Q3 2018 Neste Corporation Earnings Conference Call

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Corporate Speakers:

- Juha-Pekka Kekalainen; Neste Oyj; VP of IR
- Matti Lievonen; Neste Oyj; Chairman of Executive Board, President & CEO
- Jyrki Maki-Kala; Neste Oyj; CFO & Member of the Executive Board
- Kaisa Hietala; Neste Oyj; Executive VP of Renewable Products & Member of Executive Board
- Matti Lehmus; Neste Oyj; Executive VP of Oil Products & Member of the Executive Board
- Panu Kopra; Neste Oyj; Executive VP of Marketing & Services and Member of Executive Board
- Peter Vanacker; Neste Oyj; Incoming President & CEO

Participants:

- Mehdi Ennebati; Societe Generale Cross Asset Research; Equity Analyst
- Joshua Stone; Barclays Bank PLC; Analyst
- Thomas Klein; RBC Capital Markets, LLC; Senior Associate
- Artem Beletski; SEB; Analyst
- Sasikanth Chilukuru; Morgan Stanley; Research Associate
- Peter Low; Redburn (Europe) Limited; Research Analyst
- Matt Lofting; JP Morgan Chase & Co; VP
- Giacomo Romeo; Macquarie Research; Analyst
- Joe Mares; Trium Capital; Analyst
- Henri Patricot; UBS Investment Bank; Associate Director and Equity Research Analyst

PRESENTATION

Operator: Good day, and welcome to the Q3 2018 Neste Corporation's Earnings Conference Call. Today's conference is being recorded.

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

Juha-Pekka Kekalainen: Thank you, and good afternoon, ladies and gentlemen. Welcome to this conference call to discuss Neste's third quarter results published earlier today. I'm Juha-Pekka Kekalainen, Head of Neste's IR. And with me here today are President and CEO, Matti Lievonen; Peter Vanacker who will start as our new CEO on November 1; CFO, Jyrki Maki-Kala; and the business area heads, Kaisa Hietala of

Renewable Products; Matti Lehmus of Oil Products; and Panu Kopra of Marketing & Services.

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

And with these remarks, I would like to hand over to Matti Lievonen to start the presentation. Matti, please go ahead.

Matti Lievonen: Thank you, Juha-Pekka. And first of all, very emotional day for me because it's my 40th time that I'm doing the quarterly results. And luckily, most of the time I've had very good news for you, and today's still very good news.

I think that it's a really good – you could not get a better farewell gift, what the personnel of Neste gave to me, but it's also a very good start for the new CEO, that there is a very, very sound basis for him to start on and grow with the company still in the future.

But looking at the third quarter and such the whole year, so we are enjoying very good demand, what's coming to the renewable side. Also, our new activities, what's coming to aviation chemicals, they are proceeding as we have thought. We have increased the sales of 100% renewable diesel, Neste MY. So – and also, we have conducted 2 big turnaround, in Rotterdam, and Singapore will soon be finished.

Then if you look at Oil Products, very proud at how well the refinery has been run. And if you look at unplanned shutdowns the last 2 years, so we have went from 80% lower than what we have had. So the things, what we are doing to improving the efficiency and really focus on excellent result, this is paying off very well.

Then in Marketing & Services, also proud because the companies are really tough now in all markets, but we have been able to keep the good performance, good results. But all in all, I think that the group EBIT, EUR 395 million, it's almost at 10 times 4. In like 10 years, 40 quarters. And if you multiply that together, you get the EUR 400 million. We only – it was EUR 5 million short of that. That was our target, but unfortunately, we couldn't do it. But there is the quarters to come that we could also beat that.

But I must say that Renewable Products, it was really outstanding performance. And there's several reason for that, and Kaisa will go through those. But I think that it's our way to do the business, the business logic and also how to run the business to be very precise, be very customer focused. But then to be global player, having a variety of feedstock, a variety of customers and having this flexibility, optionality, that's the big part of our good results.

Also, I'm very happy with Oil Products and the strong additional margin. So those investment, what we have done with SDA and Naantali is really spot-on investments. And if you look forward, it's IMO 2020, so we are in a very good position.

Then what I said about Marketing & Service, they are pushing hard to keep the space, what we have had in the last year. So very, very happy what we have achieved during the years and especially in the third quarter. So couldn't be better.

And if you look at our financials. Return of capital employed after tax, over 20%, and this is really, really great. And then leverage, we are close to 0. And I know your question, that what we are going to do with sort of – but I only give the answer now that we are looking at very, very good investments, and we have that in the tube. We are taking care of that this leverage keeps in that level that we could do all kind of good things to improve our dividend yields and other. And then we want to keep our shareholders in a good hand and be able to pay reasonably good dividends and then hopefully growing dividends.

By these words, I cannot be more than happy and working with you there – who are there on the line and looking forward. Still, I have 3 days to go. So see you in London or in Paris. But great time with these people, over 6,000 people, and they are hard workers, good people. It's good to start with the new CEO.

Thank you, and now I hand over to Jyrki.

Jyrki Maki-Kala: Thank you, Matti. And let's go through some of the financials concerning quarter 3 but also the year-to-date 2018.

If we look to big picture now concerning our quarter 3, being excellent quarter. If you think about Renewable Products really having very high sales margin in the background, really supported by strong markets both in Europe and also in North America.

In Oil Products, reference margin were slightly lower compared to last year. But their own action, the additional margin was very good. It was $6.4, above the $5.5 kind of a longer-term annual target, if you can deliver it that way.

And overall, all these lead to the fact that cash flow was very strong. ROACE, like already Matti mentioned, above 20%, leverage getting to be close to 0, and the comparable earnings per share year-to-date, it's 50% higher than 2017. And comparable earnings per share is basically the factor where we are basing our dividend policy.

