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Neste Oyj (Q1 2016 Earnings)
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+++ presentation
Operator^ Good day, and welcome to the First Quarter 2016 Neste Corporation Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Juha-Pekka Kekäläinen. Please go ahead, sir.

Juha-Pekka Kekäläinen^ Thank you, and good afternoon, ladies and gentlemen. Welcome to this conference call to discuss Neste's first quarter results published earlier today.

I'm Juha-Pekka Kekäläinen, Head of Neste's IR. And with me here today are President and CEO, Matti Lievonen; CFO, Jyrki Mäki-Kala; and the business area heads, Matti Lehmus of Oil Products; Kaisa Hietala of Renewable Products; and Antti Tiitola of Oil Retail. We will be referring to the presentation that can be found on our website. As always, please pay attention to the disclaimer since we will be making forward-looking statements in this conference call.

With these remarks, I'm pleased to hand over to CEO, Matti Lievonen, to start with the presentation. Matti, please go ahead.

Matti Lievonen^ Thank you, Juha-Pekka, and welcome on my behalf also. Starting to discuss about Neste, I should say that our heading is very good, had a the good start for the year. And there is a few things that I'm proud to say, that we had posted a EUR175 million comparable EBIT. It was behind of consensus, but I think that there's really, really clear reason for that, and it doesn't really make my nights very nervous that we couldn't beat consensus, as we used to do.

But if you look a bit the environment, so refining market, we could say that it's following the normal seasonality. But of course, inside that seasonality, there was differences compared to last year first quarter. And we could say that the gasoline was really the strong part of the barrel, and diesel was lower than the last year and then the -- really, there was a lot of imports from Middle East, the new production, and then USA and Russia to the European markets. And we had also -- in the Oil Production side, we had availability issues as we informed last year fourth quarter. So it lasted also in the first quarter and in the -- in month of January. So that was one part.

The other part was that Renewable Products continue to deliver really strong profit, and that is very, very good. We will come later -- Kaisa Hietala will come and then tell you more, but very proud that we could capture double -- we could double our comparable EBIT in Renewable Products side.

Also, we have a solid cash flow, coming from minus to plus, strong balance sheet, and those two things has given us the possibilities also focus, not only this first quarter, but the whole year. And then we have using this balance sheet and cash flow for building up a continuous stories. So I would say -- we had a Finnish press conference . I said there that we could beat consensus also in the first quarter, but we rather look the whole year and then where we get the best profits. And these contango profits, we start to take in the second and third and fourth quarter. So I think that there -- we -- in that respect, we could say that we had a very good start for the year, and we are confident that we will continue good way.

If we look, our financial targets are -- we have comfortably met those targets, so return of capital employed after tax of 16%, 12 months rolling, and the leverage, [28.3]. If you think about the process industry and the area where we are, so someone who could post sort of financial targets could be said that the things are in good order, and that's what Neste has. Things are really in good order, and we are looking very optimistic. But realistic this year, that we could really make a good year also for 2016.

But I hand over to Jyrki Mäki-Kala, our CFO, to go through the group financial results. Jyrki, please?

Jyrki Mäki-Kala^ Yes. Good afternoon, also, from my behalf. So let's focus on the group financials and the table stating comparison between the quarter one compared to last year's quarter. Quarter one, if you talk about the revenues, it's very clear what has happened in the oil market, that is lower revenue is directly derived to the crude price changes. That has affected also our product prices, so no alarm misuse in that sense. Our comparable EBITDA strongly -- some 10% below last year's first quarter, so nothing surprising inside the figures. But if we more focus on the comparable operating profit where we landed roughly EUR40 million below last year's performance.

On a broad picture, really, why we landed EUR40 million short was really coming out of the Oil Product and the changes in the oil market, especially with the reference margin, it was $2.6 per barrel lower compared to last year. So that is a big effect in the background. What can be seen in the Oil Product, EUR70 million lower comparable EBIT compared to last year. Of course, there are some issues also like referred earlier, talking about the product discrepancy that we had in our Porvoo refinery, basically, in January this year, affecting also our profitability.

Renewable Products, like we had in our headline as well, continued their strong performance, nearly 100% improvement in comparable EBIT is strong. Let's say, reference also that things are good shape with our Renewable business in many ways.

And Oil Retail, it made the best-ever quarter one profitability 2016, really, coming out of the good sales volume. But also, we have some positive things that we were able to cash in during the first quarter for Oil Retail.

Maybe one of the most surprising, let's say, surprise for the analysts, et cetera, where the others where we had instead of zero last year, we had minus 13, and this is really about things -- what happened in 2015 that our joint venture Nynas in Sweden, they more or less had a very strong first -- last quarter 2014, because we are reporting one quarter later with that company. And they had a very strong quarter four 2014, really coming out of hedging relating to crude oil, basically. And this year, 2015 last quarter, that kind of things didn't take place. So that's why we basically landed minus 13 compared to zero the previous reporting quarter, quarter one. But nothing alarm in that sense in the -- into the background.

The operating profit coming out of the IFRS, it was for the first time, for a long period, better than the comparable EBIT. And I think that is also what we had the inventory gains coming in now in the first quarter compared to losses, if you think about the whole 2015.

Like our CEO mentioned already, the cash flow that we generated the first quarter, it was positive by EUR70 million. It's a big thing because we really continued building this contango inventories in the background, and we will cash in those during the second half of 2016. And at the end of the day, the comparable earnings per share, pretty much the same level as 2015 first quarter, $0.57 per share.

