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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's First Quarter 2019 Neste Corporation Earnings Conference Call. (Operator Instructions) I must also advise you meeting is being recorded today on Friday the 26th of April 2019.

And I would now like to hand the meeting over to your host and presenter today. Please go ahead, sir.

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

Thank you, and good afternoon, ladies and gentlemen. Welcome to this conference call to discuss Neste's first quarter results published earlier today. I'm Juha-Pekka Kekäläinen, I'm Head of Neste IR. And with me here are President and CEO Peter Vanacker; CFO Jyrki Mäki-Kala; and the Business Area Heads, Carl Nyberg 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.

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

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

Thank you very much, JP. And good afternoon to all of you also on my behalf. We're extremely pleased to present to you Neste's outstanding performance in the first quarter and to discuss the way forwards.

If you look at Slide #4. We had a great start in the year, and we made a strong comparable EBIT of EUR 378 million. Our Renewable Products had an outstanding performance and posted the best ever quarterly comparable EBIT. It was a result of very successful sales margin optimization and very good manufacturing output. And this was particularly a good achievement, taking into account that the first quarter results did not include any support from the U.S. Blender's Tax Credit. For example, the first quarter of 2018 was positively impacted by EUR 140 million from the retroactive Blender's Tax Credit in 2017.

Our Oil Products results, they were impacted by a less supportive refining margin environments and that was driven by a weak gasoline markets and a narrow Urals-Brent differential. Our additional margin averaged at $5 per barrel and that was based on the updated reference margin formula and it equals $6 per barrel with the old formula. The additional margin was strong even though, for example, the base oils margins were weaker than in the first quarter of 2018. Marketing & Services, that segment was on track, with a normal seasonality in the first quarter, and we were able to maintain our comparable operating profit at last year's level.

The Others segments' comparable EBIT was EUR 34 million lower than in the first quarter of 2018, and mainly due to the poor performance of Nynas. Nynas' business has been impacted negatively by the U.S. sanctions on Venezuela, and Nynas has crude oil supply problems that were caused by that U.S. sanctions. Though Neste is highly committed to safety, our performance in both occupational safety and process safety was unsatisfactory in the first quarter, and we did not meet our targets. Safety is an area that requires continued focus and systematic work every day, now we have further reinforced our activities in this area.

As you know, we introduced an updated strategy in our Capital Markets Day in February. Now we have introduced a new organizational setup and we are making good progress in growth strategy implementation, and I will come back to this at the end of the presentation.

The strong financial performance on Slide #5 is also visible in our financial targets. We reached a return on average capital employed of 19.8%, clearly exceeding the 15% target. And our leverage ratio continues to be on a very low level at the end of the first quarter. And as stated before, the strong financial position enables the implementation of our growth strategy going forward, while maintaining a healthy dividend distribution.

Now with these remarks, I would like to hand over to Jyrki, our CFO, to discuss the financials in more detail.

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

Thank you, Peter. So let's take into some details now. Yes, now we have the group result. Like mentioned earlier, we had a great start for year 2019. There were many positive things, but also items around the market environment. Our group comparable EBIT reached EUR 378 million, which compared to last year quarter 1, was a great results when taken into account the U.S. Blender's Tax Credit quarter 1 2018. If you have like-for-like comparison between these 2 quarters, we improved 45% our comparable EBIT.

If you look the figures here, Renewable Products posted again outstanding financial results. High sales volumes combined with a close to $700 per ton sales margin led to highest ever quarterly comparable EBIT. If we exclude the BTC from 2018 first quarter figures, the improvement from EUR 156 million to EUR 337 million like-for-like was close to 120%. Sales margin per ton improved 32%, sales volumes 25%, California credit improved 40%, palm oil decreased the price by 15%. So we talk a lot about sales margin optimization. And here, you see the results when the engine is nicely greased.

If we then move to Oil Products. They had a weak reference margin quarter, and the total refining margin basically decreased by 7%, and that flows to a refining market. You see the comparable EBIT last year, it was EUR 99 million, and now it was EUR 73 million, and of course, the reference margin was impacted by the weak gasoline market and a very narrow Urals-Brent differential.

If you look the Marketing & Services, they went forward steadily like a train, same profit as quarter 1 2018, EUR 13 million.

And then, we move to the point which we had also a lot of questions already earlier today, it's the Others. We had an element that really boost the quarter comp EBIT all the way down to minus EUR 43 million compared to EUR 9 million -- sorry, EUR 7 million 2018. And the reason like explained already earlier in the report was the poor financial performances of Nynas AB in Sweden, our joint venture with the state-owned PDVSA, where Neste, we are the minority shareholder. We have been the shareholder since 1990s. And really, the U.S. sanctions to us PDVSA, who is the main crude oil supplier for Nynas, has an impact on Nynas operation through availability and quality of crude oil. Of course, a low business season in Nynas has always a negative impact during quarter 1 and quarter 2 for Neste report.

