Transcript for "Neste Interim Report January-September 2024"

Anssi Tammilehto: Hello all. Welcome to Neste's Q3 '24 results webcast. My name is Anssi Tammilehto. I'm the head of IR at Neste. Today we have our new president and CEO, Heikki Malinen, and our CFO, Martti Ala-Härkönen, as our main speakers. As per usual, we will first start with our presentation and after that, we will have time for your questions. As always, please pay attention to the disclaimer as we will make forward-looking statements in this call. With these remarks, I would like to hand over to our president and CEO, Heikki Malinen.

Heikki Malinen: Good morning, good afternoon, and good evening, wherever you are. Welcome also on my behalf to this webcast. Thank you, Anssi, for those introductory remarks. This is my first Neste webcast, and some of you may know me from the past, but please allow me to introduce myself briefly with a few words here to get us going. This is my 16th year as a CEO. I've spent most of my career in cyclical and heavy industries that face tough, fierce competition. My whole career has involved different types of transformations. I've led many transformations. That's what I know, and that's what I do professionally. I look forward to discussing with you about Neste, how we're doing, and also where we're going from here in the years to come, and hopefully also meeting you in person in the not-too-distant future. This is my eighth day at Neste. I'm on an accelerated learning journey. I will be focusing very much now in the early days, more on listening and learning and understanding, but at the same time, getting very quickly ready to move then into execution mode and really with a very strong intent to make progress here within Neste. Those were my opening remarks.

If we start getting down to the order of the business of today, a couple of key messages here for starters. This is a backdrop. I've already had a chance to talk to many Neste employees here in the Porvoo facility. I visited the R&D center on my first day. I've seen the Porvoo refinery. I met hundreds of people and also had a chance to visit our foreign locations in Singapore, Houston, and Rotterdam.

I've also spoken with a number of our customers. I talked to three CEOs of our largest customers last week and asked for their feedback and perspectives on the industry and Neste. I'm still in information collection mode. However, a couple of observations still. First of all my strong view here is that Neste is in a strong position. We are the pioneer in the renewable fuels industry. Neste is the global market leader. We have the strongest technological and innovation base. This gives us a profound advantage as we move forward into a more competitive industry. Our current performance is not satisfactory, and we will discuss the causes of that here in a moment.

However, for those of you who look also at the really long term, I just want to say a couple of things. One is that the green transition is coming. It's inevitable. It's very critical for the European economy, but the journey is not going to be linear. It's going to be non-linear and it's going to be volatile, and there will be phases when we go up and down. But I think the direction is clear that this is a growth industry and Neste is well positioned. Neste as a corporation, needs more focus on revenue generation. We need to take a sharper view of costs and competitiveness, and we need to keep an eye on the balance sheet and on CapEx. Therefore, we have now launched the full potential analysis to develop a robust plan and that work has now started. Finally, I'll comment in a moment, a little bit later about what's going on with Porvoo and the hydrogen electrolyzer we had been planning to invest in.

Here are some of my early observations. I won't go through all the points. I'll leave it to you if you want to take a look at it later. However, let me just comment on a few things which I already referred to, but which I feel are very strong. In addition to the long-term fundamentals, Neste is in a unique position because we have a strong supply of feedstock. We understand the nitty-gritty of this business, and we have unique pretreatment capabilities, technologies, and know-how. That's a good foundation. We have a huge R&D team. We understand the technologies. You go to Porvoo and you look at the R&D center there. It's an amazing place. It's truly amazing. I don't know if anyone in the industry has anything similar in our sector. As I said, when I talk to Neste employees, I see the passion in their eyes. People are very committed to taking this company to the next level. I don't have any problems with the motivation of the staff. People have the fire in their belly to move next Neste forward. We just need more clarity on the direction.

Obviously, we have invested a lot in new capacity and some of it is now starting and more capacity is coming. For us operationally we need to improve our ability now to ramp up those facilities and really to get more operational performance out of the fantastic assets this company has. That's more of an operational challenge for the new CEO, among other things. Martti will go and do a deep dive on the numbers, but obviously, it's very easy for me to comment.

On the left-hand slide, it's the price chart for the renewable diesel sector. The shape of the curve, the trajectory, and the delta are very evident. Prices have been corrected quite materially. We are today in a very different spot than we were just a year ago. That is one explanation for the change in profitability. You will not hear me making forecasts about prices going forward. I don't do that. However, I think that we have a certain amount of volatility in these prices and they can move in many directions.

On the right-hand side, you can see the results performance overall compared to what we did a year ago in the third quarter. The change is a major drop in profitability. For me, that is more of a challenge and an opportunity to improve. I look at the number and I say to myself, "Okay, what is it going to take from us to improve those numbers?" I said, "For me, that's an opportunity to show what Neste can do." That's how I look at that number, although in itself it's not something that we like.

As I mentioned at the beginning, we have now started the full potential analysis. What is that and why are we doing it? Well, as a person, I'm very fact-based. I'm very analytical. I want to see the facts and numbers. We're now doing a deep dive where we're canvassing the company. We're looking at the revenue side. We're looking at the cost side very comprehensively. We're looking at the capital side, including working capital. Out of this work, we will come up with a robust plan which will have clear prioritization. We will start executing in a logical sequence in the order that makes sense from the standpoint of trying to hit the heavy items first, and that execution will then start next year. I will come back to you at the beginning of the year when I have something more concrete to share. But I just want to give you a heads-up that work has now started and is an essential tool for me so that when I start leading the company we get on the right trajectory, right clock speed, and right angle of attack, so to speak from the get-go.

Today we have announced a decision, which of course is unfortunate that we need to withdraw from investing in the 120-megawatt electrolyzer plant in Porvoo. Neste is very committed to decarbonizing our company, and Porvoo does have CO2 emissions. Our objective is to reduce those and solve that. However, in the immediate situation we are now in, we have two issues. One is the regulatory framework is moving in the right direction, which is positive, but the regulatory scheme does not balance sufficiently well with the capacity that we were initially contemplating, the 120-megawatt. Secondly, we are in a cyclical business, and it's my point of view that in a cyclical business, we also need to look at the leverage. We have set clear targets on where our leverage can go. As the trend has been rising I think it's prudent for me as the new CEO to make a decision here and to just halt this project. Let's focus on the things we are working on now, and we will try to see if we can solve this decarbonization problem in Porvoo another way, and get to the same result, but through a more capital-effective manner. We will come back to that later in the future when we have a new pathway on how to do this. But overall, as I said, I want to confirm that we are committed to the decarbonization of the Porvoo facility.