So if we take the next page where we have more details concerning – or more figures concerning the 2018. If we first look to comparable operating profit, 2017, we made EUR 1.1 billion. So now when we are in October, so we have already delivered 2017 comparable EBIT. And if you think about figures, maybe some of the highlights there is that if you think about Renewable Products, if you look to year-to-date, 9 month, EUR 700 million comparable EBIT, it is double compared to similar period in 2017. For example, driving factor, sales margin 2017, 2018 compared this year, it is 69% higher than 2017. So excellent performance delivering the EUR 700 million year-to-date comparable EBIT.

And then the cash flow there, the second last line, year-to-date, close to EUR 500 million free cash flow compared to EUR 340 million last year. So the good performance in the businesses has led to a position where comparable EBIT is strong, and we are seeing also improvement, very solid kind of performance in cash flow but also in the comparable earnings per share, what I mentioned there at the last line basically.

If you take the next page, maybe looking about the green columns, you'll see that the performance during the last 5 years, talking about quarter 1, quarter 2, quarter 3. So the performance and the outcome has been very strong. We have improved basically year-on-year, where the position, I guess, compared to, for example, 2015, as an example, but very good solid performance in the background coming out of the strong performance in the businesses.

Then we have 3 different kind of waterfalls there in the background. If you just look first where the – from the BA point of view, business area point of view, compared to quarter 3 2017, you'll see that the renewables, we had an outstanding quarter, and most of the improvement really came from the Renewable Products. Good reference margin, good markets and then the solid improvement in the additional margin.Just like we have stated in the whole year, additional margin is strong, meaning sales margin has been very strong, and then affecting by the turnaround in Rotterdam earlier but also now the ongoing Singapore turnaround. Oil Products, mostly around lower reference margin, very good additional margin in the background. So EUR 45 million improvement, 30% – 13% improvement compared to 2017. So very good excellent quarter.

If we break that down into things affecting the good performance, what we had in the third quarter, you'll see that the green ones is the ones where basically weakened effect is very strong. The additional margin leading the way by far because it's a combination of both businesses. Renewable Products has – had roughly EUR 80 million – sorry, EUR 65 million improvement, and OP had roughly EUR 39 million. So both businesses really improved their contribution coming out of the operations. Reference margin, very strong in the renewable side, lower in the Oil Products. So that's basically the market mechanism. Volumes basically coming out of renewable turnaround, what we had in the second quarter in Rotterdam. So overall, very nice improvement.

And you have the others at the last factor there, and that is more about depreciation. We have invested a lot during last 3 years, so you are seeing that in the depreciation figure. That's how the system works, and that's how we basically landed to EUR 395 million.

And if we then look at year-to-date, 9 months, the story is basically exactly the same: very strong performance in the additional margin; renewables close to EUR 300 million, higher impact coming out of additional margin; and Oil Products, a little bit below EUR 80 million. So very good solid performance.

BTC, we have talked about already earlier this year, and the volume side, EUR 80 million lower. That is the year-to-date figure that is coming out mostly from the Renewable

Products turnaround-related issues. But in the year-to-date, the FX change impact is much higher compared to quarter 3. Quarter 3, it was practically 0. But here, it is still negative, EUR 80 million lower profit because of the U.S. dollar and pretty much split between OP and RP as an impact.

So if you look this quarter 3, comparing with all the other quarters, quarter 1 and quarter 2, the improvement from EUR 800 million level to close to EUR 1.1 billion level, it's really a big change, big improvement. And you see the factors, additional margin, our own operation made a huge improvement. And the results are then what we are seeing here year-to-date figures.

But now I hand over to Kaisa Hietala who will talk about outstanding quarter.

Kaisa Hietala: Thank you, Jyrki. Good afternoon and good morning, if we happen to have somebody listening from North America. Indeed, it was an outstanding quarter in Renewable Products. It was a combination of a favorable market as well as the successful value chain optimization.

Our comparable EBIT reached EUR 228 million, and I think that if we exclude BTC, this is probably the all-time high quarters in renewables. Our sales volume was slightly lower than in Q2 this year. We were still balancing the volumes at the Rotterdam turnaround, but more importantly, we were preparing for the Singapore turnaround, which is now currently ongoing and is progressing as planned.

Our feedstock sourcing was well optimized, and waste and residue feedstock share was as high as 84%. The sales of 100% renewable diesel was 29%, but here, I would like to highlight that if we look at the full year 2018 and what is the cumulative number, we are at the level of 31%. So progressing nicely towards the 2020 target of 50% of our sales to be sold as 100% renewable diesel.

In September, we started a new marketing campaign in Sweden, and we introduced the Neste MY 100% Renewable Diesel via retailers in Sweden.

Our comparable RONA was very close to 50% when looking over the last 12 months.

If we then look into the waterfall, here, you can see that the turnarounds, which we have in this year, they were reducing the volumes with the value of EUR 50 million. We also saw a clear improvement of reference margins, especially in Europe. The winter season is arriving. Companies who are fulfilling the biofuel mandates, they need to move towards winter quality, especially on a biodiesel sector. And therefore, the use of rapeseed methyl ester has been increasing. And at the same time, rapeseed harvest has been very challenging this year in Europe, and therefore, that has been pushing the prices higher, which is then reflected in the rapeseed methyl ester price. So reference margin is improving quite a bit.

At the same time, our additional margin has been improving as well, not only from Q3 last year but also from Q2 this year. We have seen our value chain optimization performing very well. We have seen very good supply of raw materials, also waste and residue raw materials in the market. And the sales demand, product demand has been healthy.

The regulatory changes that took place in Sweden from July onwards this year has also been supporting our additional margin.

Small impact from exchange rates as well as from fixed costs. But all in all, very solid quartile (sic) [quarter] at EUR 228 million comparable EBIT.

If we then quickly look into the market drivers, and first, we go to the European side. As already mentioned, the biodiesel margins in Europe have been strengthening already during the Q3, even though the winter season is only starting. But this is really reflecting the rapeseed oil price development. Then on the other hand, if you look at the vegetable oil and animal fat prices, this is one element supporting our results. It's been a favorable development. The soybean oil and CPO price has been falling, while the rapeseed oil price has been increasing. And something to pay attention here is also that if you look at the trend of the animal fat, it clearly describes that the animal fat supply has been healthier compared to last year Q3. And this is, of course, benefiting Neste and our additional sales margin.

