Transcript for "Neste Capital Markets Update"

Riikka Toivonen: Hello everyone, and welcome to Neste's Capital Market Update. We are coming to you live from London, where we have gathered with investors, analysts and bankers. I would like to extend a warm welcome to those of you joining us here today, as well as all of you following us online. We are so happy to have you here with us today. In this event, we will be discussing how we intend to strengthen Neste's long-term value creation, and we will share some insights from the market environment and our actions, including our performance improvement program. My name is Riikka Toivonen, I am part of Neste's Investor Relations team and I will be your host for this event.

Presenting today, we will have Heikki Malinen, Neste's President and CEO, and Anssi Tammilehto, our interim CFO. We will begin with the presentations, after which we will take questions from the floor, from our live audience. A copy of today's presentation is available on our website, and we will also share the link with you afterwards. Therefore, it will be easy for you to access it. Before we begin, please pay attention to the disclaimer as today's discussion will include forward-looking statements. Now I'm pleased to hand over to Neste's President and CEO, Heikki Malinen. Welcome.

Heikki Malinen: Okay. Welcome back. Nice to see you all here. Again to those joining us live, welcome to this event as well. We have a lot of information to share, and a lot of discussions ahead of us. My thinking was that we have one and a half hours reserved for this lot. Therefore, I will talk for about 30 minutes, Anssi will then take about ten minutes and we'll have 40 minutes for Q&A. Hopefully that should be enough to cover the things you have on your mind. In terms of the way we're going to go about this, I will first talk very briefly about how I see the context of Neste. I'll then talk about the full potential program and its implications. Then we'll talk about markets and then Anssi will look at the financials. Let me start with this slide here.

As it says here, the first 100 days, it came and it went very quickly, I have to say. There was even Christmas in between. Still, it's been a very interesting period. As I started at Neste, my thinking was that we would embark and do a full potential analysis simply because Neste is in a very interesting and important juncture. Our markets have changed and the company's financials, as we know, are where they are. I wanted to get a good understanding of both top-down and then as it's feasible bottom-up where the company is. We launched that full potential analysis and I could say we're pretty much near completion. We have been able to draw a number of conclusions from the work.

I've also started to build my team. I'm not rushing to put together the leadership team simply because I want to understand the organization and what type of leadership we have. So far, the team is evolving and today we made some announcements, and I think we're building a very strong leadership team to steer the company forward. Then thirdly, as I started, we have made one decision which was to stop the investment in the electrolyzer. It does not mean that we would not continue the decarbonization of Porvoo, but going forward with that investment just at this time was not, in my view, prudent. That's why we decided then to stop that.

Now if I look at my CEO agenda for the coming, let's say a few years or so. A bit of a context here is that Neste is a fantastic organization. It's very innovative. I've worked in many different companies and industries during my life. Neste really stands out in the area of innovation. But, at this point in our juncture, we need to pivot. We need to clearly pivot and become much more customer-oriented. We need to pivot in the direction that we're much more efficient in how we run our operations. We've discussed safety already many times, it is super important for us. Then of course reliability. We have invested so much money in these assets, they really have to perform. That is sort of a number one thing on my mind. Secondly, the financial situation requires immediate and urgent action, and we are going to discuss what we are doing to start to rectify that and build resilience for the company. Then, of course, Neste is in a growing business. This is a growth industry in spite of all the short-term, maybe medium-term challenges and things that are happening around us. Looking long term, this is a growth industry. I'll show you some slides hopefully to make that point to you on how we see it at Neste.

Let me now show you one slide just about the financials simply to provide context and for those of you who are only now joining. I'll just show this slide first. You can here see our financials for the last five years. The dark green on that slide is the renewable products business and the light green is the OP or the oil products, our fossil side. Then the M&S is the little piece there, which is important though, our retail business. As you can see from here, 1.3 billion rounded for last year in terms of comparable EBITDA is not a great result and far from where we thought this last year would have gone. That's clearly unsatisfactory and unsustainable. We have discussed in the quarterly update that the margin environment has changed dramatically. Last year prices fell, our costs have not adjusted at the same time and so we've seen the margin squeeze. Also with issues on production, here we are, the net result is a very weak RP performance. On the operational, on the OP side, on the oil product side, we've seen margins now normalize, which of course have then brought down our results. That is just to provide you with context. The good news is that at the moment our facilities are running as well as they should be but last year we had big outages. We also had unplanned outages which were a real problem in Q4.

Now, if we look at where we're coming from and where we are, CapEx has been a big place where money has gone. Neste has invested heavily. I think overall in renewables we are probably close to 10 billion when you add everything together. Thus it's a very big investment into this growth industry. Anyway, I think it positions us very well globally. In some ways, we are a very unique company in terms of our position in the renewables sector.

On the fixed cost side, you can see fixed costs have risen. I think Neste in many ways has front-loaded its cost position. This is an innovative company. We can do a lot of great things but there's a time for everything. I believe that the fixed costs run-up is not in line with where we are with the realities of today. In some ways, we need a reset.

Hence given the background of the financials, the fixed costs, and the need for capital, let me talk about the priorities. There are two major priorities. One is improving the competitiveness and cost competitiveness of Neste, but then also strengthening our market position further. We have three ambitions. They're shown on the left-hand side. We are the market leader in renewable fuels and we intend to be that. We aspire to also be the global market leader in this sector. It is a growth industry. We have a good brand. Our customers, I think to a large degree, see that we add value to them. Therefore, we want to maintain that position long-term.

Secondly, this market is becoming more competitive. As it becomes more competitive, Neste also needs to become more competitive. When pricing gets tough, ultimately your cost per ton matters. For that reason, cost competitiveness is essential.

Then thirdly, technology. We were the first to develop these technologies to produce these fuels. There are other technologies now out there. A big question that needs to be addressed is: Once waste and residue are pretty much used up, what's next? We also need to think constantly about the journey beyond, into the 30s and 40s, and not just provide some thinking on how we see it at the moment.

On the right-hand side, I try to give you a bit of a more holistic view of the next four years. Let me just walk through this slide a bit so you get an understanding of what I'm thinking here. The top horizontal bar, it says here, "Extract full commercial potential from existing core and Rotterdam expansion." Very simply, it means we have all this capacity. We need to sell it and make money. That's the bottom line. Thus as our markets are developing, we're finding new customers and new channels to market. We need to ante up our game. This is a priority for the company and our business, particularly in RP. We need to become more systematic and sophisticated in the commercialization of this capacity. So, there is work to do.

