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Neste Interim Report January-March 2026

Jukka Miettinen

Good afternoon, everybody, and welcome to discuss the Neste's Q1 results that were published this morning. My name is Jukka Miettinen, Vice President of Investor Relations at Neste. Here with me, we have our CEO and President Heikki Malinen and our CFO, Eeva Sipilä. We are referring to the presentation that was launched on our website early this morning.

The key highlights of our presentation today include our position in the ongoing market volatility and our Q1 financial performance. We will also cover the status of our performance improvement program and the progress towards our financial targets. We are also discussing our near-term focus areas, as well as the current opportunities and uncertainties. We will have time for discussions with all of you. And please pay attention to the disclaimer as we will be making forward-looking statements in this call.

With these remarks, I would like to hand over to our President and CEO Heikki Malinen. Please. The floor is yours.

Heikki Malinen

Thank you Jukka. Good morning, good afternoon, everybody. Welcome also on my behalf to Neste Q1 call. Really great to be here today again with Eeva.

Let's start with the summary for the first quarter. Five main highlights. Obviously, as we all know, we had tremendous market volatility originating from the Iran crisis, especially during the month of March. And I can say Neste, we feel, was able to manage through that volatility period pretty well.

Our financial performance for the first quarter was really good. Looking at the levels we achieved, I'm very satisfied with the absolute profit. Our utilization in the RP business was low. We'll come back to that. We could have done somewhat better. There's still work to be done. I'll talk about that.

The execution of our performance improvement program continued really well. Eeva will give you some more update on that, but I would just say that overall, I'm very pleased with how the team at Neste is executing the program.

And then finally, the work on the Rotterdam line number two investment continues. The closer we get to 2027, I think the more clear it is that the timing of the investment is good. And I really, really look forward to getting our production up and running then in 2027.

But as always at Neste, we start with safety. Safety is our, so to speak, our license to operate. And we are striving to improve our safety both in terms of employee safety, which we measure as TRIF. It's the Total Recordable Incident Frequency and then process safety. We have a very systematic five-year roadmap that we're executing. However, if we look at the results for the first quarter, I'm not very pleased. We have not been able to move the needle downward in TRIF; it is trending sideways, and in particular here in the Nordic region and in the United States, the cold, harsh winter did impact our safety. We should have been able to perform even better as winter comes every year. But that is a work that we need to then learn from. On the process safety side, we also had a few, very few but still, events and they raised the score in the wrong direction. So, as I said, safety is the number one topic, and it is absolutely the highest priority for myself and my colleagues within the Neste organization.

And if we look at the figures again, Eeva will talk about the six main numbers. Obviously, on the left-hand side, renewable product sales volume was 874 thousand tons. You can see that we had the turnarounds both in Martinez and in Singapore line number one. And then we will talk about the other topic from Singapore production. But as I said, we are at 874 and would have of course like to have a tad more.

The sales margin for renewables was very strong, \$856 per tonne compared to where we were just over a year ago. And since the last quarter of 2024, we've come a long way. Our margins are now clearly much better, which, of course, considering also how much capital we have invested in the business, these margins are necessary in order for us then to get good returns on the investment.

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On the right-hand side, you can see Oil Products' refining margin \$23 per barrel. It is an improvement from the previous quarter; for context, a year ago, it was less than ten. So again, significant improvement in refining margins in the Oil Products business.

€861 million of comparable EBITDA. And our free cash flow was very, very positive. And we, of course, are pleased with that because it impacts our leverage.

As we all know, the markets were very volatile. For those of you who don't follow this that closely, I think the message we want to convey to you here is threefold. We've seen significant volatility in crude oil prices. Neste was able to manage the volatility pretty well. Subsequently, we saw significant spikes in diesel pricing and jet fuel pricing. When we look at our renewable diesel and SAF business, there is an interlinkage between those prices and also the fossil version of fuel. And one big strength of Neste is that our product positioning is very much in the middle distillates. So we are primarily a diesel and jet fuel producer both for renewable and fossil. And our product positioning, of course, is good given the circumstances we are now facing in the energy markets. And what is very important to note is that if you look at the renewable feedstock prices, and maybe you cannot really see that that well from this graph. But the message we want to communicate to you is that the feedstock prices, animal fats, cooking oil, etc. In the markets where we buy most of our volumes, they were fairly stable. We did see some movement towards the end of the quarter originating initially from the US following the big RVO decision. So you saw SBO movement. You saw then animal fats in some markets in Asia move. But overall for Neste, the feedstock cost burden stayed fairly stable. And I think that is an outcome of the fact that our sourcing is very diversified globally. And we're able to then always optimize and try to go for a lower cost position.

Now, if we talk about where the world is today and geopolitics, of course, it's very important to understand where Neste actually produces its products. And as you can see, we are logistically and location wise far away from the crisis areas, with the Porvoo refinery in the Nordics. We source most of our crude from the North Sea. In Netherlands, West Coast of the US. I think overall our geographic footprint is good and helps us in this situation to stay away from the conflict area. Our crude supply was stable, and from a supply standpoint, we were not impacted by the crisis. So, I think that shows that it puts Neste comparatively in a good position.

Those were my initial remarks. I'll now hand it over to Eeva to go through the financials, and then I'll come back and talk a bit more about Neste and where we are.

So let's click and Eeva, please.

Eeva Sipilä

Thank you and good afternoon everyone on my behalf as well. Starting with renewable diesel reference gross margin. As you can see, it pretty much was an upward trend throughout the first quarter, supported by the anticipation of positive regulatory news from both US and Europe.

Neste comparable EBITDA reached €861 million for the quarter. In Renewable Products, the comparable EBITDA of 433 million reflected the significantly higher term sales premiums this year, something we indicated already last time we were here, expecting a stronger year in terms of term sales premiums. But then obviously, of course, the gasoil surge in March had a positive impact.

In Oil Products, €373 million, and supported first by a cold winter. So we had a good January – February from a weather point of view. Cold is always good for us for the demand of our key products. And then in March, the Middle East conflict.

