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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q4 2023 Neste Corporation Earnings Conference Call. At this time, all participants are in listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Anssi Tammilehto. Please go ahead.

Anssi Tammilehto ***Neste Oyj - VP of IR***

Thank you. Good afternoon, and welcome all to this conference call to discuss Neste's full year '23 results published this morning. I am Anssi Tammilehto, Head of Neste IR. And here with me on the call are President and CEO, Matti Lehmus, CFO, Martti Ala-Harkonen; and the business unit heads, Katja Wodjereck of Renewable Products; and Markku Korvenranta, Oil Products. We will be referring to the presentation that can be found on our website. And as always, please pay attention to the disclaimer since we will be making forward-looking statements in this call. With these remarks, I would like to hand over to our President and CEO, Matti Lehmus, to start with the presentation. Matti, please go ahead.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Anssi, and a very good afternoon also on my behalf, it's great to have you all participating in the call. And I am pleased to say that we were able to post strong results in the fourth quarter and in the full year '23. And I'm also confident in our ability to build-in our strengths also in the current more challenging market environment. So as mentioned, we are able to achieve strong results in all business units in the fourth quarter. In Renewable Products, our sales margin of $813 per ton can be considered a very strong achievement in this market environment as we were able to optimize our end-to-end value chain.

In Oil Products, good operational performance and high utilization rates supported our performance. And while refining margins were lower than in the previous quarter, we achieved a good total refining margin level of $18.90 per barrel in the fourth quarter. The third element I'd like to highlight for the full year '23 is the growth in our cash flow, reaching EUR 751 million free cash flow in a year of significant CapEx. This was a good achievement, which reflects the focus we have put on optimizing the net working capital. So when looking at some of the key indicators for 2023, we can see that the comparable EBITDA is slightly lower than in the previous year, but still reached a strong level of EUR 3.458 billion.

The comparable ROACE decreased to 24% as assets increased due to the growth projects coming online, which level still clearly exceeds our target of minimum 15%. And regarding dividends, we have today announced the Board proposal of EUR 1.2 per share, in line with our new policy of paying a competitive and overtime growing dividend. Alongside the financial highlights, I also want to highlight our continued focus on continuous improvement of safety performance. In the process safety, we achieved a clear improvement in 2023, and the intense work continues both in process and occupational sales.

Let me next reiterate some highlights from 2023. So firstly, through the startup of our growth projects, even if we had some challenges in the ramp-up, we have laid a foundation for value creation in key markets also in the coming years. The buildup of our SAF capabilities, both via production but also the strengthening of our global supply chain is an important value driver. We also continued the expansion of our feedstock platform as we continue to see feedstock capabilities as a key value driver also in the coming years. We also made progress in our longer-term growth initiatives, including the finalization of our long-term transformation road map for transitioning Porvoo refinery into a global renewable and circular hub. And my final highlight is that we initiated a number of actions to drive efficiency improvement, including the launch of a simplified organization and operating model to create EUR 50 million of cost savings and to increase our agility.

So finally, taking a high-level look at some of the main market environment drivers in the fourth quarter, the key observation is that the renewables market environment turned more challenging. U.S. renewable credit prices decreased clearly and also European renewable spot prices decreased during the last quarter. Renewable feedstock prices also decreased, but this change was less pronounced. In Oil Products markets, the key observation is that gasoline margins decreased seasonally following the end of the driving season leading to a lower overall refining margin than in the previous quarter. So with these short comments, I'm now handing over to Katja Wodjereck, who will go through the Renewable Products performance in the fourth quarter.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

Thank you, Matti. Good afternoon also on my behalf, and let's go now through the results and market updates for renewable products. 2023 was a big year for renewable products. We are ready for growth in SAF and Renewable Polymers & Chemicals. We have expanded our markets in renewable diesel and through this, providing us more opportunities for optimization, and we continue to see favorable regulatory developments in some of our key areas. Lastly, the further strengthening of our feedstock base was a key focus area during 2023, and it will continue to be so as we look ahead.

Let's zoom into the fourth quarter. In Renewable Products, we were able to increase our comparable EBITDA year-on-year, demonstrating as well an EBITDA increase over the same quarter last year. We've achieved strong sales volume with a higher share in the U.S. and a consequential lower share in Europe than the same quarter last year. Our sales margin increase was substantial compared to the same quarter last year despite the changing market environment. And this is an achievement we do take pride in. As already highlighted by Matti in the opening, we've seen credit prices coming down. However, we were able to mitigate part of the downside by good hedges and also decrease our feedstock costs.

Looking at the overall trend line of our sales margin, we demonstrated a positive development. In 2023, we reached an all-time high annual sales margin. Yes, we ended the last quarter compared to the previous quarter, lower than expected, impacted by a substantial weakening in RIN a downward trend of the premium levels in Europe, but also gas oil prices dropped and had an impact. However, feedstocks on the other hand, supported the margins. This development is something we have been taking into account in our annual guidance, and Matti is going to go through the details later in the presentation.

Coming on the volume side, we're seeing a good development in the sales volume. And as we continue from here, our share of SAF is expected to increase in line with our capacity ramp up. And so is our share in renewable products for polymers and the chemical industry. Let me now share with you our focus areas for 2024. We will continue optimizing the full value chain from feedstock down to our end customers. And our global reach provides unequalled opportunities to do so. In addition, we will increase our speed to commercially place our volumes through the new organizational structure we are putting in place as we talk. And margin and volume maximization will remain at the core of everything that we do and continue to do going forward.

Growing our SAF business remains a key focus area. It is known that we had challenges in the production ramp-up last year. However, now in 2024, we will deliver, I expected to reach 500,000 metric tons up to 1 million metric tons of additional SAF volumes. We will be focused on finalizing the ramp-up and our new projects in our sites, Singapore, Rotterdam, but also through our JV in the U.S. And in addition, we will pay attention and execute on our cost and efficiency improvement plan. And last but not least, as mentioned earlier, we will continue to expand our feedstock reach in terms of quality, geography, level of integrations, but also logistics. Being world class in this, we know what we're doing, and we will continue to do so. I'm now handing over for the OP update. Over to my colleague, Markku.