Secondly, refinery performance. I think the Q4 issues we had are just unfortunate. They shouldn't have happened because we lost money there, but they have to be rectified. Safety, of course, is always number one, but those plants, they have to be reliable. We've invested so much capital in them that they have to run. On project execution, I'll talk about Rotterdam. But it's not only Rotterdam, it's every project. It's also maintenance projects that we have. We need to try to make sure that all of them are done as efficiently as possible, because euros and dollars are precious here. Those are sort of workstreams that go through over the next four years.

If you go to the third line, it says, "Focus on selected priorities and reset cost structure." This basically means the implementation of the performance improvement program. I will discuss that with a couple of slides in a moment.

Once we have completed that two-year program to improve our performance, then my belief and that's our intention, is we can then move on to the next stage. This is to start thinking about, okay, so what do we do then next towards the 30s in terms of building the next initiative? In that phase, 2027-28, it doesn't mean that we will be spending a huge amount of capital, but it does mean that our leadership focus will then start moving more and more from urgent performance improvement more to thinking about the longer term. Then throughout all of this, maintaining the balance sheet is critical.

How do we intend to make this all happen, specifically focusing on the next few years? I said the objective here is to improve our performance, our financial performance, and our financial results, we need to make more money. It's very much about being much more disciplined, taking our cost position to a better state, refocusing on the core, and commercializing assets. We are kicking off a performance improvement program. It has four primary areas of vectors or swim lanes or initiative areas. Commercial acceleration and supply chain optimization. We've identified a number of interesting areas where we can not only take cost out but increase sales. Refinery performance and safety. Another area, as said, those assets consume a lot of money. How can we make them more efficient and take out costs? External cost reduction is pretty much a classic. I think when you do these programs, this is always on the list. It basically involves being smarter at sourcing. Fourthly, the planned operating model simplification. We need to streamline the organization.

All of this together should add up to about €350 million of EBITDA run rate improvements. The money will gradually come in as the initiatives get implemented and the costs are taken out. I said earlier, maintaining the investment grade rating is important for Neste.

Let me give you a couple of examples and a bit of a deeper dive into these areas. I won't go through every single one. We don't have time for that, but let me just highlight some of the things that I find particularly interesting. On the commercial side, well, the first one says to accelerate commercial efforts to sell volume from new capacity. It means beefing up our sales organization, being more effective in how we work with channel partners, finding new channel partners but being very close to customers, and making sure that we are on the top of their list when they make buying decisions. Very classic sales-related activities.

Streamlining our go-to-market approach. This looks at how we most effectively take our product to market. In SAF, it's very much a question of, "Do we go to each airport ourselves or do we deal to channel partners or what's the combination?" We now have different plans depending on the airport. We want to make sure that SAF gets to as many locations where there are prospective customers as the mandates and incentives go up. Then over the years, we have built a fairly comprehensive global terminal network and logistics network. There are areas where they are well utilized and then areas where they're not well utilized. We are going to prune that in those areas where we feel that the utilization is not sufficient, or that we think that maybe the fixed cost is unnecessary.

On the refinery side, improving reliability is really at the core. There are going to be many different initiatives inside this workstream. I mentioned in the earlier session about maintenance. There are many things we can still work on and improve on the maintenance. There are things we can do on diagnostics. This is a very fruitful area because many things can be done further to improve.

Then on the third bullet, which is to reduce opex through utilities and maintenance optimization. Again, we use a lot of hydrogen. We use a lot of gases. There are a lot of different types of production inputs which come into the system. How can we use consumption or increase efficiency and take out cost? Then the third one is external cost reduction, as I said, it's almost like a mandatory part of all of these initiatives. We will become more sophisticated in how we buy. We will become more efficient in tendering. We will have more strict procurement policies. We'll look at how we can optimize the processes. We will also improve our capabilities, augment our staff skills, bring in some technology, and with all of this, try to drive down external spend.

The fourth is organization. It's an area where you don't want to go unless you really feel that there is an urgent need to do that. In this case, that was the conclusion of the analysis. We have frontloaded the fixed costs very heavily in some areas. As we draw conclusions from our new priorities, we have come to the conclusion that we will target a planned reduction in terms of FTEs of about 600, and 450 of them reside in Finland. Therefore, it's obviously a hard day for Neste people. I already had my town hall with our staff. It's a tough day, but working together, we will find a way to get through this phase as well.

Then a few words about priorities. As I said, Neste is an innovative company. We can do many things and now it's very much about choices.

Our investment and business development portfolio has been quite fragmented. Some of this is visible to the outside world. A lot of it isn't because it's proprietary and I can't share everything. But I'll give you a bit of a flavor so that you can just understand what the thinking is behind here. First of all, in terms of the investment. Rotterdam, I'll talk more about it in a moment. The Rotterdam expansion is important. Yes. I wish it would cost less than I will tell you in a moment, but it is still strategically incredibly important. I'll talk about why a bit later here.

We need to find ways to further strengthen our competitive advantage on the raw materials side. Don't forget, feedstocks are a very big component of the cost structure. As you know, in our business, it's very much about our ability to optimize the different types of feedstocks and then the bio criteria. It's a constant optimization exercise. Every single country has its own regime. We have different feedstocks. How can we match these constantly in the most optimal way to manage working capital and maximize margins? It's quite complex, which I think is positive because we are pretty good at it, and others have to learn what it requires.

On the streamlining side, we have many initiatives. We will streamline initiatives like for example, algae development. Very interesting, but too far in the future and too uncertain. Power to X. It's not for us, but I'll talk about that a bit later as well. These have been areas where the company has been allocating time and energy. Renewable and circular polymers and chemicals. Again, something we will streamline as we focus most of our energy now on renewable diesel and SAF.

Then Porvoo transformation. This is an area where we have talked about a fairly substantial plan to transform Porvoo once fossil fuels are basically not being used anymore. In this area, in the short to medium term, we will focus on energy efficiency and we will look to find a way how we can bring renewable hydrogen into the plant. We use a lot of hydrogen. We want to use green hydrogen if we can. But, as I said earlier, the CapEx plan that had been planned was too much money. It was too uncertain at this stage. We need to find a more fit-for-purpose solution and maybe someone who will co-invest or invest on our behalf. Eventually, we will need to make the hydrogen investment because we need to decarbonize in Porvoo. Then other components of the larger plan need to be delayed probably into the early 30s, simply because at this stage our focus is somewhere else. Again we want to maintain the balance sheet strength.