Those were my introductory remarks. I'll now hand it over to Martti. Martti will then go into the Q3 financials. Let's see if I can get the slide going. Martti will talk about that. Then I will come back later and talk about the outlook and give you a bit of more broader perspective on opportunities and uncertainties in the sector, and then we will be happy to answer your questions. Thank you.

Thank you very much, Heikki. Let's now go into the figures. I'd like to start by saying that financial-wise, the main theme in our third quarter result is that it reflects the further weakened market, both in Renewable Products as well as in Oil Products. Like Heikki already mentioned, our current result level is unsatisfactory. We realize that. The challenging market conditions clearly impacted our margins. While on the positive side, we see clear initial progress on cost savings. More specifically, our third quarter EBITDA was €293 million. That is 72 percent down year on year. Last year, in the third quarter, we had the peak quarter of that year result at that time north of one billion. Going more specifically into the segments in the Renewable Products or comparable sales margin was $341 per ton, down about 62 percent from last year's high level at 912, or 10 percent, still from the second quarter level of $382 per ton. Similarly, in Oil Products, our total refining margin was $10.6 per barrel, down about 60 percent from last year's high level at $26.9 per barrel, and down also by 30 percent from the second quarter's $15.1 per barrel.

The challenging market condition is very clearly visible in our third quarter figures, both in Renewable Products as well as in Oil Products. But on a positive note, our sales volumes increased quarter on quarter, both in Renewable Products, that includes also SAF sales, where we reached a new quarterly high of 112 kilotons, clearly up also from the second quarter, as well as in Oil Products we had a very solid performance and good sales following the turnaround in Porvoo in the second quarter. On a positive note, furthermore, our fixed cost savings are becoming now clearly more visible. What we've been initiating over the last 12 months is starting to be visible. Our total fixed costs in the third quarter were markedly below our last year as well as the previous quarter. However, it's very clear considering the challenging market conditions that further performance improvement actions will be required going forward. I'd like to take one more metric from this slide, which is that our greenhouse gas reduction in the quarter was 3.6 million ton. That is a clear increase year on year over the 2.5 million tons last year. This is a clear improvement in our environmental handprint.

Here we visualize the key market environment drivers that impacted our margins in the third quarter. In the third quarter, looking first at Renewable Products and comparing to a year ago, our margin was above all affected by a substantial decrease in diesel price. The weakening diesel price was also the main factor quarter on quarter. To be more specific about that, European Northwest diesel came down about $65 per ton from the second quarter compared to the third quarter average or the South Coast diesel in the US, even $80 per ton. In addition, when we compare year over year, the US bio ticket and renewable credit prices as well as spot premiums in Europe have both clearly weakened in a yearly comparison.

At the same time, the waste and residue prices have remained relatively flat and not really giving us a helping hand margin-wise. On a positive note, during the third quarter the credit prices, however, slightly strengthened versus the second quarter levels. At the same time, in Europe, the spot premium remained weak. Also in Oil Products, that is, that goes for our product cracks. They decreased very clearly during the third quarter and the decline is very visible both in year on year as well as in quarter on quarter comparisons.

Our focus is on efficiency, net working capital optimization as well as balance sheet strength. Those are set to continue going forward. In this slide, I'm sharing a few highlights of each of these from the third quarter. First, as to our fixed cost efficiency, in the third quarter, our comparable fixed costs were €16 million lower than a year ago. More specifically, our employee benefit costs were 126 million in the third quarter. That is 36 million below last year at 162 million. We also now forecast that our total fixed cost will be lower compared to last year. Still, in our second quarter report, we said that slightly higher. Considering I'm stating that again, considering the challenging market conditions, all our efficiency actions naturally need to continue going forward.

Second, looking at our change in the net working capital in our cash flow statement, our third quarter net working capital change was €143 million positive versus 268 million negative last year. There's a clear improvement year on year. More specifically, in the third quarter, we succeeded in reducing our inventories by almost €600 million. Whereas the changes in receivables, that was also due to higher sales volumes as well as payables contributed negatively to our net working capital change. Of note that also year to date there is an improvement in the net working capital change compared to last year. If you look forward, net working capital optimization continues to be a very high focus area for the group also in the fourth quarter. We have set very clear end-of-the-year targets and actions, both for Renewable Products as well as Oil Products.

Finally, preserving a strong balance sheet continues to be a cornerstone of our strategy and financial planning. We are extremely determined to focus on a balance sheet strength, and the same goes for preserving strong liquidity. Here, I'd like to note that at the end of the third quarter are liquid funds as well as committed unutilized credit facilities totaled about €2.6 billion. That's up by 149 million from the end of the second quarter.

Looking here, more specifically at our cash flow in the third quarter, our cash flow was mainly impacted by the weak EBITDA, as well as by somewhat higher quarterly CapEx compared to several earlier quarters. Cash flow before financing activities came in slightly negative for the quarter at minus 16 million, yet a clear improvement over the first two quarters of the year. Our cash-out investments totaled 488 million in the third quarter. That is clearly above, for example, last year's level at 258 million. The turn rate in our total net working capital was 41 days compared to 40 days a year ago so at about the same level. If we look at our cash flow trend, I think that the actions are already starting to be visible also here in the third quarter. Going forward, cash flow and as I mentioned, networking capital optimization, continue to be very high focus areas for us in the fourth quarter.

Let's then turn to our third quarter group result bridges by business segment as well as by business driver. When first looking at the third quarter comparison bridge by business segment year on year, that is here on the left-hand side, we can see that all our business segments contributed actually to the decrease in comparable EBITDA year over year. Positive contribution only comes from Others, including eliminations, but it consists of common corporate and functional costs which as such have clearly reduced year over year, and thereby the allocation of timing of these costs to business segments varies year over year and as well as also by quarter.