Markku Korvenranta ***Neste Oyj - EVP of Oil Products Business Unit***

Thanks, Katja. Good afternoon, all. Now a quick update from Oil Products. Let's look first at the highlights from 2023. Refining margins continued at historically high levels. Through the year, we were able to capitalize on the opportunities in the volatile market environment. And this underpins the strong financial performance for the segment. Safety program launched in the middle of 2022 has led to an improved safety performance. This is particularly visible in the process safety and personal safety at the refinery. Utilization rate increased to 88% compared to 85% in the previous year.

In December, we announced a gradual transformation of Porvoo into renewable and circular solutions hub. Investment execution started for the liquefied weight plastic upgrading unit. Renewable coprocessing volumes were double compared to the year before. In 2023, we achieved a major benefit in Neste Excellence, both in production and supply chain optimization. Cash flow benefited from successful inventory level optimization. And finally, we were successful also in our efforts to improve cost efficiency. Now over to the EBITDA bridge comparing Q4 '23 to the year before. The EBITDA was EUR 120 million lower at EUR 330 million. The key driver was the total refining margin with EUR 104 million negative effect. The margin was USD 18.9 per barrel compared to USD 23.5 per barrel the year before.

The total refining margin was impacted by the lower diesel and gasoline product margins. The lower utility cost contributed positively to the margin. Sales volume was 139 kilotonnes higher with positive EUR 25 million impact. Finally, underlying the solid quarterly financial performance were markedly higher utilization rate and lower segment fixed costs. The successful, safe and timely execution of the major turnaround in April, May 2024 is the main priority to the Oil Products organization. The estimated overall CapEx of the turnarounds is EUR 390 million.

In Porvoo transformation, we will be taking concrete steps forward. As an example, we will be reaching final investment decision readiness in our green hydrogen project. In 2024, we are striving to further improve utilization rate as well as improved end-to-end optimization. And finally, within the next Excellence program, improvements in availability, net working capital and fixed cost efficiency continue to be targeted. Now handing over to Matti for Marketing & Services update.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Markku, and I will make some short comments on the marketing and services. It achieved a solid comparable EBITDA level of EUR 25 million in the fourth quarter, supported by stronger margins compared to a year ago. Also, the full year business performance was supported by unit margin and a positive market share development in our main product, resulting in a EUR 118 million comparable EBITDA, which was only slightly below the record level in 2022. And with these short comments, I hand over to our CFO, to go through the group financials.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Thank you, Matti. So, let's now take a more detailed view on some of the key financials for the fourth quarter as well as full year of 2023. And I will first provide some highlights from a financial as well as a financing perspective. In 2023, we took important steps in efficiency improvement at Neste. And the efficiency theme will be an important piece of our strategy also this year in 2024 and going forward. As an example, improved efficiency played an important role in our solid cash flow generation and successful net working capital development last year. Furthermore, as reviewed at our CMD, we set a new target for our Neste Excellence program in 2023 to drive over EUR 350 million of EBIT accretive value creation by 2026 with year 2022 acting as the new baseline. And we are currently well on track with that.

We also carried out a savings program in the second half of last year, in which related targets were clearly surpassed. And in early November, introduced a new sharpened organization structure to enhance Neste's long-term competitiveness. Through the sharpened organization, we are targeting approximately EUR 50 million of sustainable savings in fixed costs, the majority to be realized this year in

2024. Moreover, we fine-tuned our operating models across all our businesses last year to make them more optimized in fixed cost and net working capital and overall continued our working capital management program. The net working capital management program was started in the second half of 2022, and it has brought strong results to date.

In order to support further business growth, we established in 2023 a euro medium-term note program and completed 3 green bonds altogether, collecting EUR 1.6 billion under the program. These were the first transactions for Neste as a rated A3 issuer. The bonds have long maturities in 2029, 2031 and 2033. Finally, the resilience of our strategy was, of course, tested in many ways during last year, and it's worth also highlighting the work we have completed and continue to execute in the area of risk management. Successful risk management, combined with a continuous focus on global optimization across feedstocks, products and markets continue to be vital cornerstones of our strategy also going forward in a more volatile market environment.

Let's then turn to our fourth quarter result bridges by business segment as well as by business driver. And when first looking at the fourth quarter comparison bridge by business segment on the left-hand side, we can see that while our comparable EBITDA reached a strong level of EUR 797 million in the fourth quarter, the decline year-on-year came from oil products, whereas other businesses improved their performance. Oil Products results continue to be solid, but was yet EUR 120 million less than a year ago when we were still experiencing the energy crisis. Renewable Products in turn, increased its comparable EBITDA by EUR 18 million in the fourth quarter, while marketing and services by EUR 4 million year-on-year.

Overall, I am very pleased with our performance across our businesses in a more challenging market environment in the fourth quarter. When we look further at the fourth quarter comparison bridge by profit driver on the right-hand side, we know that while our sales volumes increased, our margins in total brought a negative change again because of oil products. In Renewable Products, on the other hand, our sales margin improved year-on-year. Off notice also that foreign exchange rates had a negative impact of EUR 61 million, while fixed costs of EUR 13 million year-on-year. The negative impact in others comes mainly from a weaker result in oil trading activities compared to a year ago.

On the next page, we are making the same analysis in full year comparisons. Starting from the left and analysis by business segment, we can see pretty much the same story as in the fourth quarter. In Renewable Products, we were able to increase our comparable EBITDA by EUR 140 million, EUR 45 million year-on-year, whereas in Oil Products, our result decreased by EUR 221 million. So, the small decline in full year results is again fully explained by oil products. In Marketing & Services, our result was slightly lower than in 2022, but still the result was solid in a weaker market environment.