Nynas has been a financial investment for Neste, already like mentioned, since late 1990s. And if you look this Others impact minus EUR 37 million compared to 2018, Nynas net profit takes EUR 27 million out of this difference and our engineering arm, NES, and the group non-allocated cost basically takes the rest of the EUR 10 million and that's how you get the EUR 37 million lower results compared to last year's quarter 1.

If we move then to cash flow before financing activities, it was EUR 8 million. And here you really see if you look our net sales during the first quarter, it was really high. If you have a higher sales, you also turn out to have a higher receivables at the quarter end. And also our inventories were higher, due to higher crude oil price, but also higher feedstock prices. Comparable earning at the end of the quarter, it was exactly the same as quarter 4 2018, EUR 0.38 per share.

If we then move to next page and look into the comparable EBIT bridge between these 2 first quarters of '18 and '19, I think, the outstanding results of the Renewables business is seen in volumes and sales margin. If you look the first 2 green bars there, EUR 135 million, Renewables part of that is higher because Oil Product has a negative effect from the marketplace. So these 2 green, basically, compensated very close to BTC 2018.

U.S. dollar-euro rate gave us a positive, close to EUR 40 million, and fixed costs were pretty close to the last year figures. And here, the Others is then a combination of what I just explained about Nynas and the Others, the difference of EUR 37 million and then also higher depreciation coming from our CapEx load, basically 2017 and 2018. So this is basically how we land from EUR 401 million last year to EUR 378 million 2019.

And now, I would like to leave the stage to Carl, please.

Carl Nyberg ***Neste Oyj - EVP***

Thank you, Jyrki. Good afternoon, everybody. This is Carl. So great to be here in this call for the first time with this outstanding results for Renewables in the first quarter.

So if we dive into the numbers directly, one can conclude that this record high quarterly comparable EBIT result of EUR 337 million was achieved for a number of reasons, and of course, an outstanding performance from the teams.

First of all, we had excellent operations at the refinery, reaching very high utilization, and therefore, also a record high quarterly production. On the other hand, our supply team managed to optimize our supply performance, despite rising feedstock prices. Last, but not least, we managed to optimize our sales allocation and reach a record high sales volumes of 692 kilotons, while at the same time, delivering a margin also, actually, at USD 692 per metric ton.

So in addition to the EUR 337 million, 692 is an important number to remember from this quarter. The share of waste and residue was back to 80% again, up from Q4. And despite the strengthening feedstock market, we were able to reach almost as strong margins as seen in Q4. The RONA in Renewables was, again, above 50%, at 53.1% here in Q1, which, again, is a very, very high number.

So then, if you go to the next slide, let's take a look at the bridge between the Q1 2018 and Q1 2019 results. So first of all, the high production and corresponding high sales volume at 692 kilotons is about 142 kilotons above 1-year ago figures, contributing here about EUR 87 million towards the comparable quarterly result. On the other hand, our sales margin also -- was also $173 per metric ton higher than the 1-year ago, adding another EUR 81 million. So the combined result of these then well compensates the EUR 140 million Blender's Tax Credit that we received in 2018 and now is not concluded in this year's result. The FX change also then help boost our results by another EUR 20 million, pushing the quarterly result to the record level of EUR 337 million.

Then, if we move on quickly towards the feedstock and the feedstock market outlook. So the feedstock market continued to recover throughout the quarter after bottoming out earlier in the Q4. We expect that this trend likely will continue as the veg oil's complex supply/demand picture is looking increasingly constructive and will likely remain so in the coming quarter.

Okay. Then, if we take a look at the market fundaments in the U.S. So the LCFS credits have remained strong during the first quarter, at above $190 per metric ton. The State of California remains highly committed to the LCFS program, and continues to curb the GHG emissions by reducing the carbon intensity and traffic through this program. The weakness in the RINs came back during the quarter after recovering slightly from the recent lows in Q4. The RINs are likely to remain under pressure, while traditional biodiesel margin seems to be under severe pressure at these levels.

Then, finally, we will take a look at the comparable sales margin. So as mentioned, the comparable sales margin was just a bit shy of the $700 per metric ton, at $692 per metric ton, which, again, is very high especially considering the higher sales volumes compared to the record margin received in Q4 2018. The LCFS credits remained at a very healthy level, above $190, while the RINs continued to be depressed, as mentioned. Neste MY Renewable Diesel sales came slightly off for the fourth quarter, while we still expect the share of the high-blend sales to recover in the coming months.

Finally, as already discussed, we had excellent performance at the refineries, where the operations were running smoothly, and we manage to push for high production volumes and achieve this high utilization rate, at 99%.

So all in all, excellent performance from the teams across the whole value chain to deliver these stellar results.