And what are here stated is also bridge analysis concerning the group level from 2015 to EUR175 million. You'll see that the reference margin that is basically coming out of the Oil Products was basically compensated by additional margin, positive side, and currency changes, plus the volume. So that's basically more or less zero effect as a total. We had a higher fixed cost in quarter one because we had these products and issues. We had higher maintenance in the background, but also we had some higher fixed cost relating to ongoing R&D project, big IT -- ICT project with SAP and also some communication programs, what we are currently running in Neste. And the others, minus 24, there, we have the depreciation EUR10 million. I'm talking about this change in the others, new -- EUR14 million combined with some of the cost in the headquarter. And that's basically our -- the points how we landed into EUR175 million comparable EBIT during the first quarter.

But overall, the performance was good. It was solid. We could have done little bit better. But I think overall, we are very satisfied with the results, strong cash flow, good balance sheet and we continue to go forward with our actions.

I hand over then to segment reviews, and Matti Lehmus, from our Oil Products, will continue.

Matti Lehmus^ Thank you, Jyrki. This is Matti Lehmus, and I go through the Oil Products performance, which, indeed, reflected the seasonally normalized refining market.

But first, some of the highlights. The reference margin, indeed, was clearly lower than last year. We went from a level of [7.5 to 4.9], and that is, of course, then the main driver also for the lower EBIT, which went from EUR156 million to EUR86 million. At the same time, the result was at a similar level as in the fourth quarter.

If I take some other highlights, I think it's good to note that sales were slightly lower in general and also to the Baltic states from a volume perspective. Here the main reason is, indeed, related to the contangos. And perhaps the comment I would make here is that I'm very pleased with the timing because the timing when we make the decisions was very good, and at the time, the contangos structures were attractive in the market.

The other highlight I would like to make is that we did have a relatively wide Urals-Brent differential in the first quarter, so I'm also pleased that we were able to increase the share of Urals in our feed to 64% following the optimization. As for investments, just a quick note, we are continuing, as a main investment, SDA unit, the feed pre-treatment unit in Porvoo 1. That is progressing well.

If I then turn to the waterfall, just a couple of comments here. So first obvious comment, the impact of the reference margin decline is clear, minus EUR56 million, and this is partially compensated by the additional margin increase of plus EUR11 million and only partially compensated. And here, the main thing was, indeed, that FX hedges contribution was better than a year ago.

It is important to note that we did, indeed, have maintenance issues in the first quarter. We did announce these already in the fourth quarter, some smaller additional one in the first quarter. And this is very clearly visible in two places. First of all, it did, of course, impact our additional margin maximization. And secondarily, you can see that the fixed costs were higher than a year ago. This also reflects that maintenance.

Here, I would also state that looking forward, we do not plan any major maintenance works in our refining systems for the remainder of the year. So we clearly expect to run at higher utilization rates than in the first quarter.

Then turning to the market, a couple of comments. First observation is that it was a clearly gasoline-driven market. We did have a seasonally quite strong gasoline market of $14.50 per barrel on average. And if I look at where we are today, we have, of course, now entered the period of the year where we are about to enter the driving season. We have move to summer qualities. So also from this perspective, it looks like the gasoline market will continue to be strong.

At the same time, the diesel market was clearly weaker year-on-year. We did drop to a level of $8.7 per barrel. And this reflects, indeed, the fact that the diesel market is very well supplied, and we, at the same time, have high inventories. And like mentioned, we did observe for Europe, for example, high imports, both from North America, Russia and Middle East.

And while the market is growing for diesel globally at 1.5%, it takes time to absorb all the new capacity. So we are clearly seeing that at the moment. It's best -- by the way, good to note that for the gasoline market, that here, the demand growth has continued strong. For example, for U.S., we see number as high as 5% year-on-year for the local demand growth.

My third highlight would be on the market, the Brent market. The average differential between Brent and REB was quite wide in the first quarter at minus 2.7, clearly wider than a year ago. And this, indeed, reflects the improved availability of medium, heavy crudes especially from the Middle East. So we do see that, the increased volumes out of Iraq, Iran. Other countries create a situation where the REB differential seems to be at this somewhat wider level at the moment.

So summarizing, while it doesn't look like the super strong market that we had in 2015, I think the market looks quite okay. And we expect both gasoline and REB continue having a good impact on our reference margin.

Final comments is on the total refining margin, and like you could see in the picture, it came $1.2 lower than a year ago. But as the additional margin was higher than a year ago, that supported, still, the total refining margin and compensated some of the reference margin decline. In these numbers, you can also see the impact of the maintenance that we had. So its reflected both in the utilization rate and in the production costs per barrel that we had in Porvoo. And I repeat that we look forward to reminder of the year to be operationally good period and, clearly, higher utilization rates.

With these words, I hand over to Kaisa Hietala to take us through the Renewable Products quickly.

Kaisa Hietala^ Thank you, Matti. Good afternoon. Let's now look into the Renewable Products' performance in Q1 this year. I think that over the past three years, we have started to see a pattern in this market, and that is the fact that the Q1 seems to be the slow season for biofuels. I think it's quite natural when thinking about the nature of mandates and biofuel obligations, which are on a calendar basis. And also in many markets, there is a possibility to overfulfill the mandates on the previous year and then roll over some of the fulfillment to the following year. And that typically happens in Q1.

So with this in mind, I have to say that I'm very pleased with our results. We were able to increase our sales volume compared to last year as well as continue optimizing our sales allocation, based on margins.

