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PRESENTATION

Operator

Good day, and welcome to the Neste Corporation Q2 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Juha-Pekka Kekalainen, Head of Investor Relations. Please go ahead.

Juha-Pekka Kekäläinen - *Neste Oyj - VP of IR*

Thank you, and good afternoon, ladies gentlemen. I hope you have -- had a nice summer. Welcome to this conference call to discuss Neste's second quarter results published earlier today. I'm Juha-Pekka Kekalainen, Head of Nestor's IR. And with me here today are President and CEO, Matti Lievonen; 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 again 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 conference call.

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

Matti Lievonen - *Neste Oyj - Chairman of Executive Board, President & CEO*

Thank you, Juha-Pekka. Great to be here, and great to be here after very hot summer here in Finland and still continuing, and -- but also great to be here because Neste's strong financial performance continued, that was a great achievement, and we posted EUR 277 million comparable operating profit. As said in the headings, so renewables leading the way much higher than the previous year's second quarter. But I like to put attention that Q1 compared to Q2, so clean EBIT without Blender's Tax Credit, so Q1 was EUR 156 million and now it was EUR 177 million, if you deduct the planned maintenance and net sales volume, so they did a great, great result and very proud of that.

Also, the Oil Products was impacted, of course, planned maintenance as was informed earlier. But also, the weaker U.S. dollar, that's gave a big effect. I'm very happy with Oil Products that this additional margin was in a very healthy level, much higher that what we have set as our target, and it has been several quarter in that direction. So those investment what we have done in Porvoo and Naantali, they start to really pay off now.

Other things, if I look at the second quarter, so the renewable diesel markets, demand was very favorable in Europe and USA. We did probably -- I don't know if you know noticed that well so well, but we did a acquisition. We acquired share majority of Demeter, a Dutch trading company and it's the biggest animal trading and fats and protein trader in Europe. So as we have said on the time that we are looking the acquisition, but it's really related, and we could -- it's good to improve our strategical position what's coming into global waste and residue material. So I think that, that was very good start and then probably it's not the last one, nothing more than that.

Then also, the Neste's cooperation with IKEA, it's making its progress. So of course, you have waited eagerly that when we announced real thing and the real is that bio-based polypropylene plastic will start commercial production second half of this year, so very proud of that.

And then during the years, in almost every quarterly reports you have asked that what is the regulatory framework now with -- what's coming to Renewables, and we are very happy that the EU, they could make the preliminary agreement to reach the post-2020 Renewable Energy Directive. And we are happy that also what's coming to feedstock that we are riding the spot there. Also, that there is a increase demand for CO2 reduction in the transportation, that's very good. And then this USA proposal for the renewable volume was showing the growth to the some '19 or '20. So as we have never been very pessimistic recently and it looks that we have been in right track.

So all in all, if I look the second quarter, also the Marketing & Service improved their results, so couldn't be happy that what we did. We had a lot of maintenance in the second quarter, planned maintenance in the Oil Products side and then in renewables side. And we could really well compensated those things, and I'm happy with that.

And if we look at our financial targets, of course, ROACE rolling into over 20% and then leverage close to 6%. I'm sure that you are asking that your leverage is still low. I think that there is a reserve we could do to (inaudible) investment. So happy to have something in the pocket also as a test.

But I can over -- hand over now to Kaisa, who will start the -- oh, to our CFO (inaudible). So CFO will tell about our financials. Thank you.

Jyrki Mäki-Kala - *Neste Oyj - CFO & Member of the Executive Board*

Yes. Thank you, Matti. It's Jyrki Maki-Kala here. And I think that our CEO described the position basically where Neste landed at the end of the -- end of June this year. But just a few things that maybe highlight some of that development that has been there compared to last year's second quarter, last year's half year, but also something compared to quarter 1 as well.

If you think about the quarter 1 this year and really taking out the EUR 140 million BTC, it was on a group level EUR 261 million, and now we posted EUR 277 million, so we improved that by 6%. And we had in the back pocket these 2 negative things. EBIT was in second quarter, the big impact coming out of the turnarounds both Renewable Products in Rotterdam and also Oil Products here in Finland, and then the currency effect, U.S. dollar, that has been really big, especially the second quarter and also the second -- or the first half of the year. So the -- for 4 months really it was a very strong with Neste in the second quarter.

We posted a very good solid free cash flow, positive one, that also lead to this pretty low net debt. So we are, basically, net debt free going forward. It was now EUR 240 million roughly. With this size of the company, I think that our balance sheet is strong and the position for future investment, et cetera is in a very, very strong position. And also happy news for the shareholders. If you look the first 6 months comparable earnings per share, it's now 74% higher than last year this time. So I think, like we have said, we want to keep our shareholders happy as well.

(inaudible) that is there. The -- it's in the blue ones, the quarter 2 and the full first year half of the story. Net sales, very positive thing in the top line, positive growth coming out of the fact, but also the currencies didn't help us because the U.S. dollar got weaker in the background, so we had the volume side and the prices were high, of course, coming also part of the oil price change here in the marketplace.

