Transcript for "Neste Financial Statements for fiscal 2024 "

00:00:01 - 00:01:29
Riikka Toivonen: Good afternoon everyone and welcome to Neste's Q4 and full-year 2024 results webcast. Today we are broadcasting you live from London, where we will also be hosting our capital markets update later today. I want to welcome you all to join the session also and the webcast link is available on our website. Since we have a live audience here today, I would like to extend a warm welcome to all of you here in the room as well. My name is Riikka Toivonen, and I am part of Neste's Investor Relations team. I will be your host for this afternoon. Joining me today are Heikki Malinen, our President and CEO, and Anssi Tammilehto, Neste's interim CFO. We will begin with presentations followed by a Q&A session. As usual, we will also take questions from those joining us online, but today since we have a live audience, we will also take questions from the room. The presentation is available on our website, neste.com/investors. Before we begin, please take a note of the disclaimer as today's discussion will include forward-looking statements. And with that, I'm pleased to hand over to our President and CEO, Heikki Malinen. Welcome!

00:01:30 - 00:02:19
Heikki Malinen: Thank you! Good afternoon everybody! Nice to see so many of you here! I look forward to a very lively and good interaction today with you and with those folks online as well. So today, the program will be the following. We will first with Anssi go through the Q4 results as well as talk about 2024. And then, we'll take a little break after about an hour after your questions, and then we will move on to our CMU session, which will start with a fairly comprehensive presentation by myself, followed by Anssi's commentary, more from a CFO angle. Then we'll be happy to take your questions. There's a lot of material to go through today, so look forward to working through them with you.

00:02:21 - 00:03:14
Heikki Malinen: Let me start with the first slide here today. As Riikka mentioned, safety is the highest priority at Neste. The industry we operate in is actually very sensitive: fires, et cetera, can create a lot of damage. Let's say at Neste, we want to make sure everybody comes and goes home safe and we have no environmental issues. So it is really extremely important, and we pay a lot of attention and focus to it. If we look at the statistics of our safety performance, I can say that we have over the last decade, we've made a fair amount of progress, but over the last few years, our progress has slowed down. In some ways, if you look at the recordable incidence frequency rate, you can say that we've gone a few steps backward. It just shows us that we have our work cut out for us.

00:03:15 - 00:04:31
Heikki Malinen: Last year in 2024, we had a number of incidents in our facilities. We had a fire in Rotterdam. We had some other issues in Singapore and so forth. All of them were managed very professionally and very quickly. Anyway, this shows that one needs to be very diligent and needs to manage this internally in a way that these things just do not happen. We will continue the work. I'm personally as a CEO very much involved in that. 2024 in brief, I think as the title of the presentation said we are living through some challenging times at Neste. Looking at the financial performance and particularly when you compare the financial performance of 2024 to prior years, 2024 was a tough year for the company. The financial performance is in no way satisfactory. It's unsatisfactory. In many ways, I like to say it is unsustainable. We have to take a lot of actions to turn around at the corner. There were many, many factors that impacted our business.

00:04:32 - 00:05:30
Heikki Malinen: I think from the renewable product side the big challenge we face is simply overcapacity. There's been a strong belief in renewable growth. It's driven by mandates. I'll talk about that in the CMU section. Today we are going through a period of digestion in terms of overcapacity. That has impacted our margins. On the Oil product side, which is an important part, it's an important leg of Neste, we have had some years with very high margins, and now the margins are pretty much normalized to where they have been over the longer term. We have a lot of good capacity. We have modern assets. Also in this area, in particular in the fourth quarter, we did not deliver all the volume we wanted to deliver. In that respect, Q4 was a disappointment. A lot of work needs to be done and it will be done.

00:05:31 - 00:06:48
Heikki Malinen: Looking at the fourth quarter and putting that also in the annual context here, you still see some figures for 2020 toward 2024. You can just see the significant spike in earnings in '22 and '23, and then where we ended up with 1.25 billion of comparable EBITDA last year. The company is investing heavily. We at Neste believe very strongly that this is a growth industry. We will give you more information on why we believe it's a

growth industry also long-term in the next presentations. Against the backdrop of that opportunity, the company is investing and has invested. For that reason, you can see those spikes, those bars in the middle are very high. Overall, last year, we spent 1.6 billion, and that includes also a turnaround. In Porvoo, we do these turnarounds nowadays at roughly about a two-and-a-half-year frequency. The turnaround last year would have been about 400 million in the bulk of CapEx. The cash flow before financing items ended up negative.