Our share of waste and residue feedstock increased to 75%, and all the refineries are using waste and residue as a raw material. And our biopropane investments has also started up, and in Q1, majority of the EUR70 million investment was towards the biopropane facility, which we are building at the Rotterdam refinery. The overall EBIT -- comparable EBIT in Q1 was EUR80 million, so clearly higher than last year, and this equals to roughly 24% RONA.

So if we then look into the bridge between last year and this year Q1, the reference margin didn't really help us. I mean, it's exactly on the same level as last year. So we had a lot to do ourselves to improve the results. We continue to optimize our feedstock base. It's a really, really important asset for us, to be able to use more than 10 different raw materials at every refinery. We also continue to optimize our sales allocation based on global margin management. In the USA, the Blender's Tax Credit decision was made last year, and it was also applied for this year. And naturally, that has then become a topic which we are negotiating in our commercial deals in the USA. So all in all, the additional margin elements was the one that clearly improved our results year-on-year, and then there were small changes around volume and fixed cost and so on.

But if we then look into the market, and I think now, we are starting to see market elements and some patterns. First, if we look into the biodiesel margins in Europe, clearly, the Q1 seems to be a very challenging margin environment for biodiesel for users. It happens to be the time of the year when the biodiesel quality specification requirement is much higher than it is for summer. So there is a summer grade and the winter grade. Naturally, the winter grade biodiesel is more expensive, and therefore, it seems that the biodiesel blenders have started to optimize more blending over the summer months, and therefore, we seem to see -- start to see sort of a lower demand in Q1 for biodiesel.

Secondly, the blend wall is starting to be more and more evident in many countries in European Union, when 7% is the maximum that you are allowed to blend through the diesel pool or traditional biodiesel, and therefore, many countries today are also needing drop in more advanced biofuels, like Neste's renewable diesel.

Another interesting market element is the raw material price element. And there, what we can conclude, regarding Q1 2016, is that we have seen palm oil prices strengthening due to the El Niño weather pattern in the Pacific Ocean. It is now being calming down, and we have started to see the increase of production, both in Malaysia and Indonesia, as well as having the current inventory levels on a good level. So let's see how the palm oil price will develop in the future. But as you can see, it has been increasing quite a lot in Q1.

Another interesting raw material pattern is the tallow, the animal fat price. This price in this graph is the U.S. tallow price shipped to Europe, to Rotterdam. And there, I think the reason for such a steep increase of the price is clearly the fact that now the BTC is in place for 2016, and raw materials like tallow have been able to capture some of the BTC in USA.

Then if we look into the U.S. market -- market parameters, the biodiesel margin in U.S.A. has been improving throughout the first quarter. I would say now we are on sort of a historical average levels, and let's see how it develops from there. Also, the RINs have kept their current level pretty well. And I think what we need to pay attention here is that if you -- if we compare the Q1 2015 and Q1 2016, the difference between D4 and D6 has decreased quite a lot, and this is a clear sign that there are blend wall issues, especially on the -- on blending ethanol into the gasoline pool.

If we are then looking into the additional margin elements. As said, the reference margin is exactly the same as last year, and it's not really helping this industry. However, we were able to maximize the additional margin. We continued the feedstock optimization. We continued the sales allocation against margins, and we managed to keep our production costs in control. Also, I think the blend wall in Europe and the drop in quality of our fuel in USA is really starting to kick in. We have also quite recently gained a European-wide specification for renewable diesel. It was a long process for several years, but now there is a specification in place. And that, of course, naturally gives us more opportunities to sell this fuel as a pure component to many segments.

So this was the summary of Renewable Products performance during Q1 2016, and let me now hand over to Antti Tiitola to tell us about the Oil Retail.

Antti Tiitola^ Hello. This is Antti Tiitola. Also, I'm very happy with the development in Oil Retail. If you remember, the 2015 year was already the all-time high from the result in our history in retail, and I'm very happy about the first quarter, with EUR22 million EBIT, was quite a lot over the EBIT of last year, which was EUR17 million. And if you remember, 2014, it was EUR14 million. So we have a good development in the first quarter. Actually, it's the fifth quarter in the row where the EBIT is higher than the -- in the -- than the EBIT from last year.

I believe one of the big reasons is that work towards the customer. So this is bringing the good result. So as you see it the sales volumes have -- has increased in all markets and although there are some challenging in different markets, especially in Russia, somehow also -- you could say also in Finland. But we are very happy with that volume in -- volumes in the markets. We have had some investments, and we will continue also the investment for the future. We are putting -- we are opening new stations and -- in all the countries. So this is -- this will certainly be part of our business in the future as well. RONA, 45.1% is excellent result as well. This is the rolling 12 months for RONA.

If you look at the EBIT bridge. So there, you see that the volumes has increased our EBIT. And on the other hand, we have a couple of -- couple one-off items, which has been also very positive -- which has positive effect to our overall EBIT in the first quarter. So I'm very happy with the work of the team.

So that's shortly Oil Retail. I hand over now to Matti Lievonen.

Matti Lievonen^ Thank you. Let's Look at the outlook for 2016. I think that you all agree that the year has started well when you listen our comments, and also, we see market outlook is generally positive. And where that's coming is so that the global demand growth is estimated to be 1.2 million barrels per day. So there is growth, and that also, the gasoline will support the reference margin. The driving season will start now. So second and third quarter is good for gasoline in our Oil Products, but also in our Retail.