If we then move to the U.S.A., I have to say that it's been an extremely volatile market also in Q3. First of all, if we look at the – on the left-hand side, the soy methyl ester versus palm oil price differential, palm oil, as you saw, has been reaching very low levels. But at the same time, the stronger crude price as well as the weaker soybean oil price, it has created lower margins in U.S.A. and some sort of margin volatility as well.But then on the other hand, if you look at the LCFS credit prices, which is the California Low Carbon Fuel Standard regulation, we saw the new record high of over $190 per ton credit price during Q3. And this, too, happened when the California administration confirmed the long-term ambition. As you remember, there was a proposal on the table to set the 2030 carbon reduction target for California, and that was confirmed. So now the 2030 ambition is a 20% carbon reduction, while the proposal was originally 18%. So that was a positive trend and clearly visible in the LCFS credit price levels.

But then the biodiesel RIN prices, on the right-hand side in this picture, it's been quite a fall. It has continued to decline, and now we have seen the lowest levels since late 2013, especially for the D4 biomass-based diesel RIN. And there are several factors impacting this. It is the market environment. I mean, U.S. biodiesel prices are linked to crude oil and heating oil – local heating oil prices as well as into the soybean oil prices.And then there is the small refinery waivers, which EPA has been granting and now also publishing the numbers. And that has been depressing RIN prices further.

I would like to close the Renewable Products session – results session by looking into our comparable sales margin, which is at a very healthy level. We reached $645 per ton, for the first time going above – clearly above $600 per ton. As said, reference margin was supporting us, especially the reference margin increase in Europe, but our additional margin was equally also improved and very strong.

Our utilization rate was as planned at 93%, and this was mainly impacted by the – starting the Singapore major turnaround.

If I quickly comment on the Q4, as I'm expecting some questions, how does it look like. Well, our current estimates on the sales volume is that it's going to remain roughly on a same level, what we have seen in Q2 and Q3. And our view is that our sales margin will remain strong. Our utilization will be impacted because of the Singapore turnaround. The turnaround is still ongoing, but it is progressing as planned. We are estimating that the impact of the turnaround will be altogether some EUR 100 million, where most of that will be taking place in Q4 but some also in Q1, depending a bit how we are sort of timing the shipments and the sales of the cargoes.

Also, I would like to report that our expansion program, our investment plans to expand the Singapore refinery with 1 million tons, those are progressing as planned. And we are targeting to make the final investment decision still this year.

So with this word, I would now like to hand over to Matti Lehmus to discuss Oil Products.

Matti Lehmus: Thank you, Kaisa. Good afternoon also on my behalf.

And I would start with the general comment that I'm very pleased with the third quarter results in Oil Products. It was a solid quarter. And in spite of the fact that the reference margin came down from year-ago level of $7.2 to $6 per barrel, we were able to come with almost the same level of EBIT of EUR 146 million. And another factor, which in the background, that also the currency rate, there is a weaker dollar now. So also, that was largely compensated.

What made the quarter good operationally is that we had a very good utilization rate, 97%. It practically means we had no planned – no unplanned shutdowns, and also, our new units, like the SDA, they're running really well in the third quarter. And this is then also reflected in many of the other parameters. So for example, our sales volume was at a good level of 3.6 million ton as last year also, and also, the Urals' share was high at 72%. So that's a result of smooth operations. Overall, that brings us so far in – for the last 12 months to a RONA level of 16.4%, which is good level for the Oil Products business.

I would also comment that if you compare to the second quarter 2018, we can see a clear improvement. And that, of course, comes mainly now from the fact that we had less maintenance and also increased sales versus the previous quarter.

If I then look at the waterfall versus last year's third quarter, you can very clearly see 2 items. So first of all, the impact of the lower reference margin is EUR 28 million, which still is, I would say, on a good level as a reference margin. And at the same time, the fact that we were able to strengthen our additional margin to $6.4 per barrel means that the contribution was EUR 39 million higher. And there is really 2 main factors behind this. One is that the SDA unit, where we're still in a start-up phase last year, was now really running well, full capacity. That had a big impact. And at the same time, we also can see increased productivity because there were even less both planned and unplanned maintenance than a year ago. And it's that noteworthy to note that last year, we still had some positive support from contangos. This year, of course, there have not been opportunities like that.

My final comment would be on the fixed costs. They were EUR 10 million higher than a year ago. One of the main factors this year, that we are now already starting to see the preparation for the Turnaround 2020.So quite a lot of planning happening at the moment to be ready for that spring 2020 big turnaround in Porvoo.

A few comments on the market. First one, which is not in the chart, is perhaps that a big change over the year has been that crude price has been on an increasing trend. The third quarter, we averaged $75 per barrel on Brent. A year ago, in the third quarter, that number was $52. So that has, of course, changed the market environment.

If you look at the margins itself, I would describe the third quarter as being led by diesel. That was the strongest part of the barrel at $15.1 per barrel margin. And I think, looking at the big picture, that has really been the pattern this year, that globally, demand for diesel has been strong, roughly 2%. We had low inventories. So throughout the year, diesel has performed well, and that continues also at the moment.

If I then comment on gasoline, it started the third quarter well. We had clearly strong gasoline market in the July, August. Then of course, like you have observed, the season has basically – driving season has ended, and we have seen a weakening of the gasoline market starting in September.

On the crude side, I would comment on the Urals versus Brent differential, that the quarter averaged $1.3 per barrel. This is a relatively normal and typical level for that differential. And it's perhaps noteworthy to see that in the recent months, that differential has widened, and we can, at the moment, see that in spite of the OPEC cuts, the upcoming Iran sanctions, we have seen an increasing export level from Russia, and at the same time, there has been maintenances in Europe. So this has widened the Urals differential in the recent history.