00:06:48 - 00:08:00
Heikki Malinen: We had a good rebound in the fourth quarter, but still ended up with negative figures. Here you can then see the Q4 numbers in a snapshot: 168 million of EBITDA for the whole quarter, comparable sales margin for the renewables side at 242. The decline is quite remarkable when you compare it to 813 in the comparative period, so a very significant drop. Positive was that our sales volume did increase in renewables. As I said, we could have produced even more. As CEO, I need to make sure that the reliability of our plants gets better. We could have produced more. The refining margins came down to $11.8 per barrel. On the oil side, production was a bit over at three million tonnes. Now the numbers are not impressive by any chance, any means. As I said, they're not satisfactory.

00:08:00 - 00:08:59
Heikki Malinen: I still want to say that the Neste people do a lot of good things. Certainly, we have a number of things to be happy about. Let me just highlight a few of them to give you a more comprehensive and fuller picture. We are improving the foundation for value creation. We are moving forward with our investments: the assets we have built in our Singapore second line, and the conversion in Rotterdam line number one, which, by the way, will be producing SAF here in the first quarter. These are all very positive things. We're also strengthening our SAF sales, investing a lot of effort to find new customers, to working with channel partners to increase that. We made good progress on the SAF sales last year. As you know, feedstock, used cooking oil, animal fats, and novel vegetable oils are very important sources of value creation for us.

00:08:59 - 00:10:03
Heikki Malinen: The streams of molecules that we pick up from around the world are quite a logistic challenge. I think that's something where Neste stands out as being very good at this. We have now opened up offices in Brazil. We have activities now in India to further extend and widen our pool of potential sources of these valuable feedstocks. We also sold our first big volumes to Canada. We announced an important deal there with Air Canada. Chicago airport, O'Hare, you see our products there: positive things. If you look at our margins, statistically, if you compare them even though they are low, we are getting a premium, despite the weak market. Anssi will show you some more detailed information on how we justify that premium and where that's really coming from.

00:10:03 - 00:10:32
Heikki Malinen: That was my intro to Q4. I said, "When we get to the CMU, I will be doing most of the talking here on the front end, but I'll let Anssi walk through the numbers now and you get the more detailed picture." I'll come back and talk about the outlook a bit then, and I will also make some commentary about today's announcement regarding the next steps on the full potential program, and what we're going to do. I will leave the bulk of the story then to the CMU. Anssi, please.

00:10:32 - 00:11:49
Anssi Tammilehto: Thank you. [silence 00:10:32-00:10:35] Good afternoon all! Nice to see you all here live and also online. Let's go through the Q4 '24 and also the full year '24 results. As Heikki already alluded you to the topic, the results obviously weren't satisfactory to us and various reasons, of course. I will first walk you through the industry and how we see the market environment that has been developing quite dramatically even during the last couple of years. As you can see, of course, in '22 and '23, we experienced quite extraordinarily high margins in this industry. The market was short. Feedstock prices weren't inflated that much. Also the diesel price plays a role in this margin creation. Also the bio ticket prices supported the margin. Here in this graph, in the solid line, you can see the renewable diesel quota in ARA area in Europe deducted by feedstock costs, yield adjusted feedstock costs basically.

00:11:49 - 00:12:57
Anssi Tammilehto: You can see that even that came down during '24. When you take the production costs into account, you land somewhere around the equivalent of the sales margin of Neste. Of course as mentioned, we have a premium on top of that. The methodology is the same approximately than how you calculate our sales margin. You take out the production costs, yield and then the feedstock obviously. That comprises the majority of the cost side of things. There was a spike obviously in Q4 '24, as you can see clearly in the picture also, but it

was quite short-lived due to the operational topics we had both in Singapore and Rotterdam, we did not enjoy those high margins on a spot basis. Also our term ratio was quite high during Q4. That was short-lived as mentioned. If we then take into account how we generate a premium on top of this reference margin. We have been discussing this a lot with you, and we have been going through some of the topics.

00:12:57 - 00:14:21
Anssi Tammilehto: I think it's worth mentioning what drove the '24 premiums on top of the reference price. First of all, I think what matters is that we are acting globally. We have production in three continents: California, Finland, Rotterdam, and Singapore. This gives us lots of opportunities to just optimize and maximize margin wherever we see the best potential at a given time. At the same time, our feedstock integration, whether it's collection, trading capabilities, or logistics capabilities, gives us an advantage in that sense. Term deals also impacted the '24 margins and we typically negotiate these annually. The term deals were made predominantly in '23. SAF had an accretive impact on the sales margin in '24, despite the fact that the markets basically became more pressed during 2024 in SAF also, and the price for SAF fell. What also impacted positively our margin in '24 was the hedging that had a positive impact. Then, again, poor availability in Q4 then on the opposite direction.

