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Neste Half Year Financial Report January-June 2026

Jukka Miettinen
Neste's Q2 results were released this morning. My name is Jukka Miettinen, the Vice President of Investor Relations for Neste. Here with me, we have our President and CEO, Heikki Malinen, as well as our CFO, Eeva Sipilä. We are referring today to the presentation that was released on our website early this morning. The key highlights of our presentation include, for example, our performance in the ongoing market volatility and our Q2 financial performance. We will also be discussing the changes in the Renewable Products demand outlook as well as opportunities and uncertainties. We will have discussions with all of you, and please pay attention to the disclaimer as we will be making forward-looking statements in this call. But with these remarks, I would like to hand over to our president and CEO, Heikki Malinen. Please.

Heikki Malinen
Thank you, Jukka, and good morning to the folks in the US and good afternoon here in Europe. I hope everybody is enjoying the nice summer we are having.

So let's go into the presentation here. And first of all, this Q2 was the best quarter financially ever for Neste. I am really pleased with the results. I have to say, I am also proud of the work that the folks at Neste have done. Things have changed quite a lot over the last few years. So, of course, we at Neste are very happy with the improved financial performance.

The market environment has been favorable for us, and we have been able to take advantage of the opportunities ahead. Also, strategically, I am very pleased that the RED III decisions have finally started to be implemented in Europe, and also the RVO decisions in the US were a positive signal for our future. I think many of the stars around Neste are aligning nicely. Our financial position has strengthened, and Eeva will go into the balance sheet and cash flows in more detail later on today. And as I said, the work on Rotterdam continues.

But as always at Neste, we start with safety because that is our license to operate. On the left-hand side, you can see our Total Recordable Injury Frequency (TRIF) rate. And for the second quarter, we had clearly better performance than we have had in the past. We had some cases of injuries, but they were what I would call minor and less risky. Our focus, though, in terms of people's safety, is to make sure there are no fatalities and no serious injuries. Work continues. We are striving for zero, but the overall direction of travel in the second quarter was good.

On the right-hand side, you see the data for process safety. We had very good performance for process safety in Q2. And we recorded no category 1 or 2 incidents. So very pleased with that performance.

Let us look at the figures briefly. So on the upper left-hand side, you can see our Renewable Products sales. We sold over a million tons. And in terms of our financial result, EBITDA was 1.2 billion. And that is a record EBITDA for Neste. I am very pleased with the Renewable Products margin. I know a lot of us talk about the sales margin and follow that closely. $1,200 per tonne is a record number. I think the way I see it is that it is a positive signal that we have been able to monetize the market opportunity that has been here in the second quarter.

In terms of refining margin for Oil Products, $25 per barrel. Market conditions have helped. That is, of course, clear. But overall, if I look at the first half of this year, Porvoo as a refinery has performed quite well. And so overall, I am personally pleased with the performance of the team in Porvoo.

As I said, Eeva will go into the financial numbers in more detail in a moment. So I hand it over to you for a more detailed discussion, please.

Eeva Sipilä
All right. Thank you, Heikki, and good afternoon to everybody on my behalf as well. I will start with the reference margins. So this graph illustrates the Renewable Diesel (RD) gross margins in the quarter. And you can see it was a volatile quarter. Margins surged quite dramatically in the early part of the quarter. And then as the feedstock costs also started to catch up, the margins did come down, but overall, the average was still well above $1,000 per tonne.

For Neste, our comparable EBITDA for the quarter was indeed the all-time high of 1.2 billion. And almost three quarters of that came from Renewable Products. Oil Products enjoyed the exceptionally wide diesel cracks, whereas Marketing & Services had a more challenging market with slightly lower volumes and tighter unit margins.

We continued our strong progress in the performance improvement program and as an annualized run rate impact, we reached €594 million at the end of June, whereas the realized in-quarter impact was €145 million. And if one looks at the impact split, 60% is from cost reductions and roughly 40% from revenue and margin optimization. And as you may remember, we are pushing this program until the end of this year. So obviously now we are coming to the late part of the program.

Moving then to the segments, and I will start with Renewable Products. On the left-hand side on the graph, you can see that volumes were up from Q1. So sequentially up, but year over year slightly down. Now importantly, the blue line shows the continued uptick in the margins. On the right-hand side, we can compare sequentially the main items that affected the result. And you can really see that it was a story of margin and volume. Everything else was marginal. Starting from the volumes. So the Renewable Diesel (RD) market continued to be the more attractive market. So you see our volumes were relatively modest. Then looking at the main components in the margin. So we all know diesel prices were high in the quarter. But I would also draw your attention to the RIN prices. We have seen a marked strengthening in the US market, which started in Q1 and continued in Q2, and that is obviously supporting our US business significantly. Then, on the other hand, our utilization rate of 75% was unsatisfactory. And hence, the work on operational reliability continues. We are actually preparing now to implement broader upgrade work in connection with our upcoming turnarounds in the second half. You may remember that we have discussed the fact that some of the improvement actions are unfortunately very difficult to implement while the refineries are running. They do make more sense to combine with the turnarounds and when we have a general shutdown.

Then moving to Oil Products. So again, on the left-hand side, the blue line shows our utilization rate. It was up to 90% in the quarter. I think we are coming so close to the end of the catalyst. Very solid performance from the team to be able to drive at these levels. Again, on the right hand side, if we analyze the main items explaining the results sequentially. So indeed, you see slightly lower sales volumes. And this is purely due to the fact that we are preparing for the turnaround. We actually sold very little spot volumes. We wanted to keep those in our inventory so that we can fulfill our term sale promises to our customers in the third quarter. Then on the total refining margin in the quarter, it ended up at $25.8 per barrel. Actually, despite the outlook looking tougher at the beginning of the quarter due to very high crude premiums, when we met last time. Those premiums actually came significantly down into the May-June period, which then supported the refining margin to actually improve on the already strong Q1 level.