When looking at the comparison bridge by driver year over year. On the right-hand side, we can see that there was a positive impact of 87 million from higher sales. That's positive. There was a positive sales volume contribution from all our business segments. On the other hand, the major decline in EBITDA comes from declining sales margins. Again, unfortunately, from all our segments, in total 839 million. Here we again observed the impact of the adverse market conditions. On a positive note, like already mentioned, the group's comparable fixed costs were 16 million lower than last year.

As to a business segment level analysis, here we have first the third quarter comparable EBITDA bridge for Renewable Products as well as a longer trend of renewable sales volume, as well as comparable sales margin by quarter since the beginning of 2020. That's the graph on the right-hand side. Our comparable EBITDA in Renewable Products was €106 million in the third quarter. Year over year, that was positively impacted by a high sales volume, which contributed a positive 62 million. There the main reasons are: our total sales volume in Renewable Products was now 999 kilotons, almost a million tons, versus 883 kilotons a year earlier. There's growth of about 13 percent, out of which SAF volume reached a new quarterly high of 112 kilotons, up from 36 kilotons a year earlier. Just to note that the share of sales to North America was 49 percent in this quarter and to Europe 51 percent. Going forward, we expect our SAF sales to further increase towards the end of the year.

Our sales margin had a negative contribution to the EBITDA by 492 million. There the main elements, as I outlined before, were a clearly declining diesel price, as well as weaker US credit prices and weaker spot premiums in Europe. During the third quarter, there were also planned maintenance shutdowns, both in Singapore's original line as well as in Rotterdam. This is reflected in the utilization, which was rather low at 52 percent compared to 92 percent last year at our own renewable production facilities. The maintenance shutdowns also contributed to an increase in total production costs, which impacted also the comparable sales margin. Martinez continued to have a diluting impact on Neste's overall comparable sales margin as well.

On the right-hand side graph, we can see the markedly declined comparable sales margin during this year versus early years. As required, we are now reporting that very clearly also at Neste, we are prepared to optimize our production capacity in Renewable Products according to the market situation if necessary or required. It's good to note also here that after the third quarter planned maintenance shutdown in October, we have reported that Singapore's first line, that is the original line, encountered an unforeseen equipment failure that led to the shutdown of the production line at the refinery. This is also expected to influence some renewable diesel customer deliveries to the US in the fourth quarter.

Here we have the same third-quarter comparable EBITDA bridge for Oil products, as well as a longer trend line of the total refining margin in US dollars per barrel, as well as the utilization rate by quarter since the beginning of 2020. A comparable EBITDA in all products was 141 million in the third quarter. Year-on-year positively impacted by higher sales volume contributing 24 million. Sales were north of 3 million tons, or about 140 kilotons, or roughly 5 percent higher compared to a year ago. There was solid operational performance throughout the quarter at our Porvoo refinery. The decline in EBITDA comes, compared to last year, from the market and a weaker total refining margin in total contributing 347 million year over year. All product cracks basically declined in a yearly comparison, but overall, the key product margins still stayed above the pre-COVID averages. The summer driving season as well as the cooling season were supporting demand in the third quarter. But at the same time, the weak industrial cycle affected middle distillates' demand and the expected weather-related risks did not materialize. Brent crude oil prices were very volatile during the third quarter, ranging between $70 to 89, and the quarter ended at about $73 per barrel for the Brent crude price. On the right-hand side, we can see also the market decline in total refining margins for Oil Products during this year, if you compare that, especially to the former years 2022 and 2023.

Here we see the third quarter comparable EBITDA bridge for Marketing & Services, as well as on the right-hand side a longer the trend line of the comparable EBITDA, as well as comparable RONA, return on net assets of this business segment by quarter since the beginning of 2020. In Marketing & Services, our comparable EBITDA was 32 million, down 10 million from a year ago. That was mainly due to the unit margins, which were tighter and had an impact of 8 million on the comparable EBITDA. The decline in unit margins was primarily driven by the decrease in global oil product prices, which led to inventory losses. The prior years benefited in turn from a significant increase in Brent crude oil prices, resulting in turn in higher unit margins. Fixed costs were 3 million higher also year over year, mainly due to an ongoing ERP replacement. That is, IT costs. Overall, I would like to say that we are satisfied with the performance in Marketing & Services. We have been able to maintain high market shares in our respective markets, and the performance overall has been relatively steady and returns strong. I'd like to note here that the comparable RONA was almost at 30 percent at the end of the third quarter, although the EBITDA in this quarter was impacted, as I said, by inventory losses.

Also, I'd like to note that in Marketing & Services, as opposed to our other two business segments, Renewable Products, and Oil Products, the inventory gains and losses are continuously reported in the results of the business.

I will close out by taking a short look at our performance against our financial targets. At the end of September, our comparable ROACE calculated over the last 12 months was 8 percent, not meeting the group's financial target level of higher than 15 percent ROACE. Going forward, actions will be required to change this trend. As to our leverage, net debt to total capital, it averaged 35.2 percent at the end of the third quarter, which is still meeting our financial target level of less than 40 percent. I'm overall somewhat quite satisfied that we were able to reduce the growth trend line in leverage in the third quarter. Having said that, we have a really high focus on cash flow, as I said, in the fourth quarter. Also, a high focus on preserving, going forward very determinedly, a strong balance sheet also in the longer term, is an absolute high priority for us. I will stop here and hand it back to Heikki who will next continue on our outlook.

Heikki Malinen: Thank you Martti. Let's go to the outlook. Let me just highlight or read the main things here for the Renewable Products. Sales volume is expected to increase from 2023 and to reach an approximate number of 3.9 million tons, plus-minus five percent in '24, out of which SAF volumes should be in the range of 0.35-0.55 million tons. The full-year 2024 average sales margin would be in the $360-490 per ton range. On Oil Products, sales volumes in 2024 will be lower than in 2023, impacted by the Porvoo major turnaround in the second quarter. For the full year 2024, the total refining margin will be lower than in '23. Additional information is available in the presentation.