Then to Rotterdam, I don't know how many of you have had a chance to visit, it's a fantastic place. It's in a great location. I invite you to come and visit it when the time is right. The key news that we share today, the commercial operations schedule is now postponed by one year, from 2026 to 2027. The investment budget must be raised from 1.9 billion to 2.5. That's a €600 million increase. It's a material amount of number given also the CapEx that we have available or the cash we have available.

I've given this a lot of thought because it is the biggest investment that the company is making, and the decision was made before I joined. My conclusion from this all is that, if I look at the markets for these products, renewable diesel and SAF, our analysis indicates that the market potential still into the 30s and 40s is quite substantial. I'll show you a couple of slides a bit later. Therefore, we are building here a very unique asset in the heart of Europe, next to the seaboard, close to the big airports. The location is unique. Even though it's a bit painful now and the journey over the next few years is not the simplest, it's still worth doing when you look at this from a long-term standpoint. That's the decision and that's how we will proceed. I think that is the main point. In terms of technology, the technology works. This is a copy of Singapore. We know the technology, we know what it can do. Now in terms of making sure that we stay on this plan, we are tightening even further the project governance. It is an EPCM model here, and it is the way we execute the project. Therefore, we will tighten our role in this project even more. I've been to Rotterdam now three times and just recently, last week, walked the site. I've seen the state of affairs there on the ground.

Here's just a picture of the area. It's a huge area. As said, line number one is producing renewable diesel. They now start with SAF. When line number two is ready in 2027, we'll have 2.7 million tons of renewable fuels. Sophisticated plant, latest technology, on the seaboard. You can bring in a feedstock. You can export products. There's a new hydrogen plant not far away. We have good talent in the Netherlands. It's a basket full of good people and we have a world-class asset. This will be good, but as said, it is unfortunate that we had this change in budget.

Take a step back, we have an extremely solid foundation for the journey forward. Neste has a market-leading position in renewable fuels. If we look at it today, 6.8 million tons of full capacity after Rotterdam, also including Singapore, Porvoo and Martinez. 6.8 million tons. I've talked about the feedstock side, we have a global ability to source feedstocks. We now have activities in Brazil, we're in India. We can pull full feedstock from almost anywhere in the world, and we're looking at developing new things there. That is a clear strength. We have local expertise. The more I learn about this business, I learn it is very complex. Especially in the EU, this need to connect the biocriteria and the feedstock is a very complex optimization problem. Part of our secret sauce is really how we optimize the feedstock and the biocriteria constantly.

Don't forget, if for some reason the traceability of that were not to work, that RD has no value. So, in some ways, we're not only selling fuel, we're also selling data and guaranteed traceability of that data, that that fuel was made from the feedstock it was supposed to be made from. I think that's another thing where Neste is really good.

On Porvoo, we have a well-invested site. It's a complex facility. It's a tier-one refinery. We can all debate about how long fossil fuels will be around, but we still believe that Porvoo has many many good years ahead of itself. Then we have the Finnish and Baltic retail network.

Neste is in a growth industry. It is temporarily oversupplied, but we believe in the long term, it is attractive. Now let's look at this slide. Let me explain to you what we're trying to show. First of all, the numbers on this chart are all million tons per annum. On the left-hand side, this is an estimate of the size of the market in 2035. The big box on the left is road transportation fuel, so diesel, gasoline, all together 2.5 billion tons of fuel. Two thousand five hundred million tons of fuel, estimated for 2035. Then on the lower left-hand side in these smaller boxes, you can see the size of biofuels. In 2035, you can see RD today which is 15.6 million and then you can see estimated RD in 2035, which is 48 million. Thus quite a big change. In terms of the whole fuel market, it's still fairly small, but in terms of size and delta change, we're talking quite significant growth potential.

On the right-hand side, you have aviation fuels. The whole kerosene market or jet A fuel market is estimated to be 410 million tons of jet fuel. If someone thought people were going to stop flying, then that's not the case. People are going to be flying more and this industry of airline travel ain't going anywhere. On the contrary, people are going to fly more. Therefore, 410 million tons of jet fuel, on the lower hand you can see estimates for 2035 of 24 million tons. Where are we now? We're barely at a million. So, when we use these numbers as our basis for our projections. If I think of the Rotterdam expansion, yes, it's more expensive, but when I look at that slide, well, I definitely want to make sure we build that refinery in the Netherlands.

Then a few words about biofuel regulation. This is a very complicated topic and I have to say that I think we have more questions than we have answers. However, our business is dependent on regulation, so this is important. At the moment, we know that regulation is not terribly supportive, things have changed in the last few years. If you look at the left-hand side here. First of all, what this chart shows you is, in terms of millions of tons of oil equivalent, the biofuels needed to reach the pledges that companies have made is about 218 million tons. If you look at how much has been implemented through mandates and so forth, it's 136 million tons. Therefore, there's a need for much more mandates and much more regulation to meet these decarbonization targets.

In terms of SAF, mandates have come to Europe. We have a two percent mandate that starts this year and from now to 2029, we have two percent and then we will go to six. We at Neste had hoped that we would go now to six or at least linearly up to six percent but this is what the officials have decided. We are doing a lot of active public advocacy and we are going to state the argument that the mandate should rise faster to six percent. But if they don't, they don't and that's the way it is.

In the United States, the system is different, it's based on incentives. We'll see what happens there. In Singapore and Asia, mandates are gradually increasing. I was in Singapore just two weeks ago and met with a lot of decision-makers. Singapore is now going to start a system whereby when you buy an airline ticket, you will see the cost of SAF. It was less than ten bucks to Bangkok and 15 to Tokyo, and was it 20-30 to London. But it's an example of how gradually the regulatory wheels are turning. It takes time. On SAF you have to remember one point and that is, kerosene is a big part of an airline's cost structure. It's about a third. Therefore, airlines have to adjust and they have to have a mechanism on how they pass those costs on to their customers.

Then finally on regulation and this relates to tariffs, we have the issue of a level playing field. On the right-hand side, you can see the value of EU biofuel imports. They are rising. We now have tariffs on renewable diesel. We are advocating strongly on tariffs for SAF. They have not come yet, but we will continue making the argument to the European Union on SAF import tariffs.