Good EBITDA is leading to strong cash flow in the background, like I mentioned earlier. And if you think about this for businesses what we have Renewable, Oil Products and then Marketing & Services, every business has their positive things compared to last year's first -- second quarter and also the negative things. And in Renewable Products, it's really about development in the sales margin, combining reference margin and additional margin. That was very positive in Renewables. In Oil Products, very clearly the turnaround made an impact together with the weaker U.S. dollar. And Marketing & Services, they improved their quarter 2 2017 coming out of unit margins. So the business performance was stronger there in the background. So overall, very positive quarter 2 compared to last year and very positive quarter also compared to quarter 1 2018.

If we like -- look a little bit about the development of the -- how our quarterly EBIT has improved. And certainly, we have the other -- the issue that the BTC, in many years, it has come as one big some -- in some part of the year. But if you look at quarter 2 figures and we exclude quarter 2 2016, the BTC roughly EUR 40 million. So you'll see the improvement coming out of the last 5 years, really from EUR 80 million in quarter 2, now to a level close to EUR 300 million. And then you are talking about months really without the BTC. 2016, we had BTC inside, but I think you'll see the development that is very positive coming out of quarter-to-quarter like you have seen the development also year-on-year. So the positive things has taken place in the businesses.

But if we now turn this comparison to this quarter 2 2017 and 2018, you'll see that the major improvement certainly came from the Renewables. Renewables leading the way, that was the headline also what we posted. And Oil Products really coming out of the fact that I mentioned as well. The U.S. dollar, the turnarounds is negative, but very strong additional margin, 5.5% as a target, we posted 6.1%, very strong performance in the background in a quarter of large turnarounds.

If you think about other items really affecting this quarter, where did the improvement came from, but we had the volumes lower. We had big turnarounds, like I mentioned, Renewables in Rotterdam and then Oil Products here in Finland, EUR 50 million left because of lower volumes. And then if you think about the U.S. dollar what I mentioned, that is the second biggest negative impact. The U.S. dollar was at the level of $1.19. That was close to 10% weaker compared to 2017. But the things what are really impacted with this quarter was the additional margin. Both businesses, both Renewables and also Oil Products. Certainly, Renewable close to EUR 120 million, EUR 112 million came from the better additional margin compared to last year. But also, Oil Products has a good solid performance, like I mentioned earlier. Market help us a little bit with reference margin. But the main thing here is really that additional margin, the things what we are doing in our refineries, in the marketplace with our feedstock management, how we are allocating volumes, it has been a very strong and very good solid performance in the background.

And then the half year, where we are close to EUR 680 million already after 6 months, which is, by the way, higher than our full year 2014 figures. So you'll see the improvement also in that sense. But here the additional margin, EUR 260 million compared to last year's first half year, EUR 227 million from RP, but also good performance from Oil Products. So again, things what we can do here in Neste, growth has the very positive development in the background. We have always said that the 10% change in FX changes is roughly EUR 150 million on a annual basis negative. And now you'll see EUR 84 million impact to our comparable EBIT first half, when the currency basically has been 10% weaker in on the U.S. dollar side.

So very logical -- broad, very logical kind of performance what is there in the background, where the positive things affecting our figures and also the things mainly in the marketplace and this turnarounds. That's how we basically landed to the EUR 679 million first half year result in Neste. So very strong, highest ever first half figures in this company.

Now I turn the message to Kaisa and talk about the Renewables.

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you, Jyrki. Good afternoon, everybody. This is Kaisa here (inaudible).

Let's now look into the segments and start from the Renewables. In Q2, I would say, the focus of Renewables was twofolded. We were focusing on the Rotterdam turnaround and at the same time, optimizing our feedstock and save the allocation in a best possible way. The turnaround was completed successfully. We decided to spend couple of extra days to make some additional investments because these are the only moments when you can really make proper changes to the refining processes. And therefore, there is some extra cost added to the original turnaround cost, but that was really planned. And I'm pleased that we did it. We also took the favorable market situation into consideration, and we were looking into the sales allocation between USA and Europe very carefully. And the outcome is that we were posting EUR 177 million comparable EBIT in Q2. And if I take the Q1 as a reference, and this was already mentioned by our CEO, we were able to improve our EBIT in Q2 from the Q1, even though we had the major shutdown in Rotterdam. So I'm very pleased how the teams were managing the situation.

Our sales volume was 589 kilotons, a bit more than in Q1. And here you will see how we are balancing between the quartiles in the turnaround years, the volumes because many of our customers want to use 100% renewable diesel on a continuous basis. Our sales allocation was bit more to North America than what you have been seeing over the past quartiles, but that's pretty natural because the turnaround took place in Europe. And also, the waste and residue share was higher than, for example, in Q1 and so on, and this is also related to the turnaround.

Our additional margin was lower than in Q1, but clearly higher than last year in Q2. And this is related to the structural changes we have made to our sales and fixed optimization. And clearly, the improvement we have made from 2017 shows that the sort of a tail -- long tail sales to lower markets, lower margin markets, does not really exist. So a little bit of different and new situation for all of us to analyze because the -- now the turnaround in Rotterdam is not necessarily fully comparable to the turnaround, which we did in 2016. The market and our sales allocation and our margin environment has changed.

CEO already mentioned the acquisition. We shortlisted in late May. So we are buying the majority share of Dutch animal fat and protein trader, Demeter. And I can confirm that the authorities have now approved -- the competition authorities have now approved the deal, and we are finalizing the process. Investments were slightly higher than last year and these are related to our expansion project, the Singapore expansion project. But otherwise, I would say, very solid quartile and a great completion of the turnaround in Rotterdam.