00:14:21 - 00:15:18
Anssi Tammilehto: These are the topics impacting our '24 margin. Now when you follow the reference margin from different external service providers, you can see that that's not the entire truth of the story because we make something on top of that. Well, what changes in '25 and maybe a couple of years beyond is, of course, certain regulatory topics as described on the right-hand side of the slide, for example, the anti-dumping and anti-subsidy tariff potentials in the EU. How does the CFPC play out in the US point of view? We don't know all the details yet on how that will be implemented but we of course have some sense of what is going to happen. Also the voluntary SAF demand, that's something that remains to be seen. We only have the mandates in place in the EU and UK, but this is something that we will have to just wait and see.

00:15:19 - 00:16:24
Anssi Tammilehto: The markets are also becoming more liquid and more volatile, which means that we have more opportunities to optimize our margin in those prevailing market conditions. This remains critical for us, I think, going forward, and we need to be flexible to capture the opportunities where they are. Then also something to take into account is of our own actions with regard to both cost competitiveness and efficiency. If we then take the next slide and go through the Q4 results, all of our businesses contributed to the decreasing comparable EBITDA in '24 compared to the previous year. As you can see, the renewable products in Q4 was 420 million below last year's level. Oil products, -177. Also, Marketing and Services suffer a bit from the warm winter and slow heating oil demand, and then also negative in others, -30.

00:16:24 - 00:17:39
Anssi Tammilehto: We landed in 168. If we look at then the bridge by driver, we can clearly see that despite the fact that we were able to sell more in the Renewable Products, as Heikki mentioned, we could have sold more, but due to the operational hiccups in Singapore and Rotterdam, that wasn't the case. The remainder of the impact comes from the sales margin both in OP and RP as mentioned. The picture is pretty much the similar in the full-year picture. If we look at Renewable Products, almost a 1.4 billion decrease in full-year Renewable Products and -800 in Oil Products, so, of course, a significant decrease. We landed in 1,252 MEUR. The picture from driver's point of view remains the same, sales margin contributing to a vast majority of the difference. Porvoo's turnaround in Q2 also plays a part in that sales volume, netting the increase from Renewable Products.

00:17:42 - 00:19:07
Anssi Tammilehto: If we look at our financial targets for '24, we can see that the return on average capital employed didn't meet our target of 15 percent. We were below our target of 40 percent in leverage at 36.1. There was a slight increase quarter on quarter, but this is one of the key items we need to focus also going forward to keep our leverage under 40 percent. We have updated our financial targets for the years '25 and '26. We are aiming to achieve the €350 million run rate EBITDA improvement from the Performance Improvement Program. By the way, out of that, 250 million are operational costs. Then, of course, to maintain the investment grade credit rating, and we need to stay below 40 percent leverage. Heikki will address these topics more in his latter section in this webcast. If we then just dig a bit deeper into the details in Renewable Products, as you saw, the sales volumes increased. That was a positive thing. We could have increased even more. This is something that remains to then as a key priority for Neste.

00:19:07 - 00:20:14

Anssi Tammilehto: SAF volume also increased quite significantly but could have been even higher. The share of North American and European sales volume was a bit more even compared to a year ago at 47/53 percent. The main element contributing to the decreasing sales margin were the diesel price which was down approximately 20 percent. RIN D4 price in Q4 was still down by almost 20 percent as well. We had lower premiums in Europe compared to the 23 levels. Then the operational challenges that contributed by two ways, the yields production costs, and then the lower utilization rate. Overall, the efficiency just wasn't there. We need to improve on that side. In oil products, we have seen now a more normal level in a way or normalizing total refining margin.

00:20:15 - 00:21:27
Anssi Tammilehto: If we take the market into account, the comparison period was still quite high after the energy crisis at $18.9 per barrel, whereas now it was $11.8. The utilization rate is a bit below previous year's level of 92, so we landed at 88. All in all, a solid performance on that front in Oil Products. Looking at the Marketing and Services then, I think it's safe to say that the returns are on a sufficient level. I think over 30 percent returns, it's a good return on this business. Overall, the sales volumes were to some extent pressured as the demand wasn't that high due to the warm weather and intense competition in Finland and Baltics. That is about it from the financials point of view. We will have a chance to discuss those also later. I would like to still note when Heikki is soon coming and discussing the current topics and the guidance for this year, I showed you the reference margin picture.

00:21:27 - 00:22:32
Anssi Tammilehto: You can follow the quotes from the market from different service providers, for example, from our website, where we have now the European used cooking oil-based RD price, and also the US used cooking oil and soybean oil prices there. And also RINs and LCFS, they of course are a major contributor to the US margin. We discussed the premium drivers of the company. We don't know how exactly the regulatory frameworks will develop, but those can be certainly monitored. We are also now talking about sales volume for 25. We also have included in the appendix of this presentation an illustration of how the '24 sales volumes have been distributed globally and by product and also our view of what are the drivers of change going to 25. There are regulatory topics and then there are also our own operational topics. I leave it to Heikki, please.