Now, let me finish off with the slide you will see me present when we have our quarterlies. I want to take always a bit of a step back here and look at some of the opportunities and uncertainties in the business, the sector, and also in the economy, which are relevant for Neste. The things I want to highlight are that if we look at opportunities: global macro starting to improve, China starting to gradually stimulate its own economy, Europe starting to get its own plan and house back in order. The US economy has been very robust. If this trend continues, things should start picking up in that respect in the economy. Diesel prices have corrected quite a lot. Potential recovery, let's see next year. Then we have this whole question of effective implementation of climate regulation. A lot of regulation is coming online, for example, RED III. How will the European Union then actually take that into concrete implementation? What is going to be the industrial policy of the European Union? How will the European Commission, when they come on board, implement these things? I think the Commission and the European Union are very deeply embedded and deeply committed to the green transition, although from time to time it has a bit of an uncertain moment as we've seen from the media. However, I think the direction is clear. Then, Neste's the potential. I mentioned to you in the beginning that we have now started this full potential analysis, and we are then going to come back to you with what we are going to do, focusing on things we can control ourselves.

Now, in terms of uncertainties, I want to highlight three. This whole question of geopolitics. We have the US election. What's going to happen and what's going to come out of that remains to be seen. But of course, that is an uncertainty one has to consider when one is a global company like Neste. This question of the US CFPC versus BTC. If BTC continues, that would be positive for us. Finally, I also want to mention unfair trade policies. Neste is investing heavily and has invested heavily in Europe. We're now building world-class facilities in Holland. In Rotterdam, we have two lines. The first one converted. The second one is being built as we speak. I believe and Neste believes that there needs to be a level playing field when it comes to trade and global trade. We have renewable diesel. It's covered by these trade protection measures related to anti-dumping. It's our view that SAF also needs to be included in this EU ruling. We will advocate strongly that SAF is also included. We think it's only fair there needs to be a level playing field, especially when European companies are investing so much capital at the front end of a growth trajectory. That is just a point of view we have here now at Neste. Ladies and gentlemen, those were our remarks. I think we are still on schedule and very much look forward to your questions. I guess back to the operator.

Q&A session:
Alejandro Vigil from Santander: Hello. Thank you for taking my questions. Heikki, best of luck in the new challenges. The first question is about recognizing you have been just a few weeks as CEO of the company, and probably you will have more color, as you said, at the beginning of next year, but what are your priorities? Thinking about the company in terms of capital allocation between CapEx and shareholder distributions. For example, looking at the situation of overcapacity in the market, et cetera. The second question is about today we have also seen a big transaction in your sector with very high valuation multiples, or at least attractive valuation multiples. What does Neste need to show the real value in the company? Thank you.

Heikki Malinen: Alejandro, first of all, thank you for your kind words, and I look forward to the discussion with you and your colleagues in the years to come. Big questions and a very important questions. I will not punt on them, but I need to give you just the answer I can give you. I think in terms of capital allocation, as we've said before here, and Martti also confirmed, this is a growth business. It will grow long-term, but the growth trajectory is non-linear. We need to think about how we add capacity as we go forward so that it is in some logical balance also with respect to our ability to fund those investments. We now have those two large investments, as you know, Singapore and Rotterdam. For me as CEO, it's very much about getting those completed, ramped up, and then commercializing them. One thing that will be one of my key priorities, which I can see already now, is Neste's commercial excellence. We need to get much closer to the customers, we need to be much, much more active, and we need to make sure that we move this volume profitably. I'll leave the first one there.

Then in terms of valuation and value creation, honestly, I want to do my homework thoroughly. I have a reasonable understanding of the company, but it's too high level. Let me do the homework and then come back to you with something solid, robust, and something clear also to Neste's people. Because ultimately, whatever we say, we need to deliver. Sorry for the delay, but you'll have to wait until early next year.

Martti Ala-Härkönen: Alejandro still asking that with your second question, did you want to highlight the KKR buying the 25 percent stake in Enilive? I heard you say today, or was that just a general question?

Alejandro Vigil : Yes.

Martti Ala-Härkönen: We've been following on that and we realized that Enilive was valued at 12 billion. KKR now concluded buying a 25 percent stake for three billion, out of which if I have it right, roughly 2.5 billion by buying shares and with a half a billion investment straight into the equity of Enilive. We need to analyze that further, but that's a good valuation in this case anyway. A short comment.

Alejandro Vigil : Thank you guys.

Erwan Kerouredan from RBC: Thanks for taking my question and welcome to your new role, Heikki. Thanks for the introductory comments and the relevant details on your past experience. I've got two questions, please. First, on guidance for next year. Not so much on absolute numbers, but more on communication style. Do you consider shifting to metrics other than the RP sales margin towards next year? Do you think the market is focusing on the wrong metric when it comes to Neste? This is my first question. Then my second question is on the slide where you highlight the strengths and the areas of concern, especially on the strength, and where you highlight feedstock and pretreatment. Up until last year, feedstock and pretreatment were an area of priority for potential strategic acquisition. I understand the framework now is completely different. But given where we are in the cycle and given the decision you made at Porvoo, does it still leave some room for potential strategic acquisition in the feedstock and pretreatment space for next year? These are my two questions. Thank you.

Heikki Malinen: Erwan, thank you very much. I hope I pronounced your name correctly. Thanks for those. We take the matter of guidance very seriously, and it's our job to make sure that when we guide it is somehow helpful to the investors but also something that we understand and can control. I don't know what Martti wants to say here, but my view is we take it seriously. We will look at that and consider if changes need to be made. But if we make changes, I cannot yet say what those would be. Again, I need to think carefully about what the right approach here is. Martti, is there anything you want to add at this stage?

Martti Ala-Härkönen: Thanks, Erwan for the question. We cannot really comment on your saying that the market has focused too much on the wrong metric. We know it's been very much focused on the RP comparable sales margin. The future mid/longer-term outlook should be more important than the short-term performance. That's the only thing I comment on that side.

Heikki Malinen: Then on the M&A, the feedstock is strategically super important for the company, and pretreatment as well. The way I would look at it is that we continue to scan opportunities. We have our eyes open and we're monitoring. At the same time, if there are different sizes of things you can do right small, medium, and large. I think I would just now pace myself here and say I'm going to do the homework, but we will keep our eyes open if something interesting pops up.

Erwan Kerouredan: Thank you very much. That's helpful.