And then in Renewable side, there is a new market. It has been open, like Norway. They put the new targets for the renewable. So -- also, the France, they increased their targets only after 2020. So there is a positive. Also, if you look at the USA, as Kaisa Hietala mentioned, so the RIN values has had a positive trend. We see some possibilities for the blending wall. So that will help us also. Then we see that we will have a good operational performance. There is no planned shutdowns in our Oil Production operation. Last year, we had big turnaround.

Then I think that overall, when I look at what we have done, so we have done -- we have utilized our cash for contangos. We do not have expect any operational performance issues. We see the global markets, that it's helping us. So we are very confident that year 2016 will be another successful one for Neste.

If you look the segment outlook, I repeat a bit myself. But if you look at the reference margin, so it will be supported with good gasoline margin. Diesel will be flat. That's what we are expecting. And Porvoo refinery, we'll run full as it has run now after those hiccup what we have had. And last year, we had this huge turnaround, and it's cost last year EUR130 million. This year, we do not have that sort of turnaround. Then the Renewable Products, we are very cautious that -- so reference margin, that they will stay in 2015 level. But in additional margin side, we expect to remain very, very strong for us, what we have posted in the last years.

Utilization rates. So we have this planned turnaround in Rotterdam as we are doing every fifth year. And during this turnaround, when we started, we noticed that in one column, there is some mechanical defects. We have been repair those defects, and we are estimating that it's probably give some -- two weeks extra shutdown. We said that this Rotterdam turnaround will have effect a few tens of million impact, and now we are giving more precisely, the EUR35 million.

In Oil Retail unit margin and sales volume, they will follow the seasons, and we have been able to increase our sales volumes, as Antti Tiitola mentioned. So all in all, we are confident that year 2016 will be another successful year for us.

Then few other things. So Neste launched a new global project to study future renewable solution. We have like ambassador, He's, oddest name, Prince EA. He's very famous in social media. He has over -- almost 600,000 followers. His videos has watched millions and millions time. So we launched this Pre-order of the Future project, really, to enable people to participate in the development of future renewable solutions globally, not here in Finland, not in the Europe, but globally. And our aim is to raise awareness of renewable materials as an existing solution to reduce carbon footprint, and this is the aim. And we have promised that one product and service concept to be developed into the prototype that we will be launching in 2017.

Now when we launch this program -- so in its first two days, there was 26 million posts for this thing, and now after one week, we have over 36 million. And I think that this is the record-breaking here, at least in Scandinavia. I don't know if it's record-breaking also in Europe. And I encourage you to go to our web base and really look this Pre-order the Future. There's some very good video. It will encourage everyone and showing that there's lot to do in the world.

Other things is that we will have the Capital Markets Day 2016 in London, 14th of September, and the invitation will -- to follow. And there, we will go through the study case where we are, what we have been implemented that we told last time.

That's briefly the first quarter, and we are pretty (inaudible) as a company. So we have -- we focus all around the same thing, so safety, cash flow, refinery productivity, markets and customer. And I should say the cash flow is doing the right direction; refinery productivity, we need to develop still; markets and customer, we are taking the new step. As example in the Retail side, so we had -- last year, we started the followers. We had the 10,000 followers. Now we have 100,000 followers. We have been able to increase our sales, and we were rated as the number one retail chain in Finland after these activities. Safety side, also we need to improve our doing.

But thank you for listening, and now we are ready for the questions.

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Operator^ (Operator Instructions) We will now take our first question from Peter Low of Redburn. Please go ahead.

Peter Low^ Hi. Thanks for taking my question. Just on the Blender's Tax Credit, are you able to give us any idea of the percentage of that, that Neste that's capturing in the U.S.?

And do you see that as likely to remain stable going forward? And then any other comments you have on its likely renewal for 2017 and when you expect to hear on that would be great.

Kaisa Hietala^ Thank you. This is Kaisa Hietala speaking. So the first question was the BTC percentage, which we are capturing in our sales deals. We have been capturing the majority of the BTC. And that has been the case now for a couple of years, and it seems to continue very well. So majority of the BTC is being captured, and it's -- it has become a part of the sort of a normal sales negotiation process.

Then there was the second question regarding the renewal of BTC. As we all know, the current regulation is extended until the end of 2016. So the BTC is being awarded for this year. However, there is no decision regarding 2017. For this year, I think it's very difficult to estimate when further decisions will be made due to the fact that it is a presidential election year in USA. So unfortunately, we don't have a further information on that.

Peter Low^ Thank you.

Operator^ Our next question comes from Mehdi Ennebati of Societe Generale. Please go ahead.

Mehdi Ennebati^ Hi, thanks for taking my questions and good afternoon all. I will ask three questions please.

First, on your additional refining margins, which have been particularly high this quarter despite the slight negative impact from the maintenance you've made in January. And I wanted to know if there has been any kind of one-off effect impacting positively these premiums, such as trading gains, thanks to the contango [term]. Anything else? And if you are, in fact, confident in keeping your premium above $5 per barrel in the quarters to come, despite that -- for example, the oil prices, it is going up, but despite that, the diesel margins are lowering quite a little bit.

Second question on the renewable fuel sales volume, which has been lower than my estimate in Q1. Was it due to your policy of value over volume, explaining why you didn't grow that much on a year-on-year basis? Have you been also impacted from the technical issue you discovered at the Rotterdam plant, which lowered your production and then lowered your sales volumes in Q1? And should we consider [fluctuation] that lower renewable fuel sales volumes should be -- or let's say, should we consider that the renewable fuel sales volume could be even lower than Q1, given the maintenance, annual maintenance, and given the environment for the biodiesel margins, which remains tough? On the contrary, should you be able to increase it on a quarter-on-quarter basis?