In Marketing & Services, €48 million for the quarter. Similar to Oil Products, first driven by a couple of good cold months, but then also the conflict resulted in a relatively high inventory gain in March, and that's visible in our results.

Our performance improvement program continues very solid and strong progress. We achieved 115 million euros of EBITDA as an impact in the quarter. And in total, we've now so far reached an annualized run rate of €476 million of EBITDA. And we have a pretty balanced mix. I'd say we're moving a bit more from purely sort of cost reduction to also revenue and margin optimization. So, a 64% versus 36% split between the two main areas.

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Then, if we move into the segments and look in more detail into them, starting, obviously, with Renewable Products. As you can see from the graph on the left, indeed, the sales volume was clearly low due to two turnarounds, but also an equipment replacement delay in Singapore, which affected our March volumes.

It is worthwhile noting that as of the beginning of this year, we are now including our trading volumes in these sales volumes. They are still very small in total, but it's something that we see the market evolving and as something obviously that we're building capabilities for. And hence, we feel that this was the time to start including them in our sales. Now, of course, the light-blue line on the left-hand side, the sales margin, is the one that strikes out, and clearly the rise to \$856 per tonne was very supportive for our result.

And on the right-hand side, we compare the fourth quarter and this now recent quarter. And obviously a very big improvement. Sales volumes were negative, but then again, the sales margin more than outweighed that impact. As can be seen from the smaller figures, so we were very focused on renewable diesel. We said already entering this year that we expect the market demand for SAF to be slow in the first part of the year. Because the price difference was not attractive enough, we did indeed very much focus on renewable diesel in our sales. And then on the fixed costs, you don't see much movement, a slight decrease, but that of course includes slightly higher maintenance costs and some fixed costs that come in the early part of the year. So, nothing significant in them as such.

Moving then to Oil Products. So here, obviously, in the left-hand graph, you see the blue columns indicating our very strong refining margin for the quarter, \$23. And indeed, we had a healthy January – February, so good margins also for those two months. But then really the spike in March due to the Middle East conflict was the one that took us this high. It's important to understand that how rapidly the crisis hit in March meant that during the first quarter, we were still in our production using crude that was purchased prior to the conflict. And as we typically have a 1 to 2 month difference from procurement to actual production, this means that we are currently running with crude prices that are at a very different level, reflected by the conflict, which will thus impact the refining margin for Q2 will be lower due to that. And then whenever the conflict ends, hopefully sooner than later, it's good to note that it will obviously have a one to two months negative impact, as we will be then running with higher cost crude in our production system before any reduced pricing comes through the system. As Heikki already mentioned, we are mainly procuring from the North Sea. So, availability hasn't been an issue, but really the prices, obviously reflecting the fact that there's a lot more buyers for North Sea oil as well now that the strait is closed.

Marketing & Services performed similarly to Oil Products. So, a strong quarter thanks to the cold winter. And then indeed the inventory gain is something worth noting. It had a big impact on the quarterly margins. Also, what you see here is in the fixed costs, they're slightly up. We have a pretty busy investment program ongoing in our retail network in Finland, and that is reflected in that number.

Moving then to group figures again. So we had a busy investment quarter: the Rotterdam expansion, you'll soon hear and see more about it, is ongoing and progressing very actively. So, €206 million cash out investments in the quarter.

Now, despite this, we delivered healthy cash flow of €286 million before financing activities. And we're obviously very pleased with that. This is very much driven by the strong financial result, which then enabled us to really have a step change down in our leverage. Very pleased to be at 31.7% at the end of the quarter. And this means, obviously, that we are tracking very well on both of our financial targets already this early in the year.

So with that, I would hand it back to you.

Heikki Malinen

Thank you very much. So let's talk about a couple of other subjects. I want to show a slide here that goes through some of our key priorities. It's obvious that for us at Neste, improving our refinery performance on the renewable side is an absolute priority, in addition to the safety matter I showed earlier. Our utilization level in Renewable Products for the first quarter was low. We did have turnarounds in Singapore, line number one and also in Martinez. These were planned, and the turnarounds went well. But after the Singapore turnaround, we had an installation of critical equipment which did not proceed according to our own expectations, and that has created a delay in taking that equipment into use. And that is the explanation why our output or utilization in Q1 for RP was below our own expectations.

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We are going to have a major turnaround in Porvoo in the second quarter after the summer holidays. This turnaround is very critical for us. We planned it very thoroughly. We've taken a lot of time to make sure that everything is ready, and I have strong confidence in the team's ability to deliver on that turnaround. You may ask, given the market situation, could we postpone the turnaround? Unfortunately, the case is that technically and for safety reasons and also for permitting reasons, we will have to execute the turnaround, and we will do it as professionally and as timely as possible. As I said, I have strong confidence in the Neste team.

Turbulence in our markets continues. We continue to navigate and try to take advantage of all the opportunities. Eeva already mentioned briefly about trading. We've started to do that with limited volumes. It's still early days, but also as the market for renewables grows, it will in the coming years most likely also provide more opportunities for trading and Neste, also as a major supplier, wants also to participate in creating more liquidity into the market and taking advantage of the positions we have, whether it's on the feedstock side or on the final product side.

And then finally, on the foundation of Neste. We've talked a lot about our performance improvement program. We have reduced our fixed costs. I think our fixed cost base is now solid. We have improved many of our processes. I think we're better buyers than we were in the past. All of this is providing us with greater efficiency and cost competitiveness, which are, of course, fundamental backbones of being a world leader in our industry.

On advocacy. That is a very important part of our business, as you know. Advocacy is basically what creates demand in some ways, and we can't really sell before we have the demand creation. It will be interesting to see how this Iran conflict will, whether it will in some way positively accelerate the adoption of these new fuels, like the ones we produce.