So this concludes the Renewables part. Let me now hand over to Matti Lehmus, who will discuss the Oil Products.

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

Thank you, Carl, and good afternoon to everybody on my behalf. So I'll comment on the Oil Products first quarter, and first starting with a comparable EBIT, which came in at EUR 73 million, which was lower than the EUR 99 million we reached 1-year ago. And this, of course, reflects clearly weaker market than what we had in the first quarter. The refineries run quite smoothly. We had an average utilization of 95%. And at the same time, if we compare the sales volume, this was exceptionally higher a year ago at 3.9 million ton, so now it came in some 6% lower, at 3.6 million ton. And this reflects some maintenance we had during the quarter, also some mechanical limitations that we had in our crude units. These have now been fixed and that resulted in this 3.6 million tons. The Urals' share in our first quarter was at 67%, slightly lower than last year, reflecting the continuous crude mix optimization we are doing in a market where the Urals was very strong in the first quarter.

Let me then have a look at bridge versus last year's result. And there's a couple of highlights I would like to make. So first of all, the main driver impacting the change in result is the reference margin, which came in at $4.5 versus the $5.1 last year ago, and this had a EUR 15 million negative impact. So clearly, market-driven impact. The other big impact came from the FX rates. So the dollar strengthened versus the euro to EUR 1.14, which had an EUR 18 million positive impact, but at the same time, we had in place hedges, and, actually, we had quite a significant negative contribution from the FX hedges, which is all reflected in the additional margin. And, actually, without this impact, we would have had a positive contribution from additional margin compared to last year.

The third item I would highlight from the bridge is the Others, where we had EUR 12 million change negative versus last year. And this reflects mainly the fact that the base oils margin contribution has been lower, reflecting weaker markets in the beginning of the year. Also, we have slightly higher depreciations following our investments and outsourcings.

Very good. Let's have a look at the markets then and a couple of comments on the product margins. So like you can see in the chart, the gasoline market was very weak in the beginning of the year. When the year started, inventories in the U.S., for example, were 5% above last year, demand was also quite slow. And that was reflected in a particularly weak gasoline markets. In March, the dynamics then changed. The turnaround season started, and we have now reached a point where inventories are actually 5% below last year's level in the U.S., and this has led to some recovery in the gasoline margins. Overall, the whole quarter was still weak for gasoline, with $3.7 per barrel margin.

On the distillates, I would comment that performance was quite solid. The margin over the first quarter was $16.4 per barrel, and this clearly reflects the fact that inventories were quite low, and demand was also quite solid for the distillates.

On the Urals versus Brent, the first quarter averaged minus $0.2. And if you compare this, for example, to last year's average, which was minus $1.5, or the first quarter of last year, which was minus $1.6, this reflects clearly the fact that we had a very strong Urals market. And this, of course, reflects the current situation, where we have tightness on heavy crudes coming from a number of factors, the Venezuela situation, sanctions on Iran, OPEC cuts. So there's a number of factors creating this tightness on heavy crude supplies.

Finally, a look on the additional margin. And I'm very pleased to give you the fact that the additional margin actually came in on a good level, of $5.0. With the old formula, this would have been $6 per barrel. And this reflects a good contribution -- continued good contribution from our SDA unit, the fact that the refinery was running well, without any major maintenance. And at the same time, there were some seasonal impact. On one hand, we had support from winter product premia. At the same time, like I commented earlier, the FX hedges to base oils were having a negative impact on the additional margin. But overall, still very happy with the additional margin level of $5 per barrel.

On the refinery production costs, I know that they were quite stable in spite of the increasing crude price and the utility costs. So this reflects also quite smooth operations.

With these comments, I hand over to Panu Kopra, who will discuss the Marketing & Services first quarter.

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

Hello, this is Panu speaking. Taking into account tight market situation and a high level of pump prices, we can be relatively satisfied to the results. Unfortunately, fixed costs were exceptionally high. They were mainly due to some one-offs and the timing of maintenance and marketing costs. The OP volumes, mainly gasoline, but this was compensated by healthy margins. Customer satisfaction stayed at very high level. B2B average Net Promoter Score was 54, and we continue to work hard for even better customer experience. New Neste application for B2B customers segment is now launched, and the customer feedback have been very good. It is the first this kind of application for B2B segment in entire Baltic Sea area.

Neste MY is now available in most of Finnish cities, and we can see growing demand and interest from both consumer segment and business-to-business customers. It's going really well.

All in all, solid and stable start of the year.

Handing over to CEO Peter Vanacker.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

Thank you very much, Panu. And let's now move on to the current topics. We're making good progress, as I said at the beginning, in our growth strategy implementation.

And as we have announced at the Capital Markets Day, we've grouped the key programs in 3 focus areas of execution. They are, first, scale up faster and bolder; second, drive efficiency in operations; and the third, increase innovations. We've established a new organizational set up to support the execution, and our hiring process for key positions is proceeding very well. The expansion project in Singapore has also started well and is fully on track.