On the right-hand side, we are looking at the full year comparison bridge by profit driver. We know that both sales volumes and sales margins had a positive impact in the full year of 2023. The positive volume impact was EUR 147 million and the positive sales margin impact, EUR 236 million. At the same time, our EBITDA was negatively impacted by more unfavorable foreign exchange rates, mainly because of the weakening dollar versus the euro as well as by higher fixed costs.

Let's then turn to our financial targets. Neste's overall financial position remains solid. And in 2023, we continue to comfortably meet the group's financial target levels. Building on the solid financial performance across our businesses, we reached a comparable after-tax ROACE of 24% on a rolling 12 months basis, clearly above the target level of minimum 15%. At the end of September, our leverage ratio was 23%, well within the targeted area below 40%. This solid financial position enables continued implementation of our strategy going forward.

Finally, a few words on the significant improvement in our cash flow generation last year. Our cash flow before financing activities improved markedly and reached EUR 751 million in 2023 versus a negative 390 million in 2022. There is an improvement of EUR 1.14 billion year-on-year. This was supported by successful working capital management change in net working capital in 2023 was EUR 21 million positive versus EUR 854 million negative a year earlier. There is an improvement of EUR 875 million.

Of course, it's good to take into account that the year 2022 was an energy crisis year with very high changes in product and raw material prices. Our cash conversion improved to 0.8. Our capital expenditure, including acquisitions, was about EUR 1.6 billion, EUR 150 million less than a year earlier. About 81% of the CapEx or about EUR 1.3 billion was growth CapEx and about 19% or EUR 300 million maintenance CapEx. Finally, our total net working capital at the end of 2023 stood at EUR 2.57 billion, slightly above the level of 2022. I will close here and hand it back to Matti to go through our outlook and guidance for this year.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Martti. So now let's take a look at our market outlook and guidance. So, as a guidance, we state the following. In renewable products, the 2024 total sales volume is expected to increase to approximately 4.4 million tonnes, plus minus 10%, and this includes 0.5 million tons to 1 million tons of sustainable aviation fuel. The full year average comparable sales margin is expected to be in the range of $600 to $800 per tonne. In Oil Products, the sales volume is expected to be lower than in '23, impacted by the planned major turnaround in the second quarter, and the total refining margin is expected to be lower than in 2023.

And as a short-term market outlook, we expect the market volatility in both renewable products and oil products to remain high. And we know that in the renewables market, the bio ticket and renewable credit prices have decreased to a lower level compared to 2023. In Oil Products, the refining market has stayed relatively stable during the beginning of 2024. Finally, I note that our CapEx guidance for the year '24 is EUR 1.4 billion to EUR 1.6 billion, and this includes approximately 40% of maintenance CapEx as it is a year with a major turnaround in Porvoo.

So, I want to conclude this presentation by stating that our strategy remains extremely clear, and we continue the focus implementation. We are confident in our ability to create value through our feedstock capabilities, by growing in attractive markets like SAF and by leveraging our global sales platform. At the same time, we are focusing on efficiency and our long-term competitiveness. This ends the presentation, and we are now ready to take the questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And your first question comes from the line of Giacomo Romeo from Jefferies.

Giacomo Romeo ***Jefferies LLC, Research Division - Equity Analyst***

Two questions, please. First one is on your margin guidance. You gave us a pretty wide range. Just trying to understand how you're thinking about the margin evolution during 2024 as I would expect that as SAF and sales volume ramp-up and Martinez, you will see an improvement in the comparable sales margin. I just wanted to understand sort of what you're thinking around there between first half and second half? And second question is on OpEx. You're saying that OpEx have stabilized but yet you're guiding for 2024 OpEx being higher because of maintenance. Just trying to understand, without excluding the maintenance effect, where would you expect OpEx to be in 2024? Just to understand what's the actual trend that we should be using on the longer run.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you, Giacomo. Perhaps I'll start with the margin guidance question for '24. So indeed, as you noted, we are switching to an annual guidance from the quarterly guidance we have given earlier. And that means also, I think it's quite natural. We have put a wider range than before as we are very much in the beginning of the year. I think in a way, reflecting a bit on the key drivers behind this margin guidance that we have given. We obviously note that if you just look at supply-demand balance that we expect the market globally to continue growing, but also, we see that there is more supply coming into the market.

And Neste is, of course, continuing to focus on its own strengths like the feedstock, our flexible global business model. If you take some specific factors behind it, we obviously know that in the beginning of the year, the credit levels, the price premiums for renewable fuels are generally at a lower level than in early than compared to 2023. And we also note that our volume from the Martinez joint venture is expected to grow during the year, which has a dilutive effect on our overall margin, but then we also note that we clearly see that SAF will play an important role in supporting our sales mix and our margin optimization, and that is expected to grow starting in the second quarter. And we will, of course, continue to look for opportunities to optimize the feedstock mix. So, these are some of the key drivers. And like with the example of SAF, some of them basically then start not in the first quarter but later than that.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

And maybe I will try to add some color to Giacomo thanks for the question on the OpEx. And I think you refer mainly to the fixed cost additional information that we are providing also that we expect the fixed cost trend to level out compared to last year in 2024. A few issues there, like we are saying we expect actually the fixed cost to only increase because of a few areas. And one of them is the Porvoo transformation. The other one is the Rotterdam large-scale facility that we are currently constructing ongoing. As for the other areas, we're expecting to be at the same level or even below compared to this year.

So, we are really looking to see efficiency kicking also this year in several areas. And we have a lot of initiatives currently with a target of making also Neste going forward, one of the cost leaders also in our industry because we have built a global platform. We are able to optimize. So, there are a lot of areas where we can further automate and also drive our, you could say, structural efficiency forward.

Operator

Your next question comes from the line of Henri Patricot from UBS.