Now, we've talked a bit about Rotterdam in the past, but we've never shown a video. So what I will do is I will click the button here and let's see if this video comes on screen. And you can enjoy a minute looking at what's happening in Rotterdam from an aerial view, so to speak. So here we go.

So there you have it. It's an exciting project, I have to say. I go there frequently, and every time I go, I just wonder at the skill and the work result of our engineers and construction partners. But as said, as you can see from the video, the project is moving forward. It is being built step by step. And then in 2027, we will start production. It's a complex project. We've taken advantage of the learnings from Singapore. But as said, every project of this magnitude is its own animal in many ways. And there's a lot of work to be done. The safety track record of the project has been really good. We've had very few incidents in the construction site, and I think that is also a good signal of the quality of the initiative underway. But, as I said, building these types of refineries in Europe is something that hasn't happened for many years. We've had few industrial projects in Europe, so it is in some ways also a one-of-a-kind activity here in the heartland of the European Union.

Then a few words about short-term opportunities and uncertainties. I think, as I said in my previous slide, before I showed the Rotterdam video, I think it's going to be very interesting to see what impact the Iran crisis has on the discussion about energy security. If you look at the debate we're going to have, it's going to be about how much energy supply do you need to have within the domestic markets? Where do you supply the feedstocks from? Where does the crude oil supply come from and so forth? Given our geographic locations in Singapore, the Netherlands, Finland, and the United States, we should be well-positioned in that discussion. Regarding regulatory developments, the last months have been very positive. We have, in the United States, a historic Renewable Volume Obligation decision by the US government. It is very positive in terms of volume increase. And as it gets implemented, it will bode well for our Martinez refinery. We're of course, very pleased with the decision. We also have the Mahoney business in the US, which is a major collector of cooking oil from over 100,000 kitchens in the US. So we also have good supply of feedstocks for our joint venture operations in California.

And then in terms of European regulation, RED III implementation goes forward. Germany is now very close to making its final decision in Parliament. Based on our understanding, the Environmental Committee of the Parliament has now reviewed the matter. They've made their recommendation. It should be coming to a vote in the early weeks of May. Looking at the proposal they have, the way the text is written, it's also very positive for Neste, not only in terms of the increase in European demand, starting from Germany, which will increase from 4.5-5 million tons to over 10 million tons by the end of the decade. So that's a big demand increase in renewable diesel. We look at that policy. It's very attractive in terms of feedstock selection. Double counting will most likely be eliminated. That's positive. And there are very strict requirements regarding control and monitoring of

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supply, audit checks on refineries, and that, of course, is something Neste wants. The quality and assurance of the feedstocks being used are tightly controlled, that is a positive for Neste.

As I said earlier, we're in a good position because of our presence in the middle distillates market. We know that the jet fuel market is fairly tight. We provide jet fuel mainly for our domestic markets here in the Helsinki-Vantaa airport and the nearby areas. And as said, as we improve our capacity utilization in renewables, we will have more volume.

On uncertainties, geopolitical circumstances are very complicated matters, as we know they take time to resolve, and I think we will refrain from making any forecasts on how the matters will evolve. I think the only main point for me really is that for Neste's renewable business, the conflict in Iran does not really impact us from the supply standpoint. And I'm also confident that our sourcing of crude oil from North Sea is in good shape.

So those are roughly the main points we wanted to show today. Before we take your questions, we have the outlook. The outlook is unchanged. So I won't go into that any further. We're ready to take questions. Thank you.

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 from Santander. Please go ahead.

Alejandro Vigil

Hello. Thank you for taking my questions and congratulations for the strong results. The first question is about the volatility we are seeing in conventional products. How are you taking this opportunity in terms of margins? How much of your volumes for the rest of the year are already sold with fixed conditions?

That would be the first question. And the second question is about the Rotterdam project and the start-up during 2027. You think it's going to be a slow ramp-up process, or you are expecting a material contribution from Rotterdam already in 27? Thank you.

Heikki Malinen

Thank you, Alejandro. So Eeva, you fill in. But I think, regarding volatility in the Renewable Products business. So as we said, we have termed half of our business, about 60%, for this year. But let's see how our utilization now develops out of Singapore, how we get that solved. So of course, we're trying to get this matter resolved very quickly and we get more volume, but half of it is termed, then on the Rotterdam startup curve. So I really want to refrain from making any comments on that yet. I think it's a very complex project. I recall we have, was it in terms of just flanges, I think there are almost half a million flange connections which have to be checked and tested. And what is most important is that we have a safe and stable start, even if it is a bit slower, so that when we make commitments about volumes, then we will not have a repeat of what we had when we had the Singapore start. So we really want to avoid that under all circumstances.

Anything you want to say about the volatility and how we can take advantage of it?

Eeva Sipilä

Yeah. And I think we're doing obviously our best to take the opportunities the market has. But we are, I would say, more volume-constrained. So that obviously limits the opportunities to a large degree. But obviously being agile, our Q1 results prove that we did a pretty good job with our teams in all of the segments.

Alejandro Vigil

Thank you.

Operator

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

Adnan Dhanani

Hi. Thanks for taking my question. Two for me, please. Just the first one, obviously, there's been a big shock to the energy system from the conflict in Iran. There's likely to be some rethink of energy policy here.

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And you've noted this is an opportunity for renewables in your presentation. If I flip that around, if there are continued energy affordability concerns, do you see any risk on the policy front as it relates to the mandates in Europe and elsewhere, particularly given how reliant you are on these mandates in the Renewable Products business? And just a second one on the Oil Products business. The utilization rates were slightly below where they have been in recent quarters. Are there any issues here that may restrict you from running higher rates in the coming weeks and months, and not fully realizing the margins that we're seeing in the market before we go offline for the turnaround?

Thank you.