And then finally on the marketing services. So indeed, it was a slightly more challenging market. As you may remember, you can well see from the graph on the left-hand side that the Q1 performance was quite exceptional. We had quite a bit of inventory profits boosting the result. In that sense, we are satisfied with the 23 million achieved. The high pump prices are having an impact on demand in Finland and the Baltics. The fixed costs are slightly up, reflecting the ongoing investments into the network to improve the customer experience that we have been working on for a few quarters now already.

Then moving back to the group figures. So on the left hand side, the cash out investments - very stable quarter compared to Q1. Now as we have the plans ready for the turnarounds, we have been able to narrow our guidance on the full year CapEx and we have today guided you on approximately 1.2 billion. This represents the upper end of our previous range. As said, we are really trying to maximize the opportunity that those shutdowns give us to improve reliability.

Then moving to the right-hand side. So, cash flow before financing activities. Net working capital was a big mover in the quarter. The higher market prices obviously have an impact on all values. They do tie up cash. And especially when combined with the fact that we are, as mentioned, preparing for the turnaround in Oil Products. So we have been building up inventories. The combination of higher volume and high prices had a significant impact on cash flow. Considering all this, we have to be satisfied with 164 million that we generated in the quarter, really thanks to the strong profitability. Looking forward, we all know the recent re-escalation in the Middle East makes predicting market prices obviously very difficult. I would think that we all agree that they are unlikely to come down in the short term. However, from a cash flow point of view, as we get into Q4, I certainly expect our inventory volumes to come down. And that will then ease the pressure on the cash flow late in the year.

To conclude, our financial position strengthened markedly during the quarter. We took our first concrete step in deleveraging by successfully tendering 500 million of notes in the quarter. Now, this took our gross debt down. And with a stable cash position, our net debt/capital went below 30%. I am also pleased that Moody's noted our progress in strengthening our financial position with a recent decision from this week to confirm our A3 rating and with a stable outlook. All in all, we are comfortably hitting our financial targets set for 2025-2026.

And with that, I am handing back to Heikki.

Heikki Malinen
Thank you, Eeva, for reviewing the financial details. Now let's move on and talk about some other topical themes and the outlook. So first, an update on the regulatory environment. As we all know, it is very critical that we make progress in this area as well.

The important message to the market is that in terms of the European Union, the RED III implementation progresses. And you may recall that last autumn, after the summer, there was news that Germany was going to increase its mandates for Renewable Diesel. It has taken quite a long time. But now in May, the German government and Parliament made their decisions. And we have a very positive outcome. Netherlands following. Most recently, Spain has also made a decision to implement RED III. So gradually, member state by member state, th directive is being implemented, and overall, the decisions are very positive and favorable for Renewable Diesel demand here for the coming years, and I will go through that in a moment with some other data.

In the US, the decision on RVO, as said, very favourable. Significant anticipated demand growth expected, and it also takes away a lot of the uncertainty and ambiguity we've had regarding where the policy will go. But as I said, the decisions are very positive for this sector.

With respect to the Asia-Pacific area, it is, of course, a very large market with a huge amount of population. Australia is gradually moving forward. There are now discussions about a mandate for low-carbon liquid fuels. So let's see how that moves and whether the Middle East situation will further accelerate the trend. And then in SAF, Singapore, one of the leading countries in Asia in this area, is now moving forward and to implement and take the first step in the SAF mandate. So overall, compared to where we were a year ago, I think there is a lot of clarity. I do not see anything negative; on the contrary, we have a very favorable outlook. And in that respect for Neste, as we are investing in this sector, this is very important and favorable.

In this chart you can then see those legislative decisions being converted into absolute volumes. These are our estimates. On the left-hand side, you can see the global demand for Renewable Diesel. We are estimating it to be somewhere around 20 million tonnes. And with these decisions, we project demand to grow about 10% per year, heading then beyond 30 million tonnes per annum. On the right hand side, we have the situation on SAF. No major decisions were announced this year. We are on the current trajectory with a 35% increase; of course, it is still a small, very nascent market. But of course, recognizing that the fossil jet fuel market is huge and continues to grow, there is also significant upside potential in this area as we go forward. And of course, we are doing our own work to advocate the benefits of SAF and look forward to seeing the 6% then being implemented in 2030 in Europe.

Here is just an updated photo of Rotterdam. I do not have anything new of substance to report at the moment. As you can see from the photo, again, work continues. We have a lot of people on the site and a lot of activity. The work continues. My own view, though, is that if you compare now Rotterdam vis-à-vis the decisions that have been taken. So, if you go back and remember a couple of years ago, there was discussion of whether it made sense to invest in this sector. Quite a number of companies have cancelled or postponed their investments. We made a decision to move forward, even recognizing some of the uncertainty. It is my clear view that this was the right call to make at Neste. And the timing of this investment then in 2027 with a start-up, I think it will be well-timed now when the European demand outlook also looks quite favourable or really favourable. So overall, we are very pleased with this work and decision.

Then a few words about opportunities. So the topic of the time is, of course, energy security. The situation in the Middle East raises, of course, a lot of questions about how much energy reserves and supplies countries should have. I personally, together with Eeva, am of the view that this will increase the discussion about having more inventory, more production, buying more locally, and this in itself will also support the demand for renewables.

The volume increases coming from RVO in the US are substantial. That is going to help us also in our Martinez refinery in California. We also see that the situation today is most likely going to continue for a while, where the middle distillates market is tight and supply is reduced. And for Porvoo in particular, Porvoo is very much focused on and optimized around middle distillates. Porvoo is also benefiting from this opportunity.

Regarding the uncertainties. Well, geopolitical tensions are high, and they are creating volatility in the oil market. So, of course, many outcomes are possible. But so far for Neste, the direction of travel has been very supportive.