If we then move to the waterfall and look at the different elements of comparable EBIT between last year Q2 and this year Q2. You can see that the volumes we lost due to the turnaround had a negative impact of EUR 36 million, while the reference margin was better than last year, impacting positively EUR 22 million. And then the big new structural change, how do we allocate and how do we sell our renewable diesel. This is the clear improvement between the years. Dollar change was negative EUR 13 million and then the fixed cost is related to our growth projects. But all in all, EUR 177 million, very, very strong quarter.

Let's then look into the markets and start from Europe. On the left-hand side, you will see the same biodiesel and CPO price difference. And what we saw during the Q2 was a recovery. Same (inaudible) were increasing in Europe due to the overall biodiesel industries' maintenance season. But at the same time, the palm oil production has been recovering and the inventory levels normalized. So in fact it is quite a long time ago when we have seen levels of $300 per ton as the biodiesel palm oil spread. So this is a positive market condition for us. On the right-hand side, you will see the feedstock prices. And there, the trend was lowering. And if we compare to whole year 2017, for example, the trend has been positive for us. Veg oils have been trending down, all of them, during Q2 and tallow has followed. And this is also improving our market situation.

But then on the other hand, if we look at the U.S. margin environment, it's a slightly different story. Quite a lot of the topics happening, lots of political issues. And if we start from the left-hand side and look at the (inaudible) to palm oil, we are seeing a relatively low levels -- record levels, so the local margins are not very good. And this is caused by the historically low green values -- biodiesel green values. And of course, the fact that the soybean oil has also been trending down and this has been reflected in the price. But then if you look the crack in the middle, which is the low carbon fuel standard credit price, which is the California additional sort of credit, which biofuel sellers in California generate on top of the normal margins, it has been trending up a lot, and it has reached all-time high levels. I was checking that the number today was already above $190 per ton, and we know that the ceiling is $200. And of course, this is clearly an indication that there is a deficit in the market. The supply and demand balance is not optimal. And this might be caused by the decisions, which USA made in 2017 to start to restrict the import -- imports from Argentina -- the biodiesel imports from Argentina.

And then finally, the biodiesel RINs on the left-hand side, trending down. And there we have a political aspect involved. So the RINs have suffered from a large number of volume waivers, which have been granted by Environmental Protection Agency to small refiners in USA. And the number for 2018 is clearly higher, the number of waivers, and the volume that have been waived is clearly higher than what we saw in 2017, and this has been sort of creating over supply or surplus of RINs in the market and impacting the RIN values, especially the ethanol, the D6 RINs. However, the mandate proposal from EPA that recently came out, it was very reasonable, it was constructive, it was showing a growth, and it was granting the 2009 -- 2019 mandate for the whole renewable pool with a 500 million gallons growth, but then it was also proposing already now a growth for biomass-based diesel for 2020. So very positive news in that respect. However, it has not been able to change the trend, but we might now see that at least D4 should be reaching the bottom. Let's see how it moves. But quite a lot of things happened in USA.

So let me finalize the Renewables analysis by looking into the additional margin. So as our CFO was saying, on a comparable sales margin levels, the difference between this -- the years is significant. But if we then look at the comparison to Q1, which was also a very successful quartile for Renewables, we are something like $20 per ton apart between this quartile. So on a comparable sales margin level, very strong quartile. Reference margin was also slightly higher in Q2 and then in additional margin, we took the hit of the Rotterdam turnaround. It meant extra production cost for us, less optimal feedstock and sales allocation because Rotterdam was not operating for (inaudible) and also there were some hedging losses included. So all in all, we landed around 300 -- or we landed at the $300 per ton additional margin, which is strong, it's stronger margin under this maintenance quartile condition. And the utilization rate, of course, relatively low because one of the large refineries was down for 5 weeks.

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

Matti Lehmus - *Neste Oyj - Executive VP of Oil Products & Member of the Executive Board*

Thank you, Kaisa. And I would start the segment review of the Oil Products by stating that the second quarter was a very good quarter, a very solid quarter for Oil Products. And for me, it's characterized by 2 things really. One is that the operational performance was really solid. We did have virtually no unplanned outages and that is reflected in many of the operational performance indicators (inaudible). It's very positive because this was now already, at least, the third or fourth quarter in a row where we have been able to provide such good operational performance. At the same time, the quarter is, of course, characterized by scheduled maintenance and the currency exchange weaker dollar versus a year ago, and that has been also reflected in the result, which came in at EUR 92 million.

If you look at utilization rates of 89%, it basically reflects the fact that we completed the plant shutdowns for some very large units, such as the FCC and number of gasoline units. And I'd say I'm very pleased that these went exactly as planned in schedule and that basically 89% reflects this performance.

The other thing that, I think, it's worth mentioning here is that the Urals share was very high at 78%. And -- in a market were the differential towards Brent was wide, this actually reflects, again, smooth performance, our ability then to maximize the share of Urals in our crude mix.

If I turn to the waterfall, couple of highlights. The first one is that the volume impact resulting from the planned maintenance is very clearly visible, the sales volume was low at 3.3 million tons and that impact was minus EUR 14 million. Here it's, of course, also important to note that always when you have a shutdown like this, some of the volume impact also reflects refining of sales. So actually, production volume was only slightly lower, some of the volume will then be sold in later quarters. The other big negative impact is the FX, the weaker U.S. dollar, which moved from $1.1 one year ago to $1.19 in second quarter '18. And that impact is minus EUR 19 million on the Oil Products results. And also, here, fair to say the impact then of the hedges in the additional margin quite limited in the second quarter 2018.