If I conclude. Looking at the third quarter and looking at the total refining margin, we reached a very high level of $12.4 per barrel. This is the best total refining margin level we have seen in the last 5 quarters. And I think within that, taking in particular the additional margin, which increased to $6.4. Again, what I'm very happy about is that since we started up this One Refinery configuration, we have now been 4 quarters in a row clearly above that $5.5 level that we had as a target. And it is clearly proof that by running this setup well, we can reach the target, and we look forward to doing so also in the future.

On the refinery production cost side, you can see a slight increase year-on-year to a level of $4.2 per barrel. And here, I would comment that it is mainly the increase in crude price, which, of course, has an impact on the utilities cost, and that is reflected in that refinery production cost.

At the moment, we are in the middle of the production line 4 turnaround that has started in the fourth quarter, and it is proceeding according to plan. And like we have communicated, we expect that to have a total impact of roughly EUR 50 million, together with some smaller unit turnarounds in this fourth quarter.

With these words, I hand over to Panu Kopra to go through the quarter for the Marketing & Services results. Please, Panu.

Panu Kopra: Thank you, Matti. This is Panu Kopra speaking.

Taking into account tight market situation in all markets where we operate in and also relatively high pump prices, we can be quite satisfied to this result. However, of course, it dropped from EUR 27 million to EUR 24 million. Cumulatively, still ahead of the last year.

Fixed costs were exceptionally high mainly due to timing issue and timing of maintenance and marketing costs. We have tough competition both in Finland and Northwest Russia. Especially in Russia, margins were very low.

Ethylene volumes were a bit lower than last year, but market was declining even more. So actually, we slightly increased our market share here in Finland.

Diesel volumes are growing by 3%.

Customer satisfaction stayed at high level. B2B Net Promoter Score was 55, and we continue to work for even better customer experience. New Neste app for B2B customers is in piloting phase, and customer feedback has been good. We got fifth city to join Neste MY diesel team here in Finland. So Seinajoki also started to use Neste MY Renewable Diesel in its bus fleet from September, and we feel all the time growing interest from other cities as well to join Neste MY users. Almost the entire Neste K network is now rebranded. So roughly 75 upgraded stations with updated offering ready to serve our customers.

At the end and all in all, we continue to focusing on improving financial results and ensuring the best customer experience.

Handing over to Matti Lievonen.

Matti Lievonen: Thank you, Panu. And thank you all, very good explanation. But then 2018 and the current topics.

Outlook 2018. So we maintain our view that we expect 2018 to be a very strong year for Neste. And we do not stop that, not at all.

Then segment outlooks. Renewable Products, as Kaisa mentioned, so we expect that the additional margin will stay strong level, and I think that we should tune ourself to think about more that it's the sales margin what we now really want to emphasize. Realization rate, as Kaisa mentioned, there is a 9 weeks major turnaround at Singapore refinery, and there is about EUR 100 million turnaround costs mostly into Q4. And why it went up EUR 20 million, it's because of better markets. So that is the reason.

Then the Oil Products reference margin, expected to be seasonally weak quarter 4. And now if you look to forward, quarter 4, it's around $4 per barrel. But it was in October levels that there is – that it was a bit over $2.

Then utilization rate. So we have this scheduled maintenance for production line 4. And there also, we have estimate that the impact will be EUR 50 million, a bit higher than we estimated earlier. And it's coming very much in that the SDA unit is bringing much more than what we thought earlier with our additional margin.

Then Marketing & Services, as Panu told, previous years' pattern, and then we point forward as we get good results.

But ladies and gentlemen, I'll be stepping down as the President and CEO of Neste at the end of October, so only a few days left there. But I would like to sincerely thank our personnel, customers, shareholders, the Board of Directors and our investors and our analysts for the excellent cooperation and support during my past 10 years with the company. We have had an exciting journey together. At the same time, Neste future looks bright. I'm confident that the company will prosper under the leadership of Peter Vanacker. Peter has already been with us since 1st of September, and I could only tell that he's a good chap. He will drive this company to the next level. And as a shareholder, that we all want.

And now I'd like Peter to say a few words about himself, and we continue. Peter, please.

Peter Vanacker: Yes, very, very much. So thank you, Matti, and thanks, everybody, I mean, for joining the call.

Short introduction to myself. I've been in the chemical and polymers industry close to now 30 years. Native, born in Belgium, grew up in Belgium, chemical engineer by education and worked 22 years for a global company, Bayer. 10 years of that, I was a member of the Executive Board and ran the global polyurethane business, a EUR 6 billion business with global reach during that period. We did 2 big investments in China, and I believe that, that experience will also be important as we are intensively discussing our investments in Singapore.

After having worked 22 years at Bayer, I have my first CEO assignments, which was restructuring of a company, financial restructuring as well as operational restructuring, one of the leaders in the polypropylene industry under private equity ownership. And then after running that company, I have my second CEO function in leading one of the global leading fine chemicals companies, again, under private equity ownership and bond financed, ran that company for 3.5 years, and the company also had a location in Finland. So I am also a bit familiar with the Finnish culture.

And definitely, also during the first 2 months of here being at Neste, I've seen that we have an excellent company, an excellent culture. People actually do know what their contribution is to the overall strategy. I'm extremely happy being here at Neste and having a great team also in the Executive Board. And yes, we have a lot of things ahead of us, a lot of projects that will continue to develop the company in the future and be in the forefront of driving sustainability on a global basis.

Looking forward to working with you and will do, of course, my best for continuation at the company and making sure that we are successful also in the future as we have been in the last, what, 10 years.

Then, Matti?

Matti Lievonen: Yes. Thank you, Peter. And then advertising. So there will be the Capital Markets Day 2019. It will be in London, 27th of February. So all of you are welcome there. I'm not sure if I have kept the invitation, but let's see.

And then we continue to have a focus, the issues, what we have been the years and years, they have been very powerful. And let's see, there are changes where there is a new CEO probably, but I'm sure that he will underline those things. That's safety, operational excellence, cash flow, customer satisfaction, those other things, and that we are – as our purpose is saying that we are leaving behind a healthier planet to our children. That's our purpose to be. Thank you.