The availability of production components is something we monitor carefully. We saw during COVID-19 there were disruptions in the supply chains. So far we have not seen anything in our area, but we monitor very carefully that we have all important spare parts, chemicals, and other necessary materials in stock in the right amounts.

Feedstock prices. Over the last year, if we look at Europe, we have seen feedstock prices rise about 10%, and maybe a bit less than that, in the US clearly more. It would not be unsurprising if gradually, also, the pressure on feedstock price rises comes also gradually more to Europe. But so far, in the first half, we have benefited from the fact that feedstock price increases have been fairly moderate. And of course, at Neste we are buying from all sources globally. So that allows us to try to take advantage and optimize feedstock sourcing, depending on where we see market opportunities to buy cheaper.

And then, of course, we have the question about inflation and the impact on macro, if this Hormuz situation continues longer.

Then my final slide on the outlook is that Renewable Products sales volume in 2026 are expected to be approximately at the same level as in 2025. Oil Products sales volumes in 2026 are expected to be lower than in 2025 due to the planned maintenance turnaround in Porvoo.

The group's full-year 2026 cash-out capital expenditure, excluding M&A, is estimated to be approximately €1.2 billion. There are three scheduled maintenance turnarounds in the second half of 2026, with the following approximate durations: in Porvoo, we have an eight-week turnaround starting now, at the end of August 2026. In Rotterdam, we will have an eight-week turnaround during the fourth quarter of this year. And in Singapore, we are going to have an 11-week turnaround starting in December 2026 for one of the production lines.

So, in this stronger market, we have updated our plans on turnarounds. And we believe that there are attractive business cases to invest in Singapore and Rotterdam, more particularly because first of all, on safety, we always need to make sure we have good safety levels, but we also need to improve our utilization. And we believe these turnarounds will help that. And secondly, we need to continue expanding our ability to process a variety of feedstocks. Also, more challenging feedstocks with higher buyer premiums. And we believe that the EU mandates are also driving towards that direction. So those are some of the reasons for the longer turnarounds in Rotterdam and Singapore.

But with those comments, I guess we move on then to the Q&A.

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
Yes. Hello. Thank you for taking my questions and congratulations on these record results this quarter. And my first question is about the outlook for Renewable Products margins in the second half of the year. I know it is difficult and you try to be cautious, but can you elaborate on how July started and your view regarding margins for the rest of the year?

And the second question is, thank you very much for these views about the long-term demand for Renewable Diesel and SAF; I am also interested in your thoughts about supply, because as you said before, there are many cancellations of projects and delays, so it looks like the demand-supply balance could be quite tight in the coming years. Your thoughts would be very welcome. Thank you.

Heikki Malinen

Thank you. The first question is a tough one. We have seen from the past that it is quite difficult to forecast the movements in sales margins. They can move fairly quickly. And of course, considering the fact that underlying you also have the price of gasoil that can also be very volatile. Anything you would like to add, because I am really leaning more on the cautious side.

Eeva Sipilä
But, Alejandro, our base case assumption is that during the second half we will see feedstock costs go up somewhat. Then the diesel price is really now depending so much on the situation in the Middle East that I think we all just need to follow that very closely and then discuss it during the quarter as the second half progresses, and see how that looks.

Heikki Malinen
On your question regarding long-term demand, the outlook is really even more favorable than we would have thought a year ago at this time. On supply, of course, that is a good and important question, because the commercial side is very much dependent on supply and demand. Well, I think as far as we can see regarding large-scale projects like Neste Rotterdam 2, I do not think we can identify a single major one that is currently underway. And recognizing that it actually takes quite a long time to get these projects started. It is not that easy to start or even restart the project. So I think that does give us some sort of highway here to move.

Coprocessing is of course one clear potential source, and some refineries are doing that and will do that. And when you look at the European market, you have the question of imports, particularly from Asia. And then there have been some imports from North America. But I think overall, if we look at the situation as it stands, I would just say that I think Rotterdam 2 is coming online at a good time and the demand looks to be out there, so the timing is really good.

Alejandro Vigil
Thank you.

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

Kate O'Sullivan
Hello, Heikki, Eeva, Jukka. Thanks for taking my questions. In Q1, you highlighted priorities before considering the next phase of growth: bringing Rotterdam online, demonstrating returns on that investment, and continuing to deleverage. Since then, we have seen margins remain exceptionally strong.

So assuming Rotterdam ramps successfully and the balance sheet reaches a level you consider appropriate, what becomes the company's next strategic priority given the structural growth outlook for renewable fuels and Neste's position as the market leader; should investors expect Neste to pursue another meaningful phase of capacity expansion? Or do you increasingly see the focus shifting towards maximizing returns from the existing asset base? Thanks very much.

Heikki Malinen
Very important strategic question. I think this is something we will have to come back to as we get into 2027 and 2028. At Neste, our current focus is very much now on getting returns. We have invested quite a lot. Don't forget, we also have the Singapore line 2 investment. Both of these investments need to enter a phase where we increase our returns. So that is really the priority number one. Then if we look beyond the 2030s, we have mentioned that we are looking at Lignocellulosic as a new technology that is out there in the public. So, for me personally, for the next few years, it will be about deleveraging, getting our operational performance even higher, and getting utilization higher. That's where our mind is set. Thoughts beyond that, we will then have to come back to that at the appropriate time.

Kate O'Sullivan
Okay. Thank you.

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

Adnan Dhanani

Hi. Thanks for taking my questions. Two from me, please. Just the first one: if you are able to provide some color on the turnarounds this year. I am particularly interested in what the utilization rates could look like, both enhancements that you are working on at Rotterdam. And on the flip side, I appreciate you said there was a good business case for those turnarounds, but is there any scope to make those events shorter? Because obviously, you would be going offline at a time when there are pretty strong margins in the market.