And I'm happy also to announce that we have signed an agreement with Air BP to supply, and this is the first agreements, to supply renewable jet fuel to airline and airport customers in Sweden in 2019. And we've also initiated a long-term development pre-study on the Rotterdam renewable sites, including capabilities for renewable jet fuel production.

In the renewable polymers, we also had the first large commercial trial with our partners, and we have very good results that we have received in the meantime from those trials.

Now we expect sales volumes in both of these new application areas to rather gradually ramp up. In the area of efficiency, so operational improvements through the 7 defined breakthrough programs are proceeding and a program management office has been established to ensure systematic tracking and progress of the programs.

The first 2 innovation teams have also been selected and they are scalable feedstocks for aviation fuels and lignocellulosic fuels. These are just a couple of highlights that I wanted to mention, and our people are very excited about taking the company to the next level.

Now let's have a look at the second quarter. What do we see for the second quarter? In Renewable Products, we expect that the second quarter sales volumes are going to be approximately at the same level as in the first quarter, with no major changes in the sales allocation. We expect the Renewable raw material prices to increase from the first quarter 2019 level, and utilization rates of our

Renewable production facilities are also expected to be high in the second quarter. We also would like to make a point that we have scheduled a catalyst change maintenance at the Rotterdam refinery in the fourth quarter of this year.

In Oil Products, our Oil Products reference margin is expected to be higher in the second quarter than in the first quarter, and that is driven by a seasonally improving gasoline markets, as already referred before by Matti.

Utilization rates of our production facilities are anticipated to remain high in the second quarter and except for the normal unit maintenances. There is a scheduled 4-week decoking maintenance at the Porvoo Production Line 4 and that's scheduled for the period, September-October this year.

Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern in the second quarter.

Now this concludes the presentations. And as usual, we would be happy to take your questions now. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first request is from the line of Mehdi Ennebati of Societe Generale.

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

So 2 questions. First one regarding the Nynas costs. So is it fair to consider on that Nynas' results will continue being particularly weak in the coming quarters? So you highlighted the second quarter, but not the Q3 and the Q4, if the U.S. sanctions remain as they are? Or do you think that some measures can be taken by Nynas' management to stop Urals' businesses. And if I may, I understand weakness in noncash, but can you tell us about Nynas' balance sheet in that loss level? Is the company strong enough to face several quarters of losses? Or do you think that shareholders, including you, will have to put some money on the table at some time. Second question is about the Renewable Products sales to the final customer. So it has been relatively low this quarter, at 22%. So I wanted to know what was the results of such a low level? And if this has negatively impacted your Renewable Products' realized margins? So can you also tell us if you're still comfortable with your 60% [50%] target by 2020?

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

Yes. This is Jyrki Mäki-Kala commenting on Nynas. One thing here to remember out of this really poor result of Nynas is that it was the quarter 4 2018 net profit. So it include taxes and interest cost and everything. And there were some reverse tax accrual included. So the quarter 1, what we have just passed for Nynas, it was not that bad as the quarter 4. So it is improving. And now we are heading toward the high season of the business for quarter 2 and quarter 3, when the bitumen and naphtha [activity] deliveries will start to take place. So this was exceptionally poor quarter 4 what we recorded basically.

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

Second question, Carl will answer that second question. So, Carl?

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

Sorry, if I may just -- if I may just a follow-up on Nynas. So is it fair to consider that we might come back to close to a kind of normal result we had last year regarding Nynas for the next quarter? Or do you still think it will be lower?

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

Not to give any exact guidance on this thing, but the issues relating to the U.S. sanctions, they are still there relating to the crude oil deliveries. But like I said, it -- coming -- it will come closer to the historical levels, but not that good. So it will remain negative at least for the time being.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

And it's a bit difficult to, of course, to talk about the future on what will happen in the crude oil supplies, what stability there will be. I can assure you that the team that is running Nynas, that we have a minority position. So this is a financial investment, as Jyrki also outlines, that the team that is running Nynas, that they are doing everything that is possible to mitigate the risks and manage the company. So if I can move to the second question.

Carl Nyberg ***Neste Oyj - EVP***

Okay. So this is Carl. So the question was around the Neste MY share of the total sales. So I think it's important to know here that we had a significant increase in the total volumes. And if you look at the absolute volumes, they were not that different, actually, from the Q4. So we were at the 153 kilotons in Q1 and then 160 in the Q4. So we will continue to focus on growing to 100% Neste MY market share, but it's important to note here as well that we are continuously optimizing our margin and that remains our top priority. So we will still continue growing the Neste MY market share, but the margin remains our top priority.

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

Okay. So what you -- what that means is that there's not a material difference between Neste MY realized margins and when you sell the projects, let's say, to -- excluding, let's say, due to some [over tellers]? So I'm understanding right?

