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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the second-quarter 2024 Neste Corporation earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Anssi. Please go ahead.

Anssi Tammilehto *Neste Oyj - Vice President - Investor Relations*

Thank you. Good afternoon, ladies and gentlemen. Welcome to this conference call to discuss Neste's half-year results published this morning. I am Anssi Tammilehto, Head of Neste IR. And here with me on the call are President and CEO, Matti Lehmus; CFO, Martti Ala-Härkönen; and the business unit heads, Carl Nyberg of Renewable Products; and Markku Korvenranta of Oil Products.

We will be referring to the presentation that can be found on our website. And as always, please pay attention to the disclaimer since we will be making forward-looking statements in this call.

With these remarks, I would like to hand over to our President and CEO, Matti Lehmus, to start with the presentation. Matti, please go ahead.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you and a good afternoon also on my behalf. It's great to have you all participating in the call. We had a challenging quarter as the market in renewables weakened further both in the US and in Europe. At the same time, I want to emphasize that our operational performance was solid, and we completed the major Porvoo turnaround as planned. We keep focusing on the execution of our strategy and leveraging our competitive advantages to support our performance in this challenging market environment.

So moving to the first slide, our group comparable EBITDA was EUR240 million in the second quarter, clearly below last year's performance of EUR784 million. Our planned nine-week major turnaround in Porvoo, of course, had an impact on the results. But another key factor was the weakening of the renewable products sales margin to $382 per ton compared to $800 per ton a year ago.

Compared to the first quarter of the year, middle distillate prices, US bioticket and renewable credit prices, as well as renewable spot premiums in Europe decreased further. At the same time, waste and residue feedstock average prices increased slightly, as feedstock demand continued to be robust.

As a result of the rapidly changed market conditions, the second quarter comparable sales margin also includes a one-off valuation loss in our bioticket and credit inventories totaling EUR36 million, which is equivalent to minus $40 per ton in the comparable sales margin.

Our year-on-year sales volumes were basically flat in renewable products impacted by the preparation for the upcoming turnarounds at our refineries in Rotterdam and Singapore. We continued our efforts to grow the sustainable aviation fuel sales and we expect our SAF sales to grow clearly in the third and fourth quarter. In oil products, the comparable EBITDA in the second quarter totaled EUR62 million as sales volumes were affected by the earlier mentioned Porvoo major turnaround.

We currently estimate that the second quarter will be the weakest quarter of the year for Neste in terms of results and cash flow to substantially – to be substantially positive in the second half of the year.

Let us now turn to the market environment during the quarter. The summary of key market indicators illustrates clearly the weakness of the renewables market in the quarter. In the US, the average RIN credit price weakened by 13% versus the previous quarter and by 66% versus a year ago.

Also, diesel prices decreased as for example the European diesel reference price was 7% lower compared to the previous quarter whereas the average cost for our relevant feedstocks increased by approximately 4% quarter on quarter.

On a positive note, certain market drivers in renewables improved slightly towards the end of the quarter, such as for example RINs. In oil products, product margins strengthened versus the previous quarter for gasoline, whereas seasonally on the other hand, the diesel margin weakened over 30%.

So while the current market environment is challenging, our strategy remains very clear and we continue our full focus on the key elements to support value creation. This includes leveraging our competitive advantages in feedstock, the growth in the most attractive market segments and sales optimization based on our strong global market position, and finally, a strong focus on leveraging our economies of scale for efficiency and long-term competitiveness. Also for the short term, our priorities are very clear. They include SAF sales growth, ramp up of our new production capacity and continued actions to improve our cost efficiency and cash flow.

With these words, I now hand over to Carl Nyberg, who will go through the renewable product segment review. Carl please.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Thank you, Matti. So good afternoon also on my behalf. So let's now go through the results and market updates for renewable products.

Move to the next slide. The market environment continued to weaken in the second quarter, and this clearly had an impact on the sales margin.

As mentioned earlier, the sales margin was USD382 per ton and this is of course now clearly visible in the waterfall compared to the second quarter a year back. As we have highlighted for some time already, the additional capacity has impacted the market, especially in the US where the buyer credits have come off, but this is also visible in Europe where spot premiums have weakened.

There were also some one-off inventory valuation losses related to the US credits impacting the quarterly sales margin in the quarter. Our sales were quite evenly balanced between Europe and North America, and we continue to optimize across our full value chain in this weaker market environment. Operationally, we had a solid quarter at our own refineries. Also, the Martinez JV utilization rate was successfully increased towards the end of the quarter, and we have now reached the capability to produce around 75% of our design capacity. The Martinez site continued to have a diluting impact on our sales margin overall, but we expect the profitability to improve as we move along with the ramp up and continue to optimize the site further. It's also good to note here that our fixed costs were EUR20 million lower quarter on quarter.

So to summarize, we are facing a tough market situation. There is no going around that. On the other hand, we also see positive momentum building, especially in the SAF market. The SAF sales is proceeding and the reference price differential for SAF compared to renewable diesel widened slightly at the end of the second quarter. So let's then move to the next slide and look at our short-term priorities.

So to summarize, really first of all, our global end to end optimization continues to provide competitive advantage also in this market situation as we continue to drive value creation both in the feedstock space as well as in how we optimize our production towards the most attractive customer segments.

Second, we continue to focus on growing our SAF business where we have had good progress in sales towards the end of the quarter. We also see positive momentum building, especially towards the end of the year as the regulation driven mandates start to kick in particular so in Europe.

There is obviously also very high focus on finalizing the capacity ramp ups and the new project at our sites in Singapore and Rotterdam, as well as with our JV in the US. Executing on our cost and efficiency improvement plans remain a high priority as well. And the last but not least, feedstock continues to be at the core of our strategy and we continue to build our capabilities to further strengthen and widen our reach of feedstock.

Let me then show you a couple of slides which we also shared in our Investor Day in the spring. So ,when we look at the buildup of the SAF market, it's good to remember that the year 2024 is still based on voluntary demand and only next year we are going to be – there are going to be significant mandates in place.

Most notably of course the Refuel EU aviation, this will substantially change the SAF market dynamics and clearly driving demand. While mandates will be in place in 30 countries and states, we also continue to see SAF incentive programs emerging and also playing an important role in the market.

If we then move to the next slide, let me also emphasize the importance of the partnerships we are building with our aviation customers across the globe. Neste continues to be uniquely positioned to offer a global supply of SAF for our aviation customers.

The Neste Impact, which was launched earlier in the year, also provides an interesting tool to cater for a growing pool of corporate customers in their efforts to lower aviation-related Scope 3 emissions.

So this covers my part. Thank you and over to you, Markku.