And then just the second one on Oil Products; if I look through your numbers this quarter, the middle distillates sales volumes fell quite a bit quarter-over-quarter in your overall sales. But obviously, this is a time when margins have been very attractive. A number of refiner peers have been maximizing their sales yields towards those products. So just to understand what was the reason for the switch there.

Thank you.

Heikki Malinen
I will comment first on the utilization and the timing of Renewable Diesel in Rotterdam and Singapore. And then Eeva can talk about the middle distillates and where we are. Well, we obviously recognize the market situation and are not going to spend any extra days on these turnarounds. In terms of Singapore line number two, we had the start-up three years ago. This is the first major turnaround for line number two that we have. That explains the turnaround duration. There is more work to do. And then in terms of the utilization level, there are certain upgrades we have to do in the lines to get utilization to a higher level. I don't want to provide guidance on what the utilization could be, but we do financially believe this is an attractive business case.

Then, in terms of Porvoo and middle distillates.

Eeva Sipilä
Yeah. I mentioned a few points already. Obviously in this market, I think everybody who has a diesel slate has been pushing to the max. But as I mentioned, we are coming so close to the turnaround, our catalyst is quite worn out. So I think the team really did its utmost to push for 90% utilization. And as said, whilst our sales volumes were down, we did produce. So they are now in inventory so that we can then deliver to our customers during the turnaround. So with those two topics, I think we are happy with the outcome. But indeed, recognizing that now our focus is on getting the most out of the turnaround and then really ramping quickly up for Q4, in case the market continues to be this tight in middle distillates.

Adnan Dhanani
All right. Thank you.

Operator
The next question comes from Sashikanth Chilukuru from Jefferies. Please go ahead.

Sashikanth Chilukuru
Hi. Thanks for taking my questions. I would again come back to the turnaround activity. I just wanted to understand if you could provide more details on the issues that are actually affecting this lower utilization; what is actually going wrong at the refinery and why is utilization low? Is it more to do with some units not functioning well, and thereby actually requiring the turnaround work? How much of the work is affecting reliability, and how much of that is actually improving the state of feedstocks that you could use? If you can provide some color on that.

The second one was related to the 2026 CapEx. Now it is at the higher end of the previous guidance range. I am wondering what caused it to reach this higher end; slightly related to that, if you could comment on where we are with the revised budget of €2.5 billion for the Rotterdam expansion plant, are we still within that budget?

Heikki Malinen
If I start first, the renewable energy directives are steering the markets very much into more and more complex feedstocks. And that Neste, of course, one source of competitive advantage for Neste has been that we are able to use a variety of feedstocks. We source them from all over the world. We have been really trying to push to get into the more complex part of the market, because the bio premiums are higher and the margins are higher. Legislation is directing the market towards that. But also, we as Neste want to be the front runner. Consequently, the technical challenge to process these is higher. That requires certain material upgrades in the lines. That is what is driving that. And we believe there's a financial return for pushing in that direction with higher margins. But we need more volume. And that is why we need to get the upgrades into the lines.

Eeva Sipilä
And then to your questions on the CapEx. We started the year with a range of 1 billion to 1.2 billion. And now, as the plans have become more concrete, we have narrowed and wanted to be more specific on the guidance. Partly also because our first half spend is perhaps slightly lower so that you do not assume that this is a linear development, rather that the second half is more heavy. As Heikki said, it really is just a reflection of all these additional aspects, as these are not just traditional catalyst changes that we are talking about, and that kind of explains the 1.2 billion.

Then on Rotterdam. So, no news to report. So, the 2.5 billion, we are still working with that.

Sashikanth Chilukuru
Thank you very much.

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

Henri Patricot
Yes. Thank you for the update. I have two questions. Following up on the topic of the Renewable Products margin for the second half of the year. So just firstly, when it comes to what we've seen in July with the higher diesel prices, you mentioned that you expect feedstock prices to likely be higher in the second half of the year. So is that something that has offset the higher diesel prices already in July, or are you just expecting that prices for feedstocks are likely to be higher for the rest of the year?

And then secondly, I was wondering if you can give us a sense of whether there is a difference in terms of the split between spot sales and term sales in the second half of the year versus the first half. Thank you.

Heikki Malinen
Want to take the first question?

Eeva Sipilä
I can take the first one. So I would say now this sort of re-escalation in the Middle East, the feedstock markets have not reacted that quickly. It is more the general trend that as we see the strength both in the US and European markets, we are clearly seeing more buying of feedstock, and that's kind of a more continued. It's good to appreciate that we are hedged partly on the gasoil. So these spikes we suddenly get, do not necessarily materialize in our margins. So that's maybe the cautionary comment on what's happened now in the past week, week and a half.

Heikki Malinen
Yeah. And in terms of term sales, we mentioned at the end of last year that we have termed roughly 60%. I would use that number throughout the whole year. There are some months when we have a bit more and some months a bit less, but that is sort of the rough number through the year.

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

Derrick Whitfield
Good afternoon, and thanks for taking my questions. I have two. First, building on the last question, how are you thinking about term pricing exposure for 2027 given the strength of the market at present? And then second, could you speak to how you're thinking about the allocation of Renewable Products across your end markets and regulatory markets, as you guys are exceptionally strong here in the US and are moving higher to bid for imports?

Heikki Malinen
Could you repeat the second half, please, one more time. The line was a bit unclear. So please, the second, the allocation question.

Derrick Whitfield

Sure. So second, could you speak to how you're thinking about the allocation of RP sales across your end markets? The regulatory markets here in the US are quite strong, as you guys highlighted, and are moving higher to bid for imports.

Heikki Malinen
Yes, thank you. So, it is very quiet in the summertime as the summer season is upon us, and most of our customers are on vacation in August. So I think we will come back to this term question later in the autumn. But as you said, it is, of course, clear that the price level at the moment is on the higher side. We will have to conduct negotiations, as always, with our customers and see what they are looking for in 2027. And then customer by customer, we negotiate based on the type of needs they have. So I can't really comment on that, but I recognize your question.