Carl Nyberg ***Neste Oyj - EVP***

It's -- you have to look at it from the whole value chain perspective. And it's clear that that the Neste MY project is going to different kind of market segments than the volumes that we are selling for the blending purposes. And it's a constant sort of optimization on where we want to allocate the volumes so.

Operator

Your next question is from the line of Nick Konstantakis from Exane.

Nikolaos Konstantakis ***Exane BNP Paribas, Research Division - Analyst of Oil and Gas***

Two if I may, please. The first one on cost. Given that the revenue has sort of declined quarter-on-quarter, your comparable margin was pretty resilient. Did you hedge your forward purchases on cost? It seems like the public quotation don't quite correspond to what you guys managed to do. The second is probably you -- it's too early to have much color, but it seems like a new version of the Blender's Tax Credit Bill has passed or has been introduced to the Congress. Do you have any view on likely outcomes or timings that this could come through?

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

So no, no, I'm also a bit lost about the question. You're referring to the Renewable Products?

Nikolaos Konstantakis ***Exane BNP Paribas, Research Division - Analyst of Oil and Gas***

Yes, absolutely. So what I'm trying to get to, basically, is the revenue per ton is down, renewable comparable margin is pretty stable, which means that cost is actually being quite good, in spite of the quotation we're looking going up. So are you hedging ahead some of the costs, some of purchases?

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

Yes, we have a -- the normal hedging policy is in place when talking about feedstock as an example. So it's -- there's no change in that sense.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

Yes, where we can hedge, we hedge.

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

Yes, exactly. Yes.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

And then second question is on the BTC, I was just recently in Washington, D.C. and difficult to give any clear answer on that because the people locally, actually, they don't know either. Yes, you're right, I mean, there is a new attempt that has been placed with a -- an attempt to get the BTC and you can imagine that the biodiesel manufacturers in the United States are very adamant about it that they absolutely need this BTC. And that was -- the new attempt is covering the years 2018, 2019. But it remains to be seen. And we don't expect, I mean, that there is going to be of a short-term decision on this.

Operator

Your next question is from the line of Giacomo Romeo from Macquarie.

Giacomo Romeo ***Macquarie Research - Analyst***

First question is on Renewable Products business. We have seen some headlines regarding dominating Urals crude also from the quarter. Look, I just wondering what's your view on that one and how it can affect your -- potentially your results in the second quarter and to what type of mitigation strategies you could take if this disruption go on for longer than expected? And the second question is, could you -- can you please provide a bit more details regarding what you discussed as being a potential increase in feedstock prices for Renewable Products in the second quarter? What's driving that and what sort of products? Anymore color will be greatly appreciated.

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

Yes, thank you for the questions. This is Matti Lehmus. On the Oil Products question, yes, we are, of course, monitoring very closely the situation that you referred to that there are this findings of chloride in the Rosewell Pipeline. We have checked, of course, all the cargoes that Neste has received. And for all our crude, we have been in the normal operational window within the specification. So it has no operational impacts on Neste. We continue monitoring the situation very closely. And of course, like we have explained earlier, you know that we have a lot of flexibility when it comes to crude in terms of converting different types of crude. So we're, obviously, prepared to also then diversify crude sources if the situation changed going forward.

Carl Nyberg ***Neste Oyj - EVP***

Okay, this is Carl. So responding to the question around feedstock cost going forward. So as mentioned in the presentation, the supply-demand picture looks constructive for the veg oils going forward, and we believe that, that will remain the case in the second quarter.

Operator

Your next question is from the line of Josh Stone of Barclays.

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

I got two questions, please. First, just following up on Nynas again. Can you talk about -- you talked about some measures that the JV are looking at to optimize earnings. Are there any limitations as to why they couldn't switch crude away from Venezuela? Are there any commitments there? And maybe just a bit of more detail around what sorts of things they're trying to do to optimize that business?

And then secondly, following up from a previous conference call on the PFAD reclassification in Sweden to carry product from July. Can you talk about what measures Neste are taking to sustain their margins in Sweden in the face of that reclassification of feedstock?

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

Yes, this is Jyrki Mäki-Kala talking about the Nynas. We have been working -- or Nynas management has been working since November last year to improve the situation with all the measures. But unlike normally, when you have these kind of out, let's say, issues facing from the outside world and Nynas is using other kind of crude oil, not just the Venezuelan crude oil. So there are other options as well to mitigate these difficulties with the supply coming out of Venezuela. But this is, like I mentioned, it's not an easy situation, but the management is at the top of the issues and managing the business going forward.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

To be clear, I mean, this is not having a left to right. This is not something that you can say that Nynas can switch, I mean, like we could do, for example, at Neste in the Oil Products business. We can take different kinds of crude oil. It's much more complex for them. So they cannot switch, I mean, from one month to the other months to other qualities of crude oil.