Markku Korvenranta *Neste Oyj - Executive Vice President - Oil Products Business Unit, Member of the Executive Committee*

Thanks, Carl. Good afternoon all. Now a quick update from oil products. Our Q2 was dominated by the refinery wide major turnarounds which started at the beginning of April and was successfully completed June 3. The ramp up afterwards has also progressed well.

So let's look at the EBITDA bridge comparing Q2 2024 to the year before. The EBITDA was EUR177 million lower at EUR62 million. The key driver was the turnaround related sales volume reduction with EUR151 million negative effect. The customer deliveries in the Nordic markets were not affected while our presence in export spot market was clearly at the lower level.

Total refining margin was at USD15.1 per barrel compared to USD16.7 per barrel the year before. This drop resulted in a EUR17 million reduction to the EBITDA. Finally, the combined effect of fixed cost, FX and others is negative EUR9 million.

Now let's look at the oil products focus areas for the remainder of the year. Clearly after the turnaround, the main goal is to run the Porvoo refinery at high operating rates with optimal feedstock and product portfolio. The value of operational excellence is significant in today's still healthy margin environment leading to a positive cash flow generation.

The portfolio planning of the gradual Porvoo transformation announced in December 2023 is progressing. We are currently reviewing the optimal timing of the initiatives. Further, during the coming quarters, we will be taking steps to strengthen chemical recycling logistics as well as further enhancing our co processing capabilities.

Finally, within the Neste Excellence program, the key focus areas are end to end supply chain and capacity availability optimization as well as energy efficiency. When successfully implemented, these will add to our competitive advantage and cash generation capability.

Now hand it back to Matti.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you, Markku. And I will cover briefly the Marketing and services results. The comparable EBITDA for the Marketing and services was at EUR24 million, which is lower than the EUR29 million in the second quarter of last year, and this was impacted by slightly lower sales volumes and unit margins year on year.

At the same time, I want to note that our market share continued to be strong and also the comparable return on net assets improved to 32.2%, which is a good achievement.

Now handing it over to Martti to go through the group's financials.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Thank you, Matti. So let's now take a more detailed view on some of the key financials for the second quarter. And I would like to start by reiterating first our financial priorities. In the short term, our focus is a lot in efficiency as well as cash flow generation.

We continue our Neste Excellence program, Markku already highlighted that well, targeting over EUR350 million of sustainable EBIT value creation by 2026 with 2022 acting as the baseline year. Like we have stated many times earlier, we are currently very well on that track.

In the first quarter call, I said that we will see this year, our fixed cost growth rate leveling out. From our consolidated income statement, it can now be observed that in the second quarter, our reported combined employee costs as well as other expenses combined, that is fixed cost, they were EUR23 million lower than last year and EUR28 million lower than in the first quarter this year. This is, of course, a clear efficiency improvement.

At the same time, we have continued to fine-tune our operating models across all our businesses to make them more optimized in cost as well as net working capital management. And as an example of this, we have clear actions in place to reduce our net working capital and particular inventory level in the second half of the year to secure solid cash flow generation.

At the end of the second quarter, our inventories were still on a high level at about EUR4 billion due to the Porvoo turnaround and while in renewables also preparing for the upcoming maintenance shutdowns in Rotterdam and Singapore.

We have also completed necessary funding arrangements to support our liquidity. And in addition, it's important to highlight the work we continue to execute in the area of risk management. We have continued active business-driven hedging, and in the second quarter, our overall hedging ratio was above 38% and the overall hedging result positive in Renewable products.

Let's then turn to our second quarter result bridges by business segment as well as by business driver. When first looking at the second quarter comparison bridge by business segment on the left-hand side in this graph, we can see that while our comparable EBITDA was EUR240 million in the quarter compared to EUR784 million last year, the result decline year on year comes mainly from two sources.

First, in Renewable products, performance was impacted by market prices continuing to weaken in the second quarter compared to the first quarter of the year; and second, in oil products, the second quarter performance was impacted by our planned major turnaround in Porvoo. Like stated earlier, the turnaround was completed safely on time and according to budget.

It is important to highlight here also that the second quarter comparable EBITDA in renewable products includes a one-off valuation loss in our bioticket and credit inventories totaling EUR36 million. Without this one-off valuation loss the comparable EBITDA of Renewable products would have been EUR188 million instead of EUR152 million.

In the comparable sales margin, the valuation loss is equivalent to USD40 per ton, hence, without the one-off impact, the sales margin would have been $422 instead of $382 per ton. And the valuation loss stems from the clearly falling bioticket credit prices, particularly in LCFS credits in California with some impact also from the Oregon Clean Fuel Program credits as well as RINs.

Then looking at the comparison by driver year on year on the right-hand side, the impact from sales volume is mainly from the Porvoo major turnaround in Oil products, while the sales margin impact mainly from Renewable products. Of note here that the group's comparable fixed costs were EUR18 million lower in the second quarter compared to a year ago.

On a positive note, certain market parameters in Renewable products improved slightly towards the end of the quarter. And like Matti already stated earlier, we estimate the second quarter to be the weakest quarter of the year for Neste in terms of results.

On the next page, we are making the same analysis in a half year comparison. In these graphs, we can see pretty much the same story as in the second quarter comparisons. The impact of the weak renewables market in the first half of the year and the impact of the Porvoo major turnaround in the second quarter in Oil products are the main explanatory factors.

Then a short look at our performance against our financial targets. At the end of June this year, our comparable ROACE calculated over the last 12 months was 14.4% and leverage 34.5%. We do maintain a solid financial position in the midst of a challenging market.

Turning to our cash flow, our cash flow before financing activities was EUR461 million negative in the second quarter. Cash flow was impacted by the weak EBITDA, while at the same time our inventory level, like I mentioned, stayed at about EUR4 billion at the end of the second quarter, only marginally down from the end of Q1.

More precisely, and when looking at the balance sheet number, our inventories are up by EUR677 million in the first six months of the year compared to end of last year, impacting negatively our net working capital and cash flow.

Like we have communicated, the buildup of inventories has mostly related to the aforementioned major turnaround at Porvoo, which is now completed, our upcoming maintenance shutdowns in Rotterdam and Singapore in renewables in the third and fourth quarter as well as the buildup of SAF inventories for projected sales in the second half of 2024, which Carl earlier mentioned.

Looking forward, we do expect major releases from inventory levels, particularly towards the end of the year. Good to note that in the same comparison period, there has also been a positive impact in other elements of working capital that is in receivables and trade payables.

The group's net working capital in days outstanding was 41 days on a rolling 12-month basis at the end of the second quarter, that is two days higher compared to a year earlier. Our cash out investments totaled EUR455 million in the second quarter, main project being our Porvoo major turnaround, Rotterdam expansion project, and our SAF project in Rotterdam.