Christopher Kuplent from BofA: Hi there. Good afternoon and good morning everyone. Heikki, I'm not going to embarrass you. The anticipation is growing by the minute for your CMD next year. I want to focus on what's going on right now. I wonder whether you can give us a little bit more of an update on the issues that have come through on the ramping up of the original line in Singapore. Anything would be quite helpful. If you can give us the backdrop to why things are moving more slowly, and any indication for how quickly you think this can be sorted out. Then a question on the quarter. You've mentioned SAF making new records volume-wise. What can you tell us about the impact on the margin? Has it been accretive? Yes or no, and to what degree? In the same way, you've been highlighting Martinez as being dilutive, that would be helpful. Thank you.

Heikki Malinen: Thank you. Good two questions. Thank you, Christopher. Also, feel free to ask me anything. I'll answer if I can. On the Singapore original line, the reality is that in the process industry and I have a lot of history and experiences, unfortunately, sometimes in these large lines, when you're ramping up things can happen and you can have technical problems, which is the case. We have our best engineers working on it 24/7. We have our global experts supporting the work. I know the repairs have started. I've personally spoken to our local plant leader there in Singapore, so I’m getting regular updates. We are on top of it. But I want to underline the thing at Neste: Whatever we do, we always go, "Safety first, volume second." The repairs have to be done correctly so that there's no safety risk. However, I cannot give you a definite date, but I can confirm that the guys are working 24/7. We have the best expertise Neste has available to try to solve this.

Martti Ala-Härkönen: Thanks. I'll try to answer the second question. We cannot give any of our prices like we have said before. However, we can pay reference to the Argus and Platts open databases and their reference prices. Looking at the Argus price, the SAF price was about $3,000 per ton last year. It averaged about 2,460 in the second quarter. Unfortunately, it's following also the trend overall in the markets and renewable diesel. It came down about $480 per ton in the Argus reference prices, where it averaged a bit south of $2,000 per ton in the third quarter. Down about 480. Right now we are in the reference price between 1,800 and 1,900. If you would divide that by the jet fuel price of about 700, you have a ratio of about 2.6. Also, the jet prices have come down. However, we are a big supplier. We have different criteria as feedstock and so on. This is not any quote on our prices, but this is straight from the Argus database, their reference prices.

Christopher Kuplent: Thank you, Martti. I presume at those levels, though it has been accretive to the margin that you've reported.

Martti Ala-Härkönen: That we can say it's been accretive also in the third quarter like we said. As I said, we're looking forward to increasing our SAF sales also in the fourth quarter from the third quarter level.

Christopher Kuplent: Understood. Thank you.

Giacomo Romeo from Jefferies: Hello. Thank you and welcome, Heikki. Two questions. I want to go back to your final slides because you raised two important points there. The first one is on the move to PTC from BTC. Is that still your base case that we're going to see a move to PTC from the 1st of January? If that is the case, do you expect you will need to redirect some of your volumes from Singapore to Europe? How are you thinking about the trade-offs there in the context of terms, contracts, and renegotiations that are occurring right now? The second question is about the point you raised on unfair trade policies and you make the point that you are seeking an extension of the anti-dumping measures taken in the EU to the Chinese SAF imports. Just wanted to clarify. Can you reopen the RD anti-dumping case, or do you think you will need to start a new probe? What's the timeline there?

Heikki Malinen: Good questions. I think on the US situation these are our best guesses. We don't know for sure, but it would be more like the BTC. I think it's probably 50-50. BTC probably not being extended is a possibility.

Martti Ala-Härkönen: Thank you, Heikki. There is a bill currently in the Congress to extend it for another year. We don't know if it will pass, so the base case for us is that the CFPC would be what comes out. But we'll see in a couple of months or perhaps more.

Heikki Malinen: Indeed. But in terms of the optimizations. The good thing here is that we have opportunities to optimize. We have assets in multiple jurisdictions which allow us to try to maximize margins and revenues in different market circumstances. But ultimately this will be driven by value and opportunity. If this were to happen, then, we would try to find the best mix in terms of feedstock and market demand and optimize accordingly. Yes, to be solved. The upside here is we have the ability to do things. That would be my response.

Then on the trade matter, I just wanted to raise this more as a topic here, because I think this is a bit of a philosophical question with respect to investments in Europe and the whole commitment of Europe in terms of the green transition. I come from another industry where, if you follow those, these are daily topics. I have a fair amount of experience and history from understanding these. But in terms of how we practically go forward, I can't comment on that yet. I just want to raise I think it's an important topic and we will talk about it in the future and also with the respective authorities that deal with these matters.

Martti Ala-Härkönen: To your question, Giacomo, I think there is still a little bit of time. It hasn't been a final verdict before starting a new probe to include SAF in the Chinese-related anti-dumping duty. It now encompasses only biofuels, including renewable diesel.

Heikki Malinen: Indeed, that is the case.

Sasikanth Chilukuru from Morgan Stanley: Hi, thanks for taking my questions. I have two, please, both related to SAF. The first was regarding SAF sales. You've highlighted voluntary SAF demand has not been realized as expected so far. I was just wondering what the reasons were behind this. What has changed and how does this imply for next year's sales? Do you expect airlines to meet the mandates when they start next year? How should we be thinking about SAF sales in the next year? The second one was on the Rotterdam SAF Optionality project. I was just wondering where we are with that. Has it started producing already? What is the progress on that project?

Heikki Malinen: On the first one, I have to also ask for Martti here to add to my commentary, but I think the mandates are coming, and it's clear. They will happen. Is it from January or is it from June or May? Let's see. But I think it is coming and it's two percent until 2029 and then it goes up to six. I think that's given people will need to follow that mandate. The question with voluntary. I think I need to learn more, but the way I understand it, is airlines have made big commitments. The reality is there is no other way in the near next half-decade to evade carbon other than SAF. That's the only way. This product has to be used. Consequently, if airlines intend to stay to their commitments there will also be a need to be voluntary reductions. Also, you have corporations and others who also make their own decisions. I think the only problem here is that the economy is not great. Rates have gone up. There's been a lot of inflation. I think in the full supply chain, whether it's the consumers, the corporates, or the airlines, everybody is seeing a bit of a cost pressure here. I understand if you're the CEO of an airline you're trying to find the optimum, given your own business. I think the major trend here is that the mandates are coming. On the Rotterdam one line, are you ready to go here?