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

Yes, that is right.

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

Okay. On the question on the PFAD. So what Sweden has done is basically reclassified PFAD from residue to a byproduct or a coproduct, which means that the traceability of the feedstock needs to be traced back all the way to the plantation. We at Neste are well positioned to develop this, and we have already managed to trace a significant part of our volumes back to the plantation. This work will continue. We have previously said that by 2020, we will have full traceability of our PFAD to the plantation. So we -- this will continue and we will continue to operate in the industry this market and which is an important market for us.

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

Can I just follow up on that second question, so does that mean that the effective product price you get of a PFAD feedstock in Sweden would be the same if you can trace it back to where the PFAD is coming from, i.e., there's no impact to the top line because of that change.

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

There is an impact on the GHG calculation, but there, as such, it is still possible to use unlevered act into the Swedish markets.

Operator

Your next question is from the line of Henri Patricot of UBS.

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

I want to thank you for the update. I may have two questions on Renewable Products. And the first one on this pre-study of the long-term development of Rotterdam. Are you thinking about something very similar to Singapore, like because you mentioned also, specifically, the renewable jet fuel productions. If it's the case that you could bring on stream some additional renewable jet fuel capacity faster than what you're doing in Singapore? Just want to get a bit of sense of what's your plans there. And then secondly, this is on renewable jet fuel and the contract that you signed with Air BP. Where are you planning to start selling your products exactly? And what kind of volumes, what sort of blend are we talking about there?

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

Yes, let me take your first question. I mean, we've started, as we alluded to, I mean, in the Capital Markets Day, and you see it also from the organizational development and setting up this renewable production platform, we also stated that we would start already looking at what comes after Singapore, whilst we are building the next line in Singapore. So as one of the initiatives that I talked about is we are looking at what the sites in Rotterdam eventually needs to do first, if we are building up and installing an additional distillation step to the existing renewable refinery.

And secondly, what does this mean in terms of utilities' infrastructure, also taking into consideration in case we would build a second line in Rotterdam, like we are currently building the second line in Singapore. So the main focus at this point in time is on building up additional optionality in Rotterdam, so that we also in the Western European market would have a own-made renewable jet fuel capacity up and running. We cannot give any idea because the study has just started what that means in terms of timing, when that would come on stream, that's a bit premature, but we're putting quite lots of emphasis on that pre-study for Rotterdam.

Having said that, in the meantime, we also made quite some progress on setting up the manufacturing structure through tooling and supply chain agreements, not just in Europe, but also in North America, and we've been quite successful in doing so. So we, in a couple of months, will have sufficient volumes available and we do not want to be constrained by capacities when we are going to these important markets.

And as another update on that, I mean, we talked about the Air BP, of course, I mean, as you can hopefully understand, as it was an agreement with Air BP, we do not disclose anything in terms of what are the volumes and how are the volumes going to flow and what day they're going to flow exactly. That was also a wish that we need to respect, I mean, from Air BP. But beyond Air BP, as I said in the Capital Markets Day, we are intensively negotiating also with other leading airline partners. So making very good progress.

Operator

Your next question is from the line of Sasikanth Chilukuru of Morgan Stanley.

Sasikanth Chilukuru ***Morgan Stanley, Research Division - Research Associate***

This is Sasikanth from Morgan Stanley. I had one question on your innovation teams. Essentially, you talked about lignocellulosic fuels. I was just wondering where Neste was with regards to this innovation? Does it have the technology? And is it a question of scaling up or getting into commercial volumes? Or do you still have to crack that code, the technology of actually producing these fuels?

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

Yes, the new innovation platforms that we are setting up and that we also talked about a bit in the Capital Markets Day, they are focused on mid- to long-term developments of new technology platforms. So this is not short term, like we have the renewable jet fuel and like we have the renewable polymers and chemicals, but this is on the mid- to long-term. So when I talk about mid- to long-term, that is beyond 5 years.

Operator

Your next question is from the line of Peter Testa of One Investments.

Peter Testa ***One Investments S.A.G.L. - Analyst***

I was just trying to come back and understand a bit more about this relative margin optimization point you discussed earlier in the Q&A. You've seen a situation where in the U.S. biodiesel margins for, say, conventional biodiesel producers have been pretty unattractive with the RIN in feedstock situation and then the relative vegetable oil feedstock margins have been unattractive also in Europe. Does this mean that you've been making much more than normally attractive margins in this area, and hence why the 100% renewable diesel has been, say, held back by this optimization? Is this something about that market structure?

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

No, not at all. I mean, it has nothing to do with that. As Carl already alluded to, that we -- yes, we have an aspirational target on how much we want to have been in Neste MY. And we see some benefits, I mean, of course, out of that. But on a short term, we will always look at optimizing our margins so that we have the best margin possible for the available capacity that we have. And as you know, I mean, we're not comparable in margins, I mean, in the United States also with the biodiesel, you cannot compare that at all.