In terms of allocation of volume. You may recall that a few years ago we reallocated the Singapore volumes over to Europe. European demand has been very good and continues to be very good. So a lot of that, the European market continues to be very important for us. Martinez is now the primary source for our volumes in the US. Martinez is running well. And that is basically the situation for Neste at the moment. So nothing really to tell about that at the moment.

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

Paul Redman
Yeah. Hello guys. And thank you very much for your time. Two questions please. The first is just to come back to margins and try to reframe the question.

Can you give us any indication of what you have had in July? So has July on average been better than what you got in Q2 as an average? That is applicable to both the Oil Products business and the Renewable Products business.

And then I wanted to touch on the performance improvement program. I would like to ask where we can go from here. You are clearly making big savings and big revenue benefits from this program you put in place over a year ago. So, where can we go from here? And then, secondly, how much of that is baked into the margins? How much of the costs and revenue savings over the past year are now coming through as a dollar per ton on the margin? Thank you.

Heikki Malinen
So maybe I will ask Eeva to comment on the numerical side, and I will then talk about the performance improvement program and how we move forward.

Eeva Sipilä
Yeah. I think when it comes to July and the past couple of weeks. So obviously, I would say that generally when you have a sudden re-escalation like we have seen in the Middle East, it usually impacts people's behavior. The first reaction for customers is to wait and see what is coming out of this. So we haven't, in that sense, seen huge volumes, but I would say that no change in Renewable Products, whereas in Oil Products, the cracks have reacted and that comes through quicker. Now, the question is what happens to the crude premiums going forward on this. But hopefully that helps you forward, Paul.

Heikki Malinen
I think when we kicked the performance improvement program off at a time when the markets were very weak, our results were really poor, and we were trying to accelerate and extract value quickly. And if you remember, we had the headcount reduction exercise, we took out a lot of costs from sourcing and were able to capture some really quick wins. We have also been able to save quite a lot, optimize logistics, and improve our commercial approach on the market. So I think these are in some ways, some of them on the sourcing and on the headcount, they're done. That value has been captured.

I think going forward, though, our focus is very much on the refineries. It is a longer-term journey. You are hearing us say that we have these turnarounds. We need a bit more time to do them. We need some money for that. But I think they are attractive investments. They will yield better utilization. And it is clearly worth doing. But that is somewhat beyond the current performance improvement program. I would say, though, that from a leadership standpoint, implementing this program has really shown that by being very systematic in driving performance inside Neste, we can yield a lot of benefits. I think the Neste team has learned a lot from these two years of running the performance improvement program. We have hundreds of ideas. We have hundreds of people contributing to that. We have been able to find a lot of things by turning every rock. And there are still many ideas out there that we will implement in the coming years.

But I think as far as the program is concerned, the big push has now been accomplished. And we are gradually, as you can see from Eeva's slide, the cash coming in and booking it into the profit and loss statement.

Operator
The next question comes from Matthew Blair from TPH. Please go ahead.

Matthew Blair
Thank you and good afternoon. In RP, if we look at the comparable sales margin versus your index, capture rose to 118% in Q2 from 102% in Q1. What were the tailwinds here, and do you think the 118% is a reasonable assumption or at least a reasonable baseline for the third quarter?

And then my second question: you mentioned the strength of the U.S. RVO. Do you think the U.S. is going to be short RINs at the end of 2026, or would you think that the RIN price will move to a level where the U.S. would be attracting significant Renewable Diesel imports? Has Neste received any sort of interest from U.S. refiners in terms of raising our Renewable Diesel flows from Europe to the U.S.? Thank you.

Heikki Malinen
Do you want to start?

Eeva Sipilä
Yeah. On the Renewable Products margins. With all this volatility in the external market, so I would be cautious about drawing conclusions on a single quarter. This is hardly a normalized environment. I think the difference partly between Q1 and Q2 is that we had more levers in Q2. You may remember that Q1 was a very heavy turnaround quarter. So just kind of less levers to address. I think in that sense, we are obviously very pleased that we are able to drive value in a very turbulent environment. I think it shows and speaks to the sort of improvements we've been able to push through, for instance, in our commercial and feedstock operations. But as I said, now, especially Q4 for Renewable Products will be very much affected by the turnarounds. And by default, our levers will again be slower. So that is maybe good to take into account, Matthew.

Heikki Malinen
Maybe a question about allocation. I would just say that the Martinez volume is roughly a quarter of our sales. The last few years have been very tough in the U.S. market. And now, gradually, that business is starting to generate more value. It also, of course, is then reflected in our average sales margins. So people easily forget that we actually have quite a large U.S. presence through Martinez. So happy to see that move upward.

For the coming half year, with the turnarounds in Singapore and Rotterdam, we are pretty busy taking care of our European customers. Singapore will be contributing to this market.

How will the world look in 2027, later on, that remains to be seen. Singapore always has the option to ship its products both east and west. But at the moment, our focus is much more on the European continent where the demand is also very robust. And then Martinez, of course, now needs to start proving itself with better profitability.

Operator
The next question comes from Teodor Sven Nilsson from SB1 Markets. Please go ahead.

Teodor Sven Nilsson
Good afternoon and thanks for taking my questions. First question on dividends and buybacks. Given your very strong year-to-date performance in earnings, how should we think about dividends and potential buybacks going into next year?

Second question is just to follow up on the Capex guidance. Are cost increases involved in the fact that you lifted the low end of the previous guidance, or is it just more work to be done that has driven the removal of the low end of the guidance?

Thanks.

Eeva Sipilä
Well, I can start with the latter. So now, obviously, we gave the guidance in February. So I would say that we had a pretty good view on the cost levels of various components. Naturally, the Middle East situation has stretched supply chains. So, we see inflation in certain areas. But as I said, I think we are still moving within the range we already guided on. It is more a proxy of adding more work in the turnarounds. Yeah. But hopefully that answers your question.