And then finally, third very important note is that the additional margin, which came in at 6.1% at a very good level then contributed a positive EUR 17 million year-over-year. And this, of course, now reflects a number of things. It reflects the fact that SDA units and Naantali configuration were fully up and running, running very smoothly. It's the third quarter in a row now that we have this new operation in place and it runs really well. It also reflects the fact that otherwise operational performance was good, for example, the timing of sales, supplies went well.

Final comment here would be that fixed costs were EUR 6 higher year-on-year, and this very much relates to higher planned maintenance activity.

Then a couple of comments on that market. So the reference margin overall was in a very similar level a year ago at 5.6%. And if you look within that reference margin, there is clearly visible that diesel was the strong part of the barrel. We had a margin of $14.5 per barrel in the second quarter, followed then by gasoline at -- which recovered from the first quarter to $12.6. But I think it's interesting to note in the comparison versus last year that diesel has clearly become the leader. Last year, it was exactly the other way around, with gasoline being at almost $16 per barrel, diesel below $12. This reflects a couple of things for me. One is that demand growth has continued to be robust. We continue to see, especially for diesel, growth rates of around 2% globally, which is a very good rate, reflecting the high industrial activity growth. But also, wanted to step something that also the market has been watching very closely, gasoline growth continues at quite a robust level of roughly 1.5% globally. And I think that's quite noteworthy in an environment where crude price has increased from $50 a year ago to almost $75. So the gasoline demand has been proven to be very resilient.

And of course, then further, the final comment would be that diesel inventories in particular are quite low, that is something, which of course, continues, that we do see year-on-year quite a clear decrease in distillate inventories globally.

The other comment on the market would be around the crude and in specifically the Urals differential versus Brent. The second quarter, we had a relatively wide differential of minus $2.2 per barrel versus $1.6 a year ago. And I think here we can clearly see a reflection of the fact that there was quite high maintenance activity in Russia itself. So in spite of an environment where the OPEC cuts were in place, the differential widened to this level over $2 per barrel.

And final comment is, of course, I know you are watching the market also daily. So the third quarter has started quite strong. Gasoline has clearly recovered further, and we are started -- for example, today we are at a level of $7 per barrel on the reference margin, so it's been a good start for the third quarter.

Finally, looking at the total refining margin, I would, obviously, note that the overall level of sales dollars per barrel are $11.8 is very good. It reflects the high additional margin. And I have to say that the important thing here is -- and I very much look at the theme, at the refinery is the fact that we have now been able to have consecutively many quarters where all our core units are running really well and there are virtually no unplanned outages. So I think that's reflected in this additional margin level, which is above the $5.5 that we have indicated even if we have some unit turnarounds.

The other comment I would make is that refinery production costs were high in the second quarter $5.2 per barrel. And obviously, main reason being the planned maintenance, of course, also higher crude price is reflected in some higher utility costs. So these are the 2 drivers.

With these words, I would complete the Oil Products part and hand over to Panu Kopra to discuss Marketing & Services.

Panu Kopra - *Neste Oyj - Executive VP of Marketing & Services and Member of Executive Board*

Thank you, Matti. This is Panu Kopra speaking. The year continued better than last year. Comparable EBIT increased by 5% during second quarter. And now we can say that the first half of the year, we have improved by 10% comparable EBIT. We can say that all the markets where we operate in, they were tight, especially Russia, Northwest Russia was tight. Even though the markets were tight, we were able to increase slightly the unit margin as well as the volumes been increasing. Now after first 6 months, diesel volumes are up by 2% and heating oil by 15%.

We can be also quite happy with the number of new customers. We gained more than 5,000 new customers during Q2, which is relatively healthy growth. Same time, customers are happy with our services, so we were able to keep the old and the new customers. Satisfied and our Net Promoter Score remained in high level.

We opened 5 new stations during Q2, and we launched new even better and cleaner Futura gasoline products in all our markets. We continued to develop our digital services. Our mobile app work is going as planned. We signed new agreement with new supplier in order to expand usage of robotics in our operations. We also piloted Neste SmartTruck concept, which is developed together with our customers for the buses and trucks analytics And we'll continue to focus improving our financial results and keeping our customers satisfied.

I'm now handing over to CEO, Matti.

Matti Lievonen - *Neste Oyj - Chairman of Executive Board, President & CEO*

Thank you, Panu. If you look at our outlook for 2018, and there's a slight change what we have put in. We used to have -- we expect 2018 to be a strong year for Neste and now we upgraded it to very strong. Despite that we have a big turnaround in Singapore, we have some unique maintenance in Oil Products side and where we get this sort of confidence, which coming at the first quarter -- first half of the year has been strong year for us. And when you look at the market development of our sales allocations, refinery, so we feel that we have full trust to say that, it will be a very strong year.

And if we think about the Renewable Products, so we expect that the additional margin would stay at strong level. Utilization rate is good. Rotterdam is running really well. Also, the Finnish units we have been able to increase a bit output there. So we have this 9 weeks -- 9-week major turnaround in the Singapore refinery in quarter 4, EUR 80 million EBIT impact and its maturity will be in 2018, but partially it goes to also 2019.

