

Transcript for "Neste Half Year Financial Report January-June 2025"

Anssi Tammilehto: Good afternoon, everybody, and welcome to discuss Neste's Q2 results that were published early this morning. My name is Anssi Tammilehto, and I'm the head of Strategy, M&A, and Investor relations at Neste. Here with me on the call, we have our President and CEO, Heikki Malinen, and our CFO, Eeva Sipilä. We will be referring to the presentation that can be found on our website. Please pay attention to the disclaimer as we will be making forward-looking statements in this call. The presentation includes key highlights, for example, our Q2 financial performance and the status of our financial targets, including the performance improvement program that is progressing well, and the work continues. We will also discuss the key regulatory developments, geopolitical topics, and the outlook. In the end, we will also have time for discussion with you all. With these remarks, I would like to hand over to our President and CEO, Heikki Malinen. Heikki, please, the floor is yours.

Heikki Malinen: Anssi, thank you very much. Good morning, everybody. I know we have some folks from the US, and also good afternoon to those of you here in Europe and elsewhere. Really happy to be here today to share with you the results of the second quarter with Eeva and Anssi. As always at Neste, we start our presentations with safety. Safety really is the core of everything we do here. This slide has two pieces of information. First of all, on the left-hand side, you see the data on total recordable injury frequency, which is the so-called people element of safety. It's calculated based on incidents for millions of hours. You can see from the direction of travel that this year we have been able to start to reduce the number of incidents, and we are heading more in the right direction. However, I want to say to you that the figure we have there, 1.6, is not where we want to go. We want to go clearly lower. In this type of an industry, we can and we should be lower. We have our work cut out for us, but I am happy to see that this quarter went the way it did. On the right-hand side, we see data on process safety. We've actually had two remarkably good quarters now behind us, Q1 and Q2, where we had basically no PSE 1 and PSE 2 incidents. Those are the high-risk events. Why is process safety so important? In this type of an industry, we're dealing with fuels, high pressure, high temperature, a very easily flammable material, which, of course, when it comes into contact with oxygen, can create flames or explosions. We really have to monitor process safety very carefully. Even small pinholes can create problems. It's very much a matter of preventive maintenance, asset integrity analysis, trying to understand where you might have corrosion risks, and so forth. I said a good performance from the team. I'm happy to share this information with you.

Then, if we look at the key themes at Neste that we're focusing on and what we've actually done and how they are progressing. Let me start from the left-hand side, reliable operations at the refineries. Well, we remember how last year ended and how we've now been in recovery mode for the first half of this year. Our availability and reliability at our plant have been much better. Sure, from time to time, there are incidents, but it's also a matter of how you recover from them and how well you can anticipate potential risks. I was really happy to see that our utilization levels were high, availability was high, and overall performance was good. Then, the Rotterdam modification, which started in April. We now have SAF capacity there as well. The reason why operations are important from a reliability standpoint is the logic of a positive spiral. Good reliability, good operations, also mean better safety. It also means the ability to more effectively reduce costs. It also means fewer extras, for example, demurrage costs when you have delays, less shipping costs, and hopefully also happier customers. We really want to continue and get ourselves on a positive spinning wheel and continue to gain momentum as a business.

On the right, the achievements on the commercial front. When I started, I mentioned that we, at Neste, want to become much more intimate with our customers. We need to put more emphasis on our commercial approach. We need to find new good customers for us who will sort of match up well with our offering. In the second quarter, we were again able to expand the roster of companies, including DHL, Amazon, and FedEx. Branches that are very well known today. Neste is the world's largest producer of renewable airline fuels. If we look at the results of the second quarter in terms of volume, SAF sales went up 80 percent, and overall renewable volumes in the second quarter were the highest in Neste's history. Kudos to team Neste for good work there. I'll talk about flexibility and competitiveness later. I think when we look at the situation, especially vis-à-vis Singapore, our ability to move our volumes to different jurisdictions is also a key part of our core strength. I'll come back to competitiveness later in the back half of the presentation.

Then the performance improvement program. We'll talk about it extensively today. What I can report to you is that we are on track. We are moving forward as we have planned, as we intended, and that's a good thing. The

objective here is still to reach the €350 million EBITDA run rate improvement by the end of '26. That is what we told you in our capital markets update in February in London.

Finally, Rotterdam capacity expansion is progressing. You remember from our earlier meetings that it is delayed. It will cost more money than we had anticipated. It is a big project. It's going to be the largest SAF renewable refinery on the European continent, probably, maybe even worldwide. It is really a core part of Neste's long-term strategy, so a lot of time is spent on that. I've been to Rotterdam multiple times, keeping an eye also from my standpoint on how things are progressing. As I said, a lot of work still remains to be done in Rotterdam, and that's the high area of focus.

If we look at the Q2 numbers, Eeva will dive into the details in a moment. Out of these six numbers, I want to highlight a couple of things. I already talked about the amount of volume we sold, which was positive. Also gives us confidence that our product is in good demand and people like what Neste produces. On the lower side, in the middle, we have the cash flow number. Recognizing the amount of debt we have, and also the fact that we have significant investments ongoing, I was very pleased that our free cash flow was as high as 226 million. We, of course, continue to put a lot of emphasis on working capital management and trying to generate more profits then get good free cash flow. Maybe a comment still on the upper right-hand corner on oil products. The refining margin at \$10 a barrel was less than we had hoped it would be. One issue we are carefully sort of thinking about is the crude oil slate. The cost of crude oil has risen, and we need to think carefully about continuing to work on how we can expand our crude oil slate to reduce those costs. We will see how that progresses.