Heikki Malinen

Thank you very much. Your question about energy policy, of course it's important. It is something that Neste is of course dependent upon. I think that is a fact. We had here recently in Finland, a debate in the government about what to do with the renewable fuel obligation, and the outcome of that debate was ultimately that the government decided to keep the mandates in place. And I think the decision was very clear that that is the intent of the government. So I think that is also sending a strong signal. I've also made the comment very broadly that this is not only a question about fuel supply, but it is also about fuel security. Having renewable fuels and domestic supply becomes critical when there are big shortages. We know there, for example, in some countries there are serious shortages of jet fuel. So for Neste, I think we are well positioned. So at the moment, and especially if this German decision now goes through in May, I think the policy concern is much less of a concern, but rather a potential tailwind. It could be a very good tailwind for us in the coming years. So that's our read on that as we speak.

Regarding Oil Products utilization. So we were two percentage points below the previous reference number. So a bit below. But overall, I think Porvoo is running smoothly. The only thing that you need to have in your models is the turnaround. And we will do our utmost to get it done in the shortest possible time as long as it is safe.

No concerns there.

Adnan Dhanani

All right. Thank you.

Operator

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

Derrick Whitfield

Good afternoon, all, and congrats on your results. I have two questions. So first, with the benefit of clear regulatory policy in the US and exceptionally strong diesel and jet crack spreads in EU and Asia, how are you thinking about the allocation of RP sales across your end markets? And second, could you elaborate on the trends you're seeing across the global waste-focused feedstock markets? Referencing slide 30. It appears that the EU markets are depressed relative to the US markets. Are you also seeing that in other eastern markets for fats, oils and greases?

Heikki Malinen

Okay. Thank you very much for your comments, Derrick. I think the decision in the United States regarding RVO is of course very positive for Martinez. If you recall the margin levels and the oversupply we have had in the US. This should start balancing out. So we can, of course, not say how close to balance the US market is; that calculation is very difficult to make. But I think anyway, we can see that the market is balancing. And of course, the spot margins are moving in the right direction. And now that we have the Martinez turnaround behind us, we should be good to go and get that volume out.

In terms of your question about optimizing the volume. Following the loss of the BTC, our Singapore volume has been going to Europe to a large degree. And that is the current status of affairs. So we've been very clear that as you know, we've committed so much capital to this business, we need to now get the returns. So we will of course be optimizing globally our volume, especially out of Singapore, depending on how the margin levels vary. So the US is a large market, but we'll just have to see how this all evolves. But as I said, we're very, very pleased with the decisions taken by the current administration.

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Then regarding your question about feedstock prices. So it was evident that when the RVO was announced in the US, or maybe a bit before that, we saw soybean oil prices go up. We then saw animal fat prices in Australia move upward. I actually recall mentioning in one of the calls that the ANZ AF prices were fairly low. So that has now corrected itself quite rapidly. And so they are no longer at the low levels they were just some months ago. That clearly is a signal that there's increasing demand coming out of the United States, which is then impacting AF demand in western part of Pacific. Regarding UCO, the European market has been overall quite subdued, but fairly stable. And as you know, we also have sourcing from Brazil for animal fat. So we have now multiple options on how we can play.

Maybe one important thing still coming back to European policy is that in some European countries, animal fat has not been accepted. And some of the regulation seems to be going in that direction that maybe even animal fat could be, to some degree, approved or accepted. So if that happens, that would be a net positive and give us more tools to play as we optimize our own production. So overall, I think we're really well positioned, if I may say that way.

Derrick Whitfield

Thanks and great update.

Operator

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

Paul Redman

Hi guys and thank you very much. Two questions. The first one is on the renewable fuel margin. I know you've put up a chart that kind of implies that margins at the end of Q1 were close to \$1,300 a tonne. Is there anything you can talk about what you've seen in April? Has the margin been higher, lower, or broadly in line? Anything you can mention there?

And then the next question is a strategic question. The balance sheet. The gearing has dropped from 40%, roughly 40% in Q3 '25, down to 32% today. If these margins persist, clearly the balance sheet is going to deleverage even further. Do you have an optimal balance sheet level that you think about or work towards? And if you reach that, what are your priorities at that point? Is it CapEx? Is it capital allocation to shareholders? Is it on inorganic acquisition and growth? Can you just talk about your early thoughts on capital allocation? Thank you.

Heikki Malinen

So maybe, Eeva, you take a crack at the first one and I'll start with the second. And then you can fill in the gaps, so to speak.

Eeva Sipilä

So Paul, we've seen a healthy renewable fuels market also in April. And of course, it's supported by the gasoil prices that are a result of the ongoing conflict. But that has been, in that sense, a healthy start for the quarter, and then to the balance sheet.

Heikki Malinen

Yeah. So, of course, we're very pleased with the good cash flow. We of course needed a lot of money for Rotterdam, but still, the cash flow is good. My own personal point of view, and I think Eeva shares it, is that we are very much in the deleveraging camp. I personally believe that if a business is this volatile in terms of earnings profile, the balance sheet should be fairly robust. And so if you ask me about priorities, how, where to you use this money, I would very much vote for deleveraging. Going forward a longer term, your question about where are we going to use the incremental funds, if and when they arrive, and hopefully, of course, they will come, but let's see. We now have Rotterdam as a major investment. We need to get that up and running. We are, of course, looking through our whole system if there are any more debottlenecking opportunities and hopefully there will be in the coming years. That of course will require some capital, but obviously less than a greenfield. And then what happens after Rotterdam - I think that is a very much open question. At Neste, you know, that is not a question we're spending time on. The team is not spending much time on it. I think about it, and Eeva as well. But I think our focus is now on getting everything we have out of our existing system, getting Rotterdam 2 up and running, and then we'll just have to see what the world looks like. And then, what is the trajectory of travel as we head into the 30s. But I think we have good capacity. Now let's work with what we have and make the best out of that first and try to get our returns up to the levels we want them to be. How's that?

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Eeva Sipilä

Yes. No, fully, fully agree. And I think obviously it's an exciting time to be in the energy space. And we definitely see growth opportunities. But the time is perhaps not quite yet. And hence it's really building on our capabilities then to take on those opportunities.