Then on growth. Taking the numbers from the previous chart I showed, that big raux chart. Simply said, if you look at the global renewable diesel demand, this is an external estimate, from 16 to 48, that's an 11 percent compounded annual growth rate. Given the industry where I came from, it's a big number. I haven't seen those numbers in many industries, so for an industrial product, it's a big number. In terms of SAF, from about one, less than one to as much as anywhere from 19 to 24 with those mandates and decisions that are coming. Also don't forget that the kerosene market is huge. That would be a 35 percent CAGR.

This is a growth industry in spite of the fact that we have an oversupply today and at the moment we are going through a difficult period. Now, I wanted to say one word about eSAF because as I've started, I've heard several people say, "Well, no, why would we do SAF? We have eSAF, eSAF is the answer." If someone makes the argument that SAF is a bit expensive vis a vis kerosene. ESAF is three times the SAF cost. Maybe eSAF will come, but I won't be around at Neste in the 2040s. I'd be really surprised if eSAF becomes a big thing in the next 15 years. We have a product. It's a good product, it works, and it's competitive, so we believe in this opportunity.

Here we have a slide where we try to bring this together. This looks at the demand and capacity, again, based on different publicly available sources. We try to combine them, but it's not easy to do this. There's a lot of uncertainty regarding the future when you look at supply and how it will develop. However, based on the analysis we have done using publicly available sources, we've come to the perspective that at 2024 the market was long. At 2025 we will have the same case. As we head towards the end of this decade into 2030 and early 30s, maybe even 2029, we will then see demand outgrowing supply and so more supply will have to come. Depending on how much new supply comes, then the market should pivot from long to short. How short will it be, we will see. Even so, against this backdrop, I still make the argument that completing the Rotterdam investment is a smart move at this time.

I'm almost done with my slides. I'll give it then to Anssi. I just wanted to say that maybe I should have had photos here rather than these names, but my message to you is that, ultimately, change happens through people. We have a lot of fantastic people at Neste. We have a lot of innovative and energetic people. I'm building a management team that will help me and the rest of Neste to execute and deliver. I'm taking my time. I'm not rushing. Eeva will join us as the new CFO in the next month or so. A very talented executive. Markku has been doing double duty running OP, Markku Korvenranta running OP and COO. He will now become a full-time COO. We are today appointing another gentleman, Mr. Sahlsten, to run Oil products. I will still run Renewable myself in addition to being CEO. It is still for the future of Neste, Renewables is such a critical part of value creation. I will do this for some time until I get to see that the business is moving in the right direction. Then I'll see what we'll do in terms of filling that spot. Until then, I'll play this double role. That is all I had to say before we go into questions. Anssi, you come and give us a bit of an update on how you see it from the CFO viewpoint, please.

Anssi Tammilehto: Hello, everybody. Nice to see you again. My name is Anssi Tammilehto, interim CFO for Neste. Thank you, Heikki for the opening. I think it underlines quite well the story that Neste is on and I think it is safe to say that we are committed to growth. This is a very attractive market long term, and we want to be the market leader. We want to continue to be the market leader in this game. First, during 2025/26, we will focus on profits and strengthening the balance sheet. We need to do that in order to take into account the current market, market environment, and the capital expenditure that is quite high at the moment, as mentioned in the earlier presentation.

We are already taking actions to ensure future growth and also strengthening the balance sheet. This is now visible, for example, in the Performance Improvement program and in the business focus that we are now embarking on. If I then mention quickly, it might be a repetition to some of you who were here also for the Q4/24 full-year results, but what really drives the margins and what separates us from the rest is the fact that on top of the reference market, we are able at Neste to generate more margins, more cash flow, and with the Performance Improvement program, even more. This is driven by the global platform that we have in place on three continents, in California, Rotterdam, Finland, and Singapore. And now with the expansion ongoing in Rotterdam, despite the fact that it's now prolonged and the investment budget has been updated, it still remains competitive.

Feedstock is a crucial element as described also earlier. On this, we have a variety of different actions to ensure security going forward even stronger. I'm not going to repeat all the topics on the slide, but it is evitable that the sales mix with the optionality towards SAF and RD is playing to our favor, because we can then choose what product to sell to which market. There are, of course, topics for the short and medium term that are about to change, and the regulatory framework and all the related uncertainty are not the least of them. But this is something we manage and therefore we need to be weathering the storm all the time and fit for the next wave of growth for the renewables.

The program we have launched to drive performance improvement is aiming at two objectives for 2025 and 2026. To deliver on the 350 EBITDA improvement, and out of that, 250 is actually cost out. Very tangible, these are very concrete numbers we are talking about, and we are committed to delivering those numbers. We will not stop there after this, but this is what we are now committing to these years and building a platform that is fit for growth. Also, it remains our key priority to maintain our investment-grade credit rating. That is why we are introducing capital discipline and also now the board proposal for the EUR 0.20 dividend for the year 2024.

What we need to do is fill the capacity we have. Heikki talked about it already, that we need to be able to sell. We need to sell all the capacity we have. This is crucial for us in meeting all the efficiencies we have in order to reduce and optimize the networking capital, to get the unit production costs down, and to remain competitive in this business. It is crucial for us to have that capacity in use. This is something that we need to be more commercially savvy. We also need to streamline the go-to-market strategies as mentioned. We cannot serve all the needs that there are in the market, but we can serve a large bunch of them. Hence we need to optimize where we are in the commercial value chain. For example, at the moment we are tying quite a lot of networking capital in our sales. Also, the feedstock sourcing takes a lot of capital. The supply chains are long and the materials we are shipping are quite highly valued thus tying a lot of capital. Therefore, we need to be commercially savvy all the time and try to optimize and lower the networking capital we are tying into our operations.

The reliability and safety of the refineries. It was already mentioned by Heikki. This is a key item. We don't want to have the production problems that we have had in 2024. We want to be a reliable operator to fulfill the promises to our customers and to generate sufficient cash flow for all our commitments in the future.

Last but not least, on the refinery performance and safety topic. It puts a lot of impact on the yields and on the opEX optimization that we can do if we are not running the refineries at full speed and if the reliability doesn't improve. This is something we are constantly now focusing on.

External cost reduction. As mentioned, the procurement program has been initiated to drive down costs by various means. We want to lower the sourcing costs that we have. We are sourcing quite a lot of different utilities at the refineries as we mentioned. There is also certain equipment regarding the project and some other elements there, but those are probably the major topics.