Here's my slide on the performance improvement program. I'm very pleased that we can report here that 107 million EBITDA run rate improvements have been booked. The process is very rigorous. We're conservative with Eeva and my colleagues. It's important that every single saving we identify and we take to the process, that we are confident that it will really create value. Just to give you a bit of a sense here that out of the probably 400 initiatives we have, once they get to the level of the so-called G3, G4 phase, my closest colleagues and I scrutinize all the initiatives. We want to make sure that they are bona fide real initiatives and that they will then deliver. As said, I'm happy with the way this has started, and it's a two-year program. We now have two quarters. We still have one and a half years to go, but I'm happy and confident about the trajectory of travel.

One final thing I want to say here about how I think about this program. When I started at Neste, I mentioned that the way I sort of see Neste transforming is that we've been very much a development-oriented company with a lot of expansion, but we need to transform ourselves into a global industrial enterprise. Part of being successful long-term relates to the fact that we need to be very good at continuous improvement. For me, this program is also a segue into making Neste much better in the area of continuous improvement. We've done a lot of things here alongside this program to continue strengthening our bench strength in that area. Hopefully, that will then carry Neste forward into the future once this exercise is done and completed.

Those were my introductory remarks. Let me now hand it over to Eeva, and she will dive into the figures, and I'll then come back with some more commentary about regulatory topics and so forth. Eeva, please.

Eeva Sipilä: Thank you, Heikki, and good afternoon to everyone on my behalf as well. I'll start with a few words on the market before going into the Neste financials. Many of you will recognize this renewable diesel reference margin that we've been sharing with you as a good proxy on the market. For the benefit of those who are newer in the audience, a reminder that this is indeed a gross margin. We deduct the feedstock costs from the revenue. However, you should note that the difference between the gross margin and the sales margin we will talk later in the presentation about is then the production and logistics costs. They are two different things. What you can see from the graph is that the market was volatile, but on a positive trajectory during Q2. That gave us some tailwind for our business.

Moving then to the Neste financials. In Q2, our group a comparable EBITDA reached 341 million. Of this, Renewable Products was 174 million. Really, thanks to reliability driving volumes, because in the market, the feedstock prices continued to be high. In oil products, 135 million for the quarter. As Heikki mentioned, the refining margin was a disappointment for us. Volumes as such were good. Again, here the reliability did support our profitability. On Marketing & Services, 32 million. Considering that the market is actually down year-over-year, the team did very good work on commercial operations to compensate.

Performance improvement program is obviously a key part of what we're doing at Neste, and I'm happy to report that whilst the annual run rate at the end of June was €107 million, in the quarter we had a realized impact

of €26 million. In order to give you a bit of an idea of the broad array of things we are working with, there is some detail on the slide. I would say that the majority we're working on is really around procurement cost. The headcount reductions were done a few months back. Now we're really into less spending, but also then spending more wisely, renegotiating quite a lot of procurement contracts. On the logistics side, a business with a global network like ours, there's a lot of opportunity for efficiency. We're looking at the routes. We're looking at how much we ship with how much we optimize on in various parts of the transportation chain. A lot of work is going on in all aspects of that. Part of our profitability improvement is also from reducing the amount of leased assets. Terminals we discussed, I believe, also in the first quarter, that's been the first area with good potential for rationalization, and then we see the benefit also on the asset side. In some areas, we're still in the, one could say, low-hanging fruits, quicker wins, but ramping up now very well for the second half.

Moving then into the segments. I'll start with Renewable Products and maybe a few highlights from this. On the left-hand graph, you can see very well in the column the volume increase and supporting. When you combine that with the sales margin that was continued on an upward trajectory, obviously, that supports the profitability improvement.

Moving then to the right-hand side. I know some of you like to compare sequentially, so there are a few things I'd want to point out. On the sales volume side, obviously, the SAF volume. Thanks to a very good ramp-up of the new line in Rotterdam, we've been able to more than double our SAF sales in the quarter. Also, it's worth noting that we've continued to successfully focus on our home market, Europe, with our sales, with European sales accounting for 73 percent of our sales. The North American share continued to decrease from the Q1 levels. On the margin side, I'd like to highlight that we did now, for the first time, book the CFPC credits for the Q2 share. Not yet, Q1, the clean air production credits are still waiting for some regulatory confirmation and final details. We want to wait for that, and we do expect that to come during the second half, and then we'll be able to proceed. We have now booked 33 million for the Q2 share, and that obviously supported our margins. At the same time, there were also negatives. The diesel price was clearly lower compared to Q1. RINs were up, but at the same time, so were US feedstock costs. All in all, a net positive of 11 million for the quarter. Still, maybe just to point out the fixed costs. The profitability improvement program is also visible on this graph.

Moving then to oil products. You see the refining margin on the left-hand side. It was basically flat from Q1. Considering that Q1 was hit by the warm winter in our home markets, the Q2 margin was indeed a disappointment. Coming from two factors, the crude slate we use was more impacted by the volatility in the oil markets. We all know the various events during Q2, and clearly, our production costs were then relatively tougher. At the same time, the gasoline export markets were also very tough and contributed very little to the overall. Then, despite the volume support, the margin improvement was very small.

Moving then to Marketing & Services. Here, you do see on the left-hand side the sales volume reflecting the market demand on a downward trajectory. Obviously, in Q2, we do have the seasonal support from the B2C market recovering, so that helped on the right-hand side comparison. I think the team really excelled on the commercial front and worked hard to reach the 32 million that we delivered.