Operator

The next question comes from Artem Beletsky from SEB. Please go ahead.

Artem Beletsky

Yes, good afternoon and thank you for taking my questions. I have two questions to ask. So the first one is relating to renewable sales margin. And it indeed jumped almost 400 USD per tonne compared to the fourth quarter of last year. Could you maybe talk about the magnitude of impact coming from renewal of term contracts? And then the other topic you highlighted was higher gasoil prices, along with the pretty low utilization rate in the quarter. So did it have adverse impact on the margin? And my second question was relating to regulation. And you did mention RED3 implementation in Germany. So we are close to the finish line, so to speak. Maybe you can remind us. So do you still see that volume impact for this year could be 1.5 million tonnes or something more what comes to Germany? And the smaller market where RED III has been approved is the Netherlands. So what is the impact from regulatory changes on that front? Thank you.

Heikki Malinen

Maybe you take the first one. I'll talk on the second.

Eeva Sipilä

Sure. So our term contract impact is the one I would highlight that, as we indicated in February, we talked about a significant step change in them. You are right though to point out that obviously with the lower production, we had higher production costs in the quarter. And that had a negative impact on the margin as well. I'd say the sort of gasoil impact came, it was pretty much in the last weeks of the quarter. So yes, obviously an impact, but I think a bigger impact for Q2.

Heikki Malinen

Regarding your question about the volume increase, our own calculations are indicating that in the '26-'27 window, we're talking between 1.5-2 million. We're not able to more accurately at this stage model exactly what year and what volume. But I think the important point here is the direction of travel. Given the volume we have, we can sell it; the market is there. The only thing we want to mention here is that if fuel prices remain very high, or even if they were to rise, there will be some amount of demand elasticity, especially on the B2C side. And we have seen here in the Nordics, in our domestic markets, some pullback in end consumer fuel consumption, maybe let's say 6-7%, but it's still very early days. It's such a short amount of data from about four weeks or so. So you can't really draw bigger conclusions. But of course, if fuel is very high on the B2C side, you will see probably some demand decline. How much would that then impact RD, you know, I cannot say. But overall, I think the key message when you model is the direction of travel on demand looks to be quite favorable for Neste.

Eeva Sipilä

Regarding the Netherlands, I'd say that Germany is really the big one moving the needle for the other countries. Whilst of course everything is important as it accumulates, we're talking about 100-200 kt and the Netherlands would be in that camp.

Artem Beletsky

Okay. This is very clear. Thank you.

Operator

The next question comes from Sasikanth Chilukuru from Jefferies. Please go ahead.

Sasikanth Chilukuru

Hi. Thanks for taking my questions out. First, I have two questions, please. The first, I wanted to get again a little clarity, I suppose, on the current Renewable Product sales margins. Of course, we've seen a very strong start to the quarter. European and US renewable diesel have different prices, and fossil diesel prices are all at pretty much three-year highs. And you've referenced the renewable diesel gross margins of around \$1,200 per tonne. All these factors suggest that the current sales margin is similar to, if not exceeding, these gross margin levels. I was just wondering if you thought this was a fair interpretation. You did mention healthy margins, but

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just wondering if this was a fair interpretation or are there any other factors that we should be considering that could materially impact realized margins?

The second one was for the Oil Products. There is, of course, this big divergence in product cracks and between middle distillates and gasoline fuel oil. Your message on Neste being a middle distillate gate company is pretty clear. I was just wondering how much flexibility you have to optimize your refining system further towards a higher middle distillate yield. What operational or perhaps configurational levers can you use to maximize middle distillate production? And how much more can you add?

Eeva Sipilä

Yeah, I think you had a good recap on the items impacting the sales margin as such, so nothing really much to add on that. Then on the Oil Products side. So rest assured, we are very much maximizing everything we can on the middle distillates because of the situation that the world is in. I don't see much more flex in a way. We are approaching the turnaround, and that will probably give us a bit more additional opportunities if we're still in the middle of this conflict. Obviously, hopefully not. But of course, the product market might be tight still even towards the end of the year. So then having brand new components in the system. But right now, we're definitely maximizing everything.

Heikki Malinen

So we're so close to the end of a run on the catalysts that there isn't really much wiggle room, so to speak. But when we have new catalysts set up in the reactors, we will then look at the options and produce accordingly, looking to maximize margins.

Sasikanth Chilukuru

Very clear. Thank you.

Operator

The next question comes from Kate O'Sullivan from Citi. Please go ahead.

Kate O'Sullivan

Hello. Thanks for taking the question. So following up on your answer to Paul's question, with the backdrop of renewable fuels margins back at highs in early 2023. What Renewable Products margin could you justify sanctioning new investment? What sort of conditions are you looking for to sanction new growth? And anything you had on hurdle rates and geographies where you would consider adding capacity would be helpful? Thank you.

Heikki Malinen

Yeah. Thank you Kate. A big question, but it's much too early to discuss that really. I think for me at Neste, at the moment, it is really critical we get Rotterdam 2 up and running and we start earning a return for that investment. Don't forget we had initially planned for 1.9 billion. We're now at 2.5 billion. It's a year delay. So we have some work to do to get the returns back on that. And then we need to get the deleveraging job done.

There's also the question of how do we think when we look at the 30s, what type of technology do we really want to employ? We've mentioned that we have that work on ligno. How will that progress? That's one sort of route. Another route is with the current feedstocks we use, such as waste and residues.

We have some key technology choices we will also need to make. And then, what options do we still have with our existing facilities to even further debottleneck? So I would err on the side of just saying that Rotterdam, let's get the evidence that the Rotterdam is generating cash. Let's look at any debottlenecking opportunities within what we have. And then, make smart decisions regarding where, when, and how we then invest. It's far too early to discuss that; we have other priorities for the time being.