Peter Testa ***One Investments S.A.G.L. - Analyst***

Of course, not, but it sets reference prices on which you may benefit. And then, on the own feedstock side, obviously, you've done a good job on own feedstock cost as well in Q1. You have some of the investments you've made in Rotterdam and so on, which are maturing. Can you give some sort of sense as to how you think about the opportunity on own feedstock cost trends throughout the balance of the year? Whether they're, I'll say, Q1 as a reference level, or whether you expect further progress, just to understand, please?

Carl Nyberg ***Neste Oyj - EVP***

And this is Carl here. So, unfortunately, we are not really giving guidance further than the Q2 here. So at this point, this is not -- we cannot really comment. Although we are -- what we can say is, of course, that we are continuing to work to create capabilities to more flexibly use based on residues feedstocks and which will enable us in the future to optimize this even better.

Peter Testa ***One Investments S.A.G.L. - Analyst***

Okay. And last question, I was wondering if you could just give a sense on how your LCFS credit multiplier has developed as you rolled into 2019?

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

I mean, the LCFS is still, as you can learn, I mean, from public information, is still at a high level.

Peter Testa ***One Investments S.A.G.L. - Analyst***

No, I know that, that was high-- it's at a high level, but you get a multiplier based upon how you fit within the standards of California that they set as a rising spectrum and just don't understand how your multiplier of that credit has evolved.

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

Yes. Because -- this is Jyrki Mäki-Kala, because a normal multiplier, if I remember right, is 1 point. For the biodiesel, it's 1.

Carl Nyberg ***Neste Oyj - EVP***

No, this is LCFS multiplier.

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

Yes. But then...

Carl Nyberg ***Neste Oyj - EVP***

So it's around 2 for SME.

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

2 for SME. And then depending on which kind of feedstock you are utilizing, it can go up to 2.7 to 2.9 levels.

Peter Testa ***One Investments S.A.G.L. - Analyst***

Which is where you've been?

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

It's depending on the feedstock what you are.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

We have not disclosed this.

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

Yes, depending on the feedstock.

Peter Testa ***One Investments S.A.G.L. - Analyst***

Okay.

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

We have not disclosed the figure.

Peter Testa ***One Investments S.A.G.L. - Analyst***

Fine.

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

Yes, because, I mean, just given our excellent formation and also -- and if you need to understand, I mean, that this is something in competitive nature, yes, because it immediately alludes to how we are optimizing our mix in feedstock and you can calculate it back. So that's why we're extremely prudent in giving any details on this.

Operator

Your next question is from the line of Aaron K. Broten from RBC.

Aaron K. Broten

It's Aaron from RBC. So, yes, most of my questions have been answered. Perhaps could you just come back to the maintenance schedule in Rotterdam for September/October and give us some sense on the impact of utilization and whether it impacts more 3Q or 4Q?

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

You alluded -- Rotterdam is a catalyst exchange that is towards the end of the year. And then we talked about the Porvoo production line for decoking, that is September/October time frame, just to be clear. But on Rotterdam, on the catalyst, we are preparing everything right now. So we don't have an exact window yet when the catalyst exchange will take place. We've learned, I mean, continuously from the past, so we try to optimize and minimize the time that we're spending for such a catalyst exchange. One could say that it's going to be, what, approximately between 3, 4 weeks, something like that in terms of shutdown.

Operator

Your next question is from the line of Alexander Jones, Bank of America.

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

Two questions for me, please. First, again, on Nynas, and in terms of cash flow contribution, are not from the joint venture. Clearly, it's a noncash effect this quarter, but do you see any need for cash to go from you to that joint venture in the future, or it's well capitalized enough at the moment? And then, secondly, your waste and residue share of feedstock remains around 80%. Could you talk a little bit about how you see that evolving or whether you're looking to increase it in the future if the economics allow?

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

Yes, this is Jyrki Mäki-Kala talking about the Nynas. It's really like you mentioned, it's not a cash flow effect on Neste as a result, it's a net profit that we consolidate into our comparable EBIT. And then talking about the financing, at the current position where we are, we don't see issues relating to refinancing or financing from the shareholders.

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

Okay. And on the feedstock mix, so as mentioned, our waste and residue accounted for approximately 80% in Q1. We have, of course, a capability to run 100% on waste and residues, and the feedstock mix is something that we are continuously optimizing. And as mentioned earlier, we are moving towards being able to utilize lower-quality materials as we go forward, but it remains a continuous optimization.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

And it's the margin that -- the margin that is important -- margin management that is important. And as you know, and as we have stated before, we are tracing back the crude palm oil back to its origin, so there is no conflicts with deforestation, the crude palm oil that we are actually using. So at the end, it comes back to margin optimization.