Oil Products, we said that reference margin expected to be continue on a similar level on average as in the first half of 2018, and then utilization rate going to be high. There is a -- some unit maintenance in -- planned maintenance in second half and in quarter 4, and there is -- the impact EUR 50 million.

And in Marketing & Service, they are pushing harder to make better results, but we expect that margins and the sales volume, they are follow the previous years' seasonal pattern.

And we continue to focus the things that you are probably mad because we cannot change it. But we have proven that having this focus, we have been able to really perform and safety and operational excellence, that's the big (inaudible) in the processing industry. Cash flow, we have our CFO talk (inaudible) company, customer satisfaction that is the thing what we have pushed a lot. And I would say that we are probably, in this industry, the leader on the wholesale side and our retail. So very proud of those. And we want to keep it and of course, the one we focus on is also that personnel (inaudible).

With those remarks, I'll -- we'll (inaudible), please.

Juha-Pekka Kekäläinen - *Neste Oyj - VP of IR*

Yes, operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mehdi Ennebati from Societe Generale.

Mehdi Ennebati - *Societe Generale Cross Asset Research - Equity Analyst*

Two questions, please. The first one on the Renewable Products. So on your fixed price slide, you show that primary price remains particularly low. Nevertheless, you've decreased the (inaudible) in your feedstock because of the maintenance. So I would like to know if you would have been able to post higher Renewable Products margins by using more palm oil. And I would also like to know if you also lower the feedstock portion in order to put that to test -- to test the future change in legislation in some Nordic countries, which might lead to lower palm oil feedstock. So can you please elaborate on that? And if we might see some impact on your margins? The second question is on the IMO. The IMO utilization might start by 2020. And you are well positioned to benefit from it, given your complex refinery. However, it looks like you're planning a maintenance in 2020, your 5-year -- as you know, every 5-year, you do a (inaudible) And it looks like it will be in 2020. So can you please confirm that it will be in 2020? And can you please tell us if you could make it, for example, in second quarter 2019?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you. The first question was around Renewable Products feedstock. And the first part of the question was about the CPO and the price level being lower and whether that has the impact. I mean, if we had been running the Rotterdam instead of having the shutdown. Well, the way we are optimizing our margin is really based on the market. We have been changing quite a lot of the way how do we sell renewable diesel, especially the 100% pure renewable diesel, and that has been also impacting the selection of our feedstock base and the raw material base. And many of the European markets are really profitable for us, not necessarily depending on what is the raw material. I think last year Q3, Q4 and this year Q1 was clearly showing it. We do not clearly indicate the margin differences between different feedstocks that are being used because it's all related to the greenhouse gas emission reductions. And with the sustainable palm oil, for example, (inaudible) capturing, the greenhouse gas reduction can be almost as high as waste and residues. So therefore, those CPO is also a very sort of a good raw material and helping us to improve the margins. And at the same time, as you were able to see from the feedstock price big picture, for example, tallow price has been trending lower this year. And clearly, it has also impact on our feedstock selection. But then the second part of the question was about, did we sort of like test during this turnaround, especially in the Nordic countries that what if in the future there would to be limitations on the feedstock? At least, that's how I read your question, Mehdi. And first of all, the Nordic countries, they do use all the same raw materials as elsewhere in the Europe. They are following the same regulation. And many of our customers, they want to have a wide spectrum of different raw materials and they are really looking at the greenhouse gas reduction. But of course, all the raw materials need to be sustainable produced. So in that respect, this was not our intention to sort of do any testing. But however, if we think about the future and long-term future, this is one of the reasons why we are prepared to process fully 100% waste and residues, if needed. But it's always a question of what our customers want to have and how the local authorities are then defining each raw materials greenhouse gas emission reduction potential. So in that respect, we were not piloting anything. But now regarding IMO, let me give this to Matti Lehmus.

Matti Lehmus - *Neste Oyj - Executive VP of Oil Products & Member of the Executive Board*

Yes, thank you. So I agree on your comment on the IMO that Neste is well positioned. I think it's clear that we do expect diesel margins to be supported. We do expect on the crude side, the heavy/lite differentials to widen. I think it's also important that we have -- technically, we feel the ability already now to switch our entire fuel oil production to 0.5. So I fully agree, it's something that is important for Neste, and will and should be a big opportunity. You asked about the maintenance and you're fully right. We have a maintenance cycle for major turnarounds in Porvoo of 5 years, which means that we are planning a major turnaround again in spring 2020. As you will know that kind of major turnaround is driven by legislation. It takes a lot of preparation. So we do not have any plans to change that timing.

Operator

Our next question comes from Thomas Adolff from Crédit Suisse.