And finally, one question on the working capital, which increased in Q1 despite collapse in the oil price. I wanted to know if that was only due to the inventory building premaintenance or if, again, try to realize some trading gains, like benefiting from the contango term, even the Q1 oil price was relatively low. Thank you.

Matti Lehmus^ Thank you for the questions. This is Matti Lehmus starting on the additional margin question. So the question was why the level was so high in Q1. I would raise a couple of things. We did compared to a year ago, this time have a much better contribution from the FX hedges. In practice, one could say that a year ago, they were negative. Now there was no big impact and hence the improvement versus a year ago. Other things, which I would raise that went well in the operational performance, is that we were successful in our optimization of sales and supply.

One example is, for example, the rate maximization that I mentioned earlier in a wide differential market. And also it's good to know that in the winter, we of course look for the need for qualities which require good low temperature properties and hence some winter premium. So that went well.

At the same time, like commented earlier, in order to capture the full potential, I would of course have liked to see much better operational performance that we keep working on at the refineries.

You also asked about the outlook. We do not give guidance on quarterly additional margins. But I can state that what we have said earlier also that we are committed to the $5 per barrel target. And definitely, after the investment program completion in Porvoo Naantali in the second quarter, that is our target.

Kaisa Hietala^ Then there was a question regarding the RP sales volumes, so the question on the Q1 sales volume and also our view on the Q2 sales volume.

The Q1 sales volume was -- of course, I mean, it was a little bit impacted by the Rotterdam turnaround starting up in late March. And also we did build a little bit more inventory to manage some of our contracts in Europe during the Rotterdam turnaround. However, Q1 is the slow quartile in this business. I think it's safe to say now after a couple of years, seeing that the Q1 has not been as aggressive volume-wise as Q4 and Q3 typically are.

So I'm not worried about the sales volume increase in Q1 compared to last year Q1. The Rotterdam refinery definitely plays a small role there. And this is now bringing us to the Q2 sales volume forecast. Majority of the Rotterdam turnaround happens during Q2, and definitely, there will be a sales volume impact. However, some of that will be compensated by higher inventories we have been building and also the slower demand that -- there has been in Q1. So it looks pretty good going forward as well.

Mehdi Ennebati^ So Kaisa, you expect Q2 volume to be roughly in line with Q1 or slightly lower, but not a big move sequentially, I mean?

Kaisa Hietala^ Slightly lower.

Mehdi Ennebati^ Okay. Thank you.

Matti Lievonen^ Yes. And then there was this question about the working capital. And really during the first quarter, our inventory level was more or less the same, measured by euros, if you think about the year. And it was only EUR25 million increase, and that was really coming out of the contango building, what we did in quarter one. But on the other hand also, like you see from the -- our balance sheet, our trade receivables went down, because we are cashing in the 2015 Blender's Tax Credit from the U.S. So on the positive side, that's on the other hand, but it will affiliate only EUR70 million increase overall of what we saw working capital during the quarter one. And that was a good achievement.

Mehdi Ennebati^ Thank you very much all of you.

Operator^ We will now take our next question from Mukhtar Garadaghi of Citi. Please go ahead.

Mukhtar Garadaghi^ Good afternoon, gentlemen. Thanks for taking my question. Could you please comment around your sales allocation between U.S. and Europe? And I appreciate the comment around the -- your long-term commitments. But just how high can they go in terms of U.S.? How quickly can you shift? And are you seeing any challenges with the depth of the U.S. market in the context of BTC being now in place? Do you see competition increase there? That would be my first question. Thank you.

Kaisa Hietala^ This is Kaisa here. Thank you for the question. It was about our sales allocation between U.S. and Europe. We have roughly 50% of our volume -- sales volumes contracted on a term basis, while we keep the remaining part, excuse me, on a spot basis to be able to benefit from opportunities in both markets. And I think it might be a bit surprising for many of you to see that European volumes in Q1 has been so high and still we are posting this level of results. And there are interesting segments and markets in Europe, and we want to benefit from those as well.

So there was also a question around U.S. volumes in the future and how do we see the market going forward. It is about supply and demand, especially in our key market in California and USA. We are following it very closely. We have ability to capture the increasing demand if it's there. So let's see how it develops. But the short term, I'll see the -- our sales to USA to grow.

Mukhtar Garadaghi^ Okay, that's very helpful. And then my second question is for Matti just around the opportunity on contangos unwinding. Could you please quantify in the shape or form in terms of -- your events (technical difficulty) marginally up year-on-year as a balance sheet item, sorry Q-on-Q as a balance sheet item. But just you talk about this being a strong contributor. Any sort of frame or reference that would help us to quantify that?

Matti Lievonen^ Thank you, Mukhtar. I'm sure that -- it's Matti Lievonen, that you liked that we give exact numbers. But we don't give. But we could say that it's a good number, what we have, targeting from contango building. And it's firm that it's not open deal. So we will get those back what we have put in. So it's currently profit for those.

Mukhtar Garadaghi^ Okay. Thank you very much.

Operator^ The next question comes from Julian Beer of SEB. Please go ahead.

Julian Beer^ Thank you very much and good afternoon. The first question, with regards to the BTC, I'm sorry if I've missed this in your report, could you just say what the BTC contribution was to Q1 EBIT in terms of millions of euros?