Then on to the group level, again. We've talked about capital discipline and the focus on cash flow being a very high priority on our agenda. We are pleased to report that in Q2, we were able to demonstrate tight discipline and had a cash out investment of 221 million. You may have noted that in the full report, we also guided the full-year number to be slightly lower. We're now in a range between 1.0-1.2 billion, which would mean that we're slightly higher cash out in the second half. Now, this is due to the maintenance breaks in Rotterdam and Singapore that are upcoming. Normal business or events as such, but good to note. On the cash flow on the right-hand side, this is thanks to good profitability, but more importantly, also very focused work on the working capital. We were able to clearly reduce cash from working capital to the extent that, actually, we were successful in pulling some of our initiatives into Q3 that we had originally assumed would only impact Q3. Altogether, this is the first half when we can report that we were able, with operative cash flow, to fund our capital CapEx growth in Rotterdam. That's a really big achievement from the team and something we're very proud of. I think looking forward, it's good to know that in Q3, the cash flow will be more dependent on the operational profitability. We will have to add inventory because we are preparing for the Rotterdam maintenance break. Obviously, we need to be ready to serve our customers throughout that six-week time period normally then in Q4. You'll see an impact on that in Q3.

Altogether, the positive cash flow helped us secure our leverage below our financial target. We're obviously still very close to the bar, and it requires a lot of attention in the coming quarters as well. Nevertheless, I think a good indication of the capacity we have when we really put our full team focused on what is important. With

that, I would hand it back to you, Heikki.

Heikki Malinen: Thank you, Eeva. Let's switch gears for a moment and talk about a fairly complex topic, and that is regulatory affairs. Obviously, the world around us has a lot of stuff happening. During the second quarter, many new initiatives and laws were prepared. I'm going to go through first what's happening in the European Union and then say a few words about the US situation. First of all, with respect to the EU, we know that as far as the ReFuelEU is concerned and aviation particularly, we have now the two percent mandate until 2030. If we look at what that means in volume terms for mandated volume, that is about 1.2 million tons. The question for us from Neste is that, as we are now also constructing the new refinery in Rotterdam, which starts in 2027, how do we actually bridge ourselves in the industry from two percent now to six percent in 2030? Our position is that the European Union should help to develop some type of bridging mechanism on how to get voluntary demand, so to speak, pulled forward from the post-2030 time period.

Last week, there was an industry dialogue on the Sustainable Transportation Investment Plan, or STIP, in Brussels that I attended. The discussion really covered various topics. One of them was this bridging question. Neste has proposed that one idea could be to use the ETS tool to provide a mechanism to narrow the gap between the kerosene price and the SAF price as one idea. There was also discussion about the book-and-claim approach, whether that could be helped to further support the market. I guess our view is that we hope that the work of the DG MOVE will continue. They have indicated that, during the course of autumn, hopefully, we will then hear something more.

On the Renewable Energy Directive, REDIII implementation, now as it goes into the member States, there was some very exciting news coming out of Germany. In Germany, they are considering a number of things which, when you turn that into volume, we can calculate that it should create as many as an additional two million tons in terms of volume if it were to be implemented as presented. Let's see, the German process will take its own time, and then we will see what happens. Still, I think the direction of travel is that there will be implementation plans that help create more RD volume. That was a second positive thing.

Then, on the US front, three subjects: the Renewable Volume Obligation, the RVO, the LCFS, Low Carbon Fuel Standard, and the CFPC. A couple of observations. The RVO decision here is a very strong market signal, and the administration is to be commended for taking a historic decision of this type. It's very positive for the whole sector and the industry. We're very pleased to see that. From the standpoint of Neste, don't forget we have half of Martinez in California. Then we also own a quite interesting feedstock business, which we internally call Mahoney, where we collect used cooking oil from nearly 100,000 kitchens. As the programs in the US focus very much on the domestic industry, Neste can participate in this either from the standpoint of the collection of feedstocks through Mahoney and through Martinez and the joint venture with Marathon. Those are good things. The Low Carbon Fuel Standard went into effect on July 1st. On the CFPC, the 45Z tax credit, they will expand the credit pool. We will then see, in practical terms, how Neste will then hopefully react, respond, and benefit from that.

Then let's talk about Rotterdam again because this is exciting confirmation that our investment program is moving forward. We have now had a start in April. It is half a million tons of capacity. Then, when Rotterdam II starts in '27, there will be an additional 700,000. Totally, by the end of '27, we will have 1.2 million tons of SAF capacity. As I said before, if we look at the current volume of mandated SAF, it's 1.2, so basically, Neste itself out of Rotterdam could supply the whole European demand. That is why we believe that we need a bridging mechanism to take us into the 2030 mandates earlier through a voluntary scheme.

I mentioned at my opening about flexibility and Neste's competitive advantage. I wanted to open this up a little bit with a few more details. First of all, if we look at the left-hand side of the slide, we often talk about feedstocks. The more I work here at Neste, the more I've really come to understand the tremendous strength of Neste when it comes to global access to feedstock. We are constantly sourcing more and more. We're broadening our geographic footprint, and we have a very strong sourcing team that is able to take advantage of different opportunities globally as they materialize. As I already said, we're backward integrated into collection in the US, but also in Europe, we are partially backward integrated. We are developing our trading capabilities as our feedstock business grows over time.

In the middle slide here, production is on three continents. It gives us an opportunity to optimize. That is an advantage for the company. We also have leading pretreatment technology. Don't forget, this is also not a question only of getting access to feedstocks, but also access to feedstocks, which are cheaper and oftentimes more complex to process. Our pretreatment capabilities in our new refineries are unique and things where we

can try to squeeze more value out of the system. Then, an important point here is the ability to move between SAF and RD. If we see that it is commercially more viable and more interesting to produce RD, we can allocate SAF volumes in that direction or vice versa. We can move RD back to SAF both in Singapore and then in Rotterdam. This flexibility, both geographically and between products on a case-by-case, month-by-month, quarter-by-quarter basis, is the strength of our industrial system.