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

Two questions from me please. Just firstly, on the Dutch trading company, where you now have a majority stake. I'm just trying to better understand the rationale because presumably you do have direct contracts with your existing suppliers. So what does this really bring to the table, what does it bring to the table better price purchases? And if so, remind us what your exposure is to the spot market? Secondly, just in terms of the feedstock in Renewable Products and in terms of animal fats, could you possibly disclose what the split is currently between Category 3 and Category 1? And what sort of a price differential we are talking between those 2?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

First question was around our acquisition of the Dutch animal fat and propane trader Demeter and what was the rationale of that. Demeter has a long history of aggregating and trading volumes, tallow and propane volumes across the Europe. And we have been in the market, and we have been working with Demeter also in the past. But clearly, they have the right excellence and business models to strengthen our position in the tallow market. And we found a mutual interest to grow together. And therefore, the acquisition was done. We have said during our Capital Markets Day presentation, that building our global footprint in waste and residue availability is one of our key strategic activities. And clearly, this acquisition is part of the work that we have wanted to do in Europe and now successfully completing it. The second question was regarding animal fat and whether we are partly seeing the share between how much Category 3 versus Category 1 we are trying and what is the price difference. And here, I'm so sorry I have to disappoint you. I mean, we do not go into those details. It's quite proprietary information for us. So unfortunately, I'm not able to share that information with you.

Thomas Yoichi Adolff - *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

But is it a material difference? Without actually quantifying it, just trying to understand because you're building a lot pretreatment facilities and just a magnitude of difference perhaps, maybe not in numbers, but just maybe in kind of words if you don't mind commenting on it?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

All right. I mean, the categorization of tallow is based on the quality. And we have been saying over the years that we are going into more and more low quality raw materials. And clearly, there is a difference how clean feedstock or tallow there is between the -- for example, Category 2 -- Category 3, Category 2 and Category 1. This categorization is only used in Europe. It's not used anywhere else. And it's related to also the -- sort of the BSE risk. So the lower the quality of cost, the more attractive raw material that is for us. And that's why we have been investing in a pretreatment expertise and facilities over the years.

Operator

Our next question comes from Peter Low from Redmond.

Peter Low - *Redburn (Europe) Limited, Research Division - Research Analyst*

My first was on the sequential step down in the Renewables additional margin. You mentioned that this was largely related to the Rotterdam maintenance. Does this mean we should expect an additional margin in 3Q at a similar level to 2Q, given that 40% of the maintenance impact is still to come? Would you expect it will increase back towards first quarter levels? And then my second question was very clearly you've changed your outlook from a strong year to a very strong year. Can you just confirm whether your view first half performance is strong or very strong? And do you think there's more to come in second half?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you, Peter. This is Kaisa Hietala speaking your first question was around the renewable additional margin. And the fact that if we compare between Q1 and Q2, there is a drop in our additional margin and whether what is our view for going forward. Well, we are now guiding that the additional margin will remain strong. Naturally, the sales allocation and the feedstock optimization will be different between the Q2 and Q3 because now all the units and the refineries are up and running. Unfortunately, we do not give numerical guidance here. But we are guiding that it will remain strong. And then there was a second question regarding the overall guidance, which I'll give to Matti.

Matti Lehmus - *Neste Oyj - Executive VP of Oil Products & Member of the Executive Board*

So as I mentioned, the first half was 617 and we said that we have taking that into account and then our outlook for the rest of the year and then we are guiding very strong.

Operator

Your next question comes from Henri Patricot from UBS.

Henri Jerome Dieudonne Marie Patricot - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

I have 2 questions for Kaisa on Renewables. The first one, I was looking at the change in second quarter and now the third quarter, where we can see that the reference margin has gone up by something around $100 per ton seems to be driven by the (inaudible) credits and palm oil spread. So I was wondering if it could be some pressure on the additional margin because you don't recapture the same palm oil spread, which may not be as relevant as it used to be, given the new sales structure. Can you confirm if that's the case? Or you should see the full benefit of this $100 per ton increase? And secondly, you mentioned that you've made some additional investments at the Rotterdam plant in the second quarter. Can you go into more details with what you've done and what the impacts we can expect in the future?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Very good. Thank you. Two questions. The first one around the reference margin improvement between the quartiles and whether we -- Neste will be able to capture that fully going forward. At the sales allocation is not comparable between the Q2 and Q3 because of the fact that we have (inaudible). And so it's really hard to start to speculate how is the Q3, the full comparable sales margin going to be split between the reference and the additional margin. And also, we know that the RINs direction is relatively difficult to forecast at the moment. So hard to say how the reference margin is going to be moving. At the moment, this $100 improvement, of course, it's very positive to us. The second question was about the additional investment we decided to make in Rotterdam. We are all the time creeping the units. And we decided to improve the refinery still a bit further and also we decided to make some changes to our catalysts. So these were the sort of 2 main drivers. All of that focusing on being a reliable refinery, even more reliable in production in the future as well as fulfilling our target, 3 million tons of capacity by 2020.

Henri Jerome Dieudonne Marie Patricot - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

Okay. Did you mean that you now have a slightly higher nameplate capacity than top of this year at Rotterdam...

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

The nameplate capacity is only update -- sorry, yes, the nameplate capacity is only updated typically once a year at the beginning of the year. And of course, we are now testing how things are moving forward, but based on what we have seen in July, Rotterdam refinery has been up and running since late June and so far very, very good results.

Operator

Our next question comes from Josh Stone from Barclays.