Looking forward into the rest of the year, we do expect our cash flow to be substantially positive in the second half of the year. And to close up, I also want to remind everybody that despite the short-term challenges, it's good to remember that the long-term demand outlook in renewables remains very positive.

This ends the financial review, and I will hand back to our CEO, Matti, please.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you, Martti. And let's now take a look at our outlook for the full year 2024. In general, we expect the geopolitical situation to result in continued volatility. In renewables, we have specified the guidance as follows. We expect that the average sales margin for the full year will be in the range of $480 to $580 per ton whereas the earlier guidance included a wider sales margin range of $480 to $650 per ton.

For SAF sales, we expect the sales volume to increase towards the end of the year and to be in the range of 0.5 million to 0.7 million tons, whereas the earlier guidance included a wider SAF sales volume range of 0.5 million to 1 million tons. Otherwise, the guidance is unchanged.

And as communicated earlier, we will have a number of planned maintenance shutdowns in the second half of the year in Rotterdam and both Singapore lines. The ramp-up of Martinez renewables is progressing. And after running at below 50% utilization in the first half of the year, the facility is targeted to reach 75% utilization during the third quarter and 100% by the end of the year.

Then looking at the longer-term picture, I want to emphasize that the long-term demand outlook in renewable and circular solutions remained strong in all key markets and continues to be supported by the regulatory development including, for example, the Renewable Energy directive, the ReFuel Aviation directive in Europe and the Low Carbon Fuel Schemes in the US.

We also follow closely the interesting regulatory developments, for example, in South America and Asia. On a very recent development, the EU last week published provisional import tariffs for Chinese biodiesel and renewable diesel.

I want to conclude by reiterating Neste's focus on the areas supporting value creation, both short term and long term. Our unique feedstock position, growth in the most attractive markets and optimization based on our strong global market position and continued focus on efficiency.

This ends the presentation, and we are now ready to take the questions. Please, operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alejandro Vigil, Santander.

Alejandro Vigil *Santander - Analyst*

Hello. Thank you for taking my questions. The first question is about the balance sheet. With the current financial situation close to the 40% threshold, which are the tools you may use if you reach this level? Are you thinking about potentially even a capital increase, if needed?

And the second question is about the CapEx. This year is still very intensive in terms of CapEx, about EUR1.5 billion. Which are your expectations for next year in this situation in which some of your competitors are delaying investments or even canceling projects? Thank you.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Thank you, Alejandro, for your question. I'll try to answer the first one on the balance sheet. So we have definitely noticed that, of course, the leverage has been going up in the recent quarters, now at 34.5%. But what I said earlier, firstly, we definitely believe there will be a substantial positive cash flow in the second half of the year. We have a number of actions in place regarding the cash out, improve our cash flow.

I mentioned the working capital elements, particular focus on the inventory levels, we have certain issues we can look into streamlining our CapEx outlay also otherwise. Then of course, we did also mention that we expect this to be the lowest quarter of the year and the results to lowest quarter in terms of results.

And as far as personally concerned, so my target would be rather to see going forward that our leverage would not go upwards. So of course, we have full focus on the cash flow and the efficiency improvements.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

And perhaps on the second question on the CapEx, this is Matti Lehmus, I can answer. So obviously, we haven't guided yet for the capital expenditure level next year. This year, we expect it to be between EUR1.4 billion and EUR1.6 billion.

At the same time, looking into next year, one observation is that we, of course, continue to execute our Rotterdam capacity growth project, which is a major project. We also will have normal maintenance investments. At the same time, it's clear that in this situation, we will be very carefully scrutinizing any capital expenditures. So overall, it is, of course, likely that the level will be going downward from this year's level.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

And there are absolutely no need for any -- the funding is in place, supporting adequate strong liquidity.

Operator

Giacomo Romeo, Jefferies International.

Giacomo Romeo *Jefferies - Analyst*

Yes, thank you for taking my questions. If I go back to the point of CapEx, you are – obviously Rotterdam investment is a key growth project you are executing on. As you mentioned, we have seen a number of projects in Europe being pulled back. Are you still happy to invest in growing capacity given your current outlook for supply/demand? Do you still expect these projects to find supportive demand environment when it comes online in the coming years?

Second question, I'd like to go back to the comments you made in your earlier remarks on improvements on the fixed cost side we clearly see in Renewable products. Do you think that the [190] we're seeing this quarter is a good sustainable level going forward? Do you think there’s more improvements you can make on that baseline?

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes. Thank you, Giacomo. Perhaps I can take the first question still on the CapEx. And obviously, we continue executing our Rotterdam capacity growth project, it is progressing as planned. And when I look at the big picture, obviously, the market environment is very challenging at the moment.

At the same time, looking at the mid-term and longer-term, it's also clear that we expect the demand to continue growing globally and also in Europe. And as you will remember, the Rotterdam capacity growth project also includes flexibility to produce SAF, which is also an important driver for this project.

On the fixed cost, Martti, please.

Martti Ala-Harkonen ***Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee***

Yes. On the fixed cost, I mentioned earlier that if you look into the consolidated financial statements. So if you add up the employee benefit costs as well as the other expenses, you arrive at EUR313 million. And if you compare that to last year, it's EUR23 million lower. Also, if you compare to the first quarter, EUR28 million lower. Elements have been that we have been saving actually already since the second half of last year.

And on the employee side, as an example, if you just look at our number of employees at the end of June, it was 5,862 versus a year ago, 6,396. So it's 564 employees less, that's actually more than the 400 we compiled through the reduction that we had earlier.

But otherwise, maybe Carl, do you want to add something from Renewable product side? I think the question was a bit from Giacomo towards that.

And then maybe to end up from my side, so we continue all the efforts to keep our fixed cost and to streamline. But we have no specific further guidance on that, you can find there are a few sentences in the additional information after the guidance on that.

Carl Nyberg ***Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee***

Yes. And perhaps if I add on that to Martti's comments, so if I look at the renewables side, so it is clear, of course, that we continue to grow with our projects, and there is certain pressure also from that side coming in the fixed cost side. But we continue to scrutinize our cost base is continuously here, and we will remain very diligent in how we continue to build up our capabilities in the renewable space than to also stay in control of these costs.

Operator

Sasikanth Chilukuru, Morgan Stanley.

Sasikanth Chilukuru ***Morgan Stanley - Analyst***

Hi, thanks for taking my questions. I have two, please. The first one was regarding SAF margins and pricing. I just wanted to understand how we should be thinking about the uplift margin provided by SAF volumes in the second half.