Kaisa Hietala^ This is Kaisa Hietala speaking. Thank you for the question. It was about the BTC contribution to our Q1 2016 EBIT. And unfortunately, it's -- nowadays, when the BTC is part of the commercial negotiations and it's not sort of retroactively placed, it's difficult to carve out exact number. But the majority of the BTC is being captured by Neste in our sales contracts.

Julian Beer^ Okay. Well, it's good to see that I didn't miss anything from the report. Two quick questions. In the renewables portion of the report, you do refer to the new German mandates. Could you please give us a quick summary of what that scheme looks like and explain how it impacts your competitive position for NEXBTL compared to other biofuel alternatives. And also, are there any other EU countries you see close to introducing new mandate schemes?

Kaisa Hietala^ Okay. So a quick recap of the new German regulation that was placed already last year, and this is now the second year. So Germany was the first country in Europe who introduced not a volumetric or energy conserving mandate by the clear greenhouse gas saving target. And therefore, they give a much more opportunities for the obligated parties to find a way how do they fulfill the greenhouse gas reduction. And this has led into a slightly new market pattern or market drivers where so-called low carbon solutions, like for example, biofuels will have a very high greenhouse gas reduction potential like waste and residue-based biofuels or a double countable biofuels and so on.

Those have become valuable for players in Germany to be able to fulfill the mandate with the minimum volume blending. And I think last year, the market was learning the new system, and maybe it was a surprise to some of the players that the volume demand has decreased in Germany, while they have been still been able to increase the greenhouse gas reduction as a whole. And this demand, we believe that it's also reflected in the European biodiesel margins since the demand for the traditional biodiesels, which are made from crop-based fuels, might have decreased because of this new regulation in Germany. So far, we have not seen any other country to initiate a similar regulation. But I'm pretty sure that the Germans' example, it's being closely followed.

Julian Beer^ Okay. So the Germans do permit you to double count for your animal-based residues NEXBTL?

Kaisa Hietala^ They have -- it's not a biofuel specific. But as you said, it's a raw material-specific list. And they have introduced the waste and residue as a double countable in Germany. And of course, those have become attractive markets for waste and residue-based biofuels.

Julian Beer^ Great. And then very finally from me, do you have an estimate for the likely additions of hydrogenation-based renewable diesel capacity around the world by competitors between now and the end of the decade?

Kaisa Hietala^ By end of the decade, there are the published projects. And then -- I mean, I'm now referring to the European projects, which Eni and Total have been developing. And then quite recently, Diamond Green Diesel announced the capacity increase project in USA. Basically, they are closely doubling their capacity. But other than this, known -- already known projects, there has not been any other projects announced.

Julian Beer^ Okay, great. So it's about [according] to your total capacity slated for startup over the next few years?

Kaisa Hietala^ Excuse me, could you repeat?

Julian Beer^ So would I be fair to estimate that the slated capacity increases, the ones you mentioned are approximately equal to the Neste total renewable diesel capacity?

Kaisa Hietala^ Well, our total capacity is already 2.4 million tonnes. And if I quickly sort of estimate where we stand currently, these new projects globally are clearly less than this.

Julian Beer^ Okay. Thank you very much.

Operator^ Our next question comes from Henri Patricot of UBS. Please go ahead.

Henri Patricot^ Yes. Hello, everyone. Thank you for the presentation. I have two questions on renewables and one on refining. So first one on renewables, you don't mention in your report the California low carbon fuel standard credits. Does that mean that the contribution to your profitability is limited? And generally, what's your outlook for the price of these credits?

And the second question is on the due market in renewables. We're starting some -- to see some new contracts, which has the one you signed with KLM. I was wondering if you have any -- if you can give us any indication in terms of the pricing of the contract compared to your volume of sales? And just generally, how these new markets are progressing against recognitions?

And finally, just a quick question on the funding. I saw there was a drop in the sales of gasoline at least lightly split with the quarter. I was wondering what drove that. Thank you.

Kaisa Hietala^ Let me take the first two questions. This is Kaisa Hietala speaking. The first question was around the low carbon fuel standard in California. Just to remind all of us, that LCFS is a California-specific regulation on top of the U.S. Federal RFS2 regulation. And basically, what California wants to do, they want to reduce the carbon emissions, and they are using the low carbon fuel standard regulation as a vehicle for that. And what does this mean is that those biofuels, which are applicable to generate the credits under this regulation in California, they will be then fulfilling the local Californian mandates.

And biofuels are generating these credits based on their wheel-to-wheel greenhouse gas emission calculations. And this whole system is run by the California authorities. Naturally, the waste and residue type of raw materials are also in favor in California because of their very high greenhouse gas saving potential. And therefore, that has created a very interesting market also for Neste to look into.

We do not specify the LCFS credits in our reporting. They behave the same way as RINs. They are generated when 1 tonne of product has been produced and fulfilled all the requirements and then those are sold when we sell that 1 tonne of fuel to a player in California who is the obligated party to fulfill the Californian separate mandate. So we don't have a sort of a separate reporting on that.

Then there was the second question around new markets and connection to aviation and the very recent press release we made regarding KLM using our biojet fuels. Biojet is produced on a demand basis. And the most recent batch, which we produced, it is being now used by aviation companies who are refueling at the Oslo airport. So basically, the fuel is blended at the Oslo airport, and it's available for partners who want to purchase it when they visit Oslo. And KLM is one of the partners. And this initiative was launched in January and it's now ongoing.

Since biojet is still sold on a batch basis and on a demand basis, it doesn't really have a reference price, and we don't really comment on that. But we -- I would like to remind you that we are very closely following the approval process in USA for our next initiative, which is to introduce a low-blend biojet as a sort of a more cost efficient solution for aviation industry to start to contribute towards the carbon reductions in traffic field. Thank you.