Heikki Malinen
Regarding your question about dividends and buybacks. So, if I recall, we paid for 2025, we paid 154 million. Right. And so, of course, we are looking to continue with dividend payments this year, though we need to see how the absolute amount concludes at year-end. And then of course, the board will make its own recommendation regarding dividend payout. I think Eeva and I have been very clear that at least management's view is that we need to continue deleveraging the company, and we're not there yet. So that also needs to be factored in as we look at dividends. But as I said, we will come back to that later in the year when we have a chance to get a better view on how the year ends and then see our monitoring requirements for 2027.

Teodor Sven Nilsson
Understood. Will you consider any buybacks at all?

Heikki Malinen
I cannot comment on that question. Sorry.

Teodor Sven Nilsson
Okay. That is fair. Thank you.

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

Nash Cui
Good afternoon. Thanks for taking my questions. I have two questions, please. The first one is on RP term sales. You locked in 60% of your volume in a lower margin environment back in Q4, yet you beat the spot reference on slide nine, with record-high margins this quarter. How should we understand the term sale impact on your margin going forward? Or put another way: what have you done right this quarter to achieve such a big margin? And were there any favorable one-off items?

And my second question is on RP sales volume for the second half. I understand there is heavy maintenance in Q4, but how should investors think about the sales volume split in Q3 versus Q4? How much flexibility do you have to front-load the sales into Q3? Thank you.

Eeva Sipilä
Well, if I will try to answer both questions. So, you may remember that even in term sales, the diesel component is typically open. So obviously, we have benefited from that being partly hedged. So we have not got the full impact. But still, I would say that obviously in these markets, that has contributed to the term sales, as we haven't missed that component.

Then, like Heikki mentioned in the previous answers, the US impact is clear as we are in a much better place with our US margins, thanks to the stronger market. So really, those two are not any sort of one-offs that, as I said in my commentary, really volume margins; everything else was pretty marginal in the quarter.

And then what comes to the sales volumes, so obviously, we will prepare for the fourth quarter turnarounds in the same way as we are doing now in Oil Products, so that we will produce in Q3 to then be able to deliver to our customers in Q4. So the sales volume difference is perhaps not that significant. But now our focus in Q3 is clearly to optimize production and drive utilization. Even if we are coming to the end of the catalyst in Rotterdam, clearly now in the coming weeks.

And then, the better we are able to execute the turnarounds, the more we may have some spot business in Q4 as an availability opportunity if the market continues to be this strong. That would certainly be something we would aim for, but it is perhaps a bit early to comment on that yet.

Nash Cui
Very helpful. Thanks, Eeva.

Eeva Sipilä
Thanks, Nash.

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

Yulia Bocharnikova
Hi. Thank you for your presentation. May I please follow up on Martinez and the US market? We have seen very strong RIN prices but also a quite significant rally in feedstock prices. Is Martinez exposed to U.S. domestic feedstock price rally? Or is there any opportunity to optimize by importing cheaper feedstock from abroad, given where RIN prices are. Um, yeah. Is it still basically margin-dilutive to the overall margin? Or not anymore?

Thank you.

Heikki Malinen
Well, for Neste, of course, if you recall, we also have our Mahoney business where we are actually heavily involved in the UCO collection ourselves locally. So that gives us, in some ways, a sort of physical hedge, because as the prices go up, of course we benefit from the Mahoney side. So that does adjust. I think overall, the decisions on the feedstock choices are made by the joint venture and they make their decisions independently. And you know, it is their decision to decide how they optimize that.

Yulia Bocharnikova
Thank you.

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

Henry Tarr
Hi there. Two from me, please. The first one is just, was there an impact of hedging on the results as you look for Q2 and the second one, I think you mentioned earlier that you were looking at Lignocellulosic potentially. And so could you give a little more color on that as a technology and how interesting you find it.

Thank you.

Heikki Malinen
Sure. Maybe you touch on the hedging and I will comment on ligno.

Eeva Sipilä
Sure. So, hedging had less impact in the quarter. I mean, the movements were big, but we had perhaps more netting than we even estimated ourselves, in the sense that obviously from the gasoil hedges, we continue to take a hit. We have hedged that at very different levels before the Middle East crisis, obviously, and that continues to come through. But then again, on the feedstock side, we had a positive hedging result as some of the feedstocks took quite a big jump, especially in the US market.

So the net impact was rather modest. And hence I did not flag it earlier either.

Heikki Malinen
In terms of your question regarding the ligno, Neste is the world's largest buyer of these waste and residues. If we look into the 2030s, we still see ample supply available on these feedstocks, such as cooking oil, animal fats, and novel vegetable oils. But of course, as we develop our business over decades, we need to also consider what would be the next source of feedstocks beyond. And ligno pool is substantially larger than what we have in waste and residue. Technology is complex, we have been developing it for some years. We believe we're on to something, but there will be phases where we will need to pilot this more on an industrial scale or a pre-industrial scale before we really know. So I would just say that we wanted to mention Lignocellulosic to provide the markets with an understanding that we believe there is a chance to develop a source for material

molecules beyond waste and residues. And this is what we're driving for. But this is definitely a 2030s story. So before the 2030s, we will not be in industrial production.

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

Christopher Kuplent
Thank you very much. And good afternoon. Just two more from me, if I may. Firstly, I appreciate Eeva, you couldn't give us an update on the Rotterdam budget, but maybe you can talk us through the timeline. We have approached 2027 by another three quarters. So I wonder whether you can be more specific regarding when you expect first production and, probably more importantly, the expected ramp-up period. Because as far as I recall, the Singapore new line that is now going back into maintenance did have a rough start. So I wonder whether you have taken any lessons from that in order to prepare for a smoother and shorter ramp-up period in Rotterdam?