Regarding SAF pricing in second half, what should we be using as a reference point? Should we be using jet fuel prices or is it referenced on renewable diesel and the premium over renewable diesel. If you could give us some color on what goes into your negotiations for contracted SAF volumes? Slightly related to that, how does the current spot price differential of SAF to renewable diesel impact your disclaims with clients.

The second was also related to SAF, I wanted to understand the non-compliance costs for airlines in Europe from 2025. Are there penalties that are already established, have they become a law? Or are they currently at any hard proposal stage on?

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes. Thank you. I can start, Carl can then add is yes. So in general, on the SAF market development, I would perhaps refer in a way that you can get an indication, of course, by looking at the public references that are out there, for example, follow the SAF premium over fossil jet. That is one good indicator that you can deduct there.

And you will note that, for example, during the second quarter, this has been slightly, let's say, the SAF multiple versus fossil jet, slightly under 3 is -- has been the level where it has ended. And I think in general, of course, I think while the market is still evolving and the liquidity needs to further improve these reference prices give some indication clearly of where the market is heading.

And that, of course, means that from a margin perspective, even if there is always, of course, extra costs in processing SAF and the logistics, SAF continues to be a premium product. Regarding the non-compliance costs, I would mainly have the comment that based on the directive -- the ReFuel EU directive, it is actually the fuel suppliers who are the mandated parties and there are also penalties defined, but I don't have that exact number here now, but it is perhaps good to note that the mandate is actually put on the fuel suppliers.

Sasikanth Chilukuru *Morgan Stanley - Analyst*

Thank you. If I could add one more question. I just wanted if you could update the start-up and the ramp-up of the SAF of optionality project in Rotterdam. When are you expecting that?

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Yes. Okay. So Carl here. I can give an update on that. So we plan to start that one up in during the third quarter here. So that is our plan currently.

Operator

Artem Beletski, SEB.

Artem Beletski *SEB - Analyst*

Thank you for taking my questions. The first one is really related to recent news when it comes to import tariffs on Chinese biodiesel and renewable diesel. Do you expect some, let's say, supportive impact to be visible already this year as this duty should be in place starting from mid-August, if I recall correctly.

And then also, what else also related to SAF, it is actually excluded from these duties? Then second question is relating to Martinez and what was the magnitude of margin dilution now in Q2, was it similar to Q1, what you commented at that stage? So maybe there's also two questions from my side.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes. Thank you, Artem. And perhaps I can initially comment. So obviously, we will see the EU last Friday publish these provisional import duties. And then in a way, those will be implemented in the late part of August. So we will see what type of market impact there is. Perhaps the one way to look at it, I'm just looking at the magnitude of these imports based on the public data from last year. So the imports of biofuels from China were around 2 million tons to Europe. And you can compare this number to the biodiesel market in Europe, which is around 11 million tons last year. And I think the renewable diesel market was around 4.5 million tons, so that gives a flavor of the impact. But it is, of course, something that we will see going forward, what type of impact there is. On the topic of SAF exclusion, we note that this has been provisionally excluded. Obviously, I'm sure there will be comments on the proposal. So let's see and whether that changes going forward.

On Martinez, we commented in the first quarter that the impact on the overall total sales margin was dilutive and in a similar way also in the second quarter. The order of magnitude is quite similar, so around 10%.

Artem Beletski *SEB - Analyst*

Okay. That's clear. And maybe just a quick follow-up from my side. Just this bioticket inventory revaluation topic, what you highlighted in the report. What was actually the reason for it to be in flagged? Is it somehow exceptional in terms of magnitude? Or has there been any changes when it comes to accounting practice, what you have been using?

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Thanks, Artem. I'm Martti, I'll try to answer that.

So yes, this was exceptional in the order of magnitude compared to our overall comparable sales margin. And where that stems from is that particularly when we sell in the state credits, LCFS on Oregon, when we conclude the sale, we get a ticket, but it's still, at that time, an obligation. We still have to make an application like in California to CARB and there's a time lag of about one to two quarters when we get back a ticket approved, which is then a sellable ticket. So hence, we are open to price risk.

And actually, we do, on an ongoing basis, mark-to-market revaluation of our existing biotic credits in the inventory. And in this quarter, which is also visible in the result, there was a remarkable decline in the value, particularly in the LCFS value, it came from the end of March this year, $67 per ton $46 per ton at the end of June, so $21 the difference about 31%. So hence, we reported. It is a one-off revaluation and it's very clear to highlight.

We also wanted to highlight from the fact that we have started, at least for the time being, started to see the market stabilize, not market parameters declining further. So, one shouldn't expect at this time that there would be another one like that, at least in the short term. Of course, we are always open to a certain extent to that kind of a risk.

Operator

Peter Low, Redburn Atlantic.

Peter Low *Redburn Atlantic - Analyst*

Thanks. The first was on your outlook for 2025 renewable diesel demand growth. Are you able to put a number or a range perhaps on how much you expect demand to grow next year? And what some of the big moving parts are?

And then the second one, US at next year's switch from a Blenders Tax Credit to a Producers' Tax Credit. Is that confirmed now? Or does that still need to be approved? And how should we think about that impacting your sales mix? For example, will more products from Singapore go to Europe than perhaps it has done historically? Thanks.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes. Thanks, Peter. And I can perhaps start with the demand outlook question, Carl can then comment on the CFPC question. So in general, obviously, we will see the exact demand growth going forward. But our current estimates are that next year, the overall growth of renewable diesel / SAF globally could be somewhere around 4 million tons which is a bit more than this year. And I think the main thing we anticipate is that in Europe, the growth after a year where the growth has been basically close to zero, we would again grow next year. And this is, of course, driven on one hand by the fact that the ReFuel Aviation will increase SAF demand in Europe, but also we expect some of the mandate updates to also create some renewable diesel demand in Europe. But this is the big picture. And then, of course, if there is any update or new regulation, et cetera, then we need to update our forecast.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Yes. Thanks, Peter, Carl here. So if I'll come back to your CFPC question. So our base assumption here is that the CFPC will come into force as from the beginning of next year. Although having said that, I think that there is a lot of uncertainty still surrounding this change, and we also saw earlier this week a BTC bill being taken to Congress. And we'll have to see how this develops.

So what is, of course, clear is that for Singapore, we will not have the benefit of getting the CFPC credits. At the same time, Singapore being a very competitive renewables refinery we still see opportunities to also serve our customers in the US in the coming year. But I think it will be a dynamic situation, and there will probably be lots of opportunities also for us to optimize our sales in the coming year as this regulation then shapes and then takes form.

Operator

Kate O'Sullivan, Citi.