Eeva Sipilä

And of course, now really in the midst of this Middle East conflict, it will be very interesting to see how energy policy in Europe comes out of this. This is now the second big shock to the system in a matter of a few years. And we'll obviously need to base our thoughts also on what happens around us. Clearly, for us as a company, it's important that we are returning attractive rates for our shareholders and that we are a competitive investment for investors globally.

Heikki Malinen

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Maybe one more thing we need to get better clarity on is the SAF mandate for 2030. So the current 6%, we understand that the European Commission is very much sticking to that, but we need to get a bit closer to 2030 to actually see how much of the demand as we head into 2030 and into 2040 will be skewed into RD? How much of SAF?

It's also going to be interesting to see what happens to Asian demand for these products after the Iran crisis, because if you look at Asia, they've been severely hit, probably more than anyone from this Iran crisis. So will we start seeing some pivot into renewables, for example, Australia, a big market not using renewables at all. So, are we going to see these countries rethink their energy policy post Iran conflict? Of course, we're going to be advocating that renewables is the way to go, but we need to get more visibility on that before we could make any decisions. But, as said, Rotterdam and debottlenecking are priority number one.

Kate O'Sullivan

Thank you. Just a follow up. Your comments about whether the Iran situation could positively affect the adoption of renewable fuels. How do you think about the interaction between renewable fuel adoption and affordability for RD and SAF given today's pricing mechanics, which are largely referenced to fossil diesel crack plus a green premium, given your feedstock inputs, animal fats, are not directly linked to crude oil prices? Is there any scope to evolve pricing structures so they're less mechanically tied to rising oil prices?

Heikki Malinen

I think this is a complex question regarding price structures, and I really don't want to go into that at this stage. What I want to say though is regarding SAF, one could make the statement SAF is expensive, the airlines can't afford it. If current high jet fuel prices are painful for airlines, how could they pay for SAF? I don't believe that is a strong argument. I think there are other drivers for decarbonization beyond just looking at costs. The reality is that if we look at, for example, the B2B segment in SAF, we also have cargo customers who want to reduce their scope 3 emissions. Clearly, the market is absorbing the per tonne or per parcel cost relatively easily. And if you translate the cost of SAF into the airline ticket. Ultimately, on an airline ticket basis, it is not that huge a number. I think, in the airline business, we're going through a transition. SAF will be adopted. It takes its time. The market will grow, and SAF will become more common, but it will take its own time and some companies will be faster to adopt than others. But maybe that's all I have to say. Thank you.

Kate O'Sullivan

Thank you both.

Operator

The next question comes from Alice Winograd from Morgan Stanley. Please go ahead.

Alice Winograd

Hi. Thank you. I wanted to ask about biofuel volumes, please. So from the release, it seems like you sold essentially all of the volumes you produced in Q1, even though from memory, inventory levels were reported to be quite low at the start of the year. So I wanted to ask, to what degree are you comfortable with current inventory levels and whether we should expect some production to be saved for inventory in the next couple of quarters? Looking at, of course, the heavy maintenance season at the end of the year.

And also, still on that, you mentioned a negative surprise with some issue in Singapore. But you have kept guidance essentially unchanged. So I'm wondering if this has any marginal impact on your full year expectations or if this was offset by other assets running harder. Thank you.

Eeva Sipilä

Sure. So, Alice, indeed, your memory is correct that we did start the year with lower than planned inventories. And I think obviously in this type of a very strong market, it's financially not a very easy call to start replenishing inventories when demand is very strong. So I think we would plan to produce a bit more to inventory, but I think the demand now in the second quarter will also remain strong, and then I think we will manage on that. Obviously, we want to avoid any additional issues, such as the one in Singapore. But other than that, I think we'll just need to manage our ship with tighter inventories. And it takes a lot more from our sales and operational planning teams and adds, of course, some logistical complexity. But I don't see in this environment a real opportunity to talk about bigger inventories.

Heikki Malinen

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I would say on the volume side. So we are stretching every single production line we have in renewables, looking for any way we could increase feed rates. And we made some good progress here last year and this year. They're not huge improvements, but still, the focus is every single ton we can get out safely, we try to do so.

Alice Winograd

Great. Thank you. Congratulations on the results.

Heikki Malinen

Thank you.

Eeva Sipilä

Thank you.

Operator

The next question comes from Nash Cui from Barclays. Please go ahead.

Nash Cui

Hey. Good afternoon, everyone. Thanks for taking my questions. I have two, please. The first one is on your inventory impact. I wonder if you could isolate and talk about the positive inventory impacts on both of your RP and OP margins this quarter, please. And then the second question is one of your major energy peers is selling their big 800,000-ton biorefineries near Rotterdam. I wonder how Neste thinks about this as an option. And on the flip side, if another company bought it, how will you deal with competition not only on product sales but also on supply chain? Thank you.

Eeva Sipilä

If I take the first one. So, Nash, when it comes to inventory valuation gains or losses, in Renewable Products and Oil Products, we have the comparable EBITDA, which cleans out that impact. So that would be typically the difference between comparable EBITDA and then the IFRS EBITDA. And really in a way to provide you with a clean number. Now in Marketing & Services, where I mentioned it, the logic is slightly different because, of course, the inventory cycle is very short. We talk about one to two weeks, and it's part of how we run the business. So there, the sort of gains are included in the comparable EBITDA. But again, if it were purely a valuation at the end of the quarter, any significant amount would also be comped out. So hopefully that answers your question.

Heikki Malinen

Regarding your second question, I'm not sure exactly if I heard it verbatim correctly, but when you refer to competition, I would just say that from the standpoint of Neste, this is a growing market. Neste, of course, will not be able to supply it. So, it's good that there are other companies investing. I think it then gives confidence to the regulators also to increase the mandates even further. And it's good to have European supply, especially given the discussions about a level playing field. I won't go into that discussion here today, but I think it's good that we have European-based producers also. So, yeah, that's really all I have to say about that particular case.