00:22:32 - 00:23:46
Heikki Malinen: Thank you, Anssi. Let's talk a bit about the update and guidance here. This morning we communicated the key conclusions from the work we have done on the full potential analysis. As I said, in the moment when we get to the CMU, we'll do a deep dive. With this slide, for purposes of this presentation, I just want to highlight the key, let's say, areas of focus and conclusions from the work we have done. As you may recall, when I started in October, we launched this analysis. It was comprehensive. It's been very systematic. We've looked at the company from different angles, both top-down but also bottom up in certain areas to get a full and as complete picture as it's possible within this fairly abbreviated time. A couple of observations, first of all, I think if we look at Neste over the last maybe three or four years, Neste is a very innovative company. We've seen a lot of potential to grow our business in many areas of the climate change and energy transition.

00:23:46 - 00:24:58
Heikki Malinen: Given where the markets are, given our financial position at the moment, given the need to improve our financial performance, I really feel very strongly that it is a moment where we have to renew the focus on the core. The core is of course our traditional Oil Products, but most importantly our Renewable Products, RD, and SAF. We are also kicking off a performance improvement program. We need to now work very diligently to extract more value in the short term to our bottom line. There's a program and I'll discuss that a bit later. We are updating our financial targets. The old ones don't really work and they're not matching where we want to go. We are communicating new targets and new thoughts on capital allocation. The balance sheet strength is important. Therefore, strict capital allocation will be needed. The dividend proposal, you've seen the board directors proposing a more modest level of dividend to the annual shareholders meeting.

00:24:59 - 00:26:18
Heikki Malinen: The Rotterdam expansion schedule has been revised. We've done since I joined a very, I would say, detailed analysis of Rotterdam to understand where are we really, both in terms of schedule and in terms of our understanding of costs. We're sharing that information with you today. Then finally, unfortunately, we have to initiate change negotiations. It's a hard day for Neste employees, but our market has changed so fundamentally. Our financial situation has changed. We need to reduce our fixed cost base. Negotiations will start and we as an employer will do our best to support our employees during this difficult transition period. In terms of financial targets and capital allocation, we are now setting targets for two years. This is only a slide that covers 2025 and '26 only. We're not taking any position beyond that time frame. For the two years, the target is

to increase our EBITDA run rate by €350 million, or which cost out, operational cost takeout will be 250 million.

00:26:20 - 00:27:43
Heikki Malinen: Our intention is to maintain our leverage below the 40 percent level that has been communicated also earlier. Regarding CapEx, we are estimating that our CapEx needs for the two years will be 2.4 billion. They will consist of 1.3 to continue and completing Rotterdam, 0.9 billion for turnarounds, and maintenance, of course, and then 200 million for other things. Then the dividend for fiscal year '24 is the proposed €0.20 to the AGM. I want to also mention that as backdrop to all of this, our intention is to try to maintain the company's investment grade credit rating. The market outlook for 2025, especially SAF if it's a market in the very early parts of its history, so of course making longer-term projections is not easy. The uncertainty in the global economic environment and the global geopolitical situation in particular are expected to cause ongoing market volatility for us in our business.

00:27:44 - 00:28:57
Heikki Malinen: The market for renewable fuels is expected to be oversupplied, and therefore challenging in 2025. Possible changes in the regulatory framework, especially in the United States and Europe, will have an impact on Neste's overall supply chain optimization. As you know, we have refineries in multiple jurisdictions. Changes in trade policy such as tariffs, which seem to be coming, can also affect Neste's competitiveness. Our guidance for 2025 and there are some changes. In terms of guidance, we are guiding sales volume. In Renewable Products, our sales volumes in 2025 are expected to be higher than in 2024. In Oil Products, same situation, sales volumes are expected to be higher than in 2024. We are also guiding on our maintenance plan. There's going to be a five-week turnaround in Rotterdam in the fourth quarter and a six-week turnaround starting in mid-December in Singapore, which will then go over into January of 2026.

00:28:58 - 00:29:40
Heikki Malinen: There are no planned turnarounds in Porvoo. We just had a big turnaround in 2024 spring. The Group’s full-year 2025 CapEx outlook is going to be, excluding M&A, approximately €1.1 to €1.3 billion. Ladies and gentlemen, that is in a nutshell the information we had to share in presentation format to you in this section of the presentation today. I'd like to invite Anssi to join me here, and we will then take the questions. And you will be moderating the questions?

00:29:40 - 00:29:40
Riikka Toivonen: Yes.

00:29:40 - 00:29:41
Heikki Malinen: Thank you very much!