Kate O'Sullivan *Citi - Analyst*

Hey, good afternoon, everyone. Thanks for taking my question. Just following on the US environment. With the repeal of Chevron difference by the US Supreme Court, I'm interested to hear how you expect that could impact any EPA led RFS and blending mandates?

And just a follow-up on SAF pricing and contracting, of your SAF volumes that will be sold in the second half and into 2025, are these all under long-term or term contracts? When were these contracts agreed? And do you have intention to do it in advanced term contracts going forward? Or leave some related to kind of spot pricing? Thank you.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Yes. So perhaps if I start with the second question around SAF. So – I mean, we are, of course, having different types of contracts in our portfolio. We are currently still very much focusing on spot sales in the current year, but we are also turning our view towards the upcoming year and terming up volumes. And it's really a combination of different types of contracts that we have in our portfolio. Obviously, the coming months will be very important as we move into the discussions for 2025 as well and the buildup of the SAF market in Europe.

Operator

Naisheng Cui, Barclays.

Naisheng Cui *Barclays - Analyst*

Hey, good afternoon, everyone. Thanks for taking my question. I have three, if that's okay, one each for Carl, Matti and Martti. Probably Carl, first question is on RP volume guidance. If I look at the second half sales volume, it will be 2.6 million, taking the midpoint 4.4 million tons for the full year. That means range of the guidance very big at 0.8 million for 2H midpoint, 2.6 million tons, that's 30%. I just wonder why we come down that range. So that's my first question.

Then my second question perhaps for Matti. Matti, I remember at the beginning of this presentation, you mentioned that SAF sale is clearly going to increase for the second half of this year. And in the previous question, cause that this year, we still rely a lot on spot sales. I just wonder what gives you the confidence for SAF demand this year or SAF sales this year?

Then my third question is for Martti. And Martti, I wonder if you can give a bit of guidance on working capital release for the second half of this year. Perhaps if I'm sneaky, I'll ask my question on dividend again I asked at last quarter. I want to ask again because dividend yield is at 7%, which is quite attractive. What will frame your thinking process to determine a new dividend yield or dividend policy?

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Okay. Perhaps if I then start with the volume question. So we decided not to change the volume guidance for the time being. Obviously, I mean, we are continuing to optimize our sales and our production in this market environment and maintain to have this type of flexibility in ourselves. So we are seeing significant differences in the different markets in terms of sales margin, and that remains a key element in how we optimize the business to really drive value.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thanks. And adding perhaps to Carl's comment on the sales. You will remember also from earlier comments we have made, there is also uncertainty around the exact ramp-up of Martinez, for example, so that is why the range has been quite wide from the beginning, and we maintained the same range as earlier.

On the SAF sales increase, I mean you will note, obviously, from the sales in the second quarter, we were at 65 kilotons. So it means that we do expect a clear increase in the second half of the year. At the same time, we have been taking very active steps in our sales. We are making progress for the second half of the year. But also, of course, we need to continue that work. And like Carl said, it's a combination of spot sales and some longer-term sales. So this work continues, and we are very focused on these proactive efforts to grow the SAF sales in the second half of the year.

One observation that was made earlier is that next year, there will also be mandated demand. That is where the market is different this year that most of the demand is voluntary rather than mandated.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

And on the third question, thank you Nash, for the question. So if you look at the net working capital change in the first half of the year, it's about EUR400 million negative. Last year, about EUR200 million negative. I have highlighted very clearly earlier in my presentation that we have the focus, particularly in the inventory levels, where we have very clear issues. We knew that we're going to have the Porvoo major turnaround and we have now [filed] higher inventories because of preparing for the maintenance shutdowns, like I said, in Rotterdam and Singapore. And also, regarding our projective SAF sales volume. So all those combined have led to high inventories, which also actually lead to your first question on the sales. So we have, of course, regarding our sales guidance, plus minus 10%, but we are projecting clearly higher sales in the second half of the year compared to the early part of the year. And that's also embedded, so releasing cash selling from the inventories.

Other more detail than that, of course, always one has a target that -- you target that you shouldn't have a negative impact from working capital. Let's see where we will end up, but we have very good plans in place. And you ended up by speaking on the dividend, it's far too early to comment on that, but we have a clear dividend policy in place to have a competitive and growing dividend. So no change in that.

Operator

Christopher Kuplent, Bank of America.

Christopher Kuplent *Bank of America - Analyst*

Yes. Thank you very much. Gentlemen, I realize I'm not going to extract any new information from you on this call, numerically speaking, but maybe you can go into a bit more detail on why you decided not to be a little more specific around the financial impact of upcoming turnarounds. That seems to be a little bit of a change of communication compared to prior incidents.

And secondly, I wanted to check whether you can even very broadly talk a little more around the development in the SAF versus renewable diesel premium pricing that you've referred to as we've come out of the quarter and into July and give us a little bit of a picture of where we are right now in the market. Thank you very much.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thanks, Chris. Perhaps I can start with the first question. I mean, we actually -- when you look at the information we provide on our maintenance shutdowns, we are already giving quite a lot of detailed information on the length of the turnarounds. So you will have noted that there is a six-week turnaround at the Rotterdam refinery and a four-week maintenance shutdown in Singapore in the third quarter. And then also the new line is scheduled to have an eight-week maintenance shutdown in the fourth quarter.

I think we -- you can, of course, quite well make estimates on the impact based on these lengths. At the same time, it's worth noting we have built inventories. So from that angle, we also intend to support our sales during this turnaround through the inventories we have built.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

And perhaps if I comment on the SAF question. So I mean, obviously, this is now an emerging market and a rather small one for the time being. So we saw quite some volatility in the market over the past quarter year. And I think that since that drop we saw in late May, the market has recovered somewhat, and it seems to be relatively well supported around these current levels. And we believe that the sort of supply-demand picture for SAF looks relatively constructive going into the second half of the year now and will remain supported in that sense. But overall, I think that it's clear that what we are seeing in the price discovery in the market, it is a small and volatile industry that you're seeing.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Yes, Matti, I would like to add one issue there that, of course, you have all seen that one of the competitors, okay, we can say here Shell informed of their postponement of the Pernis project, which was quite a large one. And it was intended to also have a SAF availability. So these kind of events have increased and are increasing interest towards Neste because we have availability at the moment and the mandates are coming up.

Operator

Henry Tarr, Berenberg.

Henry Tarr *Berenberg - Analyst*

Hi there and thanks for taking my question. I have a couple. One on the impact or potential impact of RED III in Europe. I wonder whether you could sort of talk about whether that might have an impact as we go into 2025?