Finally, global commercial presence. I'm very happy to see these great brands, FedEx, DHL, and Amazon, being interested in buying from Neste. I think that's really the essence of some of the sources of strength for the Neste system.

Then I want to close off before I mention the outlook. Just about a couple of opportunities and uncertainties. Obviously, this industry is facing global challenges like so many other industries. I want to highlight, as I mentioned, the German bill that is a net positive. Let's see how it gets implemented. Also, the fact that if we can get the EU now to do something on SAF demand, that would also be a big positive. Eeva mentioned the need to diversify our crude oil slate. We're doing a lot of work around that, and if successful, that would help us also take some of the pressure off in terms of the OP production costs.

Finally, on the uncertainties, I guess the global macro economy remains a bit unpredictable, but I think Neste has so far managed pretty well to get through these more challenging times.

Then, on the final point here, if we go to the market outlook. The outlook for Neste for 2025, if I just briefly go through it. The uncertainty in global trade and geopolitics and their impact on the global economic outlook are causing market volatility. Markets for both renewable fuels and oil products are sensitive to oil price development. The market in renewable fuels is expected to remain oversupplied in 2025. Then we have the guidance. It is unchanged. I think we mentioned here earlier on the additional information at the bottom about the change in CapEx that you can read at the bottom. A lot of information for today. Eeva, are we ready to take the questions?

Eeva Sipilä: I think we are.

Heikki Malinen: Okay. Excellent. Please.

Operator: If you wish to ask a question, please dial Pound Key five on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial Pound Key six on your telephone keypad. The next question comes from Alejandro Vigil Garcia from Santander. Please go ahead.

Alejandro Vigil Garcia: Yes. Hello. Thank you for taking my questions. The first one is about your sales strategy. You're selling more into the European market, significantly more than in the previous quarters. It depends on the opportunity in terms of both markets. How do you see this opportunity in the coming quarters? Will you see the US as potentially more attractive, or will you keep focusing on the European market? The second question is this very interesting comment about this SAF regulation. I'm also interested in your thoughts about the synthetic fuels, the 2030 mandate in the European Union. Is this something that could also be adjusted by market reality or market conditions? Thank you.

Heikki Malinen: Alejandro. Thank you, Eeva, if I take these questions to start off. On the sales strategy. We are very happy that we have this flexibility. The RD market in Europe has been short, and we have been able to sell volume from Singapore to keep the refinery running quite well. I'm very happy with that. We need to look at this quarter by quarter. Now that we have the system flowing and especially if, for example, the German decision goes forward, we believe there will be good demand for RD. The US market is an option, but it will be very situational, I think, at the moment, probably for the near term.

Then, on your question about synthetic, you're referring to eSAF, if I understand correctly. Neste, we're focusing on these renewable products. We are not producing eSAF. We have no plans to get into the eSAF business at this point in time. We have other interests. For Europe to completely decarbonize itself in aviation, eSAF will be needed. I think it's enough for the European Union and the respective producers to find a mechanism how those investments to go forward. I think there are quite a lot of investments, but very few FIDs so far in that area. As I said, Neste is not involved in that.

Alejandro Vigil Garcia: Thank you.

Operator: The next question comes from Derrick Whitfield from Texas Capital. Please go ahead.

Derrick Whitfield: Good afternoon, all, and thanks for taking my questions. I have two. With the first one, with respect to your EBITDA margin bridge on page 13, could you perhaps speak to where you're seeing the greatest contributions in your fixed cost improvement? Then, separately, as a second question regarding the global feedstock markets, could you speak about the trends you're seeing across the waste-focused feedstock markets and more specifically, are you finding that US 45Z policy is creating opportunities to buy lower cost feedstock outside of the US as a result of less demand for those feedstocks, given that 45Z policy favors domestic feedstocks.

Heikki Malinen: Thank you very much for your question, Derrick. If we do so, Eeva takes the first one, and I'll take the second.

Eeva Sipilä: Sure. Derrick, on the contribution from the fixed assets, it really relates to the performance improvement program. The topics I touched on in the previous slide are the good ones to go back to. I would say the biggest lever is really around various procurement initiatives, and logistics is important as the CEO mentioned, it's also supported by more reliable operations, where we're able to plan better, and planning ahead is always a cheaper option. Then, obviously, the headcount changes we have made. Those would be maybe, but really, the full list is a wide array of actions.

Heikki Malinen: Okay. Regarding your feedstock question, if I try to focus on two things. One is used cooking oil, UCO, and then animal fats. Therefore, if there will be less demand, or it will be unattractive, let's say if the US suppliers are less financially interested in buying Asian feedstocks and Australian animal fat, then there's a question of where that volume goes? I think on UCO, we have seen some moderation in Asian prices, but not a lot. It is a question of where the UCO will go. I think one area we don't know very well is how much Chinese demand for these products and how much Chinese domestic consumption of UCO will actually grow in the years to come, and whether that will then keep the UCO price in China from maybe declining, as one might expect if the US sales are not continuing. So far, we haven't seen any big material decline in the UCO price in China. Some of the UCO have probably come to Europe for the time being. Then, on the animal fat for Australia, that will need to find a new home, and if there are attractive opportunities to buy, then of course we will also consider that. I think we have to wait a couple of months, maybe a few quarters, to see how this then starts to play out in more detail, but it's clearly a very important topic, Derrick, you raised.

Operator: The next question comes from Artem Beletski from SEB. Please go ahead.