And now we are ready for the questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) We'll take our first question from Mehdi Ennebati of Societe Generale.

Mehdi Ennebati: I will ask 2 questions, please. The first one, regarding the renewable fuels division. So your renewable fuel EBIT, as you highlighted, Kaisa, has been at a record high this quarter despite lower volumes. This would implicitly mean that on some of your renewable fuel cells, you sell at negative margins, justifying why during the last quarter, your EBIT was lower despite higher sales volume.

So can you please explain the situation here, please? Can you please tell us if, with normalized sales volumes, let's say, of 650 kiloton per quarter, you would have been able to realize such high renewable fuel margins? Second question is on the Oil Products premium margin, which has been particularly strong this quarter. I wanted to know if this is linked to a strong utilization rate of the SDA and the production line 4 units given that it was going into maintenance in Q4, so you didn't care about it's indeed at the maximum rate. And if that's not the case, was there any exceptional events justifying such high margins particularly during the summertime?

Kaisa Hietala: This is Kaisa speaking. The question was about the sales volumes – lower sales volumes having a connection to the higher sales margins and whether we are selling some of our volumes at negative margins. Well, I mean, this is not the case. Our sales margin is a combination of market parameters like raw material prices, like the LCFS credit prices, RIN prices and so on. But it's also related to our – how well we are operating the refineries, what is the production cost per produced sales volumes as well as how well are we optimizing the sales.

We have done quite a lot of structural changes to our sales allocation. We are moving much more towards the 100% renewable diesel sales, and we have been also structuring inside North America and Europe, finding the best possible segments and customers for renewable – Neste's renewable diesel. The fact that we – our sales volumes are fluctuating between months has been really related to the turnarounds, and there is also the timing element. I mean, sending a cargo from Singapore to U.S.A. and if you miss couple of days close to the quarter end, that's it.

I mean, it's 30 kilotons immediately falling from this quarter to the next quarter. So I sort of disagree on this analysis, as you can hear. And we are working continuously to improve our value chain and the optimization over the value chain. But of course, it is impacted by the raw material price changes as well as the other market parameters related to our sales price.

Matti Lehmus: And then this is Matti Lehmus. On the other question, which was on the Oil Products additional margin, I fully agree with you that we reached a very high level of $6.4 per barrel. This is actually the highest level in 5 years, as far as I could tell from the history. And in general, I have to say it's the whole refining system. Both Porvoo and Naantali was running really well. But I do agree with you that in particular, the production line 4 and the SDA unit were running really well. And I think we have been on a learning curve on the last 12 months to really get everything out of this new configuration unit. And I would say the third quarter proves what it can do when it runs really well. Whether any exceptional events, I would say no. Perhaps the one thing to note is we did not have any planned maintenance, but that is, of course, not always the case for every quarter. At the same time, it's good to note we did not have any exceptional items like contango income or other things in this quarter. So I think it shows what type of additional margins we can reach with a very good operational performance.

Operator: We will now take our next question from Thomas Klein of RBC.

Thomas Klein: On CapEx, your cash-out investments were very low this quarter, and this included the closing of the Demeter acquisition and year-to-date is only totaling about EUR 280 million. So I'm just wondering what you think the right level is in terms of spending for this year, for instance, if you expect a big uptick in Q4, and also what you think the next few years could look like once the Singapore expansion is potentially underway.

Jyrki Maki-Kala: Yes. This is Jyrki Maki-Kala. Thanks for the question. It's more about commenting now the quarter 4, like I think Kaisa presented, we are going through the Singapore turnaround and also the PL4 turnaround here in Finland. But you are right, I think that we are going to land with the overall CapEx figure for 2018 somewhere around EUR 420 million, EUR 430 million kind of level when we are closing the books. For the coming years, I think we will talk a little bit more in the early part of February when we have closed 2018.

Operator: We will now take our next question from Josh Stone of Barclays.

Josh Stone: I've got 2 questions, please, on the renewables division. Firstly, just looking at the revenues within that business, if I look at sort of a revenue per ton number, it seems to be at very high levels and the highest I've seen ex BTC going back through the quarters. So can you perhaps just help us disaggregate how you've managed to achieve that? You mentioned some regulatory change in Sweden. Maybe if you talk about how significant that was and what exactly is going on there.

And is it the case that you're finding better customers or more customers paying more in new markets in Europe? Or are there other markets in Europe we should be looking at? And then secondly – and also, sorry, just linking to that because the 100% blended sales were actually lower quarter-on-quarter. So can you also just kind of help us tie that up? And then secondly, I was hoping for an update on the feedstock market because about – at the Capital Markets Day last year, you talked about a potential feedstock slate of 30 million tons, of which you wanted to tap into 20% of that. I was hoping maybe you might be able to give us an update on that as to where that number is and how close you are to hitting that 20% number.

Kaisa Hietala: Thank you. This is Kaisa speaking. Let's start from the sort of the question around how have we improved the sales and also the renewable diesel or Neste MY 100% sales quarter-on-quarter. Well, I mean, renewables is – it's quite complicated because it's not – what we are selling is CO_2 reduction, and the CO_2 reduction born from the feedstock. So what we are selling is always linked to what feedstock we are using.

So – and therefore, the optimization is really over the whole value chain, meaning that sometimes we might be buying a certain feedstock and pushing that through the sales channel because the CO_2 reduction is so attractive. While sometimes we have customers who are asking for a certain CO_2 reduction, and then we go to the feedstock market and we buy the right feedstock. So it's all about optimization. So not only have we been segmenting our customers and really looking where are the best segments for our type of renewable diesel.

And there, the RD100, so the Neste MY 100% plays a major role because it's clearly a tool for some customer segments to profile as sort of highly sustainable companies, they use it in their branding, they use it in their own customer promises and so on. And – but then on top of the sales activities, which we have been developing, we have done quite a lot of work around feedstock expansion as well. As you know, we are sourcing globally raw materials, and we have also developed a quite advanced CO_2 calculation around the different feedstock pools that we are using.