And then secondly, on the refining piece, margins obviously came down in Q2. What's your outlook for refining margins as you look into sort of the second half of the year? Do you think we're moving back to a more sort of normal level? Thank you.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you, Henry, I guess I can start with the RED III question, this is Matti. So what is part of this directive is that every member state needs to implement it and create a path towards reaching the targets and the time line for creating – making those plans is May next year. So I think it will be a very interesting period to follow not only for next year, but also for the following years, what type of plants are going to be published.

And obviously we, in our last quarterly call, already talked about the example of the Netherlands that already at that time, updated its targets for 2024 and 2025. We will then see, of course, in our forecast, the demand forecasted earlier, we have our existing forecast, but having more information then by mid next year, obviously, makes it possible then to update the forecast also for the following years.

Markku Korvenranta *Neste Oyj - Executive Vice President - Oil Products Business Unit, Member of the Executive Committee*

And a comment, Markku here, comment on the second half fossil margin situation. If you look at the forward markets, it indicates that gasoline and diesel cracks to stay well above the historical averages, but somewhat lower than in the first half of 2024. The cracks have, however, strengthened a bit in early weeks of July as a consequence of lower-than-expected inventories and geopolitical uncertainties. So this would be the sort of latest from the diesel and gasoline markets.

Operator

(Operator Instructions) Anish Kapadia, Palissy Advisors.

Anish Kapadia *Palissy Advisors - Analyst*

Hi good afternoon. A couple of questions from me, please. I wanted to go back to the strategy presentation from last year because quite a few things have obviously changed in the market from there. And I was wondering if you could update on some of your targets. In particular, your aspirational target of getting to 9 million tons per annum if that still holds in this current market scenario.

Also, your view on the size of the SAF market for next year of getting to, I believe, 4 million tons? And then finally, if you can give an update on the recycling project at Porvoo? Thank you.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you, Anish. This is Matti. So in general, I mean, we are probably referring to our CMD presentation and the aspirational target for 2030. I would say, in general, we are, of course, looking at every CapEx decision for the future with great care. So we haven't updated the numbers, but at the same time, it's clear that we will be very selective now in this market situation before we start new major projects. So I think it's something we need to come back to in the coming years, whether this has an impact on the time lines, for example.

On the SAF market in a similar way, we haven't updated our forecast. In the meantime, what has happened since the CMD that is ReFuel EU Directive has been confirmed. Of course, a key driver that we also need to keep analyzing is how exactly the voluntary market develops next year. So again, something we would need to come back to when the market has developed further on the SAF side.

On the recycling, the chemical recycling projects, that is progressing. We made the investment decision to invest in upgrading capacity for liquefied waste plastics at Porvoo refinery and the target continues to be that project is completed by end of 2025, so we are looking forward to that opportunity once the project has been completed.

Operator

(Operator Instructions) Iiris Theman, Carnegie.

Iiris Theman *Carnegie - Analyst*

Hi everyone and thanks for taking my questions. So firstly, the dilutive impact from Martinez. So is that the feedstock related higher OpEx or something else? And do you expect that to change going forward and sales margin to be basically in line with your own margin at some point?

And secondly, given that a lot of biofuel projects have been canceled. So how do you now see the supply-demand balance next year and in 2026?

And thirdly, I'm not sure this was already asked, but just wanted to hear again that what will drive your sales margin improvement in H2, just looking at market parameters. So the latest data point implies that diesel and SAF prices are still slightly lower than average and feedstock prices slightly higher only RINs up from Q2. So yes, what will drive your margin improvement in H2? Thank you.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Thanks, Iiris. Carl here. So if I start with the Martinez question. So indeed, like Matti said, the dilutive impact is about 10%. It is coming from, let's say, the local market in the US and the margins there as well as the current capabilities of the refinery to have flexibility for instance in feedstocks and then also market. So that is one fundamental part.

I think looking forward, as we are ramping up the refinery, it is also clear that sort of we will be more efficient. We will be able to reach better margins in Martinez, but we still believe that it probably will have a dilutive impact on our overall margin for the coming quarters as well.

And I think if I comment briefly on the biofuel project changes. So overall, obviously, like Martti already commented, there will be an impact from this that we have seen some changes happening, some of the retrofit for instance, in the US that was converted back to fossil operations. So I think we are seeing some direct impacts also hitting the markets quite quickly. But I think also the overall sentiment in these changes happening now among some of the players is having an impact on how the market is behaving here. And I do believe that sort of as a committed player in this market and a reliable supplier has a benefit as we are seeing some of these projects being scaled back.

With regard to the second half margins, then, so I think if I briefly comment on that one still. So clearly, what we're seeing is that we will have higher SAF volumes in the product mix that will have a positive impact on our margins. Obviously, the onetime impact from this credit write-down, will not probably be there in the second half.

And then we are also seeing some benefits from Martinez now, like I said, that as we are ramping up the capacity in Martinez that margin will also improve as we move into the second phase. And then, of course, we are also driving a lot of operational improvements across the board really to drive the profitability and performance of the business.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thanks, Carl. And I think that summarized well, the type of actions we can influence. Perhaps stating the obvious, as you know, at the same time, the margin always is sensitive to general market parameters, whether it’s the diesel price, whether it’s the development of the feedstock price, for example, and that is, of course, something we all need to continue monitoring. It has been volatile, so that will then also have an impact depending which way they develop.

Operator

Matt Lofting, JPMorgan.

Matt Lofting *JPMorgan - Analyst*

Hi. Thanks for taking the questions. First, I’d like to just follow up, Matti, on the points that you just made, on the margins’ dependence on market conditions and parameters. If you were just to apply prevailing forward or spot conditions in terms of the main inputs that you see. Is the outlook for the second half based on and as it is today, sufficient to get the full year margin firmly into the middle part, let’s say, of the lowered full year range? Or does a full-year margin of [EUR500 million] plus really require a further pickup in low carbon premier and broader macro variables, including the indexation to the fossil fuel diesel market?

And then secondly, I just wanted to come back on SAF. Can you talk about second quarter sales, 65 kt, and the outlook that you have now in the lower part of the range from where it's at earlier in the year? How are things, as they sit in the SAF market today compared to where Neste's expectations were, say, 12 months ago? And to the extent that voluntary market growth has been perhaps slower than was previously anticipated. Can you share a sense of what the sources of that have been? Thank you.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes, thanks. And perhaps on the first question, I would just comment that, obviously, when we created our forecast for the full year. We obviously took our internal forecast, but also when we looked at the market parameters, we looked in the beginning of July at the outlooks. And that's of course, how we come to the range that we have specified.

And that means, of course, that we will continue then to monitor our own actions, let's say, come to fruition. And then at the same time for the macro drivers, how, for example, the diesel price or the feedstock prices develop going forward. But clearly we have created the range based on the forecasts at that time.