Nash Cui

Thank you. Sorry, can I just follow up on your first question, please, because I'm looking at slide 15 in the presentation where you were talking about pre-conflict price crude that contributed to the high OP margin. So that's why I'm asking on whether you have any inventory impact within the margin rather than the EBITDA. Okay. Hope that makes sense. But I just want to clarify that.

Eeva Sipilä

Sure, sure. Okay. Yeah. I was thinking of the inventory valuation part, but indeed, in that sense, as I tried to explain on that slide. So, just regarding the lead time from procurement to production, there is obviously a lead time, and hence the production runs we were running in March were using crude that came into the system at a lower price. And then in that sense gave us a higher margin when the product prices then very swiftly jumped, and that you see in the refining margin. But that obviously now, as I mentioned, has already balanced out because the cycle is relatively short, less than two months.

Nash Cui

Thank you.

Eeva Sipilä

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Thanks.

Operator

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

Iris Theman

Hi. Thanks for your presentation. I have two questions left. Firstly, depreciation was down from the Q4 level in RP. So is this level a good indicator for the rest of the year?

And then secondly, regarding Oil Products margin, did you mention that you expect lower refining margin in Q2 due to higher crude costs?

Eeva Sipilä

All right. Maybe I take both of them. So yes, Iris. You may remember that in the performance improvement program, we've had one specific area looking at lease costs. And as we are bringing them down, that has a positive impact on depreciation, in the sense that kind of lowers them as well. So I think the Q4 is a good proxy. I think you would have seen some movement between the quarters already earlier. But yes, I think we can still do some work on the leases, but not anything significant anymore.

And then on the OP. Indeed, when I was referring to this total refining margin of 23, which was boosted by the exceptional circumstances in March. We would guide you for a lower total refining margin in Q2 than the 23.

Iris Theman

Okay. And, a follow-up question on OP's margin or crude costs. So, do you see somewhat lower crude costs currently versus, for example, in March?

Eeva Sipilä

I would say they change on a daily basis. So there's no real trend, and I think we can all read from X what happens this hour and the next hour. So I wouldn't be able to draw any such conclusions other than that they're all over the place, for lack of a better expression.

Iris Theman

Okay. Thank you very much.

Operator

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

Henry Tarr

Hi. Thanks for taking my questions. Just to follow up quickly on the OP previous question. There's obviously a lot of moving parts to that and it's been very volatile. Is it the case that because of the premiums you're going to be paying for crude now, the realized margin is going to be different to the indicator margin that you might see? Is that what's happening? And then, could you give us any indication as to where the realized margin has been running in April for OP?

Eeva Sipilä

Well, I think, Henry, the challenge is that there is a pretty big difference between a paper market and a physical market in a conflict like this. As said, this is a sort of extraordinary shock on the system. So, obviously, we play in the physical market. So that may make it more complicated from your point of view if you're purely looking at what's on the screen. So obviously, our view is based on what the real cost is in the physical market.

And then on April, we wouldn't provide that exact guidance. I think I've tried to be clear enough to help you out on Q2, without even, of course, ourselves knowing what's going to happen in the remainder of the quarter, but just based on the input that we have now in the system. That's what we wanted to give you a bit more guidance than typically, because we appreciate that in these circumstances, it's not an easy job to predict our margins.

Henry Tarr

Okay. That's great. And then one quick follow-up on hedging within Renewable Products. Was there any impact on hedging for Q1 in terms of the margin? Do you have any hedges in place for Q2?

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Eeva Sipilä

Sure. So in RP, when we talk about hedging, you could perhaps call it also margin management, but we are typically active when it comes to term sales, because that's obviously where we have an open position, if you may. We're not able to buy feedstock at the same length as our commitments on term sales may be; of course, the shorter your term contracts are, the better they start to align. But certainly, in the beginning of the year, we would look into hedging to reduce our exposure should the feedstock go in a very different direction. We're not, I wouldn't say, very big in hedging due to the proxies we need to use, in the sense that obviously you have to be very careful when you're using proxies. But in a market like this, I think it's not surprising that the hedges will be more negative. Because of course, the March developments were something that one wouldn't expect. But it wasn't a big impact, but nevertheless there was a negative impact from hedging in RP, which is something that we would consider a cost of doing business. And it's more of a margin management approach that we think has proven to serve us pretty well.

Henry Tarr

Okay. Thank you.

Operator

The next question comes from Yulia Bocharnikova from Goldman Sachs. Please go ahead.

Yulia Bocharnikova

Hi, everyone. Thank you for taking my questions. I have a couple, please. First thing, just to clarify, on Q2 volumes in Renewable Products, you mentioned you would optimize production and probably sell everything without building inventory to the same extent as in previous years. I'm just wondering if we should assume a pickup in production and sales volumes in Q2 versus Q1, or if this is probably going to be more flattish and then we will see pickup in the second half of the year. And then on refining volumes as well, given there is a Porvoo turnaround in Q3, how should we think about our sales volumes versus production. Is there going to be any inventory builds ahead of maintenance? Or you would just sell everything because there is a very, very strong margin. Thank you.

Eeva Sipilä

Sure. So, in Q2, obviously, we have the benefit of not having any planned turnarounds. So that we expect to support production volumes and sales volumes. Now, unfortunately, as Heikki explained, we have lost one month on one line in Singapore in April. So that of course eats up some of it. But still, I think the overall is positive. And then, what we decide for Q3, it's a bit early to say now when the conflict is, as said, moving by the hour. So, obviously, we would typically look to build some inventory before we go into the turnaround season. And balancing those discussions in the coming months. But my commentary was really more for Q2 and where we are now, that we obviously want to support our customers who have a need for the product.

Yulia Bocharnikova

Thank you.

Operator

The next question comes from Matti Kaurola from OP. Please go ahead.

Matti Kaurola

Hi. Good afternoon on my behalf as well. First question actually regarding the maintenances taking place in Singapore and Martinez. So if you could open up a little bit more about the increased production costs or what kind of sales margin impact we are speaking of?