With the operating model simplification as mentioned, we are targeting to get more accountability and efficiency from the organization. We need to focus and streamline, and this remains a key priority. From a financial point of view, we will see the endgame of the program's €350 million run rate improvement in the KPIs, which is something that we like a lot.

How do we do this? This is the key priority for us to succeed in this program. We need to be very stringent in the actual implementation of the program. This is now done by strengthening the P&L ownership in the organization and accountability for results throughout the whole Neste corporation. We have four work streams as described earlier and in my presentation, that we are very thoroughly following up on all the time. We have more than 150 employees mobilized to conduct this work in more than 20 sub-work streams. Therefore, it's a comprehensive effort we are doing. We are putting a lot of focus on this program. This progress is then tracked by the leadership team, by the transformation office that is basically coordinating all the programs and also learning how we reap even more benefits from the system. This progress will then be reported also externally to all of you guys in our Q1 reporting, and you will see then what has been achieved during Q1.

If we look at the history a bit, then I think you know this quite well. Just as a reminder, what we have been doing in terms of capital allocation previously, during 2022-24. When the cash flow was supported by quite a favorable market environment, there was also room to increase debt for the new investments. There was also cash available for attractive dividends, investments for growth, and M&A. We have paid almost €3 billion in dividends during this period and invested approximately €5 billion into the growth of our platform. Going forward, we need to adjust our capital allocation to reflect the new reality of the market. This is something I will address on the next slide.

We do have strong cash flow potential also going forward even at the current market prices. Should the market then improve, there is a significant upside. With our capacity and our volumes, there is a significant upside in the market when it turns stronger eventually. As you saw in Heikki's presentation, it is a growth market. We are committed to growing within the market and leading that pack. If you look at 2025-2026, we have to maximize our operating cash flow through the performance improvement program and use that cash flow for the Rotterdam expansion program, the turnaround in Porvoo and other maintenance-related investments. This basically scrubs the CapEx to a minimum we can in securing reliable operations.

This means that from the dividend point of view, EUR 0.20 is the level now proposed by the board. It also helps us in securing the investment grade credit rating. In 2027-2028, we are able to generate operating cash flow excluding certain working capital changes, approximately €1.5 billion to €1.7 billion of operating cash flow after we have finished this program and after the Rotterdam expansion has been in a way done and dusted from our capital expenditure burden. This, I think, is a very crucial point to understand that even with the current low margins, we can generate strong cash flow and there is an upside should the market improve. We also, during 2027-2028, have to remain tight on the capital expenditure, and it is expected that approximately 0.5 billion during 2027-2028 will be spent mostly on maintenance investments. The free cash flow will be then used for dividend and stronger balance sheet to enable growth. As you saw, once again, the CAGRs are quite nice both in renewable diesel and in SAF and we want to play a very big role in that game.

Maybe then highlighting a bit the CapEx burden that continues during 2025-2026. The market situation requires a focus on investments, and we need to have a tight capital discipline on this one. But it is safe to say that during the next two years, the CapEx will be still quite elevated. After that, we'll be supporting our cash flow generation when we focus on maintenance investments. Then after that, we will start preparing for the next waves of growth. We are open also to M&A activities, but capital discipline remains a key focus for us.

Then if we look at the financial targets and capital allocation for the next two years. This was already covered but maybe just to elaborate a bit. We need the €350 million EBITDA run rate improvement. This is something we are committed to and we will deliver that. Out of that, as mentioned, costs play a big role. CapEx, €2.4 million, that's the max. That's the maximum we can spend during these two years. This will be divided into Rotterdam, turnaround, and other maintenance as mentioned. The dividend is EUR 0.20 for the year 2024. It remains a high priority for us to keep the leverage ratio under 40 percent. That is crucial for us, and we will put all our efforts into maintaining that.

How do we then create value from this? We've talked a lot about capital discipline and cost competitiveness but at the end of the day, we are growing our RP sales volume between 2024-2029 by a 10 percent CAGR. It's not a small number. It's quite a nice number, and we are not planning to end there. But at the moment, this is the sales growth pace we are embarking on until 2029. Our ongoing investments and existing assets take us there. Then we can improve our margin through the Performance Improvement program. €350 million, part of it comes to the sales margin. Part of it is only cost-driven, nevertheless cash, which is crucial in this situation. In the margin, there is an upside should the market improve. I think it's important to understand, as mentioned, the market will be short at some point in time. We don't know exactly when, but I think we are pretty well positioned when that happens.

Our operating cash flow as mentioned and described in the previous slide is strong even though the market would stay where it is. Also, remember all the elements I mentioned on the premium that Neste can create on top of the reference prices and reference margins. This is the game we know. We will then have the potential to review the dividend once the CapEx level is normalized after the Rotterdam. This is something that we will then come back to and we want to be the undisputed leader in a growth market like this. This is something that is elaborated on quite a bit by Heikki in his presentation and the opening part. In this, we will maintain the investment grade credit rating and grow and deliver strong shareholder returns.

I hope it clarifies a bit where we are coming from. It's not only cost competitiveness, capital discipline, and dividend topics, but it's also to reflect on the topic that we are actually in a very rapidly growing business and we are a leader in that. Even with the existing investments, we are growing a lot. That concludes my part of the presentation. I will now hand it over to Riikka, please.

Q&A

Riikka Toivonen: Thank you very much, Anssi. Now we are ready to start the Q&A session. Heikki, if you will join us. If you want to ask a question, please raise your hand and wait until we bring you the microphone. Please state your name and organization. Thank you.

Michele Della Vigna: Thank you. Michele Della Vigna from Goldman Sachs. I wanted to ask you two questions. The first one is about tariffs. A very hot topic at the moment. I was just wondering, as you look through your business, which areas do you think could be at risk from potential tariffs in the future? It feels like the biggest impact, which was Singapore into the US in many ways, has already happened with the expiry of the BTC. Then the second question is on SAF. The market has started quite slowly. Maybe we should have expected it. Quite a lot of inventories were built up at the end of last year into the beginning of the mandatory blending. I was just wondering, how do you see the market evolving? Do you see more buying, perhaps later in the year as companies need to comply with the full-year two percent blending in Europe? When do you see it tightening to the point where it goes to that premium profitability, which at the moment doesn't seem yet to be there? Thank you.