And that for the SAF, I would just comment in general that obviously, the sales in the second quarter was 65 kilotons. It was 41 kilotons in the first quarter. Compared to a year ago, for example, we would, of course have hoped that the market develops even faster.

At the same time, like I commented, we have been now very active on the customer front. We are seeing progress on the sales side. So we do continue to see that the volumes will be growing in the second half of the year.

Operator

Matthew Blair, TPH.

Matthew Blair *TPH & CO. - Analyst*

Good afternoon. Thanks for taking my questions. The first one is on Martinez. I just wanted to clarify, the 75% that's your target for the end of the quarter. Where does utilization stand currently at the plant and have the repairs started? Where do things stand with regulators there?

Second question is on the upcoming California LCFS changes. When do you think they will be implemented? Are you confident that they'll come into place in 2025? Or do you see a risk they might be pushed to 2026? And then finally, third question, do you have a view on the divergence in UCO prices by region, year-to-date Europe UCO prices are up, US is down. Do you have an explanation for that? Thank you.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Thank you. And perhaps I can start with the LCFS question. Carl can perhaps answer the other more specific ones. So I mean, on the LCFS, I think many are following the process. So our understanding is that the comments and that the proposal evaluation is going to be reviewed again at the end of the year. That means that it's fully possible that the decisions are made for 2025. But again, that of course will depend then on decisions to be made at the end of the year. But this is the latest update that we had. I think the last commenting around was in April. So we are now waiting for more information in the later part of the year.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Okay. And thanks, Matti. Carl here. So if I come back to your Martinez question. So basically, I mean, we – as stated, we were able to ramp up the capacity towards the end of the second quarter. And we now have in place the capability to run approximately 75% of the nameplate capacity of the facility. So that is in place already now as from the beginning of the third quarter.

Then with regards to the UCO market, so I think that obviously, there's a number of things that is impacting feedstock markets. And for instance, this Chinese anti-dumping duty topic might have an impact also on how the UCO market now has reacted to this change as we probably will likely see a little bit an uptick in UCOME production in Europe and hence more demand for UCO in Europe.

But I think that these are things that will sort of even out also with [us] eventually. But we are seeing a little bit of a change here in the dynamics definitely with some of the changes that we're seeing with this.

Operator

Jason Gabelman, TD Cowen.

Jason Gabelman *TD Cowen - Analyst*

Hey, thanks. Just one question for me. The Rotterdam SAF optionality project, it's 500,000 tons per year. If I think of EU, the refuel target for demand, it's 1 million tons. So it seems like that SAF optionality project could meet about half of the European demand.

And with that framing in mind, how do you think about using that SAF optionality project? Is there a goal of selling out that project with all the SAF that it can produce? Or will you use that project to kind of balance the European SAF market and optimize the available margin there on SAF? Thanks.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes. Thanks, Jason. I mean, in general, I think you also in the question asked it's an optionality project. And if we – as you know, our target is together with the optionality we have in the Singapore new line and now then this Rotterdam project, our target is to create an optionality of up to 1.5 million tons.

And this is then, of course, again, something how the exact split looks like will depend on how the term negotiations go and how the market develops. It's also clear we are doing these investments for a long period of time. And given the growth outlook in the SAF market, we are, of course, very pleased that we have this type of optionality for the coming years.

Jason Gabelman *TD Cowen - Analyst*

Is there a minimum amount of SAF you have to sell from the Rotterdam project? Or is there an internal target of SAF you want to sell from that Rotterdam project?

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

There is no technical minimum. It's an optionality we have. Obviously, we are value-driven and this will be then the sales mix and the production mix will then depend on the optimization of the sales.

Operator

(Operator Instructions) Paul Redman, BNP Paribas Exane.

Paul Redman *Exane BNP Paribas - Analyst*

Thank you very much, and hello guys. I had a question on inventories. And if I look at the numbers correctly, over the past 1.5 years, you produced around 600,000 tons of SAF, you've sold around 300,000 so that gets me just over 300,000 of inventory.

Can you see that being pushed into next year, those inventory volumes? Because as Jason mentioned, you've got Rotterdam starting out, you produce around 150,000 tons of this volume. So I'm just trying to think about prices for next year I concerned not just you guys but other competitors build up inventory and that weighs on pricing per SAF next year because of volume availability?

And then secondly, just thinking about the fixed cost coming down? Are there any key drivers that we're not thinking about? You mentioned employees, et cetera. Is there anything else we should be thinking about that drives fixed costs coming down? Thank you very much.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Okay. Thank you, Paul. For the first question, maybe we can answer together with Carl here. So I already mentioned on the inventory level, a little bit higher than EUR4 billion and we have piled up inventory to be ready that we have products to be sold also regarding the Rotterdam and Singapore maintenance shutdowns, we mentioned SAF.

So we have a lot of focus on the sales and current plans definitely include that the inventory level will come down during the remainder part of the year. We have not planned on keeping inventories for next year in our base plans.

Then if you compare, we prove out, of course, the production volume by quarter like in renewables and the sales volume. And if you compare there, there you can see that there has been less sales and production, and this is just impacted by the inventory.

Do you want to, Carl, add to this?

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Well, Martti, maybe building on that. And obviously, we have a very heavy turnaround schedule now going into the second half. So that is part of it, obviously. The other part is, of course, that we have been building the value chain for the SAF, and that is clearly also hiring our SAF inventories. As we have volume floating and along the value chain as well. So this is part of it as well.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Yes. On the fixed cost side, I would actually like to extend it to cost overall. So we have been doing already a lot of effort on the fixed cost side. I went through, there is a lower number of employees. We have also been looking at all fixed cost categories, which you can see in the area of other expenses in the profit and loss. But I would like to extend that to cost generally. So there is a lot to do overall on costs.

So also on the -- it relates to also to a variable cost in the materials and services. So we are putting plans together related to look for savings in procurement, logistics, process efficiency, particularly in renewable products, which is where we've been building and we have still areas to streamline. So overall, in the cost side, I still see quite a lot of further potential in making us structurally more efficient as we fine-tune our global platform.

Operator

Erwan Kerouredan, RBC.

Erwan Kerouredan *Royal Bank of Canada - Analyst*

Hi. Thanks for taking my question. I've got two clarification questions, please. First one. what feedstock trends have you seen in the third quarter so far? Is it still on the negative side or on the positive? And I've got a follow-up question for Carl.

Carl, especially on the anti-dumping decision. Am I right in understanding that you've seen that you're already expecting some potential impact on UCO prices for the second half of the year? This is my first question.