Joshua Eliot Dweck Stone - *Barclays Bank PLC, Research Division - Analyst*

I got two questions, please. And firstly, on Renewables. Can you just talk about where you think Renewables sales volume will go in the third quarter versus the second quarter? And then staying on Renewable, just following on the palm oil point. And how much of that reduction was a economic decision, i.e. driven by cheaper waste prices out there? And thirdly, if one more, on guidance, you changed from strong to very strong, does that have any implications of how you're thinking about shareholder returns?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you. Two questions around Renewables. Let me take those first and then I give it to Matti Lievonen. Our sales volume estimation for Q3, currently we see that we are going to be roughly on the same ballpark as Q2. And this is because the Rotterdam refinery turnaround, of course, I mean, it had a big impact on our inventory. And at the same time, at the end of Q3, we will start to prepare already for the Singapore turnaround. And we want to secure our deliveries to U.S.A. to our valued customers and therefore, the -- at the moment I would say, we will be roughly within the same range as what we saw in Q2 and also in Q3. Then the rationale for the CPO volume reduction. It -- during the turnaround quartiles, it is the combination of what our customers want to have, what is our sales allocations and then what is the availability of the waste and residues, but it was no sort of intentional to have, for example, higher than 90% of the waste and residues. This was the outcome after the optimization.

Matti Lievonen - *Neste Oyj - Chairman of Executive Board, President & CEO*

And then, Joshua, you asked this return. So -- as mentioned, so our comparable earnings per share was 2.16 first half and if it's continue like that, so shareholders will get minimum 50%. So increasing actual dividend rebate. But we have always said that it's minimum. So we see -- we used to see to this and then when we are coming to the AGM.

Operator

Our next question Artem Beletski from SEB.

Artem Beletski - *SEB, Research Division - Analyst*

So this is Artem from SEB. A couple of questions to Kaisa. So the first one starting this production. So actually looking at your utilization rate in Q2 actually fairly lower at 73%. Has there been any additional impact or issues on top of Rotterdam maintenance? And also looking at Q3, so should we expect any impacts or have basically Rotterdam maintenance done fully in Q2, so it won't be having any impact on production? And the other issue is really relating to feedstock pricing and looking at such a broader trends what we have seen, so Renewables' feedstock prices have been trending down, but at the same time oil prices has been moving up. So what kind of implication it is having on your profitability? Profitability, what comes to sport business and also term contracts in renewables? And last one is really to Matti, just regarding IMO 2020, has your view so to say changed during last 3 months on potential or expected implications outfit?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you. Let me first take the question around utilization. In Q2, our utilization was 73% and we did have some problems and issues with the catalyst. I think, we already discussed that during the Q1 in Rotterdam before the turnaround was fully guided. That has a small impact. But all in all, the turnaround itself went very well and we ramped up and started up the unit late June, and it has been running smoothly since then. And I'm not expecting and there is no plans to have any additional stoppages in Rotterdam for the rest of the year. But of course, we need to be successfully operating the refinery to make sure that the availability and reliability remains high, and that's our expectation. The second question was around the fixed price and how the crude price movement, the upward trend have been impacting. And at the moment what we are seeing in the feedstock market is that it is the [base] oil complex, which is dominating the feedstock price trend. We have seen, for example, the dispute between China and U.S.A. has been impacting the price of soybeans and also soybean oil, and the trend has been negative. Also, palm oil production has been recovering and the inventories in Southeast Asia has been normalizing. So that has been trending down as well. The only thing that might change between the Q2 and going forward is the rapeseed oil. I mean, the reason hot season in Europe and the drought might have an impact on the rapeseed oil price. But otherwise, now the -- it seems that the driver for the feedstock has been the veg oil complex much more than the crude oil movement recently.

Matti Lehmus - *Neste Oyj - Executive VP of Oil Products & Member of the Executive Board*

And then, this is Matti Lehmus. On the IMO question, I would say our view has not changed, for example, compared to CMD last autumn. I think it's -- we, of course, also like everybody watching closely how the preparations for the IMO launch are going. And for me everything points at 1st of January 2020, everything being on track. And a lot of detail being worked on how they implementation, how the follow-up will work. So I think, everything is there on track. And also, I think it's clear that what it means is that as 1st of January will be the date when the IMO will kick in, that in next autumn the supply chain will need to be filled in with our (inaudible) material to be ready on first of autumn. And I think it's also, if you look at analysts' views or forwards in the market, we are starting to see the impact that, for example, second half 2019, better part of 2020, therefore, what's for the [backing] margins have moved up. So I think that's also supporting that view.

Operator

Our next question comes from Alexander Jones from Bank of America Merrill Lynch.

Alexander Jones - *BofA Merrill Lynch, Research Division - Analyst*

My first question is around the Demeter acquisition. And going forward, whether this indicates you feel the need to secure your feedstock via other acquisitions? Or whether you think this is kind of finishing the M&A job and cash can go elsewhere either organically or back to shareholders? And my second question is around the new renewables plant, how the progress is going towards FID here? And whether we should still expect that by the end of this year?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you for the questions. First question was around the Demeter and whether we would be open for -- interested in looking into similar acquisitions in future and definitely, I mean, we have a global supply platform and we want to grow that globally. So we are open for other good acquisitions if there are good partners and good opportunities and then right locations, geographical locations and so on so on. So no point to stop with the Demeter. The second question was around how are we progressing with the Singapore expansion project and whether there will be a FID still this year -- end of this year. And indeed, the protect is progressing as planned. I'm very pleased to how the teams have been developing, how the engineering has been going forward, how we are working with our partners and so on. And we are targeting year-end FID. And at the moment, it seems very realistic.

Operator

Our next question from Giacomo Romeo from Macquarie.