Matti Lehmus^ And then this is Matti Lehmus. On the third question on the gasoline sales, indeed, you're right, slight drop of 50 kilotonnes year-on-year. There were two main reasons. One is, like we mentioned earlier, we have been building contangos that reduces the first quarter sales. And the second reason is that we did run Porvoo refinery at somewhat lower utilization than a year ago, and that also reduces the production of gasoline slightly.

Henri Patricot^ Okay. Thank you.

Operator^ Our next question comes from Olof Grenmark of ABG Sundal Collier. Please go ahead.

Olof Grenmark^ Good morning. Regarding oil products, you state in the report that sales volume were 2% lower than in the first quarter of 2015, and it's both due to inventory -- contango inventory buildup and some operational limitations. Is it possible to split that? How would volumes have been if you wouldn't have had those operational limitations?

Matti Lehmus^ This is Matti Lehmus. We do not give that exact split. Both had an impact. We maximize contangos today, even that was economically sensible, and that storage is allowed. And at the same time, we obviously had this decrease in utilization that you can find in the report.

Olof Grenmark^ Fair enough. And then regarding this other item with the minus EUR13 million in the first quarter, you said that it was due to lag effects from less hedging compared to one year ago. Is it fair to assume that the other post will be roughly in line with the rest of 2015 going to the next two quarters?

Jyrki Mäki-Kala^ Yes, this is Jyrki Mäki-Kala commenting. The first quarter [refresh, certainly] that was coming from our joint venture, Nynas. Difference is between quarter one last year and this year, we are not commenting how the rest of the year will develop. But overall, I think if you look at the history, you'll see how this others has annual basis basically developed throughout the year.

Olof Grenmark^ Okay. Thank you. That’s all for me.

Operator^ Our next question comes from Yulia Veselova of Bank of America Merrill Lynch. Please go ahead.

Yulia Veselova^ Thank you for taking my questions. Good afternoon, everyone. So first is just a quick follow-up to the previous question, on the contango inventory buildup. Is it possible to broadly break it down between crude buildup and products buildup, if you could?

Then the second question and the third are related to each other, and this is regarding the renewables business, if I may, to Kaisa. So the first one is on the feedstock. If you have the capability to use 100% of the advanced feedstocks, why are you still using crude palm oil? And in this regard, I'm just curious whether there are any infrastructure bottlenecks there.

And then the second question regarding North American volumes, is it possible to say how much of the North American volumes are spot cargoes and how much are contractual obligations within North American region? And then whether you could tell us what feedstock you use, just very broadly again, second generation or first generation for these North American volumes? Thank you.

Matti Lehmus^ So this is Matti Lehmus. First on the contango question, I would state in general that the refineries, in particular Porvoo, we have very good logistics capability, both for crude and for products. And as we had a market situation where there were opportunities that were attractive, both in products and crudes, we did obviously utilize these for both categories. We're not giving the exact split, but it's clear that we have both crude and products in contango, and we expect to unwind this during the second half of the year.

Kaisa Hietala^ All right. This is Kaisa Hietala speaking. There were two questions around feedstock, the first one being that why are we still using crude palm oil and is there infra bottlenecks explaining it.

Well, basically, we have 100% capability to use waste and residues at all our units, at all our refineries already. And the sort of the split between waste and residue and crude palm oil is a combination of what our customers want, what the regulators are stating and how do we optimize our margin. So it is a combination like that. But I'm pleased to see that we have been increasing the waste and residue share all the time and continue doing that also in the future.

Then there was a second question around feedstock in USA -- sorry, in North America. Unfortunately, we do not really share a market-specific feedstock base, therefore can't really comment on that. And there are different segments and markets also in North America which have a different feedstock regulation, so it's also pretty complicated.

But then there was a question that if our North America volume more of a term or spot, then how large is the share of spot. And also for that unfortunately, we are publishing the overall term versus spot, which includes also the European volumes. But those markets are active. I mean, there are term players and there are spot players also in North America. But unfortunately, no detailed numbers around this.

Yulia Veselova^ Just because Californian credits value more second-generation feedstocks, are you able to comment whether your volumes to California are utilizing that benefit? Or again, that's not something you can talk about?

Kaisa Hietala^ Well, if our waste and residue share is already 75%, I think it's pretty natural to say that yes, of course, I mean, we are able to benefit from that also in California.

Yulia Veselova^ Thank you.

Operator^ We'll now take our next question from Thomas Adolff of Credit Suisse. Please go ahead.

Thomas Adolff^ Good afternoon. Three very easy questions. One, on gasoline, you're optimistic on gasoline. The year started off quite weak in the U.S. The monthly reports showed weaker data than the weekly published reports. China continues to export a lot of gasoline. Yes, we go into the year driving season. I just wanted to know, as a big exporter, which is Neste Oil, whether you are seeing robust export demand for gasoline as it stands today?

Second question, just very simple one on renewables. One, can you talk about a seasonal low in renewables as far as volumes are concerned. And if history is any guide, its margins are concerned. And you made the comments on feedstock pricing. But let me ask you this, is it fair to assume if diesel margins were to go down, because diesel supply -- or supply-demand is a bit out of whack, that impacts FAME and therefore it should impact your NEXBTL margin as well.

And the final question, unless I've missed it, just wanted to go back to the contango discussion. And I wanted to know whether you can quantify how much in terms of million barrels in contango trade you've built, I mean, how many barrels of gasoline and crude, et cetera? Thank you.