And then the second question is a confirmation, please on the start-up date of the SAF optionality in Rotterdam, please. Do we have more visibility on the exact startup date? Thank you. Because you mentioned some of a couple of week delays on the previous quarter, if I'm correct. Thank you.

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Okay. So thanks, Erwan. So on the feedstock question, so I think that what we've seen already, I mean, if you compare to the Chinese imports, UCOME imports in '23, I think we have seen already a certain impact in 2024, less imports during this year occurring.

And clearly, that is having then an opportunity for the European UCOME producers. And we -- one could read that potentially the UCO price in Europe has had some uplift from this impact. But it's very difficult to read this. As said, I mean, these are not very, very transparent markets and there are many drivers impacting them. So I would not perhaps read too much into that.

Then with regards to the sort of -- and then overall so, I mean, we haven't seen any larger trends in the feedstock space over the course of the beginning now of the third quarter. So I wouldn't read anything into that currently.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Perhaps I can take the question on the SAF. So like we actually have said earlier, our target has always been to start up this in the third quarter, and that is unchanged. It's by the end of the third quarter that our target is to start up this SAF optionality project in Rotterdam.

Erwan Kerouredan *Royal Bank of Canada - Analyst*

Thanks. Just a clarification on that one. Is it because of the operational hiccups or because of the market situation being below expectations versus a few months ago? Thank you.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

No. It's -- the third quarter has been the updated target all along. I mean, originally, this project had a time line, which was earlier, but already some time ago, we updated that it's the third quarter. That has not changed.

Operator

Henri Patricot, UBS.

Henri Patricot *UBS - Analyst*

Thank you, everyone. Two questions for me. The first one to clarify on the negative impact of the valuation of US credit prices. We see higher LCFS credit prices in the next few months, we should expect revaluation, the other way around positive this summer, assuming you continue to sell roughly the same volume. Is that right?

And then secondly, looking at that second half margin, any comments you can make on hedging and whether this is something that could have a positive or negative impact in the current environment? Thank you.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Okay, I can answer first on the hedging -- overall ratio at the moment, as we are forecasting will be somewhat higher than in the third quarter of 42%. Too early to call whether it will be a positive or negative, no large-scale changes as we're seeing at the moment. But the first question, Matti did you?

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

Yes, it was on the revaluation of the credits.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Okay. I maybe missed that, so that was still on the revaluation of that and how we see that going forward was that. Okay. I slightly missed that. Sorry, Henri. So yes, I mean, like I mentioned, I mean, we haven't seen, for instance, the LCFS price to come further down now at this moment.

In the contrary, the RIN price, I think the latest was about 67. It was about 55-56 at the end of the second quarter. So there is certain improvement. So at this point, I should not evaluate that there would be a write-down. But this is all up to the market parameters. But like I said, that what is positive is the appreciation in the RIN price to date in the US environment.

Henri Patricot *UBS - Analyst*

Okay. But should there be a significant appreciation of the LCFS rates in the next few quarters as we get higher emission reduction targets there could potentially be write-up at some point. Is that right?

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Yes, we always carry to guess of the time lag that I mentioned a certain inventory in our bioticket credits. That is correct. And these have been, of course, revalued mark-to-market always before. But now we wanted to come out because this was such a profound change, as I mentioned, also compared to the overall margin. It's still a one-off impact.

So yes, potentially, yes, there could be a write-up as well. And depending, of course, also the volumes, it's good to know that now in the second quarter, we sold 51% of our volumes. So the volume impact was larger than before into the US. So we'll be more exposed into the US credit prices.

Operator

Pasi Väisänen, Nordea.

Pasi Väisänen *Nordea Markets - Analyst*

Thanks. This is Pasi from Nordea. I still have one question left. So what would be actually the net effect coming from the improving sales mix and extention of the Blenders Tax Credit for next year? So when looking at these two major earnings drivers that will, say SAF and Blenders Tax Credit combined, is it going to be a negative or positive for Neste and looking up to 2025? Thanks.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

And perhaps Pasi, I can answer it. Obviously can't quantify this as both are very much still work in progress. But perhaps, I mean, coming to this question on the BTC and the switch to the Producer's Tax Credit. Why it is so difficult to make estimates is that clearly, of course, it’s based on the current regulation and credit that is only available for local producers. And then it's also linked to the CI. That means, from our perspective, our Martinez joint operation, we expect to be eligible for this Producers' Tax Credit.

At the same time, it means Singapore, for example, based on the current regulation would not be eligible for the Producers' Tax Credit. Now what the exact impact is will then depend, of course, on how we are allocating our sales. And that is, of course, work that only will happen during the second half of the year when we look at, for example, whether we can increase the allocation to Europe or to SAF, for example.

So obviously, it is a major change. And in that sense, quantifying it is something that will depend on how the implementation and the sales allocation works.

Pasi Väisänen *Nordea Markets - Analyst*

Okay. I hear you. But what would we be the kind of estimated sales to North America with the current kind of proposals regarding the Blenders Tax Credit?

Carl Nyberg *Neste Oyj - Executive Vice President - Renewables Supply Chain and Sustainability, Member of the Executive Committee*

Hi, Pasi, Carl here. So we are, of course, in the phase now where we are planning next year's term sales. So as part of that, this is something that we are analyzing, but we don't have any number really to quantify that for the time being. Obviously, what is clear is that with our plans in Martinez, we will have a significantly higher volume available from our US facility and which will -- likely will be allocated to the US but then for the rest, we don't have any further guidance at this stage.

Martti Ala-Harkonen *Neste Oyj - Chief Financial Officer, Executive Vice President - Finance, Strategy and IT, Member of the Executive Committee*

Yes. I could also add, Pasi, that too early to call on that. If you look back into this year, with not – there was the mandate change in Sweden and then small uplifts of demand in other countries. But Europe, not much growing. We have seen, of course, Netherlands now came up with higher targets during the year. But hence, we've been directing more of our volumes this year into the US.

If you look into next year, like said, we will be eligible for the CFPC anyway from a Martinez production, like Carl said, with more of production. But otherwise, next year, we expect Europe to grow. So it would be as a general anticipation that we will increase our share in Europe. How much will that then depend on the term deals and where we see the best value created.

Operator

Thank you. As there are no further questions, I would like to hand back to Mr. Matti Lehmus, CEO, for closing remarks.

Matti Lehmus *Neste Oyj - President of the Executive Committee, Chief Executive Officer*

So thank you. Thank you for the excellent questions and for joining this conference call. And I would just conclude by stating that in a more challenging renewables market, we will continue to execute our strategy, we will focus on execution, and build on our competitive strengths to maximize our performance.

So thank you. Have a good day. Stay safe.

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