Artem Beletski: Good afternoon, and thank you for taking my questions. I actually have three relating to renewables. Firstly, starting with volumes, you made a record when it comes to sales and production in Q2. What is the outlook for the third quarter volume-wise? The second is related to fixed costs in renewables. There has been quite a meaningful decline quarter-on-quarter, I think something like 14 percent. Has there been anything exceptional, and how should we think about the trend during the rest of the year, given the fact that you are still in the early phase of the performance improvement program? The last one is, I wanted to pick your thoughts on the European market. We have seen that spot RD margins have been improving quite significantly during Q2, also at the beginning of Q3. How do you see the situation? What is actually driving such healthy development, given the fact that we are still seeing global overcapacity on the market? Thank you.

Heikki Malinen: Thank you. Volume outlook, fixed cost, and then the European market. Maybe if I just comment on the volume. We don't specifically guide at the level of granularity that you may be looking for, but I think overall this year we have made good traction on our business. We reported earlier that we have made a term contracts that take us until the end of the year, and we have also been doing spot sales. I hope that we will be able to maintain the current level, but I think we don't really guide it in much detail. The market at the moment, I think, is fairly stable as we see it to be. On the fixed costs, a big change.

Eeva Sipilä: Yes. Maybe it's already, Artem partly answered, I hope, to Derrick in the previous question around that. There's nothing exceptional, no. I would say that it's a wide array of things. Now, obviously, we had a few, as always, when you start these types of initiatives, some low-hanging fruit. The trend has been very, very rapid in parts. Then again, there are areas where we're more in the sort of just starting, and we're very comfortable with the overall 350 million target we have for the performance improvement. In that sense, I think we are very focused on delivering also in the second half. When you look at what was discussed on the feedstock cost, we're not seeing much help from that side, and the market is oversupplied. Therefore, it's really a lot focus on our own actions and driving costs from anywhere we can.

Heikki Malinen: I would like to still say that we have really tried to front-load the fixed cost savings, so we really try to address that as quickly as we can. That's why we made the structural changes immediately at the beginning of the first quarter, and the negotiations were done in record time. Therefore, trying to front-load the things we can control ourselves as quickly as we can. If I heard you correctly, you were asking about the premiums in Europe. Our read is that, partially, the German news has been extremely positive. I think the market is pre-empting a bit what might be coming out of there. I think that was our read on what has happened here. Should we go to the next question?

Operator: The next question comes from Peter Low from Rothschild.

Peter Low: Hi. Thanks. You've talked a bit about the increase in SAF volumes in the quarter. Are you able to say whether that was accretive to the overall margin? Are those SAF sales at a higher margin to RD? Just for some context to that question, on their call just now, a larger European oil major was quite bearish on SAF margins due to rising imports into Europe. Then secondly, can you just comment on what proportion of your sales are sold on term contracts as opposed to a spot basis? Thanks.

Heikki Malinen: Okay, maybe if I start. I think we have said before also that when you look at the publicly available information on spot SAF pricing, I guess it is the right way, there are points in time, and they have a value of information, but it is only what it is. Our order book is more robust and more versatile. For us, the SAF business is a more refined product than renewable diesel. Therefore, we have to get a return on our investment, if I put it this way. To answer your question, when we think about pricing. I don't want to go into more detail, and I think I made a comment earlier about the flexibility between RD and SAF, so if we have to make choices about where we allocate volume, based on commercial and financial reasons, then we will use that flexibility. Do you want to continue with the other points?

Eeva Sipilä: Yes, I can. I think the concern about the imports on the SAF side is real. I think there's obviously a capacity in Asia that one would expect the Chinese to tap these markets, but it remains to be seen how much will really happen in the second half. I think we would share that view. Then on the portion of terms, this obviously is a business decision that we will change in time depending on the market dynamics. As our CEO said, we are, in that sense, happy to deliver SAF, or if the price is not accretive, then we're happy to sell more RDs. At this point in time, I would say that a significant, a majority of our volumes are termed in for this year, because there are only six months to go, and we have the maintenance breaks coming. We've obviously wanted to plan ahead so that we can supply our customers. On the RD side, we have some flexibility still out there.

Operator: The next question comes from Naisheng Cui from Barclays. Please go ahead.

Naisheng Cui: Hey. Good afternoon. Congratulations on the strong results. Two questions from me, please. The first one is on SAF volume growth. SAF grew 80 percent Q-on-Q. I just wonder if you can comment on the trend for the second half, please. Then my second question is really our RP and OP margin. I understand it's hard to guide into 2H, but any color will be helpful, especially given that diesel crack has been very strong. If you can't say anything, I just wonder if you can provide some color on the spot margin you are getting right now, both on RP and OP, in July, please. Thank you.

Heikki Malinen: If I comment on the first one, I remember we discussed in the previous quarter how the volume would be allocated through the year. Is it front-end loaded and back-end loaded? This is a bit of a test year, because we just don't know ultimately how things will pan out. The 1.2 million should be purchased, and so far, I think it would be our understanding that the summer is reasonably busy. It should be 1.2 million tons, the mandated volume by the year-end, not more, not less. Will there be voluntary demand? I think, as I mentioned earlier in the call, we are seeing especially cargo companies, parcel delivery companies. I think they are able to price or pass on some of the costs to their customers. They have a product and a value offering that works. However, I think on the more traditional airline side, that is more difficult. That's why I think the 1.2 is probably a realistic number. Plus, then something on top of that for voluntary.

Eeva Sipilä: Then maybe a few additional comments on the margin. Obviously, in this volatile market, I think we're all following the events, and the diesel crack is something that clearly will be impacted by what happens on the oil markets. With all the geopolitical dynamics, it's very hard to make any statements on that. What I can say on the OP side, as I said, the second quarter refining margin was a disappointment. We do see the two reasons that kind of pulled it down, the supply cost, as well as the gasoline export being healthier going into Q3.