Henri Jerome Dieudonne Marie Patricot ***UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst***

Two questions, please. The first one, just to come back on the margin guidance for 2024 in renewable products. Can you perhaps give us a sense of some of the assumptions that you used to provide a guidance range maybe around what sort of RIN price LCFS price SAF premium used to be in the lower end of the range, upper end of the range so we can get a sense as we go through the year, whether you're more likely to be at the lower end of this range based on market developments. And then secondly, on the guidance on volumes this time where you guide to 4.4 million tonnes, plus or minus 10%, which implies 0.8 million tonnes from the lower point to the upper end of the range. What are the main uncertainties around the volumes for the year, given you've given us this full schedule for the maintenance?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you, Henri. And perhaps I continue on the margin guidance. So obviously, what we have looked at is to take into account the tax that we referred to for the short-term market outlook when we look at the margin guidance. So, we look, of course, at the RINs, for example, at LCFS but at the same time, we also note that there are clear drivers how we are then supporting the margin. For example, the positive impact from increasing our SAF sales, also the positive impacts from feedstock optimization, et cetera. The ones that are, of course, driving volatility are things like what exactly happens to the diesel price.

It's also interesting to see now that the credit prices have come down in the fourth quarter, how feedstock prices will adjust. Also, of course, how in general, in the industry, utilization rates will be adjusting. So, these are some of the drivers that will be impacting then the development. From our perspective, it's very clear we will naturally be optimizing or maximizing our margin within the range that we have provided. On the sales volume, I would basically, in a way, comment that it is really coming from the additional information we have provided on both our growth project ramp-up and the scheduled maintenance.

So you will have noted that there is a number of scheduled maintenance in Porvoo in Rotterdam in Singapore. And looking at the growth projects, we were very pleased that we have reached stable runs in Singapore reaching the 75% at the end of the year. Like we stated already last quarter, we also see that in order to get really to capability to go to 100%, we will need a scheduled turnaround and that only happened in the fourth quarter of the year. So that is also built into these assumptions. And finally, of course, in Martinez as the situation is that we are currently running at slightly under 50% following the fire in November, and there is obviously a very high focus by our partner to work together with authorities and to define the repair plan so that we can continue to ramp up there as well.

Operator

Your next question comes from the line of Owen Kawada from RBC.

Owen Kawada

So I've got 2 questions, please. One on RINs and one on SAF volumes. So first on RINs and the supply and demand assumptions in credits, do you not assume that if green prices continue as low and this applies to LCFS, by the way, but if credit prices continue as low, it will discourage competition and maybe the trend will reverse? And then on the demand side, should we assume in your guidance that you're cautious on future renewable volume obligations, so this is my first question on RINs.

And then my second question is on SAF volumes and the guidance that we've been aware of for a bit of time now between 0.5 million and 1 million tonnes for 2024. And my question is really on upside risk within this guidance range. We're getting closer to mandates kicking in, in Europe. Do you see many airlines lagging on the purchase front? And is this an element that you take into account in this wide guidance range? These are my 2 questions.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

Erwan, happy to take them. Let me maybe address the question number one first on the rent side. As I already said, that was partly factored and is one of the drivers that we've been seeing as a downside already starting kicking in from Q4. And indeed, we do expect the RIN volumes to stay on the lower side as the year progresses, potentially even a little bit higher, but a little bit longer. But you do hit the right point that as more renewable diesel capacities coming on stream on more producers are seeking to maximize their production that could indeed play out into this.

However, then the market could on the other side as well balance out and find its own balance. So, this is something that we tend to monitor a lot. Here, obviously, what comes to play is that we have our global production, our global optimization on how we play it out. But RINs indeed, for the time being, at least, we expect it to be on the lower side, most likely to be continued until the end of the year. But indeed, as you nicely said, that could be balanced out by some of the production to be taken out. And that will then obviously remain an upside for us to be taking in.

On your question on the SAF volumes, the range that we have been taking indeed has been taking it from both sides. We've seen a couple of regulatory developments coming really positively in one that we're obviously following a lot is the refuel EU coming in and kicking in as of the beginning of next year. We do expect that will already drive some potential demand upside towards the end of the year, and that's something that we keep on monitoring as well.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Martti here, maybe I would add that we currently see on the SAF side, nevertheless, that it's our ability to produce. We don't see any dragging in the demand that was postulated in the question.

Operator

Your next question comes from the line of Sasikanth Chilukuru from Morgan Stanley.

Sasikanth Chilukuru ***Morgan Stanley, Research Division - Equity Analyst***

I had 2, please. The first was related to the ramp-up of the Singapore expansion plan. You previously highlighted that you would exit 2023, producing around 75% of the name plate capacity. I was just wondering if this is the case or if you could comment on the utilization of this new plant at present, what's the current status? When should we expect it to reach 100% capacity with the 8-week turnaround activity scheduled in 4Q? Is it safe to assume that the new plan will run at this 100% utilization rate for only a limited period, if at all. Some color on that would be helpful.

The second question I wanted to ask was regarding the company's ambition for capacity additions end of 2030 for the renewable product segment, right? On the Capital Markets Day last year, you highlighted an ambition to reach more than 9 million tonnes capacity by 2030. And in December, we got the announcement of the transformation of the Porvoo refinery planning pretty much completing in the mid-2030s. Just wondering, this ambition to reach more than 9 million tonnes has kind of shifted from 2030 to mid-2030s? Or do you still keep that around the same time line?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you, Sasikanth. This is Matti. So first of all, I can comment on the ramp-up of Singapore. So, we have been very pleased that we have reached stable runs. We have reached a 75% utilization target as we were planning after the third quarter, or indicated after the third quarter, and the unit is running in a stable way. At the same time, we are aware that to reach the full 100%, we will need the scheduled maintenance shutdown, and that is going to happen in the fourth quarter of the year.

In the meantime, we are naturally continue seeing if there is some opportunities to maximize the production. But to reach 100%, it's clear that we will need that maintenance shutdown. We are, at the same time, very confident that we have identified all the needed works that need to be done so that we will reach that capability to go to full capacity utilization by the end of the year. Then to your question on the capacity ambition. So indeed, as you are aware, we are clearly on track with the ramp-up of both Singapore and Martinez, the construction in Rotterdam capacity expansion is progressing as planned, and that will be starting up 26. So indeed, we have, in the meantime, announced a transition plan for the Porvoo refinery.