Heikki Malinen: Maybe if I start on tariffs. Well, I think the US question on Singapore, as much as we know about it has materialized. For me, the thing that is on my mind is the China SAF anti-dumping duties. That is something that we need and we need a level playing field. If companies invest a significant amount of capital within the European Union to serve European customers, then I think it is only logical that there is some type of balance. We will be advocating for that constantly so that those come in place. Whether we succeed remains to be seen, but we're very determined to argue our case.

In terms of SAF, there are many market participants. There are wholesale players and there are airlines. I would just say that we're probably seeing both types of behavior. On the one hand, sort of wait and see. Some players are probably waiting to see how the market evolves and they can wait until the latter part of the year. This is because it doesn't matter when you buy it if you're a wholesaler. However, for the airlines, I would just say that they have been fairly active buyers throughout. I think there's probably a difference between the wholesale market and the direct airline market. We know that at SAF, two percent is given and there are penalties. If you don't buy the SAF, there will be a cost. That demand is coming.

Anssi Tammilehto: Maybe to elaborate on the cost side of things and related to the risk appetite of the mandated or obligated parties, it's two times SAF - kerosene spread. Plus you have to fulfill the mandate. It's quite costly to not comply with the rules, so we believe that the mandate will drive demand for 2025.

Pablo Cuadrado: Thank you. It's Pablo Cuadrado from Kepler Cheuvreux. Just a quick question on the supply and demand balance that you have described in the presentation. In 2025, you are expecting, let's say, five million tons of negative gap between demand and supply, which is worse than 2024. Can you help us understand where that oversupply is more relevant? Is it in the US or North America, or is it in Europe? What I'm trying to get is if that deterioration during this year is a threat to the business performance of renewable products. Or do you think that with everything that you went through last year, that shouldn't be the case?

Anssi Tammilehto: Most of the capacity is coming to the US, and the US market in itself is expected to remain long. Europe is actually short for 2025. This is if we just look at the regional balances, but of course these products flow depending on the tariffs that are in place or aren't in place. I think the US is the answer, so that's where the majority of the new production is coming in.

Naisheng Cui: Hi, Nash Cui from Barclays. Two questions from me as well. Number one, I just want to talk about 2025 macro because I thought the renewable diesel price in Europe has been strong. In the US, RIN price has been up, LCFS price has been up. Why are you still very cautious about your margin outlook and can I ask, what's your spot margin right now? Can you give any color to that? Then my second question, I think in one of the slides you were talking about extracting the full commercial potential from your portfolio. I wonder, would you consider the possibility of, say, selling an equity stake in one of your refineries and getting a very good valuation multiple or something like that? Thank you.

Heikki Malinen: If you take the first one, I'll take the second one.

Anssi Tammilehto: The first one was a tricky question on our spot margin, what we currently have. I think I referred to the margins that you can follow in the external service provider or data providers like what we have on our website. I would refer to those. Those do not fully reflect our margin because we are not an average producer. I understand that it's not the perfect answer to that, but we cannot disclose our current margin. Still, you raise an important topic. In the US, for example, what has happened in the LCFS price level with the CARB new targets for 2025 and the different changes done there. Of course, we are also monitoring what kind of impact it would have on the US margins and the RIN levels as well. I think it's a difficult question.

Heikki Malinen: If I understood your second question, it's related to the assets and the ownership of the assets. Is that correct?

Naisheng Cui: Yes. That's right. I wonder if you can just farm down a minority stake of your asset and realize a better potential in terms of valuation or stuff like that, that can help you improve your balance sheet as well, for sure.

Heikki Malinen: As we have modeled the journey. We have modeled it in such a way that with the actions that we're planning to do or are taking, the costs out, the other optimization exercises, plus managing the CapEx, we will maintain a sufficient solid strong balance sheet. We have good liquidity in the company. Therefore, we think we are on solid ground on this. If you look at the markets long term, there is a lot of upside in terms of potential growth. RP is the core of the future of this company. Eventually, Porvoo will need to be decarbonized and it will have its own journey out of fossil. So, Rotterdam and Singapore are the gems in this industry. They are part of the future of the company and the answer to your question would be no.

Derrick Whitfield: Hello. Derrick Whitfield from Texas Capital. In the first, I wanted to be a bit more pointed with the question on the US. Assuming CFPC policy as you understand it today, is the California credit market an attractive market to sell your Singapore volumes, again as you see it today? Second, regarding the anti-dumping measures against China, do you have a sense of how much SAF is being produced in China at present and how much will be produced in the foreseeable future?

Heikki Malinen: Give it a crack.

Anssi Tammilehto: Yes. There are pockets. California, for example, is quite nicely located. I think we have a reasonably good competitive advantage in Singapore to sell to California. We have access to feedstock there. I think used cooking oil in China, depending on the price of that. Still, it's one of the key drivers there. Should the Californian LCFS price increase, it would probably favor us more compared to the US Gulf Coast players. They have to take the product via the Panama Channel and pay higher freight due to the Jones Act. I think the freight difference between us from Singapore to the West Coast US and from Gulf Coast competitors, I think we are in a very good position in a way. That's where the Californian market plays a role in our optimization. What is then impacting our competitiveness is the CFPC. If the other players get that, especially for SAF. This depends on where they ship it, to the US or EU markets. Depending on the CFPC and the different CI score per feedstock, this is the optimization we are constantly following that how competitive are we in the Singapore refinery to sell into the West Coast, California. There are times when we see that there's value for us to ship there. This is a very topical item for us and that is why we also have said that with the current CFPC regulation, we might have to adjust the utilization of our refineries. Still, there are also opportunities. We have to follow the overall logic and overall mechanism, LCFS, RIN, CFPC, and the feedstock price. The US feedstock, for example, is very high. It took quite an uptick after this new administration. The used cooking oil in the US rose quite rapidly due to the import ban-related discussion, which might help our position going forward.

Heikki Malinen: On the China SAF question, it's not something that's easy to get a lot of data on. Transparency is also not that good. A couple of observations. One is that if there are anti-dumping duties on renewable diesel in Europe, then there is a risk that over time some of the capacity starts pivoting into SAF where there is no duty. Just an observation. I can't say that we have facts to prove that, but that is sort of a potential issue. As you know, China is a big source of used cooking oil. We've seen some projections about China air travel going into the 2035 or 10 years from now where Chinese air travel will become a very big market. It might be as big a market as the United States when you go into the longer future. I think the US is about 20 percent of air travel. China could be about the same size. Then the question is, would the Chinese decarbonize their own air travel by using their domestic UCO. Now they are sort of through taxation incentivizing to keep the UCO partially domestically. It remains to be seen where the Chinese go. Do they see SAF as an export business, or do they develop it more for decarbonizing their travel? That we just don't know. As I said, we're investing in the EU and we believe that we need a level playing field.