Matti Lehmus^ Okay. This is Matti Lehmus, I'll start with the question on gasoline and expand a bit on that. I mean, if you look at some of the fundamentals in the gasoline market at the moment, I think there's a couple of things I would highlight. One is that if you look at the date that is available, we continue to see good demand. And I think that is mostly transparent. One is the U.S. market, where we get the weekly data, and it's clear that the first quarter demand data has been quite encouraging with up to 5% growth year-on-year. And I think that's a key one to watch that. If you continue to have this strong demand, that's of course a good signal for the gasoline.

The other one is a positive -- (multiple speakers). Yes?

Thomas Adolff^ Yes, I'm aware of the weekly data. But I'm making a comparison to the monthly, because if we were simply to follow the weekly data, we would've argued demand is great. But if we look at the monthly data, it's not. So as a big exporter, is Neste seeing still robust export demand for gasoline? That's kind of the question I had as opposed to what do I see on a weekly report, which I can see on a weekly basis.

Matti Lehmus^ Yes. And I'll continue on that. Yes, if I look at the global picture with the U.S., the fact that also China continues to -- and Asia to have demand, we do see good demand for export gasoline. And we have not had any difficulties placing the good barrels that we produced. So in that sense, I think the gasoline -- the way I look at it, we are now in the period of the year where we have the summer demand. At the same time, we still have relatively high inventories. And interesting is then to see that once we go further into the driving season and the inventories become lower, what kind of dynamics that develops. But it looks encouraging at the moment for gasoline. That would be the comment on that one.

I [can't] take the contango in parallel. We do not give exact number of barrels. But we have significant capacity of storage, both for crude and products. And you can see from the working capital numbers that also the capital we are carrying is significant. So that is the level of information that we can give.

Kaisa Hietala^ Then there was a question around the current sort of gas, oil or diesel levels and whether that is impacting the FAME demand and potentially impacting also renewable diesel margins.

Well, I mean, mandates are not going away, whether the diesel is cheaper or more expensive. And the mandates are increasing, both in Europe and in North America, as we speak. So there is a demand for biodiesel. And then more and more, there is a demand for drop in high-quality biofuels like renewable diesel. Many European countries are hitting the blend wall. It's a maximum 7% one is allowed to blend biodiesel into diesel pool. And secondly, the logistic savings, the quality improvement element of renewable diesel, the fact that this can be shipped by pipelines in USA and so on, all these elements are now starting to really differentiate renewable diesel from FAME markets. I mean, sometimes I'm thinking about whether we should start to renew also some of our references when discussing this market, because the difference to the FAME market is becoming bigger and bigger every year.

So no, currently, we do not see this current diesel price impacting renewable diesel sales or margins.

Thomas Adolff^ Perfect. Thank you very much.

Operator^ (Operator Instructions) And our next question comes from Josh Stone of Barclays. Please go ahead.

Joshua Stone^ I've just got two quick follow-ups from renewables and one on refining. Almost back to the sales allocation between the U.S. and Europe, are we right to say that the allocation was the most profitable possible during the first quarter? And then on the Blender's Tax Credit, you'd say you've got a majority of it. Should we infer that to be comparable to what you got in 2015?

And then on refining -- I apologize, I got a bit cut off, I might have missed this. On the utility cost, I see they were up year-on-year, which surprised me a little bit, given the movements in gas prices and oil and gas prices in Europe. Are you ready to explain that? And how you expect the utility costs in refining to go for the rest of this year? Thanks.

Kaisa Hietala^ Let me take the first question. This is Kaisa Hietala speaking. It was about the sales allocation between North America and Europe. Whether this was exactly the best possible sales allocation, I would say in that when we see the demand increasing for this year, which I'm expecting to start to see latest in Q3 and Q4, then we might see still some movement in our sales allocation. Short term, I'm expecting our U.S. sales to increase. But it requires the demand cycle to be there. So currently, I'm very happy with our sales allocation, and this shows that there are very interesting markets and segments also in Europe for our product.

The second question was around the BTC impact on our comparable EBIT that are we expecting the same level for this year as in 2015. Again, depending on quite a lot on the sales volume, when it comes to the BTC share, we are taking majority of it, and it has been stable.

Matti Lehmus^ Very good. And then this is Matti Lehmus on the question of refining utilities cost. If you look at the data carefully, you will note that year-on-year, actually the utilities themselves haven't changed that much per barrel. It's moved from [1.5 to 1.6]. However, what has changed is the total production cost, which has gone up from [3.5 to 3.9]. And the main reason here is indeed the fact that we were, because of the lower utilization and the maintenance we had to do producing less barrels, that means the fix cost per barrel, and at the same time, we also have these maintenance costs. So these are really the drivers why the overall went up.

The utilities obviously -- I fully agree with you, they haven't gone up. It's still the price of electricity theme, natural gas. It's all the same or lower level than a year ago. So looking forward, our main focus is to make sure we run a good utilization. We have a good year operationally. And then that will also enable us to get back to the good production cost levels where we want to be.

Joshua Stone^ Okay, great. Thank you.

Operator^ Thank you, ladies and gentlemen. As there are no further questions, I would like to turn the call back to Mr. Juha-Pekka Kekäläinen for any additional or closing remarks.

Juha-Pekka Kekäläinen^ Thank you very much. If there are no further questions, we thank you very much for your attention and active participation. Neste's second quarter results will be published on the 28th of July. Until then, thank you, and goodbye.