This is, of course, one important element that will help us to get towards that 9 million tonne aspiration. The exact time line we haven't defined, that's also something we said that it's something we will do based on how the market exactly develops. I also note the other thing that apart from the Porvoo transformation, we, of course, keep working on our different innovation platforms. And by that time, during the decade, it's, of course, also possible that we can start seeing some development and capacity from those new technologies.

Sasikanth Chilukuru ***Morgan Stanley, Research Division - Equity Analyst***

Very helpful. Just a small follow-up. I was just wondering if it was possible to quantify the deferred RIN price hedging impact in 4Q.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

On the in RIN hedging, we were positive, clearly. We can say around about EUR 50 million impact positive in that quarter.

Operator

Your next question comes from the line of Kate O'Sullivan from Citi.

Katherine O'Sullivan ***Citigroup Inc. Exchange Research - Research Analyst***

Firstly, just back on the RINs, sorry to have the topic again. In the last couple of weeks, the RINs, they've fallen again by about 30% to just over $0.50 a gallon. Could you provide an update on the current hedging strategy that you have through 2024, the magnitude of that? Perhaps any color on when you hedged any information you can give on the liquidity that there is to hedge ? Secondly, just a follow-up on the turnaround in the Renewable Products business. So, you said 100% capacity in Singapore will be reached after the 4Q turnaround. Could you just help us understand the reason for the 2 maintenance turnarounds in 3Q and 4Q. In the case of the fourth quarter, 8 weeks, is it purely for bringing back the new line? And how often do we expect turnarounds in Singapore in the future?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you for the questions. Perhaps a general comment on the hedging. Like we also commented after the third quarter, we have, at the moment, a somewhat lower margin hedging ratio for 2024. On average, we are somewhere around 20% for the full year, and this includes then also some RIN hedges. So that is part of that margin hedging. But it's clearly lower than, for example, in the fourth quarter where we were close to 50%.

On the maintenance, I think, like you have, I'm sure, observed, it's very typical for this technology that there is a maintenance turnaround for renewable facilities, let's say in 12-to-15-month intervals. And that's also the explanation why we have a third quarter maintenance at our original line. And then in the fourth quarter, we have a maintenance for the new line. And obviously, apart from doing the normal annual maintenance, it's also important for us that we implement all the final actions and repairs so that we can remove any limitations to reach full capacity.

Operator

Your next question comes from the line of Naisheng Cui from Barclays.

Naisheng Cui ***Barclays Bank PLC, Research Division - Research Analyst***

Two, please. So, number one, I just wonder in your base case scenario for the volume guidance, what's your assumption for Martinez being back online fully, I just want to understand the timeline on that? Then the second question perhaps is Oil Products segment. I think in one of your slides, you were saying there's going to be $190 million EBITDA impact because of the big turnaround activity in Q2. What's your margin assumption over there? I just wonder.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you for the questions. And if I start with the Martinez question, obviously, like we said in our report, the current situation is that the unit is running at slightly under 50% utilization rate. Our partner is working intensely to create the repair plan to work with the authorities. And obviously, once that repair plan has been defined, the intent is to continue the ramp up. But we will come back to that when we have more information.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Exactly. I'll just add that, that's one of the uncertainties that relates to our sales volume guidance for this year.

Matti Lehmus ***Neste Oyj - President & CEO***

Very good. And on the impact of the turnaround and what sort of margins have we used to estimate that. At this moment, in Q1, we are roughly on the same level as the fourth quarter of '23. And in the boat, we will continue under similar ballpark, if not slightly lower than that for the second quarter, where the main impact is coming through.

Operator

Your next question comes from the line of Artem Beletski from SEB.

Artem Beletski ***SEB, Research Division - Analyst***

So the first one is relating to renewables margin outlook and actually profile for this year. Given you will be ramping up SAF volumes and presumably in Martinez, you should be increasing production over the year. Is it fair to assume that Q1 will be the lowest point margin is for this year. Then the second one is relating still to renewables and looking at fixed cost development in Q4. So, there has been a fairly meaningful increase compared to Q3. Could you maybe talk about profile for this year as I think you were talking about some stable to lower fixed costs on a full year basis. And the last one, just as you have completed term deal agreements, could you talk about the outcome, how much of sales has been secured, what comes to renewable diesel and also SAF and whether you are happy with the outcome.

Matti Lehmus ***Neste Oyj - President & CEO***

So thanks, Artem. I'll start with the first question, which was on the renewable margin outlook for the full year. So, as you've noted, we've moved now to our annual guidance. That's the whole idea. Within that, of course, there are factors like the SAF sales increase after the second quarter that come during the year. So, we haven't given any specific guidance for the profile or for the first quarter but it's fair to say that in the first quarter, we expect it to be in the lower part of the range. And that's a way based on this SAF sales increase that starts in the second quarter. I'll hand it to Martti for the fixed cost.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. Thanks, Artem, for the questions. So, on the fixed cost, my main comment is that we did experience some extra fixed cost, particularly for Martinez, following that there was the fire and related to the reports in the fourth quarter. Otherwise, I think we were quite well online. Of course, typically, at the fourth quarter, you tend to see a little bit more of fixed cost compared to the third quarter just sequentially, but those are the main comments there.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

And then addressing your third question around terms, we have termed up more than initially planned. So, we are happy about the outcome around 80% for renewable diesel hitting the road market and overall, a little bit lower if we look at the full portfolio, but very pleased with the outcome better than expected.