And we will definitely discuss our current view on the overall global waste and residue feedstock call during our February Capital Markets Day, but I would leave it there.But as you remember from our previous Capital Markets Day, we are not only focusing on being present in right feedstock markets, but we're also developing a trading platform, and we are also looking into technical solution, how to clean lower-quality raw materials. So it's all about optimizing over the whole value chain.

Then there was a short question about why is our renewable diesel – sorry, 100% renewable diesel percentage lower quarter-on-quarter. Well, this is related to the turnaround. I mean, if we could compare 2018 to 2017, I mean, not having turnarounds and so on, then I would say the years would be comparable.But now I mean, the fact that Rotterdam was down first, that impacted the 100% sales allocation, and now when Singapore is down, it will most probably happen again. But as said, if I look at the full year, the trend is right. I mean, we are above 30% sale of 100% renewable diesel. So we are progressing also on that period.

Operator: We will now take our next question from Artem Beletski of SEB.

Artem Beletski: This is Artem from SEB. Three questions from my side relating to renewables and to Kaisa. So first one is regarding reference margin, which has been skyrocketing basically since start of Q4. I understand that it relates to winter grade of FAME in Europe and also rate per feedstock. But basically, should we be assuming that you will be benefiting out of this kind of a strong trend what we have seen there or not? The second question is really relating to BTC, and the year is approaching to an end. What are the expectations on that front? And the last one is regarding Neste MY introduction in Sweden. Is it so that it's not really fulfilling the new mandate, which is in place there? And also whether you are expecting to have any substantial volumes going forward from Neste MY there.

Kaisa Hietala: Thank you. The first question was about the strong reference margin, which is related to FAME but also into very high LCFS values as well, that are we benefiting directly from this? I mean, it's true that the reference margin is not necessarily describing the sort of the real market drivers of renewable diesel because we are not competing that much with the biodiesel market. But it shows the trend, especially now in Europe, what is the sort of the traditional biofuel industry is facing.

But we are looking into how to develop our margin calculation methodology, and we'll come back to you related to this. Second question was around BTC, Blender's Tax Credit in the U.S.A. and our expectation on that. Well, we don't have visibility on any exact details. We all know that there will be midterm elections in U.S.A. in early November, so we are not expecting any decisions before that. And in earlier years, when the midterm elections have been taking place, we have seen that the BTC decision has come relatively late during that year.

So unfortunately, we don't have further information on this. We need to be waiting and seeing. The third question was about 100% renewable diesel in Sweden. Indeed, in Sweden, there is a new mandate market where the obligated parties need to fulfill the mandated greenhouse gas reduction levels. But on top of this, we have customer segments in Sweden who want to use 100% renewable diesel fuel. And as we want to brand this as Neste MY Renewable Diesel, as a Neste fuel, we have started to work with the retailers and brought this fuel to the market.

It is still small volume pilots which we are doing, but the welcome has been – it's been very good. And we plan to continue this. We believe that the same way like what we have done in Finland, giving the alternative and the choice for the end users to choose between the renewable diesel and fossil diesel, that increases the awareness of the alternatives as well. So we are very pleased to now be able to serve our customer segments with the renewable diesel also in Sweden.

Artem Beletski: Matti, wish you all the best in future.

Matti Lievonen: Thank you. Thank you, Artem.

Operator: We will now take our next question from Sasikanth Chilukuru of Morgan Stanley.

Sasikanth Chilukuru: I just had another one quick question regarding the margins in the renewable business. You highlighted several reasons for the strong margins, the additional margin and the reference margin as well. But if you were to compare the 3Q margins with that of 2Q and 1Q, are there any particular items in 3Q that you thought were exceptionally strong and perhaps has any downside risks? I'm just trying to understand how sustainable this very strong 3Q number is into 2019 and in future years.

Kaisa Hietala: Thank you. So the question was around Q3 sales margin in renewables. And if we look at the Q1 and Q2 and the trend, I mean, how sustainable is this, I mean, as long as we have the feedstock market volatility as well as volatility in some of our sales price via LCFS credits and RINs and so on, there will be volatility. However, based on our current forecast, we do planning 15 months forward, and we have done all the sales for the Q4 already. And now we are sort of looking into how the market is developing and how the shipments are moving and so on.

So currently, with today's visibility, our view is that the margin will remain strong also in Q4. But unfortunately, there is the market volatility, which we are not able to transparently report, and unfortunately, there is not even an instrument where you could follow it. This is the overall dilemma of following renewables or forecasting renewables margin.

Operator: We will now take our next question from Peter Low of Redburn.

Peter Low: My first was just on renewables. You mentioned specifically that the regulatory change in Sweden has been supporting the additional margin. Can you just walk us through exactly what those changes are and how they've kind of impacted your pricing power there? And then the second was Oil Products, just on the gasoline market. What in your view is causing the common weakness in cracks? And kind of how do you see that developing going forward?

Kaisa Hietala: Thank you. This is Kaisa speaking. The first question was about the regulatory changes in Sweden and how is that supporting Neste, more details. Well, Sweden moved into a mandate regulation at the beginning of July, this meaning that all the fuel players in Sweden, they need to fulfill a certain greenhouse gas reduction volume or percentage. And this means that they need to find ways for themselves to be able to meet the required levels by the end of the year.

And here, I think the most important element for Neste is that Sweden has relatively ambitious plans when it comes to greenhouse gas reduction. And therefore, for the obligated parties in Sweden, just using traditional biofuels is not enough. So there is the blend wall effect, which we have discussed earlier, meaning that they will be needing more advanced biofuels to go beyond 8%, for example, when it comes to diesel. And there, renewable diesel and HVO type of solutions are becoming valuable. So this is basically, in a nutshell, the change that took place in Sweden.