And then secondly, looking at your H1 run rate for CapEx, would it be fair to say that 200 million excluding turnarounds is a useful calculation to then say, okay, in the second half you are obviously busier on turnarounds, so they will cost you an extra 400 million. Is that a fair calculation? Thank you.

Eeva Sipilä
Well, if I take the first one and then come back, take the one on the RDCG. So, Christopher, Q1 also had its turnarounds. We had a turnaround in Martinez, we had a turnaround on the other Singapore line. So I think drawing the conclusion that it would be sort of outside of turnarounds maybe is too bold a statement. The big differentiating factor, perhaps, is just that the OP Porvoo turnaround represents 400 million alone in investment. And that really all comes in mostly in Q3, probably with some tails of cash out still in Q4. Obviously, all the invoices will not come in in Q3. So that really is the moving part and the slightly additional spend on the two RP turnarounds.

Christopher Kuplent
Perfect. Yeah. Thank you.

Heikki Malinen
Yeah. The Singapore start was not the easiest. I think we have historically had a reasonably good track record, but Singapore was not an easy start. Granted, though, we were also post-COVID; maybe that time period added to some of the challenges. But we've done a lot of internal analysis and reporting on what went well and what didn't. Well, we have moved a number of the people who were actually working on the Singapore start-up. They are now working in Rotterdam. So we've tried to make sure that knowledge is and has been transferred. So I think that is an important step in terms of how we staff the team. At this stage, and a 2027 start is what we are able to communicate. I am not able to give you a more accurate timing at this time, but when we have a better understanding, we will of course be communicating it to the markets; still need to be patient.

Christopher Kuplent
Okay. We will try. Thank you.

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

Artem Beletski
Yes. Good afternoon and thank you for taking my questions. So, still two to go from my end. So the first one is related to Renewable Products. Could you maybe comment on the fixed cost outlook for the second half of this year? And has there been anything exceptional in Q2?

And then coming to Oil Products: could you maybe talk about the opportunities to lock in product margins within the segment to any meaningful extent, what comes to volumes, given the fact that spot margins are extremely high? So, also forward margins and forward cracks have moved up quite substantially.

Eeva Sipilä
Well, if I start with the fixed cost in RP. So, obviously, there is some seasonality between the quarters and maybe a sort of positive issues per se. But obviously with the high result from RP, we've increased the bonuses. And that is actually to an extent that is visible if you compare Q2 and Q1 fixed costs. Everything else, I think, more falls in the line of seasonality, and of course, lower utilization usually brings us a certain level of additional cost.

And we have certainly had some of that in the first half. So, we are aiming for a better situation in the second half. But that, of course, remains to be proven.

Heikki Malinen
Then on Oil Products. Well, in terms of our customer base, most of our sales are in the Nordic markets. And we have a certain amount of larger B2B fuel distributors with whom we do business. And these are usually annual negotiations for the following year. I think your question was asked earlier, and these are on a higher level. We just need to see how the conversations go with the customers in the autumn period and what they need and what they would like to have. And then we will make proposals and negotiate accordingly. And let's see where we end up for 2027.

Eeva Sipilä
Maybe adding to that, obviously the turnaround limits our ability to use all the levers, and we have to be cautious about how much product we have at hand because the turnaround success is highly important. And let us hope we have an opportunity to optimize then in Q4 when we are back up.

Artem Beletski
Yes. Great. Thank you very much. That's all from my side.

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

Alice Winograd
Hi. Thank you. I have a couple of questions, please. First, I would say more structurally, there has been a huge amount of volatility in prices. Last year there was the rally into year end. And then this year there is the Middle East. There is the ramp in the US mandate. So, I am interested: do you see a change in consumer behavior? Are people interested in locking in potentially longer-term supply contracts or changing pricing structures so they are less exposed to the volatility?

And second, on the cost side, have there been any other causes other than feedstock that could affect capture rates in this disruption? So for instance, shipping, natural gas, hydrogen; I am interested in your views. Thank you.

Heikki Malinen
Well, if I start with the volatility. Yes. The problem is that when you have volatility, what type of scenario are you reacting to, or trying to mitigate or minimize? And this has been a bit of a guessing game here because all of these shocks, in some ways, have been coming from unexpected directions.

But I have to say that our customer needs vary really significantly. There are some customers who want more security and guarantees, and others who are big buyers. And then maybe the part they buy from Neste is more variable. So it is really impossible to generalize because, as I said, the customer's needs are so different across the spectrum of customers. I would agree with you that volatility has been significant, and it does not make the negotiations easier because you are never quite sure if this is the right solution for the next year. But I guess that's just the sign of the times we're living in at the moment.

Eeva Sipilä
And then, Alice, to your second question, you raise a good point that shipping costs have obviously also been impacted by the disruptions in geopolitics. We have seen them hike up significantly. Now, fortunately, we have implemented since last year quite a lot of performance improvement actions on logistics, because clearly that was an area where we had to do much better. The timing has been right. We really needed to up our game to face this year's market.

It continues, obviously, as now with the re-escalation, to be something that we need to monitor very closely and try to optimize, or rather, how we route and plan for our logistics. And then as Heikki mentioned also in his opportunities and risks slide, the availability of certain components is, in this type of an environment, just very important. So we have a lot of extra work going on just to know exactly what we have, what we are going to need, and to plan ahead with the suppliers, working much more closely with them to ensure that we do not get any production issues, which obviously in this market would be extremely costly. So we're trying at all costs to avoid any disruption. But it is certainly why we also highlighted it in the risks.

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Alice Winograd
Thank you.

Operator
The next question comes from Matt Lofting from J.P. Morgan. Please go ahead.