Operator

We will take our next question. Your next question comes from the line of Henry Tarr from Berenberg.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Could I have 2. One on the CapEx. Could you give us a rough split of the CapEx this year on where it's being spent? That will be helpful. And then on the sales term agreements, just to come back on that, how was the split different to last year? I guess, there were new geographies, et cetera, with the change with Sweden being a little less prominent but any kind of additional color you could give on those term agreements would be great.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thanks, Henry. So, I can start with the CapEx. And obviously, the one high-level observation on this EUR 1.4 billion to EUR 1.6 billion range is that this year, we have quite a high share of maintenance CapEx, clear reason is that we have the major turnaround in Porvoo like Markku explained earlier, that has a high CapEx of EUR 390 million that we are estimating. If you look outside of that, it's clear that the main driver is the growth projects, and especially the Rotterdam capacity growth is the biggest project from the growth CapEx side. There is obviously also other important growth projects like the Rotterdam RJF optionality project or, for example, the liquefied waste plastic upgrading that is ongoing in Porvoo.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

And then to give a little bit more color, Henry around the sales terms, as commented already during the last CMD, we have directed some of more volumes into the U.S. We take pride in that we have a global team, not only the production and feedstock side, but also on the commercial side. We took full advantage of that starting after the mandate changes. So, there's a little bit of a higher percentage over there, but we still continue in terms of the terms and how we close them out. There's also quite a significant volume in Europe. So, it's a global play for us not only in the production platform and our supply capability, but also in how we serve the market and go into the market and that's why what you see collected in.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Great. And if I may, just on the CapEx side, as you look into 2025, I know that's a way away today. But given where we sit right now with the visibility you have on the projects; would you expect CapEx to be somewhat lower in '25? Or will it depend on what happens over the next 12 months?

Matti Lehmus ***Neste Oyj - President & CEO***

Well, we haven't guided beyond '24. One observation is, of course, we don't have the major turnaround in Porvoo. That's, of course, one change. What is at the same time, still the case, we will be continuing to be in the construction phase for the Rotterdam capacity growth. So that will also be a major driver in '25. But I think the main change is, of course, that there is not a major turnaround in Porvoo.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Exactly. So, all things equal, we would be somewhat less. But of course, we're going to watch the market and various opportunities, et cetera. So, no further guidance on that.

Operator

We will take our next question. Your next question comes from the line of Matt Lofting from JPMorgan.

Matthew Peter Charles Lofting ***JPMorgan Chase & Co, Research Division - VP***

Two, please. First, given the implicit referenced earlier, the Q1 margin environment probably begins in the lower half of the full year range that you provided? And it seems sort of the leadership position that you have around SAF and the market growth on that becomes an increasingly significant value and momentum driver Q2 and beyond. So maybe with that in mind, can you expand on a big picture how the SAF market is evolving, what your latest outlook is in terms of the rate of change on demand versus what you expected in the past sort of voluntary as opposed to a mandated basis? And how you expect to sort of trend with that in mind within the sort of the 0.5 million to 1 million tonne range just resume through this year?

And then secondly, from the perspective of the sales volumes of the 4.4 million tonnes, plus/minus 10%, what is your confidence interval around delivering on that 4.4% given the operational challenges the business has faced through the last 6 months across Singapore and Martinez? And can you sort of share a sense of the base case assumption through the year in terms of the underlying utilization of the assets, particularly the new production lines ex the sort of the maintenance phasing.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you for the questions. And perhaps I can start with the SAF overall question. So, my general comment would be that we continue to see good demand in SAF. It's very clearly at the moment, driven more by voluntary demand. We have, of course, incentive systems, for example, in North America on a state level and also SAF credits on a federal level, we do see voluntary demand also from Europe and Asia. So, this is driving the demand. At the same time, looking beyond '24, it's clear that in '25, we will also see then the mandate in the European Union starting at the 2%, and that will further drive demand growth than beyond '24.

So, in the capital markets update, updated our view on SAF demand, we had the estimate that it would grow to up to 4 million tons in '25 and then reach all the way to 15 million tonnes in 2030, and we continue to see that. What has happened in the meantime is perhaps some also long-term voluntary targets set. For example, by ICAO, there is a 5% target aspiration set for 2030. That's the Civil Aviation organization. And also in Asia Pacific, we have had local airlines setting voluntary target for 2030. So, this is in line with the assumptions we made at the time.

On the sales forecast, I mean, I can only state that with all the work we did last year to understand the ramp-up challenges, I'm very confident that we have a good understanding of what we need to do to resolve those and get to that full capacity in Singapore after the Q4 turnaround. I'm also very pleased that we are running in a stable way, and we have also started producing SAF in Singapore. So, from that perspective, we, of course, are confident in our capabilities. But we, of course, keep focusing on this area a lot throughout the year.

Operator

Your next question comes from the line of Paul Redman from BNP Paribas.

Paul Redman ***BNP Paribas Exane, Research Division - Research Analyst***

My first question was just on the sales margin and the impact of RIN prices. Could I read the guidance right, if I assume RIN prices in 1Q of $0.50, then that would assume a $200 impact on your margin. Should I be assuming take 4Q less 200, and that's kind of my starting point for 1Q? And then when I think about the rest of the year, if that is the case and you're coming in at margins at the very low end of your $600 to $800 guidance, that would assume to get back up to 800, sustainable aviation fuel needs to be very accretive to margins. 2 questions. But one, what kind of sales price or any guidance on whether you're seeing that very accretive price come through for sustainable aviation fuel sales so far? And secondly, how much sustainable aviation fuel sale is included in the 4.4 million tonnes because you give a range on the 4.4 million tonnes per annum?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes, as I can just briefly comment. If the overall guidance, of course, which takes into account the different drivers in the market. What is very clear that, of course, RIN is an important driver in general bio credits. Also, like we have said, the increasing SAF sales is an important driver. But it's good to note that there are also other very important drivers. For example, what happens on the feedstock side, what happens to diesel prices, these are all important drivers that play into that overall guidance. So that's I think the background wouldn't go into individual drivers within that or assumptions.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. Maybe, Matti, I would like to add that, of course, these recent developments like it was noted earlier that the RINs have a little bit dropped at the end of December and even in January. So those kind of market movements have been taken into account in our sales margin guidance overall. And with regard to the question earlier on the sales volume, how confident. So also, I want to say that we have actually taken into account the current view, for instance, at what has happened in the early part of this year. So, we have some a little bit of more uncertainty for Martinez production that's taken into account in the sales volume guidance.