We're definitely aiming for an improvement in OP on that. Then in RP, we will be really driving the flexibility to the utmost, depending on the market dynamics. However, diesel crack is something that we take what is given; it's not something we can really influence.

Naisheng Cui: I understand. Thank you very much.

Operator: The next question comes from Adnan Dhanani from RBC. Please go ahead.

Adnan Dhanani: Hi. Thanks for taking my questions, two for me, please. The first one is just on the feedstock. In your presentation, you've highlighted the increasing feedstock price opportunity. Could you please just elaborate on what that opportunity looks like and just your outlook for the feedstock market, given we're still seeing a bit of price pressure in a number of markets? Then, second, on the longer-term SAF demand, assuming you don't get a bridging mechanism in Europe for SAF until 2030. What are the opportunities in other markets that could help utilize that capacity that comes online in 2027?

Heikki Malinen: Do you want to do that first feedstock, and I'll do the SAF?

Eeva Sipilä: Yes. The feedstock opportunity is really around the flexibility that Neste has, which allows us to take various types of feedstock. Now with the US legislation changing, and like what was discussed earlier in the Q&A part, it remains a bit to be seen, but obviously, one does expect that the markets within the US, the prices will go up. Then, from some areas where US producers have earlier taken product with the incentive structure, they are less incentivized to do so. They could ease the pressure on prices a bit. However, so far, this has all been in the news for many weeks, and we haven't really seen an improvement. Therefore, it's really around the opportunity, trying to play a very agile operation and use any opportunities we have. The strength is really Neste's ability to use many different types of feedstocks.

Heikki Malinen: Your question about the SAF demand, I guess, is more like '27, '28, and '29. We are going to continue an active dialogue with the commission and also the other stakeholders, airlines, to try to find a win-win solution on how we could accelerate the demand curve for SAF, so it is more linear. That's a lot of discussions, a lot of work with the airlines, but let's see. I'm hopeful, but I cannot promise anything because the decisions are in the hands of the commission. Then, if we're not able to sell SAF, then we have the option of selling renewable diesel. As I said before, the European market has been short; there is more demand coming from the implementation of RED III. Then somewhere out of that, we will find our own balance. The details of that are still up in the air, and we'll have to see in '27 and '28 when Rotterdam starts, what the final game plan is. Stay tuned then, but still a few years ahead of now.

Adnan Dhanani: Great. Thanks for the color.

Operator: The next question comes from Iris Theman from DNB Carnegie. Please go ahead.

Iris Theman: Hi. This is Iris from DNB Carnegie. Thanks for your presentations. I have two questions. Firstly, Germany's latest proposal for this regulation. So, you mentioned some 2 million tons of potential demand impact. Is that more in the long term, I mean, 2030, or do you think that it could materialize already in the short term, let's say '26, '27? Secondly, is it still fair to expect SAF sales to increase towards the year-end, as you mentioned in the Q1 report? Thank you.

Heikki Malinen: Thank you. If I kind of comment on this. That said, the German decision was positive. Two million is probably on the high end. As usual, traditionally, these things may be watered down as the process goes through the system. I don't know yet what the final number is, but anyway, it's a clear net positive outcome. In terms of our understanding of how this could go forward, we believe it could show up already in '26, '27. That would really then help stabilize the balance of the market much sooner than originally planned. Then, on SAF, the second half volumes, we want to be actively participating in the SAF market. I refer to my earlier comment that we really don't yet know how the lifting of SAF in the second half of the year will materialize, and how much of that will then come to Neste vis-à-vis other suppliers, so I can't really comment until we really see what happens.

Iris Theman: Okay. Thank you.

Operator: The next question comes from Henry Tarr from Berenberg. Please go ahead.

Henry Tarr: Thanks very much for taking my questions. I had a couple. Firstly, just on the CFPC, you've taken the credit for Q2 but not for Q1 yet. Has something changed to give you confidence to take the Q2 figure? Would it be sensible to think that the Q1 figure, if you gain comfort that you can book it, would be something similar to the Q2 figure? That's the first question.

Heikki Malinen: Eeva.

Eeva Sipilä: Yes, if I take that. Thanks, Henry. The Q2 is that it was really, in a sense, we're kind of working also together with our joint venture partner, and that we have a common way of doing and also following the industry practice. We felt then that, as the legislation came, the announcements came during Q2, and that we now have enough comfort to book for Q2. However, we wanted to wait for the final information and clarifications to be out before taking any view on the first quarter because we basically have the whole second half to then do the take it equally. It's going to be coming late anyway. What comes to the Q1 figure? Indeed, we did say in connection with our Q1 report that we estimate the amount to be in the range of 30 to €40 million, which is a very similar ballpark that we now booked for Q2. Therefore, we haven't changed our view on the number, per se.

Henry Tarr: Okay. Thanks for that. My next question is about the balance sheet. Clearly, you had a good quarter, helped by working capital. You're still perhaps towards the higher end of the gearing range. Are you still thinking about or would you think about asset sales and divestments? Do you think that's necessary or would be helpful at this point?

Heikki Malinen: If I can answer that. When we kicked off the performance improvement program, the objective and the target really were to... I've said internally we need to raise the flight altitude of Neste, a bit of an airline analogy here, and really to lift ourselves enough that topics like the one you mentioned will not be of relevance. Let's see how the business develops, but I feel very confident that this performance improvement program is going to be successful. I know we're really doing it in a very systematic way. Unless something surprising happens, we should stay within that 40 percent. We did say in the previous quarter, if you recall, that there may be moments when we temporarily go above 40, and that is not the end of the world. Still, the plan is to stick with the portfolio we have and try to make more money.

Henry Tarr: Okay. Thank you very much.

Operator: The next question comes from Henri Patricot from UBS. Please go ahead.