And then the second one is actually regarding your term contracts. So, if I'm calculating the premiums you've been logging in during the November-December timeline, I think you've been giving some discount compared to the spot levels. Is that correct to assume?

Eeva Sipilä

Well, I don't think we want to go to that level of detail to provide the production costs as such. But, as I said, it's a fair point that when you have production issues, and the fact that we had big turnarounds and ramping up, all of that, of course, eats into the margins. So I think that's the right view to have, but I wouldn't go into more detail. And then to your comment on possible discounts on term sales. I would say that, typically, in order for a term sale to be a win-win equation, it would not be based on a spot price. But of course, it has to be a commercial decision that makes sense for both parties that we do end up terming. And as you remember, we did

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end up terming more than we thought. So we thought we saw commercial value in terming slightly more without then commenting more specifically on the market prices. We have said earlier as well that, of course, the market prices sometimes can be a bit misleading. It's a very thin market and not fully transparent. So obviously, as a big producer, we sometimes have the benefit of having a pretty good sense and perhaps a better sense of the real value.

Matti Kaurola

I have a follow-up question regarding the regulatory environment. So, Heikki, what are the top three things your PA team is working on the most right now? Or what are the key things that you are focusing on?

Heikki Malinen

Right. The agenda is very broad. I think, of course, the most important thing is now to make sure RED III gets implemented across Europe. So as the German decision gets hopefully now finalized, there are still some open areas. Another interesting area for us, longer term, is the whole question of Asia, starting all the way from Japan to Australia. I think if you think about how many people live there and how much transportation there is, we would, of course, like to see the mandate start to move also there. I think these are really the most important things. We have these trade questions that we've discussed in the past, but maybe in today's situation, given the crisis, these trade matters are less important, although I'm sure they will come back once the Iran crisis is over. So those are the three things.

Matti Kaurola

Maybe one more question. I'll just throw a headline that there is a strike in Martinez taking place. So do you have any kind of estimate at this stage how long it's going to last and any volume impacts from there to the Martinez sales volumes?

Heikki Malinen

The turnaround went according to plan in Q1 and production is up and running. There are negotiations between our joint venture partner, who is the operating partner, and the U.S. Steelworkers Union, USW, and those conversations are going well in a constructive manner. And my understanding is that at the moment, the refinery is operating pretty close to normal.

Eeva Sipilä

Production is running there as we speak.

Matti Kaurola

All right. Thank you. Thank you very much.

Operator

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

Christopher Kuplent

Yeah. Thank you very much. I've only got one question left. And maybe for you Eeva, I'd like you to talk to us about U.S. tax credits. You were calling out quite a significant number in Q4, which seems to have dropped. Is that a quarter-on-quarter headwind that I think may be around €50 million that's hidden in your sales margin? When I look at your variation chart, which slide is it on for renewable products on page 14? Is that 400 number inclusive of receiving less help from these CFPC credits this time around in Q1? So just a clarification, please. Thank you.

Eeva Sipilä

Sure. Yeah. So I was just checking the release that indeed we had a lot less credits because of the turnaround in Martinez, so we stated in the release that we booked 13 million credits. And yes, that is then I wouldn't say hidden in that, but it's such a small number that doesn't really move it. But now, of course, as you can expect that number to grow as in line with a more normalized production.

Christopher Kuplent

Okay. Thank you very much.

Operator

The next question comes from Matt Lofting from JPM. Please go ahead.



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Matt Lofting

Hi. Thanks for taking the question. I wanted to just ask you about freight costs. They've obviously gone up a lot on a headline basis in recent weeks. Neste procures feedstock on a pretty extensive basis in the renewables business in particular. So could you just talk about what you're seeing from that perspective and how it affects and feeds into the realized margins, including the capture of that in the margin chart that you showed, I think, on slide 11? Thank you.

Heikki Malinen

This pertains primarily to volume coming out of Asia, both feedstock and final product into Europe, given our situation where everything is currently routing around Africa. So you have the extra delivery time, and freight costs have risen somewhat, but I don't think we have yet any material number that we would flag as being a concern.

Eeva Sipilä

I think it's obviously one of those indirect impacts of this conflict that may matter, but I think that's more relevant for those trading in that area for other security reasons. A lot of our cargo has been, as Heikki said, going around Africa already well before this. So in that sense, no significant change. But yes, do we see some price pressure in this area? Yes, I think that's, of course, the reality in one of the indirect areas where this conflict is causing inflationary pressure for many of us.

Heikki Malinen

I would also say that in terms of our performance improvement programme, and I think we comment on this, we've made very good progress across the entire expenditure base. Also looking at logistics costs in terms of better consolidation of freight and better negotiating of terms with freight suppliers. So I think we've been able to buffer this through our own internal measures, becoming much better buyers of freight. So just as a mention on that.

Matt Lofting

Thank you.

Operator

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

Heikki Malinen

So thank you very much. This is a very quick summary after this long, colorful, and good discussion. So as said, I think both Eeva and I are pleased that we were able to manage our way through a fairly volatile quarter. And of course, this manifested with very, very good results. My focus, and that of my colleagues in the line organization, is now really on operational reliability. I think everybody at Neste recognizes that this is a cyclical industry. When the demand is there, we need to produce. So that message is very well understood by everybody at Neste. And we're working very hard to get production where it needs to be.

The performance improvement program is going very well. We have exceeded the target we set for two years. I'm very happy with that. You saw in the chart we have a bigger number. We still see more opportunity across Neste. We're working on that. And you will then get updated reports as we go through the year. So, still more to come.

And then, as said, the decisions on regulations from the United States, and now hopefully those from Germany in the next few weeks and in general in Europe, are also providing a longer-term tailwind for our business in renewable diesel, I think. And of course, I mentioned the role of Asia. Let's see what Iran conflict once we're over, whether energy resilience, energy security will then give an even further boost. But we'll have to just wait and see what comes our way.

With those words, thank you very much for your attention. Eeva and I will then return to you after the end of the second quarter. Have a very good day. Thank you.