Operator

The next question comes from the line of Iiris Theman from Carnegie.

Iiris Theman ***Carnegie Investment Bank AB, Research Division - Research Analyst***

First one is related to feedstock prices. So basically, how do you expect prices to develop in the short term? So far in Q1, prices haven't come down as much as renewable diesel price in Europe. And then 2 questions on regulation. First one is related to the Netherlands.

Have you heard anything about the mandate increase in the Netherlands? And the second one is related to blenders tax credit, basically, what is the current outlook for tax credit in 2025 and beyond? How is that going to change? And what does it mean to your U.S. volume?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thanks, Iiris. So, I can take the feedstock question. So obviously, observing that in the fourth quarter, also feedstock prices came down. The average fixed prices came down close to 10%. But like you pointed out, this is obviously, the move was bigger on the different RINs and other credits. We will see, I would say, in the first quarter because this is obviously something now that the market has moved to will also see how feedstock prices adapt. We will see also how average utilizations develop over the year. So, there will be a lot of, of course, dynamic effect in this market. But this is, again, part of the overall guidance we have given.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

And then I can make a comment around the Netherlands questions in terms of regulations. We are evaluating as well. We're hoping for a positive decision from the Council of State around the legislation to be implemented from our understanding and knowledge, there would be a retroactive decision to be implemented starting from the 1st of January 2024. And it has not been published. But again, it could be one of the potential upsides we would be seeing in terms of volume.

Matti Lehmus ***Neste Oyj - President & CEO***

And then recapping perhaps on your question on the BTC. And here, indeed, we will be seeing a switch from blenders tax credit to producers tax credit at the end of 2024 and this, of course, means that then the criteria will be adopted that are defined for the BTC. We are still waiting for the exact criteria to be defined. That is, of course, something where, for example, our Martinez joint operation is well positioned. But we are waiting for those criteria then to understand what the impacts are on our other imports. And this will then be part of the overall optimization going to next year.

Operator

We will take our next question. Your next question comes from the line of Christopher Kuplent from Bank of America.

Christopher Kuplent ***BofA Securities, Research Division - Head of European Energy Equity Research***

Matti, I hear you on the range now that you're giving us a full year outlook that it is wider. I wonder whether you can tell us a little bit about the rationale that drove you to this point to this decision to go beyond one quarter and maybe attach to that, if I may, a sneaky question on what you're seeing so far, particularly considering the change in Sweden right now year-to-date beyond what assumptions you've made? That's not, I guess, going to get me very far asking you about that again for the full year guidance. And maybe a question for Martti on the decision regarding the DPS. Just wanted to see what your thoughts are how you've progressed in defining a peer group and any additions you wanted to make, how you would frame a progressive dividend policy.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thanks for the question. And I think on this guidance, I mean, we obviously have, for a number of years, worked with the quarterly guidance. The rationale was that the market is very volatile. So, it's in a way, easier to give a guidance that is shorter. But at the same time, we have also received a lot of feedback that there is a lot of interest to have some more information on a slightly longer-term outlook. And I think in a way, looking at it, we came to the conclusion that the annual guidance is the right range. And like you correctly observe, it means, as it's also for us now new that we start with a broader range. But I think at the same time, it's giving valuable information that has been going a bit beyond one of our view of the market.

And briefly commenting on Sweden, I mean, obviously, like we commented last year, this has created the need to reallocate volumes. We estimated that in our case, that reallocation need is order of magnitude 0.5 million tonnes. And like Katja explained earlier, we have been able to close term agreements reaching close to 80% on the road diesel side. So, from that angle, we are pleased with the process that we have been able to reallocate volumes from Sweden. But that, of course, continues to be also in the future part of our global model that we then always try to find the best market for our volumes.

Christopher Kuplent ***BofA Securities, Research Division - Head of European Energy Equity Research***

And just wanted to catch up and ask whether you're prepared to give us any indication for rather than the volume when that's having a significant margin impact that you can highlight?

Matti Lehmus ***Neste Oyj - President & CEO***

Well, it's, again, part of the overall margin guidance. Obviously, looking at in general, there is a number of markets we are serving. One observation is, of course, that with the growth in our joint venture, et cetera, we do expect the share of North America to somewhat grow from last year, but that's just part of the outlook.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

And thanks for your question on the dividend internally as a background making that decision. We have looked at various different peer groups, including chemicals, companies, petchems, ESG growth stocks as well as, of course, traditional oil majors. I want to highlight that the dividend proposal to the AGM compared to last year's ordinary dividend level of EUR 1.02 represents an 18% increase. And of course, our dividend policy stays today a competitive and growing dividend over time. So, our thinking is definitely follow that growing dividend also over time. I want to highlight that. I also want to highlight that we think that Neste is a growth company. As an example, last year, our growth CapEx was EUR 1.3 billion. We have substantial plans on that side on the growth side going forward. So that's something we are balancing out also where is it better to invest, continue with our growth plans or be more of a dividend play. And I think we have a balance there as well.

Operator

Your next question comes from the line of Jason Gabelman from TD Cowen.

Jason Daniel Gabelman ***TD Cowen, Research Division - Director & Analyst***

Yes. I wanted to ask about comments in around kind of improving fixed cost and optimizing value chain. And it seems like there is a focus on improving the underlying earnings power of the business. And to that extent, how much more earnings do you think you could get from these activities? I don't know if you think about it in a dollar per ton target in terms of fixed costs and renewable products and then same dollar per ton target on the uplift from better optimizing across the value chain and renewable products. And then my other question is just on emerging markets for your renewable product sales. Canada is ramping up their own clean fuel standard. Do you see that as a potential outlook for volumes, maybe not so much in 2024, but potentially in 2025 and beyond, especially in light of changes to the U.S. blenders tax credit.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. To your first question, I want to state that this optimization that we are doing related to renewable products on a monthly basis and even on a daily basis, we're running a very, very detail sales and operation planning process on a monthly basis on a weekly or even daily basis then sales and operation execution process. If I look into last year, I want to generally state that I think we did very well in our supply chain management on the optimization side.