Martti Ala-Härkönen: Maybe just on the SAF. We have seen a little bit less voluntary demand now during this year. We expect higher sales in the fourth quarter. It's an uncertain thing for next year, how much there will be voluntary. We believe very much that the mandated opt-in demand will come into place, but the level of the voluntary demand is more of an issue. Hopefully, we can know more during next year. Then to the Rotterdam Optionality Project. I think you are referring to our renewable jet fuel projects. The mechanical works are complete. We are still awaiting certain documents from authorities to be able to ramp up. We hope to be ramped up and that we have started also production by the end of the year.

Sasikanth Chilukuru: Thank you.

Artem Beletski: Thanks, Heikki for providing your initial thoughts at this stage. I have three questions. The first one is your commentary on the report relating to the re-optimization of global production capacity in the context of the US regulatory framework. Could you maybe elaborate more on this? Is it related to basically volume reallocation adjusting production or is it something potentially more structural? What do you mean there? Then I would like to ask about the term deal negotiations. Any comments on that front? I understand that the vast majority of those deals are likely to be yet still to be signed, maybe in November or December. The last one is just on current trading. Looking at some pictures you are presenting today, there seem to be some signs of improvement when it comes to, for example, RD price, LCFS and RINs. Can you confirm that this is also something that you are seeing when comes to your operations and margins?

Heikki Malinen: If I start with the first two, if that's okay, and Martti, you can build on that with the second and third. I think in terms of re-optimization, you said re-optimization capacity management and structural. It's definitely not structural. It's very much about leveraging the platform we have, taking advantage of the assets in different places, and then trying to optimize. The reality is we have a lot of skills here in terms of how we match the feedstock with the customer demand, and that's what we're good at. That is something that we would have to do then more, and that would be the number one priority before we look at anything else. We would work very hard on that re-optimization before anything else is considered. The term negotiations. Negotiations have started, right?

Martti Ala-Härkönen: Yes, the term negotiations have started ok. We are reading various options on how also to maneuver taking into account the current difficult, more challenging pricing environment in terms of pricing mechanisms. We have nothing at this stage to say on that side. We need to come back later in the quarter or early next year. Then to the current trading of some of the market parameters. Thanks, Artem, for these questions. You're right. The LCFS as well as the RINs they have appreciated somewhat. The last time when I looked at LCFS was about 67 for the credit and RINs maybe at 68 coming both, I think a bit below 60 in the third quarter. Also, regarding the spot premiums, if you look at the Argus database, I think the average for RD in the third quarter was, again referring to the Argus data, like $1,560 per ton. Now, there's been an uptick in October to over 1,700 recently, so from 600 to about 1,700. However, having said that, it's important to note that during this year we have termed on the RD side, when we talk about the European spot premiums, 75 or even up to 80 percent. The spot premium hikes don't really affect to any bigger extent our this year's margins, but it's of course positive if this trend continues thinking about next year. Then a very important contributor is the diesel price. The diesel price went, as I said, downwards, clearly in the second quarter. Now, at the beginning of the third quarter, it first appreciated back to over $700 per ton, but now the latest price was again about 670. That, on the other hand, has been moving as a very reason towards the wrong direction. You have both positives and some negatives here in the big picture.

Artem Beletski: Very good. Thank you.

Peter Low from Redburn Atlantic: Hi. Thanks. In Renewable Products, you cite higher production costs due to maintenance shutdowns in the quarter. Are you able to quantify the impact of that on the margin, and perhaps whether you'd expect a similar impact in Q4, given the Singapore turnaround? Then my second question was on hedging and your risk management approach in Renewable Products. I would have expected your hedging program to protect you at least partially from the fall in diesel prices that we've seen this year and in this quarter in particular. But it doesn't seem to have had any visible impact on the Q3 results. Can you explain why that's the case? Thanks.

Martti Ala-Härkönen: Thanks, Peter, for the question. The higher production cost is right. I mentioned that because of the maintenance shutdowns, it had an impact. The impact was negative in the range of $40 to $50 per ton. We can give out that figure in the overall margin. There were both diesel price and this on the negative side impacting the third quarter margin. On the positive side, an appreciation from the US credits. Actually, there was a positive contribution, not a very large one, but also from hedging in the third quarter coming mainly from our margin hedging on the EU side. On the US side, it's been a little bit sideways. Also, from basic utilities, we had a slightly negative but overall positive contribution from hedging. Our hedging ratio was 46 percent in the third quarter. At this moment the ratio is 46 also for next year. I'd like to pick up one element there further. We used the POGO palm oil gas oil difference as a proxy hedge. We've seen more recently both palm oil going upwards, and on the other hand diesel downward. So the spread has widened. Particularly on the European side, we have hedges in place which is smoothing out the impact that you referred more to the diesel price. You asked also about the higher production costs, and what could be their impact. It's too early to call for the fourth quarter, but typically if they have maintenance shutdowns we have ramping up importantly at Martinez. This overall incurs some more costs to a comparable sales margin.

Michele Della Vigna from Goldman Sachs: Thank you very much. It's Michele Della Vigna here. Heikki, congratulations on leading a key European cleantech leader, although clearly at a bit of a challenging time for margins. I wanted to ask you two questions. The first one is a little bit more strategic. You clearly say that the performance of Neste was not satisfactory outside of the difficult market conditions. What would you have done differently at Neste in the last couple of years? Are there any clear, low-hanging fruit that you think you can work on with clear benefits for the next couple of years? My second question is more about regulation. You talk about rising renewable diesel demand, and next year we will certainly get to the same outcome. However, I was wondering if you could quantify perhaps how you expect the German renewable diesel regulatory changes to impact their demand in 2025. Thank you.

Heikki Malinen: What a tough question. Looking at the past, I think it's not kosher to start evaluating past performance beyond what the numbers are currently saying. I think at this stage my response to your question is simply that we're going to do our homework now very thoroughly. I'm not going to start second-guessing what would have made sense in the past. The past is the past, and we're going to get our homework done. I've told you the key areas we're going to focus on. On the commercial side, a full review of the costs, both variable and fixed, and then a complete review of the capital side. The answer is going to come out of those on how we create more value. What would I have done differently, I can't give you an answer off the cuff that is not prudent even. However, on the regulatory side in Germany, I think we have some positive views on that. Or how is it?