00:29:41 - 00:30:06
Riikka Toivonen: Thank you very much, Heikki and Anssi! As mentioned, now it's time for the Q&A session. If you would like to ask a question, please raise your hand, and then we will bring the microphone to you. When asking, please present your name and the organization. Thank you. [silence 00:29:59-00:30:05]

00:30:06 - 00:31:01
Sasikanth Chilukuru: Hi. This is Sasikanth Chilukuru from Morgan Stanley. I have two questions, please. The first one is on the sales margin. I was just wondering if you could isolate two factors that have impacted your sales margin. The first being the unplanned outages. What would have been the margin in case these unplanned outages weren't there? The other is on SAF. What is the impact of the higher SAF volumes on these margins? The second one is on the plants. If you could confirm if the renewable plants right now are all available for production, if these outages that had been in Q4 have been addressed and corrected. And if you could share the key lessons learned from these operational hiccups, such that they would not be repeated at least into 2025.

00:31:01 - 00:31:08
Heikki Malinen: If we could do so, that Anssi you take the first margin question and I'll address the second one.

00:31:08 - 00:31:39
Anssi Tammilehto: Thanks Sasi for the good questions. We've estimated the outages and the impact to be approximately, let's say, north from €100 million, which means that it's brought less than $100 per ton on a sales margin basis. We haven't disclosed the SAF margins separately, but what we have is 195 KT of SAF in Q4, which is an increase. Part of it is of course supporting the margin.

00:31:43 - 00:32:40
Heikki Malinen: To the second part of your question regarding the assets, all plants are running. I mentioned that we look forward to seeing SAF also in Rotterdam here in the near future. That's all positive news. Regarding your question on the key learnings, and that's now that's an interesting question, we could talk a lot about it. To give you a short answer to that, I would say that it comes down to maintenance because the technology is sound. There is not a technological question. Its maintenance, it’s really being more smart and savvy about predictive maintenance, about drilling down on what are the areas that might potentially fail and in trying to address them proactively. I think that is part of the learning curve of the company. Completely doable. That will be one of the areas of my focus as we move into the coming years.

00:32:41 - 00:32:49
Sasikanth Chilukuru: Thank you. [silence 00:32:42-00:32:49]

00:32:49 - 00:33:34
Pablo Cuadrado: Thank you. It's Pablo Cuadrado from Kepler Cheuvreux. Two questions, one is on the, I reckon on the guidance for this year, you talk about improving sales, biofuel sales, but you are not mentioning margins. Clearly, you have presented a very gloomy outlook on the industry. But I was wondering where, just take into account also the savings that you are going to initiate, do you think that you can start to see some improvement in the sales margin and the renewable product division during this year versus last year? That will be the first question. The second, on the new cost-cutting that you have announced today, shall we expect any one-off costs in order to implement that we need to take into account for 2025?

00:33:35 - 00:34:02
Heikki Malinen: If I could just say one sort of principle question here on guidance. This industry is still fairly new. My thinking here, and I think our thinking collectively is that we want a guide on things that we can control. When you look at sales margins, there are many things that are beyond our control. We want to focus on the things we can control but would you like to address the more detailed technical question.

00:34:03 - 00:34:37
Anssi Tammilehto: Yes, exactly. I think you raised an important topic, what is the profitability of the industry short term and maybe medium term. We have given our view on how we follow the reference prices and what kind of premiums we can do on top of that. As mentioned, it's largely driven by, for example, oil flat prices and it's beyond our control. We are guiding the sales volume for the full year. We definitely see that the market is growing longer term. We have to see when the situation then changes.

00:34:39 - 00:34:40
Heikki Malinen: Then on the redundancy question.

00:34:40 - 00:34:59
Anssi Tammilehto: On the redundancies, typically with the planned actions, there can be some costs that are incurred due to the process, which will then be taken into account in the financials. I don't have an order of magnitude on that for you at the moment.

00:35:02 - 00:36:07
Chris Kuplent: Thank you. It's Chris Kuplent from Bank of America. Two questions, if I may, you've given us a 350 million EBITDA improvement number. Can you put a little bit more color around that, whether you think, well, that's just the OPEC savings coming through and a little bit of volume growth? Perhaps, I appreciate Anssi, you can't control margins, but what would you consider mid-cycle when you talk about the run rate in EBITDA going forward? I think we've got a fair grip on mid-cycle refining margins, and we're back to roughly where we think they are. Maybe you can add a little bit of color around how you ended up with that 350 million figure. The second question, if I may, just wanted to explore a little bit how much flexibility you think you have versus your 40 percent leverage target. I very much appreciate that it's not just one number that you care about, I'm sure. Maybe you want to give us a little bit of an indication of how important that is should one quarter, whether it's turnarounds or outages, push that leverage ratio above 40 percent? Thank you.