And we have an ongoing list of opportunities as well as risks where we are continuously pushing for higher margin when it comes to the feedstock, the quality of the feedstock PTUs or from the customer side. Maybe, Katja, you could highlight further.

Katja Wodjereck ***Neste Oyj - EVP of Renewable Products Business Unit***

Yes. I think one part, Jason, is obviously on the cost side that we're looking at it on the efficiency. But the other thing that is likewise as important, we have a milestone optimizing and globally understanding at what level where it's best to place a volume but now with the organization and the efficiency we're bringing in and we will also be faster in this speed as we go into the market. So it's not only a cost per metric ton on efficiency, you want to drive, but we really want to be faster as well on how we go to market and actually implement it then not from the optimization down into the market.

Matti Lehmus ***Neste Oyj - President & CEO***

And then a short comment on your question on the Canadian market. It's, of course, something we are following closely. It's, in general, of course, very important development that there are new LCFS schemes also in Canada, and that drives overall demand. It's still then to be seen whether that opens some specific opportunities for Neste. Perhaps traditionally, it's been more a market which has been served by local North American production. But again, something to be analyzed more closely.

Operator

Your next question comes from the line of Peter Low from Redburn Atlantic.

Peter James Low ***Redburn (Europe) Limited, Research Division - Research Analyst***

So just another question on your renewables product margin. We have some visibility on U.S. margins through the various credit prices and peer reporting. I was wondering if you can make any comment on how you see kind of the U.S. and European margins comparing. It looks like maybe the U.S. is a lower profitability market, but is that fair? And then perhaps linked to that, is there any reason why we can't look at competitors such as Diamond Green Diesel and look at their profitability as a lead across to what Martinez could deliver in the U.S.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Perhaps a short comment, I mean, obviously, we haven't gone into comparing different markets. The overall business model that we have is that we are optimizing. And within, for example, European market, you also have different markets. So, from that perspective, I wouldn't go into the comparison. But to the other question, I mean, obviously, like you say, there is different reporting out there in terms of RINs, in terms of peer reporting, et cetera. And obviously, Martinez as an operation is a local production. So that's one starting point to look at that operation. And like we have said it's at the moment, having a lower margin level than our average system, but it's also an area where we obviously will focus a lot on finding all the levers to maximize performance.

Operator

We will take our next question. Your next question comes from the line of Matthew Blair from TPH.

Matthew Robert Lovseth Blair ***Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - MD of Refiners, Chemicals & Renewable Fuels Research***

My first question is, is your Singapore feedstock mix changing as you ramp up SAF production? Are you having to switch off PFAD? And if so, what are you replacing that with? And then the second question is, are you seeing any sort of regional disconnect in UCO pricing? There are some sources out there that show U.S. UCO pricing coming down quite a bit in the first quarter versus the fourth quarter, but then Europe and China, UCO pricing is actually pretty stable. And so just wondering why that is? And does that present any sort of opportunities for you?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes, short comments. So obviously, when we produce SAF, we will be using the feedstocks, which are then required by the customers or the regulation. There is clearly, for example, in the European Union mandate preference for annex 9 type materials like, for example, used cooking oils for or animal fats for that segment. So, this is something, again, where we optimize globally our feedstock mix and the whole platform, something we'll take into account. At the same time, for us, what matters is the overall global optimization.

We will obviously be fulfilling the customer and regulatory needs for all the market segments. And on UCO pricing, perhaps more a general observation that, of course, compared to, for example, oil products or other commodities where the market is already very, very liquid and adapting quickly. This is, of course, typically somewhere an area where also market changes take a little bit more time. It's not yet as liquid market.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Just want to add there. So overall, in the feedstock side, we see that there are regional variations. And that's one of the advantages for Neste because we are sourcing globally and able to take a full advantage of that on a continuous basis.

Operator

Thank you. We will take our next question. Your next question comes from the line of Giacomo Romeo from Jefferies.

Giacomo Romeo ***Jefferies LLC, Research Division - Equity Analyst***

Thank you for asking me an extra question. Just going back to your annual margin guidance. As you said, it's quite a wide range, and there are a number of parts that contribute to that. I'm just trying to understand whether you'd be surprised to see margins in a given quarter going below or above the guidance or you would expect the margin to move around that guidance during the year. And then the second question, if I may ask on sort of the issues we have been seeing in the Red Sea and whether the increase in transport cost, do you think will have any sort of impact on your ability to source SAF globally at attractive prices?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thanks. I mean, short comments from my side. Obviously, the annual guidance we have given for the renewable sales margin is referring to the average. So obviously, it allows for volatility between the quarters. At the same time, we, of course, note that we have given quite a wide range. So that also it takes into account that there can be volatility. So, I think we will see whether there are individual quarters which vary, but it is, of course, also for that reason taken as a wide range.

On the Red Sea situation, it's obviously something where the global logistics networks have had to adapt. We have seen transports also now moving around Africa instead of through Suez Canal. But at the same time, I think the global logistics system has also shown that it's quite quickly adapting to this. So, I don't see that it immediately affects, for example, our renewable feedstock availability. That would be my comment. But obviously, we will see when the situation evolves.

Operator

Thank you. I would now like to close the question-and-answer session and turn the conference back for closing remarks.

Matti Lehmus ***Neste Oyj - President & CEO***

So thank you very much for a number of good questions and for joining this conference call. And perhaps as a closing statement, I just want to reiterate that Neste will continue to execute its growth strategy, and we will continue to build on our competitive strengths to maximize our performance. So, thank you, and have a good day. Stay safe.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