Martti Ala-Härkönen: Yes, correct. Thanks, Michele, for the great question. Thanks also for the report highlighting this. Firstly, we think very positively about the recent regulatory changes in Germany. Finally, it's a big market. If that would open more into RD and and renewable fuels in general would be great news. There are several elements there. The first one is already in the spring, there was the elimination of the so-called upstream emission right certificates as a compliance option from 2025. That we think could have a positive contribution to the demand of roughly 300 kilotons. Then also there is a general increase in 2025, so next year in the GHG quota I think it's going up to 10.6 percent from 9.4 percent. This is still RED II and that could bring 50 kilotons or perhaps even more. The RED III transposition is a further opportunity on top. Also, now that there's an EU-wide import duty now for Chinese biodiesel, could have some positive impact. Then there is one more important element which is that there is a proposal at this stage that we haven't yet fully evaluated from our side. There is a pause in the so-called carryover of the GHG certificates from compliance years in 2025 and 2026. You couldn't carry those over what you have left, but then it's done for previous years. I think if that proposal comes through, that should have a further positive impact, but we haven't quantified that impact at this stage.

Michele Della Vigna: Thank you.

Iiris Theman from Carnegie: Hi, this is Iiris from Carnegie, and thanks for taking my questions. I have two. First, I think previously you have talked about SAF demand of 4 Mt next year. But basically, what is your current expectation for next year in terms of SAF demand? Secondly, in terms of investments, are there any other investments basically that are under consideration or could be delayed, especially thinking about your Rotterdam capacity investment that should be ramped up in 2026? Are you still planning to do it as previously planned? Thanks.

Heikki Malinen: Do you want to comment on the SAF volume estimate for '25 in terms of demand?

Martti Ala-Härkönen: Twenty-five, yes. Iiris knows very well we have had out figure earlier in our CMD, it could be four million but that includes also voluntary demand. At the moment, because of our experience from this year, we have become more cautious. This has been already our communication clearly during this autumn on the roadshows. We are saying that the mandated and the opt-in demand in the US, on top of the European mandates and some other European countries like the UK, Switzerland, and so forth, could be up to 2.5 million tons. Then on top of that voluntary demand, which we don't know today, that is the issue. We need to come back when we know more during the next year how things shape up on that front.

Heikki Malinen: It is nice to meet you here. Thanks for the question on the investments. You specifically asked about the Rotterdam, the new facility, the line number two. I've had a chance to go and visit. It's going to be a fantastic world-class facility next to our existing line. It's a very interesting and competitive facility and integrated overall. Teams are working very hard to build that and complete that project. We're going to do everything we can so that it will be ready then in '26, and we will be within the budget. Building these types of investments post-COVID is not always that easy, but we have our best people on it and good partners. We will do our utmost to make sure it's finished on time. Nothing more to say at this stage.

Iiris Theman: Okay. Thank you.

Naisheng Cui from Barclays: Good afternoon everyone. I have two questions if that's okay. The first one is on term sales. I just wonder, your RP sales margin was more than $900 per ton in Q3 last year, and this quarter is mid-300. I wonder how much premium can you lock in through term sales or how should we think about in 2025 if the margin is really low this year, can it get high next year and vice versa? Number two, I want to ask about your capital framework. Heikki, you said a lot of very nice things about CapEx discipline, about cost-cutting, efficiency, and stuff like that. However, how should we balance different things? If you could cut your CapEx and improve your cash flow next year, the main shareholder remuneration can be protected. Thank you.

Heikki Malinen: Do you want to comment on the term matter first?

Martti Ala-Härkönen: Yes. Thank you, Nash, for the question. I'm not sure if I exactly understood fully your question, but let me just conclude that as I said, in the challenging environment, we need to also think of potential new ways of looking at the term sales. Previously, in RD we have been using a lot of diesel prices as the quote, and then on top of that, the customer premium and then the credits in the US. Of course, now that the spot prices have been on a lower level, it comes also from our point of view, how much do we bind actually to the term sales? Should we look at some other ways of terming up? Should we instead use reference prices already to a certain extent as a contributor to the pricing? This is something we are currently looking at, but I cannot say entirely. This is a very strategic issue as well for us. Looking at different ways how to optimize our opportunities next year, I think that's the key here.

Heikki Malinen: Thank you. In terms of your question about the capital framework. I still want to hold the horses here. As I said, we're doing the analysis now, and I will come back to you when we have formulated our total plan and we have a clear execution roadmap. Just be patient. We'll come back to you on that one. However, in terms of CapEx in general, yes, I've made a decision here as we've announced today regarding the Porvoo electrolyzer. I think that's a separate matter because, yes, we plan to decarbonize Porvoo. But at the same time, we need to make sure we do it in the most capital-effective manner. The idea we now had isn't going to be, in our view, based on what we know today, the right solution. It's prudent to wait a moment here and rethink the plan. Also, given where we are and the leverage which you can see from the charts where the curve is. Those were the two factors on that. Regarding the other investments, we are in the growth industry. We make these huge investments to take advantage of the long-term growth that is coming. We very much believe it will be coming there. But the thing here is that you make these investments for decades and it's impossible to time a huge facility like Rotterdam to the exact perfect window. We will complete those projects. We will get ready for the growth. If there are moments when the demand isn't picking up as rapidly, we then need to optimize. We are a market leader in this industry. We want to maintain our strong position globally. As you said in the beginning in the clean-tech industry we're a major player, we intend to do that in the future. Maintain that position also in the future.

Naisheng Cui: Understood. Thank you.

Matthew Lofting from JP Morgan: Thanks for taking the questions. Heikki, thanks for sharing your remarks earlier. I think you talked about the experience that you have in transformation across industrial sectors and businesses. I wondered if you could just share some initial perspectives on the extent to which you currently view Neste as a real underlying turnaround story versus being more a situation of better preparing and organizing the company for market recovery in the future. Bearing in mind, as you talked about, the cyclical and regulated nature of the markets that Neste operates in. Your thoughts on that would be appreciated. Secondly, I just wanted to come back to SAF. It does seem increasingly like the ramp of voluntary demand has proved through the last of the 6-12 months to be substantially below the company's prior expectations. What do you think was wrong with the prior expectations or what's been the source of the undershoot? When you look forward to 2025+, what does that imply in terms of the likelihood that ultimately this industry does grow, but a scenario that it continues to grow slower than was previously hoped even as mandates come in? Thank you.