Operator

Your next question is from the line of Peter Low of Redburn.

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

You talked about rising raw material prices. I just wanted to clarify, are you seeing rising prices for commodity vegetable oil and animal fat? Or, specifically, for your own feedstock sourcing or, actually, are the two directly linked anyway? And then secondly, on the scheduled catalyst change at Rotterdam in 4Q, I think, you had a catalyst change in Q2 last year. Should we think of 18 months as the typical cycle for that? Or has something happened to accelerate it?

Carl Nyberg ***Neste Oyj - EVP***

So on the feedstock question first. Carl here. So as mentioned, we see the veg oils complex having supportive supply-demand picture. And if you look at the other feedstock that we're using, we are seeing that they are typically being correlating relatively strongly with this. So it's about the whole complex looking more constructive going forward.

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

And on the catalyst, I was just commenting that it's probably hard to give any exact period, because at the end of the day, this is also an optimization. We have a certain flexibility on how we run the units, what type of feedstock, the operating conditions. So again, this is something we optimize for every catalyst site.

Operator

Your next question is from the line of Artem Beletski of SEB.

Artem Beletski ***SEB, Research Division - Analyst***

This is Artem from SEB. A couple of questions from my side. So the first one is relating to renewables margins and just trying to understand whether high oil prices could have some positive impact on your pricing power in that an area and maybe some term contracts what you have in recent renewables? The other question is relating to this partnership what you have signed with City of Oakland, where you're basically using city-based feedstock and, basically, then selling renewables. Are you planning for similar cases, so in some other cities, and could it become a meaningful feedstocks for you in future? And the last one is to Matti, relating to Urals-Brent spread. What's your thinking going forward, keeping in mind IMO 2020 and also latest news on Urals -- Iran sanctions? So, basically, I was expecting the spread to become more negative going forward.

Carl Nyberg ***Neste Oyj - EVP***

Okay. Thank you. This is Carl. So on the first question, there are no direct links to the fossil oil prices. And we are selling GHG reduction typically and a sustainable renewable fossil-free product. So there are very limited links to the fossil prices here in our margin. Then coming -- come back to the question around the City of Oakland and the circular concept that we have introduced there. This is certainly something that we are looking to develop in other areas as well, we believe that this type of circularity is meaningful and concrete for our customers. And we will -- we are looking at developing similar schemes in other parts of the world as well.

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

And then, this is Matti. On the Urals question, the Urals-Brent outlook, like I commented in my earlier comments, the short-term outlook is likely. We have several factors which are supporting quite tight, let's say, a strong Urals market that is linked, indeed, to the sanctions in Iran. It's the Venezuela situation. It's a strong fuel market in general. At the same time, we do expect that towards the end of the year with IMO coming closer, we will see an effect where fuel oil will weaken and also then we should see widening of heavy-light differentials in crude.

Operator

And your next question is from the line of Matt Lofting of JP Morgan.

Matthew Peter Charles Lofting ***JP Morgan Chase & Co, Research Division - VP***

Two, if I could, please. I mean, first is just coming back to the Renewable sales mix and share of 100% renewable diesel. Understanding the points that you made earlier on quarterly optimization, et cetera, is nonetheless fair to think through the cycle that the 100% product should offer a premium margin versus the divisional average. And if so, what sort of impact could a normalization in the share in the sales mix have on your margin going forward? And then, secondly, noticeable that on the refining side, the share of Urals feedstock has stayed high in the quarter, despite the tightened environment that Matti just referenced. I mean, absent of near-term [just bar] issues, could you quantify the impact of a tightened light-heavy spread relative to your plan for oil products? And what would push you to implement greater feedstock flexibility?

Carl Nyberg ***Neste Oyj - EVP***

Okay. So, commenting on the first question, so we are not really disclosing individual margins for certain segments. It is clear that the high blend Neste MY product has a certain specific segment and that it's also typically at certain feedstocks. And as previously said, we constantly need to optimize between these and we'll continue to do so to maximize our results. But overall, it's a bit different value proposition when we are selling our Neste MY.

Peter Z. E. Vanacker ***Neste Oyj - President, CEO & Chairman of the Executive Board***

And then on the question on the crude mix optimization, we have quite systematically over the last years made sure that we approve a large number of crudes technically. So it really becomes an optimization. And of course, price is important, but of course, we also look at the product mix that it results in, and also, of course, the freight costs are important. But it's an overall optimization and we have worked on systematically on making sure we have broad variety of crudes that we can use.

Operator

There are no further questions at this time. Please continue.

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

Okay. This is Juha-Pekka Kekäläinen again. As there are no further questions, we thank you very much for your attention and active participation. Neste's second quarter and half year results will be published on the 25th of July. Until then, thank you, and goodbye.

Operator

Thank you. That concludes the presentation. Thank you for participating. You may disconnect.