00:36:07 - 00:36:27
Heikki Malinen: I see there were three questions embedded in that. Now let me ask you, hopefully, you can come to the next session because we will go through the 350 programs in significant detail. If you would not

mind, I would like to address your question in a moment's time. Then regarding the leverage question and the margin sensitivity.

00:36:28 - 00:37:20
Anssi Tammilehto: I think it's a proper good question, Chris. What's in way a mid-cycle margin level? We have said that the '25 we expect still the market to be in a situation of overcapacity, meaning it's going to be long. That's our view on the market. It was also long in '24. A few companies in this industry are making profits at the moment. We consider obviously our assets to be top-notch in this game. We will just have to wait and see how the short-term and mid-term play out, as mentioned before. It's difficult to predict. On the leverage, it is our target. We aim for 40 percent, below 40 percent. Of course, it's a combination of different topics as you mentioned but that's the aim.

00:37:22 - 00:37:25
Riikka Toivonen: Thank you. Now let's take a couple of questions from the online.

00:37:29 - 00:37:55
Operator: If you wish to ask a question, please dial Pound key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound key six on your telephone keypad. [silence 00:37:42-00:37:48] The next question comes from Artem Beletski from SEB. Please go ahead.

00:37:57 - 00:38:19
Artem Beletski: Hi, and thank you for taking my questions. I would like to ask about term contracts for 2025. Could you provide how much you have termed in terms of RD and SAF? The second question is relating to sales allocation, how do you see Europe versus North America this year? I guess North America is likely to be down compared to last year.

00:38:22 - 00:38:27
Heikki Malinen: Now question, how much have we guided on this one? [crosstalk 00:38:24-00:38:25]I need to weigh on you here.

00:38:27 - 00:39:31
Anssi Tammilehto: We have negotiated once again term contracts for this year. It is approximately 60 percent agreed on term basis that we have. This is lower than in '24 when we had quite a high number of term contracts. It was 80 percent in RD sales. The current number is a bit lower, and also wanting to leave some flexibility in that. In SAF, the logic is approximately the same. The second question was related to the sales allocation. On top of this, we reserve quite a fair amount of spot sales. This is then allocated based on the best possible outcome. There a big unknown is still the CFPC in the US. How does that play out? This is something that we are also waiting for confirmation. We are building different scenarios obviously and optimizing accordingly then on that.

00:39:31 - 00:40:29
Heikki Malinen: Maybe on SAF, I could just comment, I think this is the first year where we have the two percent mandate in Europe. I think in some ways also industry players are a little bit; I would assume customers observing how will things evolve. It's my understanding that there isn't any specific moment when you have to buy this two percent. I mean you can even wait until the latter part of the year to make your commitments. The actual how the volume gets spread throughout the year is still somewhat unknown. We’ll intend to run the facilities throughout the year, and then let's see what the customers buy and when. We have two different channels. We sell to the airlines directly. In most cases, there we blend our sales over them. We have channel partners and then we distribute through them towards the airports. So, there are two primary channels to market.

00:40:31 - 00:40:40
Riikka Toivonen: Thank you! Let's have another question from the online. [silence 00:40:34-00:40:40]

00:40:40 - 00:40:48
Operator: The next question comes from Iiris Theman from Carnegie. Please go ahead. [silence 00:40:45-00:40:48]

00:40:48 - 00:41:48
Iiris Theman: Hi! Thanks for taking my questions! I have three, if I may, two related to your volumes in renewables and one related to your dividend. Related to your volume, do you expect any volumes other than

from your Martinez plant to be sold in the US this year? Secondly, can you talk more about your expected volume growth drivers, such as these new mandates in Europe that you mentioned in your presentations? Where are we seeing new mandates and how much will they bring new demand this year? My third question is related to your dividend. You decided to pay a dividend, even so your net debt to EBITDA was over four times. Are you anticipating improving markets this year or what is the reasoning behind paying a dividend in this situation? Thank you.

00:41:50 - 00:42:26
Heikki Malinen: If I start, first of all, we can sell renewable diesel in North America, in the US, and we can sell SAF. We will be supplying SAF to Canada. With respect to the US, we would expect that to take place as well. On renewable diesel, I think the final volume will be a bit of an optimization question. If there are business opportunities, we definitely will sell. Anything you would like to add on the volume before I comment on the dividend?

00:42:26 - 00:43:13
Anssi Tammilehto: Iris, thanks for the question. You asked also about the mandates in the EU. I think the topic we've been discussing the most lately has been the German mandates and it remains to be seen on certain details how that will be played out. That's one source of growth in the EU markets, also, Italy being one of them. Also in Sweden and Finland, the mandates are increasing versus '24. Predominantly I would say that the REDIII implementation into national legislation is going to happen most likely in '26. There is still an upside in the '25 RD demand through the mandates in the EU.