Matt Lofting
Hi. Thanks for taking the question. I wanted to ask you about operational performance, the journey that you are on, and how that interacts with future maintenance requirements on the renewable refinery assets. Eight and 11 weeks into the second half of the year respectively are obviously relatively long duration schedules; when you look beyond the second half of this year and the investment and maintenance cycles for 2027 plus, should we expect similar durations in the future required to get the assets to where they need to be on a midterm basis? And where also do you see CapEx for 2027 and 2028 settling relative to the 1.2 billion for 2026 as the Rotterdam project phases off?

Thank you.

Heikki Malinen
If I just start with operational performance and then you can talk about the CapEx numbers, but I would go back to my earlier comment that the utilization levels need to be higher than what we see in RP. And clearly, we have been on a journey. Of course, it is challenging starting up these facilities. I think we talked about the Singapore challenges. I think overall, Singapore has moved in a much better direction. The longer duration, as I said before, for line number two, is partially linked to the fact that we have the first major turnaround after the startup. But overall, we do see that the operational performance and utilization level is going to require making certain modifications to the lines and augmenting the materials. And that also relates to the fact that we're trying to push into more and more into the tougher segments of feedstocks and tougher segments of the business where the premiums are higher. There is an attractive business case for doing that. And the combination of margin potential there, but also just getting the utilization levels up.

That is the driver behind the turnarounds. I can guarantee you, we have looked at the time needed for these TAs with a really fine-tooth comb; every single extra day, if we can shorten it, we will do it. But that is just getting a number of things into these refineries. It just takes labor. It takes people, and you have to do the installations really professionally and well. So the quality of the maintenance work is high. I would rather take a few more days to make sure the work is really well done than maybe do a shortcut, and then we have issues. Ultimately, we have to run these refineries in a very safe way, and we're not going to take any risks on that.

Eeva Sipilä
And then to your question on CapEx, obviously the Rotterdam growth project has had a heavy impact on our CapEx needs for a couple of years and tails in 2027, but from 2028 onwards, that will move out. I think it is a bit early to provide guidance on 2027 and 2028 otherwise. But I would just say that I think our job with Heikki is obviously to drive returns for our shareholders. And if it then requires CapEx where we have attractive paybacks, then we will look at them. You can expect us to want to push forward with them. And whereas if we don't see the proper returns, then we will be much tighter on CapEx. So there is good and bad CapEx in my books and a lot of grey in between. So it's really how rather than focusing on the numbers, especially, I think we will be in a very different place from a financial position point of view at the end of this year. I take that as purely a positive, because it gives us the opportunity and options that we didn't perhaps have a year and a half ago. So I think the turnaround we've done has been tremendously important, successful so far, and it will really enable us to make the right decisions for future returns.

Henry Tarr
Thank you.

Operator
The next question comes from Tony Jones from Rothschild. Please go ahead.

Tony Jones
Good afternoon, everybody. Thank you for taking my question. I just have one question left on working capital. Inventory in the quarter was up nearly a billion year-on-year. Could you give us an indication of how much of that is finished product versus inflation, the mechanics of how that might unwind, and the timing in the second half?

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Thank you.

Eeva Sipilä
Well, I would shy away from giving you exact numbers. It is specifically the volume in Oil Products, but of course it is combined with the fact that we've added volume. You may be able to get a good proxy if you look at the sold versus produced volumes, you get an idea of the inventories. And then obviously, the market prices, whilst they were slightly lower at the end of the quarter, are now back up again. So that's maybe good to take into account. Both aspects were important. The one we can work with is the inventory volumes. And that is where I said that we are obviously focused on delivering better cash flow for the full year, but that will very much be a Q4 question. And in Q3, there is less we can do. And then we more or less need to just see what happens with the market prices.

Tony Jones
Thank you very much.

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

Matti Kaurola
Hello and good afternoon. I think we have been addressing a lot of the short-term matters here in the call. But in the longer term, your market intelligence team has thrown very well the slide of the demand growth. What we saw in '23 they were hinting about the kind of oversupply in the near term.

So my question is, in the longer term, how do you see the SAF market developing? Like there is European demand growth, but is that taking place in 2030 when there is going to be a big jump in mandates or is there a more linear path what they are assuming? And then the second one I would like to address the volumes next year; I think Eeva you told us during the Q3 call that for this year, an 80% utilization rate would have been justified. But if we think about next year, is that something, after the capacity creeps or debottlenecking, that we could take as a baseline?

Thank you.

Eeva Sipilä
Well, I can maybe start with my previous comment that that is why we call 75% unsatisfactory, that we are not at 80%. But then to the SAF question on how we see that.

Heikki Malinen
Well, we hope it would be more linear, at the moment things are moving forward. I think SAF is here, and I think that the mandates we believe will increase, even though certain industry participants are pushing back on that. I do believe we're going to see higher mandates. And I would be personally very surprised if that 2030 6% were to be withdrawn. But I think it is going to be more and more heading towards the 2030s.

I said earlier, for Neste, of course, the great thing is we can optimise between SAF and RD. We have this optionality, which is a real asset for us in the company.

Operator
There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

Heikki Malinen
So thank you very much for the call today. In the middle of the summer, I said it's been an exciting quarter for Neste with all-time high results, something of course we're super happy about. We are pleased about the fact that the financial position is stronger. Eeva mentioned also the Moody's rating matter.

On the regulatory development I just want to underscore the fact that these are major decisions now that the member states have made. We believe this is a strong tailwind for the sector. And the situation with Hormuz, of course, will raise this whole question of energy security to a much bigger topic. So that is why I believe this tailwind we are getting from the regulatory side will be strong and more durable than it has been in the past.

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And overall, we're well positioned to capture market opportunities. We will invest in these lines to get these utilization levels on Renewable Products higher. And I think that positions Neste really well for the future. And then we have the Rotterdam 2 line coming, I think that puts Neste in a good position for the coming years. So with those words, I hope you all enjoy your summer vacation and we will then see you again later in the fall when we report back on Q3 results.

Take care.