Giacomo Romeo - *Macquarie Research - Analyst*

Two questions from me. The first one is again on Demeter. Just wondering if the acquisition should somehow reflect concerns regarding potential emerging competition for this type of feedstock, especially if you grow -- as you grow your capacity? And the second question, it's back on the use of tallow. I understand you don't want to provide the splits or indications of how much that was? But can you please clarify if how the use of Category 1 tallow has moved in the last couple of quarters for you?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you. First question around Demeter, emerging competition like what we have seen in Europe and we have seeing that there are some plans for expansion in U.S.A., and so on. Of course, naturally, I mean, we are following the development of our competitors very closely. And at the same time, I think Neste has had a very solid story and a strategy already for some time to fill the global feedstock platform. And Demeter is one of the anchors we have now developed in Europe and I'm very happy with the outcome that we were able to find sort of a good partner and create this joint venture with them. Regarding the tallow and how, for example, the use of Category 1 has developed over the past quartiles. This is, again, information, which unfortunately we cannot publish, as it is in the core of our feedstock optimization. But as we have been saying, we want to move towards lower quality raw materials all the time. It's not only the expanding the waste and residue pool but it's also a very clear signal and message from our customers and from the authorities globally that this is the preferred way to go.

Operator

Your next question is a follow-up from Mehdi Ennebati from Societe Generale.

Mehdi Ennebati - *Societe Generale Cross Asset Research - Equity Analyst*

A follow-up question please regarding the sales volumes in the renewable diesel. So you said that in Q3, the sales volume would be more or less in line with Q2. I wanted to know if in your EUR 80 million impact from Singapore maintenance, you took into account the fact that Q3 '18 sales volume level should be relatively low due to inventory building. And maybe if you can tell us given that you provide us Q3, let's say, guidance on Q3 sales volume? Can you tell us if the H2 '18 sales volumes will be roughly in line with H1 or lower?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

Thank you. So the production volumes and sales volumes in the second half of the year was the question. As we will be balancing our sales now and going forward towards the Singapore turnaround. So the Q3 and Q4 volume allocation will be a bit balanced. So that was the reason why I was sort of saying that we are expecting the Q3 sales volumes to be relatively in line with the Q2 and that's true. And that is included in the EUR 80 million estimate. However, I think it's very important to keep in mind that the EUR 80 million estimate has a certain margin forecast behind it. And if the margin environment moves a lot, like for example we saw higher-margin environment, reference margin environment in Q2 when the Rotterdam turnaround took place. So that might have some impact. But with the current estimate we have that the EUR 80 million is including the impact of the Singapore turnaround. And then there was a question whether we have a view on the -- or can give a numerical guidance on the second half of the year sales volume compared to the first half of the year. Well, I think I mean, it's clear that because we have double of the length of turnaround in Singapore in Q4 compared to the Rotterdam turnaround in Q2, so that we'll have some impact -- more impact on the sales volume. However, some of that impact will be then rolling over to Q1 2019 at the, for example, the voyage time is long to U.S.A., and so on from Singapore.

Mehdi Ennebati - *Societe Generale Cross Asset Research - Equity Analyst*

Okay. So you are saying that the H2 '18 sales volume should be in line or only slightly lower than in H1?

Kaisa Hietala - *Neste Oyj - Executive VP of Renewable Products & Member of Executive Board*

What I'm saying is that Singapore turnaround is twice as long as the Rotterdam turnaround. Of course, we are trying to balance it as much as possible. But depending now how we are then optimizing the year-end sales. But unfortunately, we are not giving sort of a numerical guidance now.

Operator

(Operator Instructions) Our next question Iiris Theman from Carnegie.

Iiris Theman - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

Yes. This is Iiris Theman from Carnegie. In Oil Products, your addition margin was strong at USD 6.1. Do you expect this kind of level to continue in the second half? Or can we expect margin to be at least above your targets, USD 5.5 despite maintenance? And secondly, what is the outlook for fixed cost in Oil Products and Renewables for the second half?

Matti Lievonen - *Neste Oyj - Chairman of Executive Board, President & CEO*

Thank you for the question. So on the additional margin, like we've stated last autumn already when talking about the One Refinery configuration, this USD 5.5 is our minimum target where we look at the average annual. And I think it's now clear after 3 quarters that when things go really well, we can reach levels which are higher than that USD 5.5, like we're now at USD 6.1. At the same time, I would emphasize that, of course, every quarter it's a short period of time, there's going to be some volatility in that level that can be, of course, unplanned shutdowns if that occurs or it could be FX hedging results or other things. But we maintain that USD 5.5. But of course, work extremely hard to continue to track record we now have that we can also reach higher levels when things go very well operationally.

Jyrki Mäki-Kala - *Neste Oyj - CFO & Member of the Executive Board*

Then about the fixed cost -- this is Jyrki Mäki-Kala commenting. I think what you have now heard about maintenance is in oil production, also in Renewable side, we will continue. Quite a heavy turnaround also second half of 2018. So I would assume that our fixed cost will be more or less at the same level as quarter 1 -- first half of the year, sorry, maybe slightly higher, but no big change compared to the first half.

Operator

There are no further questions over the phone.

Juha-Pekka Kekäläinen - *Neste Oyj - VP of IR*

Okay, this is Juha-Pekka again. If there are no further questions, we want to thank you very much for your attention and active participation. Neste's third quarter results will be published on the 26th of October. Wishing you all a nice weekend, and thank you and goodbye.

Operator

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