Henri Patricot: Yes, everyone, thank you for the update. Two questions, please. The first one is the discussion for term contracts for 2026. I was wondering if you already have a sense of whether that's likely to be taking place a bit later this year, as you expect an improvement in market conditions towards year-end, and whether we should expect a change compared to the split one-third / two thirds that we've seen for 2025. Secondly, going back to your comments, Heikki, around the competitive advantage and the level of backward integration. Can you share with us what level of integration you have at the moment and where you're increasing this integration? Thank you.

Heikki Malinen: Thank you for your question. Regarding term contracts of 2026, usually the negotiations start in the autumn. I can't really say yet how the customers are going to want to do this. At Neste we're ready to have our discussions, but my understanding, based on what my colleagues are telling me, is that sometime in Q4, that's when the thing really gets busy, so nothing more. I can't really comment on the split. Regarding 2026, it's really all a function of the state of the market, and what we then agree with the customers. We'll have to come back to that topic then, probably around the spring of next year, when the negotiations are finalized. Then, on your question of competitive advantage, I don't really have a number off the top of my head, a percentage of backward integration. Maybe we can look into whether we could, for future reference, come up with a numerical figure.

Eeva Sipilä: It hasn't changed, though.

Heikki Malinen: It hasn't changed. In Europe, we're well-positioned, especially on animal fats. In the US, we're well-positioned in UCO. We have long-term partnerships with various suppliers that provide us with the feedstocks. If I look at our past strategy, it was very much we were thinking about making backward integrated

acquisitions to buy more assets, more collection capacity. I think at the moment, given where we are and the state of the balance sheet, our capital is going to be allocated to Rotterdam. Then we have the turnaround in '26. We really spend the money there. The sourcing of feedstock will be more through trading, through active engagement with suppliers, and longer-term supply deals, but not backward-integrated M&A.

Henri Patricot: Understood. Thank you.

Operator: The next question comes from Paul Redman from BNP Paribas. Please go ahead.

Paul Redman: Hi, guys. Thank you very much for your time. I had two questions. The first was just on seasonality. You've got, I think, 80 percent, you'd tell me if I'm wrong, of your volume, your renewable diesel volume turned up. The renewable diesel market in Europe is tight. If we started to see diesel prices come off, would that mean that your term sales prices would be lower despite a tighter renewable diesel market? You have only 20 percent of your volume that would benefit from the tightness in renewable diesel. I kind of want a bit of an education, but I'm thinking about seasonality, and normally you'd get a tightness in diesel in the summer and a weakness in the winter months. I just want to see whether Neste would be impacted by that or whether renewable diesel and diesel prices are fundamentally dealing nowadays.

Then the second one was just on SAF. You say it's very difficult to know what the SAF sales will be for the second half of the year. Is there a concern that you've got a big maintenance programme going on for Q4, '25? At which point the SAF market could get tighter if people need to buy to meet mandated levels, and you don't have the volume online to provide that, so you kind of miss out on that market? In the meantime, how is the extension of the 45Z going to drive SAF sales in Q3 before it runs out at the end of September? Thank you.

Heikki Malinen: There were three questions. Maybe I'll take a crack at the second and third if you want to think about the first one. Let me try to answer this in such a way that... First of all, on the 45Z. Our understanding is that it basically equalizes more the domestic SAF production and the import. The sort of equalization effect. We have sold some SAF from Singapore to North America, and also in Canada. We will look to continue that where demand exists. In terms of Rotterdam turnaround, which is then in the October-November timeframe, we will develop an educated point of view on what the demand could be, and then we can drive into inventory. That is Eeva's comment about working capital. That's sort of a business decision we'll have to make here after the summer vacation period is over, based on our read of the market. It is possible that we will have to push more into working capital for that period of time. Backstop, besides Rotterdam, is Singapore, which can also produce SAF online, too. That's a very detailed operative question and then a tactical question. I can't really go into that more. Anything you want to say about the seasonality?

Eeva Sipilä: Maybe on the term sales. An element of the term sales is that it is binding on both sides. Obviously, some parts of the pricing can be linked to various market drivers. We, as a producer, get visibility into volumes, and then the customer gets visibility into the pricing. That's why we've tried to warn you from focusing purely on a few spot deals on the markets. Any volume we are able to push out extra, and we are now successful with the utilization rate, obviously helps, but certainly part of the upside could also be not available. That's why we need to think very closely for '26, in a way, how much do we turn, how much don't we, and with what types of contracts. It's like our CEO said, it's a highly important commercial question.

Heikki Malinen: Indeed.

Operator: The next question comes from Jason Gabelman from TD Cowen. Please go ahead.

Jason Gabelman: Hey, thanks for taking my questions. The first one is just on global industry rationalization. I think we saw a decent amount of it last year. Given that it seems margins are stabilizing a bit. Do you think that's kind of run its course, or do you think there's still more that needs to be done here, given your view that the market, I think, is still a bit oversupplied? Thanks.

Heikki Malinen: Jason, thanks for your question. I'm not sure if I would call it industry rationalization. I would call it postponement of projects. I think what we have seen globally, primarily, especially in Europe, is that plans to add capacity have been withdrawn or postponed. It does actually put Neste in an interesting position because in '27, when Rotterdam starts, if the others do postpone their projects, as has happened, we're coming with a world-class, new facility, very competitive asset. The development has been Neste's net positive. I can't really say anything more. Other companies will make their own decisions regarding capacity additions for

renewables, which is a growth market, by the way. It isn't really that much of a rationalization question.

Jason Gabelman: Well, got it. Hopefully, you can tell me more about the next question, which is about anti-dumping duties from the EU on US SAF. I was just wondering if you have an update on expectations for if/when the European Union can pass those and provide some support for Neste's business.