Giacomo Romeo: Giacomo Romeo, Jefferies. First question, I want to go back to your updated estimates on SAF demand growth. I think you're showing seven to 10 million tons in 2030. If I recall correctly, you used to show 15 million before. Just trying to understand where the delta is coming from. On these, you used to have renewable products demand about 40 million tons in 2030. Now it's 44 to 46. Just since you're now expecting SAF to be lower. Just trying to understand. That must be the RD that you have there. Just trying to understand the differences between the two. Then the other question is on your CFFO number for 2027-28. If I look at 2024, you had 1.3 billion CFFO. Obviously, it has been impacted by some one-offs there. You have a 350 million EBITDA improvement. You'll then have the start-up and ramp-up of Rotterdam that is going to contribute extra volumes. It feels like it's the delta between the two is a little bit small. Just trying to understand what are the moving parts to bridge between this year and 2027-2028.

Anssi Tammilehto: Thanks for the good questions. I think you raise an important topic with the SAF and we look at the total renewable fuels demand. These are now external sources that we are quoting here. As mentioned in the slide also, I think it's visible that the voluntary demand outlook is the changing bit. Production will be then steered towards RD. This is something we saw in 2024. The voluntary demand was very weak. Therefore, we believe that first, we need mandates and incentives to support the industry and also the demand in SAF. With regards to the CFFO, I think you're also allured to the right conclusion that there are some one-offs also in the 1.3. Also taking the Rotterdam extra volumes into account and then taking into account the EBITDA improvement and certain networking capital improvement items, this is the range that could be described after those. As said, there is upside potential in those numbers.

Heikki Malinen: If I can comment. If you first take SAF, the voluntary demand hasn't grown as I think maybe people were expecting. However, when I talk to CEOs, I do see interest also in that area. For example, if you look at freight, global parcel, and express parcel, where the logistics companies' customers are willing to pay for that SAF component to decarbonize. There are these pockets of growth that are starting to be developed. We are trying to work with those customers in particular who see their ability to re-sell it as being good. That would be one thing. Then I think it's quite interesting to see how sectors, for example, mining, where they use a huge amount of diesel and where mining companies want to start decarbonizing and they want to start buying RD. That's sort of a new pocket. It's difficult to put a number on how quickly these will be developed. Nevertheless, at least we're actively talking and reaching out to these potential customers, "Hey, what can we do to supply you RD, wherever you might be located globally?"

Anssi Tammilehto: One addition. Giacomo. Thanks. On the cash flow question, in the small print, you can find that it's calculated with 2024 utilization. That is, I think, the missing piece for you there. We had to put a comparable starting point there, which was quite low, actually at 65 percent. Thus further upside potential.

Anish Kapadia : Hi, it's Anish Kapadia from Palissy Advisors. A couple of questions, please. The first one is on the reason for not giving sales volume targets for renewable diesel for 2025. Does that reflect a lack of confidence in your ability to sell the products this year? Or is it the lack of confidence in being able to keep the facilities up and running and the availability of the facilities? The second one is on costs and CapEx. Neste has been the pioneer in renewable diesel. As a result, I would have expected Neste to have been able to have built on its experience to be at the low end of the cost curve. However, when you look at CapEx and OpEx, you appear to be fairly dramatically above other plants, especially in the US. I just wanted to understand what benchmarking work you have done on the CapEx of new facilities, the cost of turnarounds, and operating costs to show what the reasons are for this. Thank you.

Heikki Malinen: Very good questions. A lot to answer. Not sure if I can answer or we can answer all of them. On the guidance, you asked whether we're not confident in the market or the facilities. I think this is more of a question that's on the revenue side, the question of what can we control. We cannot control the prices either. We have decided to guide on things we are more confident in controlling. I think that is sort of a fundamental question there. In terms of the assets and how they operate, last year wasn't a good year. We had issues with a number of refineries. We are doing our utmost to make sure that the refineries run. Can I guarantee that a hundred percent, of course not. Still, we have a laser-sharp focus now on making sure that our safety and the reliability of those facilities improve. I think in a number of cases, we can do better. That's our challenge. What about the cost and CapEx?

Anssi Tammilehto: On the cost side of things, I think it's a good question and a comparison to the US competitors, for example. Not knowing precisely what, I think, we have done a pretty thorough analysis that how our business model relates to what the industry is doing. We have a fairly extensive reach in our value chain, both on the feedstock side and on the sales side of things. Therefore, we are going deep. We actually go to the back doors of the restaurants with our extension in the used cooking oil collection business. We knock on the door and we get the used cooking oil, and then we process it in our facilities. That ties a lot of capital and opEX but there's still a margin. On the sales side of things, we are also quite deep in the value chain to the actual end customer side of things. However, now we are going through the operating model, as we discussed in the Performance Improvement program, to see how we can reduce both cost and working capital that is tied into those operations. Thus we need to select. We typically optimize the unit margin. I think we need to take a more holistic view and see how we can optimize the cash flow and the absolute value we generate for the company. This is something we are now crystallizing in this program also. Some of the US companies sell FOB, all their production. We don't do that. We are going and extending our reach to the actual end customer, pretty much. I think that partially covers the topic. On top of that, we have quite a wide range of different development items that we are now refocusing on.

Henri Patricot: Henri Patricot from UBS. Thanks for the update. I have two questions, please. The first one going back to the margin outlook for 2025. Now I understand you don't have control on the reference margin, but you do have a bit more control on the premium margins that you've talked about. When we look at 2024, something around $200 per ton into 2025. Do you see more headwinds or tailwinds on that premium margin for this year? Then secondly, you de-emphasized the chemicals market for renewable products. Can you elaborate on why that's the case and whether there's still potential upside later in the 2020s?

Heikki Malinen: Can you repeat the latter question?

Henri Patricot: It's on the sustainable chemicals market.

Heikki Malinen: Okay, so how do we see that? You're going to do the marginal comment on this.

