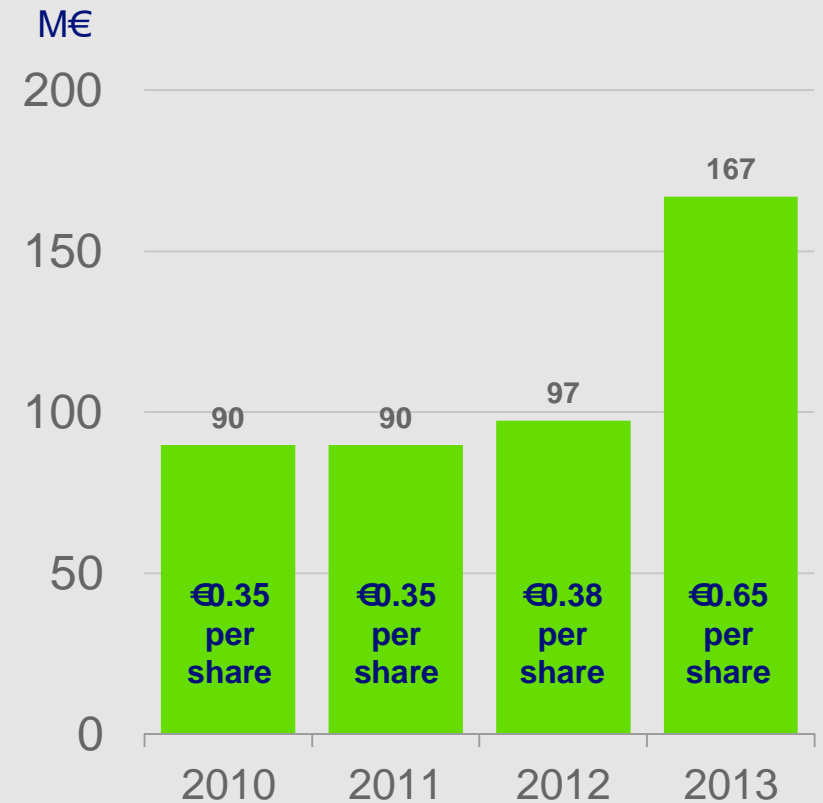


# Dividend policy to pay at least 1/3 of comparable net profit

## Payout from comparable net profit



## Dividends paid



# Focusing on performance and growth



Performance  
management

Profitability and  
cash flow

5 key elements  
needed to reach  
15% ROACE

# Questions & answers



A decorative graphic in the top right corner features several overlapping circles in shades of light blue and lime green. A semi-transparent photograph of an industrial staircase is integrated into the design, showing a person walking up the stairs. The number '1-36' is visible on the wall of the staircase.

# Concluding remarks

Matti Lievonen, President & CEO

# Addressing the challenges



**Focusing on  
our strategy**

**Enhancing  
competitiveness**

**Creating growth**

# Creating growth within existing and new businesses

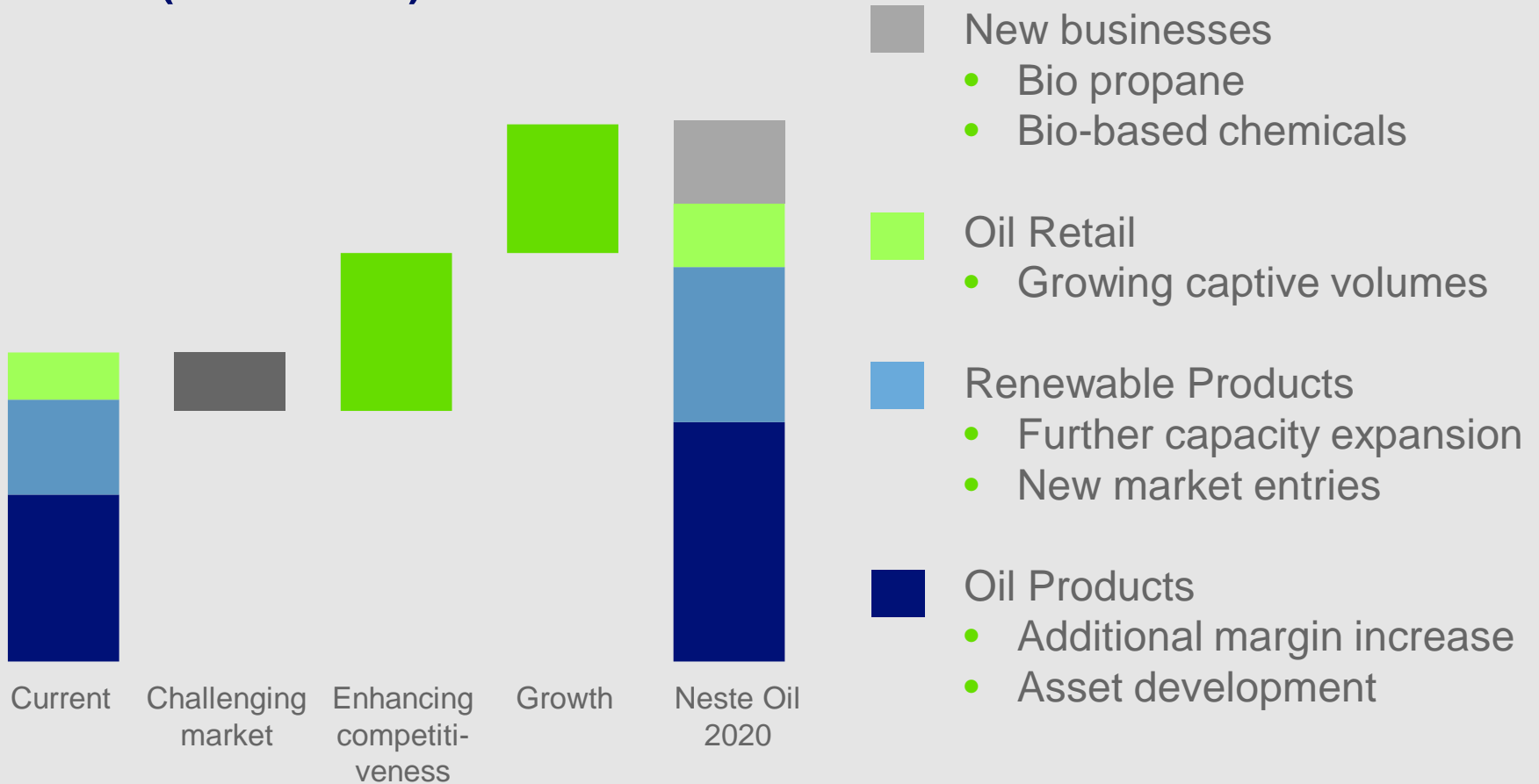


**Baltic Sea  
downstream  
champion**

**Growth in  
global  
renewable  
feedstock-based  
markets**

# Strategic choices creating value

## Value (illustrative)





# Consistent cash allocation strategy



Investing in  
productivity and  
opportunities for  
growth

Reducing debt

Paying out  
stable dividends

# Creating value through competitiveness and growth

Baltic Sea  
downstream  
champion

Growth in global  
renewable  
feedstock-based  
markets

Performance  
improvement  
actions



**Thank you.**