00:43:13 - 00:44:11
Heikki Malinen: Regarding the dividend, that's a board decision, ultimately then to be approved by the annual general meeting or shareholders meeting. I think maybe this would be more of a CEO perspective on this. We do believe that we have a positive future for the company. We're building this franchise in the long term. We have different types of shareholders. We try to find a way where we create value and provide total shareholder returns for a broad set of investors. Anyway, the dividend cut is quite significant. It's a euro off the earlier figure. I think the general view was that we wanted to pay that dividend and we are able to manage the financing of it as well. I think 154 million is the numerical number on that.

00:44:13 - 00:44:26
Iris: Okay, just a follow-up on volume allocation, you expect to be able to sell volumes from your Singapore plant to North America. Is that correct?

00:44:28 - 00:44:55
Heikki Malinen: That is our intention. I have to say though that as we've seen from the news flow every week, the world is ever-changing. So of course anything can happen. I said we have good refineries. We have customer relationships. We have channel partners. We're trying to serve our customers as best as we can. If these windows open up, so we definitely will sell.

00:44:57 - 00:44:58
Iiris Theman: Thank you.

00:44:59 - 00:45:03
Riikka Toivonen: Now let's take some questions from the audience.

00:45:07 - 00:45:52
Peter Low: Hi! Thanks! It's Peter Low from Redburn Atlantic. If I look at your reference margin chart, it looks like the reference margins improved in the second half of 2024 and at the beginning of 2025, but your margin has continued to deteriorate. I understand that you've had operational issues, but is there anything other than that that's contributing to that trend? Then the second question was on the term contract negotiations. You talked about having great customer relationships and successfully concluding term deals. Can you give any more color on that? There was maybe some discussion last year as to whether you'd move away from just diesel-linked pricing, and whether you could perhaps try and change that structure to lock in more of an acceptable margin. Can you give any update on that? Thanks.

00:45:54 - 00:45:55
Heikki Malinen: Do you want to start with the first one? I'll [crosstalk 00:45:54-00:45:55].

00:45:55 - 00:47:06
Anssi Tammilehto: I think the operational topics are exactly the reason as you describe. Of course, lots of moving parts. I think the market is anticipating how to react to the CFPC and the related details. That might have an impact also on the European reference margin because it's a dynamic market and everything is impacting each other. I think the main point is that despite the increase in the reference margin, especially towards the end of the year when there was tightness in the market, the California market was very tight and also the European market was tight, but we were lacking volumes on that point in time. Typically, Q4 is one of the strongest, I mean seasonality. The market should be in a way, demand should be there to fulfill the mandates. I think that's visible also in the reference margin, but also some fluctuation with the market parameters like the feedstock and then the middle distillate prices. I think it goes quite nicely hand in hand with those. Then there was a second question on the pricing and the diesel.

00:47:06 - 00:48:09
Heikki Malinen: Maybe I'll comment on that. I think in terms of term contracts, the responsibility of our sales executives is to constantly optimize and find the best, you know, balance between term deals and spot deals. Based on what you described earlier that at the moment is the optimum mix. There's no need to press more term deals if we think that this is the optimum at the moment. Regarding pricing, as you said, it is probably not the most optimal structure. There is no natural hedge between how the current prices can move and how the feedstocks behave. Then there's a whole hedging question on how you try to find a better match. But I don't comment on pricing policies and I don't give any forward views on Neste's pricing. I'm going to refrain from discussing how we think about the structure beyond what I said. [silence 00:48:04-00:48:10]

00:48:12 - 00:48:47
Alejandro Vigil: Hello, Alejandro Vigil from Santander! A couple of questions from my side, one is about the working capital that has been a source of inflows in the last part of the year. If you can give us any guidance about '25, you're expecting some additional release of working capital. The second question is about your joint venture in the US. I haven't seen any mention in the statement about the contribution of the joint venture in the US in terms of results or volumes, or how it's working this joint venture these days. Thank you!

00:48:50 - 00:48:51
Heikki Malinen: Please.

00:48:51 - 00:50:11
Anssi Tammilehto: The first one was about the net working capital and how we see that evolving in '25. I think all in all, when we look at the operational hiccups we had in Singapore and Rotterdam, which were disappointing, they also had an impact on the optimization of the inventories. Despite those events, we were able to get cash from the machine and really reduce working capital towards the end of the year. We maintain a tight discipline on that as well. I think it relates also to the capital markets update topic because the improvement items we are targeting also have networking capital embedded in them. I think it's one of the key levers to also reduce the net debt. Maybe that answers that. Of course, all the time it is important to manage the working capital. It's also a trade-off between capturing the market opportunities here and there, but also to optimize cash. This is something we have to carefully evaluate at what kind of opportunities there are in the market. That's something we do on a continuous basis. It depends a bit on what you steer. I like the question. It's a very important theme for us. The second was on JV.