Matti Lehmus: And then this is Matti Lehmus. On the gasoline market question and what is causing the current weakness, so my first comment would be that it is, of course, a very typical seasonal phenomenon that when the driving season ends, the demand level goes down. And secondarily, we also have obviously shifted from summer quality to winter quality, which also has seasonal lower margins as a consequence. I think what is particular for this year is that what we saw in the summer months, particularly July, August, is that given the strong refining margins at that time, we had particularly high runs, we had extremely high refinery utilization rates both sides of the Atlantic.

And what that actually had as a result is that gasoline inventories in particular increased in spite of the good demand level. So I think we are also in a situation where some of that inventory needs to be normalized, and that is actually what we have started seeing in the previous few weeks. So for me, it's a quite typical seasonal event, which, however, this year, has been quite quick to happen because of the high runs in summer.

Operator: We'll now take our next question from Matt Lofting of JPMorgan.

Matt Lofting: It's Matt Lofting, JPM. Matti, I mean, first, I would like to congratulate you on a tremendously successful 10 years. I think your stewardship of Neste has been a great example. I mean, I'd also like to ask, I mean, if you reflect on how the business in some of the core markets have evolved over the last few years, what's perhaps surprised you most in an industrial level reflecting. And then secondly, Oil Products, clearly an excellent quarter in terms of operational execution, reflected through the additional margin. Could you elaborate on some of the key incremental drivers in Q3 on the additional refining margin, the extent to which the SDA unit is now at full capacity or utilization, and with the sort of the full year or year-to-date now well in excess of $6 a barrel, the extent to which a sort of a new baseline level or potential guidance that can be reset higher than the $5.5 benchmark?

Matti Lievonen: Thank you, Matt. Great to work with you. Yes, there has been exciting years. And if you look back at which markets surprised us, of course, that's the U.S.A., California. But it's not the market itself. There's a lot of customers who has turned to their targets to lower the CO2 emission in the cities. And I think that the big turn started when there was cities like San Francisco, then the companies like Google who started to use our products, and they went to 100% Neste MY diesel, that has been excellent.

But also, our own works, what we did, rebranded our products there, we have probably the best sales concept team in California, in Canada. But then it's surprising that Norway, for example, it's not EU country, and they have very ambition (sic) [ambitious] targets as Scandinavian countries generally, Sweden, Finland; and then countries in Europe also who are pushing really those things. But I think that the thing is that as Jyrki told that we have turned this company to more customer-focused company.

This is the big, big thing. And as Kaisa has explained every quarter we're meeting that we optimize, we are looking, we have optionalities. And this is something great, what we are doing. So we have really made the ecosystem that it's not one country, one feedstock.It's multiple customers with multiple choices of feedstock and then this whole supply chain, what we are managing. And that is the thing that is very hard to copy because you need to time for that. And as Kaisa mentioned, so we are learning every day new things. So we are not yet there where we want to be. So this is fantastic, what we have been creating as a whole Neste. And I'm very grateful that I have been (sic) [I have been given] the possibilities to lead this company and serve my people. Thanks, Matt.

Matti Lehmus: And then this is Matti Lehmus. There was the second question on the additional margin and the drivers for Q3 and then also going forward. If I still recap Q3, I think 2 things I would say. First one is that as we had very good operational performance and there were also no planned shutdowns, that means that we obviously were really able to optimize both the feedstock mix and the product mix. And I think if you look at it from that perspective, with this new configuration, with the SDA units and also Naantali configuration in place, it just means that it was a clean quarter from that sense.

From a market perspective, you could argue that it, of course, helps when we have a good diesel margin where we had a relatively, let's say, at least normal Brent differential because the fundamental logic of this new unit is that we are increasing the conversion of heavy residue to diesel in particular. And if I look forward and to the question whether we could go higher than the $5.5, I would just say 2 things. One which is good to remember, there will always be some quarters where you do have exceptional events. You could have like a big maintenance, for example, planned PL4 maintenance like we have in Q4 or there could be other exceptional events like FX hedges or some other things, which have an impact.

So that is still good to remember, that, that will always create some variation in the additional margin. But I would, of course, highlight that when our operation is clean and there are no exceptional events like that, the first – or let's say, the first year proves that we can push above that $6 per barrel level and we will definitely continue targeting that. And then looking to 2020, it's perhaps good to mention that looking at the IMO change, the widening differential between fuel oil and diesel, the wider heavy/light differential in crude oil, this, of course, should provide us opportunities to further drive strengthening of the additional margin.

Operator: We will now take our next question from Giacomo Romeo of Macquarie.

Giacomo Romeo: Three questions for me. The first one regards to the – your acquisition of the Dutch feedstocks trader. And with the completion of the deal, how are you planning to report, starting from next quarter, the contribution from this? And if you can give us a little bit of an idea of the potential financial impact of the acquisition. And perhaps to – in a similar context, can you provide an indication of the contribution from the biopropane volumes you're selling?

And second question is just trying to get a little bit more sense of the opportunity set for the 0.5% biofuel mandate for aviation fuels in Norway that will start on the – started on the 4th of October. And final question, in the first quarter call, you said that you expect the SDA unit to be paid back in 4 years. Do you think you are on track on that given this very strong margin or you would expect this could actually be even shorter than your originally 4-year plan?

Kaisa Hietala: Thank you. This is Kaisa speaking. We'll take the Demeter question first. So we completed the acquisition of a majority share of Dutch tallow trader Demeter in end of August. We are not planning to report it separately. And the contribution is basically, it's part of our feedstock strategy. This is our way to speed up and expand the feedstock availability and reach in Europe. So it is our – part of our feedstock growth platform, and we will not be reporting it separately. Then there was a question about the indication of a contribution of biopropane volumes.

And this was a good question because we have not been discussing it for a while. And indeed, the biopropane unit in Rotterdam has been now up and running, and our marketing partner – marketing and sales partner SHV Energy has introduced the product to the market. It's been very well welcomed. We are seeing these molecules going into different applications, both in U.K. but also in Central Europe. And they have been very pleased, and also, their customers have been very pleased with it. The contribution is visible in our sales margins. So when we are reporting the renewable diesel sales, we are also reporting others' sales.