Heikki Malinen: Actually, I don't think we have any information on that. I'm not even aware of what the European Union is planning or thinking.

Jason Gabelman: Okay. Well, let me ask you this way. Is there some expectation, given that the EU does have anti-dumping duties against US biodiesel and RD? Would you assume at some point you would get this anti-dumping duty?

Heikki Malinen: I think that the primary long-term question has more to do with China and the direction of Chinese investments. There is an anti-dumping duty for Chinese RD, and the question we have discussed in other calls has been whether SAF should be included in the Chinese anti-dumping duty. As I said, there is no new news to report on the Chinese matter.

Jason Gabelman: Okay. I'll leave it there. Thanks.

Heikki Malinen: Thank you.

Operator: The next question comes from Pasi Väisänen from Nordea. Please go ahead.

Pasi Väisänen: Thanks. This is Pasi from Nordea. I have three questions. I see that your net assets in renewables are roughly nine billion. What are the assumptions behind your valuation model for these assets? Practically, in more detail, what is the margin assumption you are using to continue this Rotterdam investment? What is your margin giving this nine billion asset value for Neste? Are you using maybe ROI assumptions here? Some figures would be helpful on this matter. Secondly, regarding the leverage. Are we going to see a temporary visit above 40 percent leverage already in the third quarter due to this inventory effect you were speaking about? Lastly, do you think that the global supply-demand balance could be even better next year than we have seen this year? These were my three questions. Thanks.

Heikki Malinen: Thank you, Pasi. Eeva, you take the Neste assets and the leverage, and I'll talk about the global demand.

Eeva Sipilä: We don't publish our internal margin assumptions. You can obviously read something from the annual report notes, if you look at the asset impairment information, which we obviously do annually. Our focus is now on improving profitability and RP, and that has the biggest impact on the equation. On the leverage, I think what I wanted to say is that we don't expect support from the release of working capital in our cash flow in Q3, rather relying more on the operational cash flow. Not as such, meaning it to be that grimmer view. I think we're very focused on being below 40 percent. Obviously, as you will well know, many things can happen in the turbulence we have in currencies and things like this on the last day of the month. That can have some impact, but I wouldn't say that the inventory impact in Rotterdam is considered that significant. I just wanted to point out that it will hinder any additional release.

Heikki Malinen: Anything else?

Eeva Sipilä: No, no.

Heikki Malinen: On your question about the global demand balance for 2026. If we look at SAF, probably we will not... hoping the EU will come up with some new ideas on the implementation of bridging mechanisms for SAF into 2030. That would happen necessarily in '26. That basically would then imply that the oversupply in SAF will continue, if that's the case. We know the mandate is the two percent, and voluntary demand will require more tools. On the RD side, though, as I mentioned, I think Iiris was asking about the implementation of the German program. If that starts to materialize faster and the RD market has been somewhat short, then of course that would be a positive for renewable diesel in 2026. As I said, a lot of moving parts, a lot of uncertainty, and I really cannot make any sound forecasts about '26 at this time. That would be my read on what I see at the moment.

Pasi Väisänen: Excellent, I fully understand. Thanks.

Operator: The next question comes from Christopher Kuplent from BofA. Please go ahead.

Speaker 16: Hi, it's Chris Kuplent from Bank of America. Can I ask about CapEx and your lowered guidance for the year? Maybe go a little bit into detail, if you can, where those savings come from/ Is the budget for the Rotterdam project unchanged, or is that one source of it? If you could give us a bit of, I guess it's a second follow-up question, an insight into the FX exposure of this CapEx. How much of that is locked into euros, and where do you still have exposure to the quite considerable fluctuations we've seen so far? Thank you.

Eeva Sipilä: Well, if I answer your first question. The Rotterdam budget is unchanged. The decrease that we've been able to push is really on going through everything else we have, we had planned and really scrutinizing, do we need to do it, how can we do it with a lower budget and hence that really comes from the rest of the CapEx. We are very focused on really making sure that we only do the work now that we absolutely feel comfortable doing in this current situation. Then, on the FX exposures, I would say that we're pretty much in Rotterdam, approaching a situation where it works. All the components are pretty much already at the site. The work done there is obviously Euro-based, so I think the FX risk from that point of view starts to be very marginal. It's just based on where we are now. For our maintenance breaks, there are certain components that are priced in dollars. Again, I think there are not many open purchases. Some may be, but October comes very soon for Rotterdam, but something to follow. With the turbulence being such, but I would say, not sort of big factor. You're right to point out that the currency impact is obviously something that keeps us all on our toes.

Christopher Kuplent: Thank you.

Operator: There are no more questions at this time, so I hand the conference back to the speakers.

Heikki Malinen: Thank you very much for your time and interest today in going through Neste's Q2 results. I want to maybe summarize our key message today. I'm very pleased with the progress we've started to make on the performance improvement program, and we look forward to reporting to you in more detail how we make progress. As I said, it's been a good start. The Rotterdam project is of the highest importance at Neste. We, as top management, are focusing a lot of our attention and time on that to make sure we make the commitments on budget 2.5 and then start in 2027. I'm also very pleased about the success we've had on the commercial side. It was a big internal sign of confidence that we were able to reach such a good sales volume in renewable diesel and SAF in the second quarter.

Finally, I think it's important to note that after some challenging times on the regulatory front, it now seems that we are having a bit of a tailwind when it comes to regulation, both here in Europe and in the United States. That is something we need. We focus on our internal actions, but it's also important that we get a bit of a tailwind, and hopefully, that will then start, the wind will start blowing in '26, '27, and '28 for our industry. With those words, I wish you all a great summer. I look forward to seeing you then, after the end of Q3. Take care. Bye-bye.