00:50:11 - 00:50:14
Heikki Malinen: If we have anything to say about the contribution.

00:50:14 - 00:51:02
Anssi Tammilehto: We say that it's a diluting impact that it contributes to our margin. We are still optimizing the facility. It's a large facility. We get lots of efficiency benefits and economies of scale. It's a fairly extensive operation that we are handling in there or with the partner. At the end of the day, we still have work to do in order to improve the financials of that site. We still have a lot of work ahead of us. Optimizing, for example, the logistics, the pre-treatment, and all those to the full extent remains a key priority going forward. However, now when we have ramped up to full capacity, of course it helps in this situation.

00:51:03 - 00:52:01
Heikki Malinen: Maybe if I can just add a bit of color to the working capital. I have two observations. One is when we look at the inventory on feedstock. We have many, many different suppliers for feedstock. In order to

keep those supply chains working, we need to take the feed when it's available. Oftentimes, these are smaller companies or traders. If we don't take the feedstock, then it's gone because we know that the feedstock is valuable. So it is better then to take it and hold that inventory. You know that these supply chains are highly complex. The used cooking oil is collected from tens of thousands, if not hundreds of thousands of kitchens around the world. Then in terms of logistics, we're shipping volume across the planet. Even from that standpoint, there is working capital just simply because of the carry time.

00:52:02 - 00:52:03
Riikka Toivonen: Now the last question, please.

00:52:05 - 00:52:43
Kate O’Sullivan: Hi! Kate O’Sullivan from Citi. You've talked about the uncertainty of the clean fuel producers' credit. We've seen recently the US Treasury has published some preliminary guidance on the GREET model. One of your competitors gave quite clear indications of what the different feedstocks could achieve. Follow up really on Martinez and estimates of the credit that you think you can achieve. You've talked about this again, just there optimization of feedstocks, what you can get to? And then just secondly, on the Rotterdam expansion, we've seen cost overruns of about 30 percent. Are any drivers there? Thank you.

00:52:44 - 00:52:59
Heikki Malinen: I will talk about Rotterdam in a moment. I'll just say very briefly to mean the main issue here really relates to construction, construction costs. I'll discuss that in a moment in more detail. Please.

00:52:59 - 00:53:49
Anssi Tammilehto: With regards to CFPC and the GREET model and the different carbon intensity scores of different feedstocks, it's a tricky one because we don't have any final document and might be that the current administration can revert back to the model that was agreed on with the previous administration. Unfortunately lacking all the final details on that model but we are following what's being communicated on that front. I think our Martinez site is well-positioned to capture those benefits because we now have the intention to increase the share of waste residues as we go forward. That is one of our key strengths as a JV partner in that whole topic to be able to provide these low carbon intensity feedstocks.

00:53:50 - 00:53:50
Heikki Malinen: We have Mahoney.

00:53:51 - 00:54:00
Anssi Tammilehto: We have Mahoney, the used cooking oil collection platform in the US. I think we are well positioned in that but we are lacking lacking details on the regulatory front.

00:54:00 - 00:54:03
Kate O’Sullivan: Could you just remind me what the current feedstock solution is?

00:54:04 - 00:54:39
Anssi Tammilehto: In Martinez, you mean? We haven't disclosed the full details on the feedstock, but we are using various various applicable feedstocks for the US market. Let's put it like that. We haven't opened it up. It's a different tech than what we use in our own refineries. We have in Singapore, Rotterdam, and in Porvoo different pretreatment facilities that are basically based on our own technology. This is a different tech that we have in Martinez. Now we have to learn how to maximize the profits out of that as well.

00:54:41 - 00:54:47
Riikka Toivonen: Our time is up. Thank you very much for your good questions! Now, over to Heikki for the summary.

00:54:48 - 00:55:33
Heikki Malinen: Thank you very much! As said 2024 was a tough year. Our performance was weak and it is not sustainable. Therefore, we have initiated a full potential program. In a moment, we will go through the details of that program and what we intend to do and have started to do. We've outlined new financial targets, our philosophy on capital allocation, and we have also given you guidance based on a new set of approaches, which basically looks more at the volume side, maintenance, and CapEx. That is all for today on this front. I invite you all to stay around and both online and live here and join us in the next session. When will that, by the way, start?

00:55:34 - 00:55:41
Riikka Toivonen: The next session starts at 2:30. We will now have a break. Thank you very much for everyone joining us online.

00:55:42 - 00:55:43
Heikki Malinen: Thank you very much. See you soon!