Anssi Tammilehto: I can be quite fast in the margin. I think we just need to follow the individual items that create the margin premium for us. What are the drivers for change in 2024 and 2025? I know that it's not a perfect answer and you would like me to give a number whether it's 200 or 300 whatever. Unfortunately, this is the logic we have now followed because that's also something that is partially driven by regulation. We cannot control the short-term regulation. This is something we are not focusing on in our discussions at the moment.

Heikki Malinen: On the question of chemicals and sustainable chemicals in the future. We've talked about the potential there. Still, I want to come back to what I said earlier that we're now at a time in the company where we have to focus on what moves the needle. We have looked at the opportunities we have on the chemical side. There are some, there are no mandates, very limited mandates, there's no clear regulatory framework. Most of it, if there is demand, it's voluntary. Then it's a question of what is our role in the supply chain, where in the value chain is the value captured. Who gets the money? Who pockets the change, and are we positioned in a way that we get we make more money or capture a bigger portion of that value? I'm not yet convinced that it's the right thing for us now, and therefore we have to de-prioritize.

Riikka Toivonen: Thank you. We have now time for two more questions here at the front, one. Thank you.

Adnan Dhanani: Adnan Dhanani from RBC. Two questions for me, please. Just the first one on your Singapore SAF sales to the US. If we were to assume that they're not competitive or profitable with the CFPC. Can you talk about the flex that you have from a logistics perspective to send those volumes to Europe or elsewhere? The second question is about your leverage. I know in your leverage calculation you include leases, which if you look at the last two years have doubled. I suspect some of that is from your new capacity as well. However, going forward as you look to keep it under 40, how do you see that moving forward? Thank you.

Heikki Malinen: Can we take the leverage first.

Anssi Tammilehto: Can you repeat the leverage?

Adnan Dhanani: I think in the leverage calculation for net debt, you include your leases in that number. That number's doubled over the last seven or eight quarters. I suspect that some of that is from new capacity. I'm just wondering if there are any other moving pieces there and how that moves going forward as well when you try to keep it under 40 percent.

Anssi Tammilehto: Well, I think. That's one part of the puzzle, but at the end of the day, we have to maximize the cash flow we get from our operations and then the capital we tie in that. I think all the actions we are now doing in the program also play an important role in maintaining a lower level of CapEx. We are following other metrics as well. Not only leverage but some supporting metrics also. I don't know if that answers your question.

Heikki Malinen: On the SAF sales, you know, this is almost like a weekly optimization question. We see what's out there. Where can we make money, where can we not? We want to sell more SAF, it's clear. We are working very hard to find the optimum channel. There is demand out there and I think there will be more demand. There should be more demand in the second half of the year simply because of the mandates in Europe and so forth. There are also incentives. Canada is an interesting market. It's almost like a week-by-week optimization at the moment.

Anssi Tammilehto: Maybe a detail on the logistics costs compared from Singapore to the US or Singapore to the EU. We're talking about maybe a couple of tens of USD per ton difference in freight. Thus it's a bit more expensive to Europe depending on the freight market. Still, that's the order of magnitude.

Riikka Toivonen: And now the last question from that side. Thank you.

Paul Redman: Thank you very much. Paul Redman from BNP Paribas. Just two questions. The first one is on feedstock. I think you've highlighted how tight the feedstock market is at the moment by your comment that if you don't take it now, it's likely gone. That means over the next two to five years, as you grow capacity, you'll need to add feedstock if you want to stay 50 percent vertically integrated. Where do you see the opportunities for that? Do we see a big change in the feedstock pool? Secondly, maybe a nice one to close out on. One of your competitors in October sold a part stake in their biofuels and marketing business for a material valuation higher than where Neste trades today. What do you think the market might be missing between the difference in the two companies?

Heikki Malinen: I think on the latter, let the market answer that question. Unless you have a point of view on that. I want to address the feedstock question because that is important. We are constantly looking and searching to find new sources of feedstock. For the technology we have, there are other sources available. This is in terms of new markets. I mentioned, for example, India, Brazil and Australia is an interesting market. China, of course, is relevant. The trick there is that it comes down to your ability to pre-treat the feedstock. The more variety you have, the more complexity you have, the more important the pre-treatment process is. I think this is something that we've done a lot of. I'll give you an example. When we were in Singapore, we went to our innovation lab and we looked at these laboratory results for the different feedstocks and how one in particular, I think it was poultry. We were just amazed by how difficult some of these are and how you have to be able to do the right type of pretreatment to use them. Otherwise, it will create problems. This is the journey Neste has gone much further than anyone else. We will continue to search for new product alternatives. One thing I wanted to raise, which I didn't mention. I forgot to mention it, was this ligno. On one of the slides, we talked about these priorities. Was it slide eight or nine? We said that no, we are looking at novel vegetable oil and that works in our process. But eventually we know that when we get to 2035, or 2040, at some stage these feedstocks will start tapping out. Hence, there is a fundamental question on sort of what is then going to be the big pool of feedstocks when this industry really grows. We have said in the document that we're doing a lot of work on lignocellulosic. It is a big pool globally, and that research is ongoing. We need to share that because also some of our customers are asking, "How are you going to solve this problem beyond UCO and novel vegetable oil. We want to communicate that we are looking at this and we're trying to find a solution whereby we could then process eventually in the future also ligno. It would be a different type of facility, a different technology. We're on that journey as well. Hopefully, I was able to give you some color on your question. Okay.

Riikka Toivonen: Thank you very much for your good questions again. Now it's time for some closing remarks. Heikki, please.

Heikki Malinen: Thank you. Thank you tremendously for the time you've donated to our cause and for listening to our story here. I said it's 100 days plus for me at Neste and in many ways, I'm learning. I think we have a good plan. We have a good team. We will deliver. We'll do our utmost to improve the operational performance of the company, and we will improve and raise our results. There's a lot of work to be done, but you saw the four streams that we are now attacking and we will report to you then every quarter on how we make progress with the full potential or the performance improvement program. Neste is strongly positioned in this market. The long-term outlook is interesting. The core markets are huge. There is plenty of space for renewables to grow. Neste intends to be the leading player in that globally. By executing efficiently, we will create value for our shareholders long term. That's the nutshell of the story. We look forward to working with you and discussing how the Neste journey continues in the quarters ahead. Thank you very much for your time.

Anssi Tammilehto: Thank you.

Riikka Toivonen: Thank you.