Heikki Malinen: Matt, thank you. I may be a little bit losing my voice. I've been speaking the whole day, so just bear with me if my voice is a little bit losing its pace here. I think it's a very good question you ask about the transformation versus turnaround. I think this is a company that is very well-positioned. It has huge strengths. It's a formidable leader. In some ways, I like to say to the Neste people, we're the pioneer in this industry, and sometimes it's a bit tough to be the pioneer. However, the basis of this company is very sound. The long-term outlook of the industry is very good. It's more sort of getting the most out of what we have and positioning the company at each moment in time of the cycle in the right way. Having more focus, clock speed. We're not a massive organization. We have thousands of people, but we know it's getting the resources we have, and focusing on the key things that matter. I think it's more around that. In some of the industries where I've worked you had demand problems or industries have gone into a massive turmoil. That's not the case here. The long-term outlook in that respect is good. It's a different situation. Different situations require different approaches. We will come up with a good plan. I can tell you, as I've met people here in Neste so far I see a lot of energy and passion. People are super committed to making this a great company. It ultimately starts with people. The energy I see in the company gives me great belief that Neste can still do many, many great things. On the voluntary, about the past. Maybe I'll hand your question over to Martti, about the past assumptions.

Martti Ala-Härkönen: Thanks, Matt, for the great question here. First I want to say I think it's too early to call. The formation of the whole SAF business and the industry is still in its infantry. We don't know how it will form out in the next year or in the next several years. What we've seen is that if you look at airlines in general, there has been the COVID period. Then we had the energy crisis, high jet prices, et cetera. They have had years where they have had to struggle with their cost basis. We have seen several airlines that have partly at least been withdrawing from their former sustainability commitments. This raises the question of how well airlines will be pushing forward a stronger agenda, what they had perhaps given out earlier. This is one of the things. Another thing I think relates to emission rights, for example, the EU member states. Air travel is within that scope and it will go for individual countries. Is it that they want to regulate just a mandated demand level? Or if they want to push based on the emission rights, how they want to abate. Looking from a national level related to emission rights, the greenhouse gas reductions in the whole country, though. Do they set separate incentive systems or higher levels of ambition and so forth? I want to also point out that one thing that has come out now already is the UK, which is no longer a part of the EU, which has a two percent mandate for next year and then up to 10 percent in ‘30, so higher than the six percent. There is a ladder to how one grows up there. However, the EU aviation doesn't have a ladder built in. That has to be then made by the individual member states. How that all will go from two to six percent, is also an important question. These kinds of elements relate to the formation of voluntary demand. As such I think the whole industry is very committed to cut down their CO2 greenhouse gas reductions, but how it will all go, we'll see.

Matthew Lofting: Great. Thanks, gents.

Henri Patricot from UBS: Yes. I want to thank you for the update and thank Heikki for the introduction. I have two questions, please. The first one I wanted to come back to some of the comments you made earlier about having a greater focus on revenue generation, and customer excellence. I was wondering if you could expand on any area, any market within SAF that you think you could be doing more. Is there a particular geography that you see where you see more potential? Secondly, I just want to come back to the feedstock prices, which you mentioned have been held up very well this year despite a more challenging environment for renewable fuel producers. Is that something that has surprised you? Any comments you can make on how you see feedstock prices moving over the next few months?

Heikki Malinen: Thank you. Maybe you could comment on the feedstock. I think from the revenue and the commercial standpoint, this is a growth industry. I think there's sort of three elements that we need to work with. We need to be very close to our customers, airlines, and others to understand what their needs are and find ways to how we can bring our product to market in the most efficient and cost-effective manner. That being just in front of the customers and expanding the customer reach globally as much as we can. The second is advocacy. We're still an early industry, and I think some markets like the EU are kind of ahead of the curve. Many other countries are still coming back, maybe three, four, or five years behind the EU in terms of the regulatory framework. We need to be a strong advocate to create that demand pool. That's why we have resources doing that. The third is I think maybe just a bit of my sentiment that we're here to win and maintain a good, positive spirit in terms of growing the business. I think those are some of the elements. However, on the more detailed side, I'll have to come back next year.

Martti Ala-Härkönen: On the feedstock, this is an element that has a big impact on our comparable sales margin in Renewable Products. Maybe two issues. I like to mention what we're seeing are regional differences, as we've commented before. This is an advantage for Neste because we are sourcing globally from about 60 countries, more than 500 vendors, and so forth as we have said. If I look today into the external quotes that are not necessarily our prices. However, in the US, UCO is around about $1,000 per ton. In the EU it's been somewhere north of 900, maybe 920, but then you are north of 800 in China. There are between these three regions quite sizeable differences. Overall, we're seeing a relatively flat movement now at the beginning of the fourth quarter in the feedstock. Some feeds are a little bit downward, but the big trend is flat.

Henri Patricot: Thank you.

Martti Ala-Härkönen: I think we have been coming out of our time.

Heikki Malinen: If I may just say a few final closing remarks, I usually always like to wrap up these sessions with a couple of points. First of all, thank you very much for your great questions. It is nice to have this conversation with you and look forward to meeting you also going forward. I'll leave you with a couple of points of summary. As I've said before, I think Neste is a great company. We have a fantastic foundation to build our business going forward, and we are in the growth industry. Yes, I think I am not happy with the results of the third quarter. No one in Neste is pleased with that. However, I know we can, and we intend to do better. We made a decision. I've made a decision here after eight days to take a new look at that Porvoo investment in hydrogen. I think it's a prudent decision at the moment to take. That's how we'll go forward. Finally, as I said, we've now started the work on the full potential analysis. I intend to do it professionally and comprehensively and then come up with a robust, realistic but ambitious plan. We will then discuss that in the new year.

That's all we have for today. I hope you found this helpful in your work, and we look forward to seeing you again in the new year. Take care.