And there we have the bio-naphtha and also the biopropane. But at the moment, we are not reporting any more detailed or sort of a more granular – on a more granular level. Then the third question was about the fantastic decision by the government of Norway that they were sort of historically, the first in the world as a government to take this sort of ambitious step to say that from 2020 onwards, Norway will have 0.5% of alternative fuels, meaning biofuels, in aviation. And it was great that now we are seeing the governments also to move.

So we consider this as an important step even though 0.5% looks like a small percentage. But when looking at the 2030 ambition, which the government of Norway was setting, it was about 20% altogether. So this, combined with the plans which Neste has in place regarding renewable jet fuel and the alternative fuels in aviation, I think the timing was perfect. So thank you, Norway.

Matti Lehmus: And then Matti Lehmus. On the SDA, you're right, what we communicated about the SDA that from start-up, we are targeting a payback of 4 years. I think now after 1 year, having had a quick learning curve, I'm very optimistic that we should be able to accelerate on that target. It looks very promising for the SDA unit.

Operator: We will now take our next question from Joe Mares of Trium.

Joe Mares: First of all, I mean, everyone said it, but I will add the same. Thank you to Matti for 10 years of leadership, and especially thank you for probably answering the thousands of questions that have come from – on these calls and all the other meetings with a smile. One question – most of my questions have been already asked. But one quick question, and maybe this is the topic more for the February meeting, but I – you put out a press release on waste plastic as a possible feedstock, is what we're seeing. Excuse my ignorance in chemistry, but I would have thought that it doesn't have triglyceride. So is there something else kind of going on in there that allows you to use that as a feedstock? Too complicated for the call, but I'd love to know the answer in February if you could tell us.

Matti Lehmus: Perhaps – this is Matti Lehmus, I can take your question, and I would love to talk an hour about it because I'm very passionate about the topic. But a short answer is that we are very serious about the development we are doing to look at waste to also lower the carbon footprint of our traditional refining. And we do consider that using liquified waste plastics to replace fossil crude oil is a very promising avenue to reduce exactly the carbon footprint of our traditional refining.

In parallel, we consider it a very important approach to actually reduce the waste volume and to improve the recycling rates, which, as you know, is one of the very important targets of the European Union. So we are working very hard on this topic, talking to a number of different type of partners, working on their research and development side. And our target is to have a first test run pilot during next year to verify the concept. And then we do see the potential long term. We have been public about saying that we want to replace at least 1 million tons of crude oil in the next decade in our traditional refineries.

Joe Mares: Great. Well, look forward to talking about it in February with you in more detail.

Matti Lehmus: I'll be happy to share more.

Operator: (Operator Instructions) We'll now take our next question from Henri Patricot of UBS.

Henri Patricot: I would also like to congratulate Matti on the 10-year tenure. It's been quite a successful transformation for Neste over the period. I only have a couple of questions left. The first one on Renewable Products, and then the other, new market that you have on biochemicals. Wondering if you could give us an update because if I'm not mistaken, you were supposed to start commercial sales by the end of this year. Just can you give us an update on the volumes involved this year and perhaps also next year? And secondly, I wanted to know if you can give us a bit of an update on your thinking around the capital structure. And Matti, you mentioned the dividends earlier. I'm not sure if you're thinking of just a mechanical increase in the dividend level because of the increase in earnings, so if you're thinking of increasing the payout given the very solid capital structure in which you're in at the moment.

Matti Lievonen: First question was the biochemicals and then the...

Kaisa Hietala: Henri, could you confirm whether it was about biochemicals or renewable jet fuel, the first question?

Henri Patricot: The biochemicals.

Matti Lievonen: Biochemicals. Yes, indeed, there, we have the cooperation with IKEA, and we said that we will have a really commercial planning in these products. And hopefully, it will be then in IKEA's use during the first quarter next year. That is the plan, and that was, by the way, very interesting when we had the press release that we are working with IKEA, we got – and of course, we are working with other big brands. But after that announcement, we got a huge number of inquires from the really big brands globally that what you are going to do, can we work together.

And that is the next steps, what we are going to do. And of course, now we have also the expert in the house because Peter has good experience about the chemical industry and also how things going there. But we see that it will be one of these new avenues for us. The other one is, of course, the renewable jet fuel, that what we see that it will be the big, big product for the future. And we also – when we are now planning this Singapore expansion, we will add there units that we could really produce high-quality renewable jet fuel. So we are doing all the things that we are ready for the future and that we see that there is a lot of avenues for us.

Peter Vanacker: And I would – Peter Vanacker here. I would like to refer then also to the Capital Markets Day that we have on the 27th of February. And we will, of course, give more in-depth information on these items that are going to be a key part of our strategy.

Matti Lievonen: What was the second question, Henri?

Henri Patricot: And second question was on the plans for your capital structure given your almost net cash position. And in your opening comments, you mentioned higher dividends. I'm not sure if you're referring to just mechanical increase in the dividend or increasing the payout.

Matti Lievonen: That's – let's say that with this result, what we are doing also, giving the increasing dividends. But of course, we need to look at all those things going forward. But it's also we have so – just liquidity in our balance sheet that we could also think about different kind of things. This Rotterdam – the Singapore plant is only one. It doesn't really need our flexibility figures. It will be divided for 3 years, and our cash is really strong, so we could consider other things.

And hopefully, there will be, but couldn't disclose anything more and couldn't disclose that when. But first thing is the Singapore. And as Kaisa mentioned, so we have used already – if you look at the fixed costs in renewable side, so we are preparing all those things. So we have used already tens of millions of that, so it's not that we are only talking. We are doing the really, really defined studies, and I'm sure that we are ready in December to announce something.

Operator: It appears there are no further questions at this time. So I'd like to turn the conference back to you for any additional or closing remarks.

Juha-Pekka Kekalainen: Thank you. This is Juha-Pekka Kekalainen again. If there are no further questions, we thank you very much for your attention and active participation.

Neste's fourth quarter and full year results will be published on the 6th of February. Until then, thank you, and goodbye.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.