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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q1 2023 Neste Corporation Earnings Conference Call. (Operator Instructions) Please be advised today's conference is being recorded.

I'd now like to hand the conference over to your first speaker today, Mr. Anssi Tammilehto, Head of IR. Please go ahead.

Anssi Tammilehto ***Neste Oyj - VP of IR***

Thank you. Good afternoon, and welcome all to this conference call to discuss Neste's first quarter results published this morning. I am Anssi Tammilehto, Head of IR Neste. And here with me on the call are President and CEO, Matti Lehmus; CFO, Martti Ala-Harkonen, and the business unit heads Carl Nyberg of Renewables Platform; Markku Korvenranta of Oil Products; and Panu Kopra of Marketing & Services. We will be referring to the presentation that can be found on our website. And as always, please pay attention to the disclaimer since we will be making forward-looking statements in this call.

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

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Anssi, and a very good afternoon also on my behalf. It's great to have you all participating in this call. I'm very pleased that Neste had a strong start to 2023. Despite the market volatility and the continued uncertainty in the macroeconomic outlook, Neste's financial performance was very good in the first quarter. And I would like to thank the Neste personnel for making this happen. I'm also pleased that 2 of our major growth projects have now started up as the Martinez first phase started up in February, and our Singapore Refinery Expansion started up just after mid-April.

Now moving to Page 4. So in the first quarter, we were able to deliver a group comparable EBITDA of EUR 830 million compared to EUR 578 million last year. In Renewable Products, we posted a record high comparable sales margin per tonne, reaching $945 per ton. This was supported in particular by favorable feedstock costs and decreasing utility costs. Our sales volume totaled 660 kilotons for renewable diesel and SAF compared to 747 kilotons year-on-year. And this lower volume reflects the 1-month shutdown at our Rotterdam refinery, resulting from the fire in late December.

Oil Products had a strong comparable EBITDA of EUR 393 million, and this was driven by the still elevated oil product margins and also utility prices were clearly lower compared to the fourth quarter. Marketing & Services generated a comparable EBITDA of EUR 23 million in the first quarter, following normal seasonality. I also want to note that during the first quarter, we took many important steps in our strategy execution, and I will come back to that later in the presentation.

Then moving to safety. Safety performance continues to be a key focus area in Neste. Safety performance in the first quarter improved versus first quarter of last year for both occupational and process safety. We continue our focused efforts to drive a continuous improvement in our safety performance.

Then moving to our overall financial targets. Our financial position remains solid and building on the strong profitability in both Renewables and Oil Products businesses, we reached a comparable after-tax ROACE of 31.8% on a rolling 12-month basis, which is clearly above the target level of minimum 15%. At the end of March, our leverage ratio was 18.7%, well within the targeted range of below 40%. This solid financial position enables the implementation of our growth strategy going forward.

And finally, commenting shortly on the overall business environment in Q1, I would like to highlight a few key drivers for Neste. Firstly, the renewable diesel demand continues to be solid. And secondly, the waste and residue prices decreased versus the previous quarter, which supported the renewables margin environment. And finally, in Oil Products, the average refining margin was still at an elevated level, although diesel margins declined after January, and this trend has now also continued in April.

With these remarks, I'll hand over to Martti Ala-Harkonen to discuss the financials in more detail.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Thank you, Matti. So net start to 2023 has been strong from the financial point of view. And let's now have a closer look into the group figures. Like Matti already mentioned, we posted a strong comparable EBITDA of EUR 830 million in the first quarter. This is a notable increase of about 44% compared to EUR 578 million a year earlier. Our renewable products continued to perform strongly with comparable EBITDA at EUR 45 million.

Renewable products were supported by favorable feedstock prices, lower utility prices and with margin hedging having almost a neutral impact on our results. Also, our oil products continued to perform strongly, contributing EUR 393 million of comparable EBITDA versus EUR 137 million a year earlier.

And finally, our Marketing & Services continued its good performance with comparable EBITDA at EUR 23 million, although impacted by inventory losses in line with falling product prices. It is here of note that our IFRS EBITDA was impacted by inventory losses in line with decreasing commodity prices and by the change in the fair value of open hedges. The difference between comparable EBITDA and IFRS EBITDA was notable in the quarter, totaling EUR 367 million. It is so good to remind everybody that comparable EBITDA is the figure which eliminates these nonoperating result changes from our performance. We generated free cash flow of negative EUR 102 million in the first quarter, while continuing to invest heavily in our future growth. I'll come later back to cash flow in more detail.

Our net working capital optimization continues, and this is visible in the turn rate of our net working capital, which in days outstanding was as low as 25.7 days on a rolling 12-month basis at the end of the first quarter compared to 42.2 days a year ago and 35.4 days at the end of the fourth quarter. Our comparable earnings per share, which is the basis for our dividend policy was EUR 0.72 per share in the first quarter, up by 60% versus EUR 0.45 a year ago. This is also a material improvement.

When we next look at the first quarter comparison bridge by business, we can first see that the comparable EBITDA increase year-on-year was driven by oil products, which had a EUR 256 million positive impact. This was a result of the still elevated refining market and clearly higher sales volume at 3 million tons versus 2.6 million tons a year earlier.

In renewable product in turn, our comparable EBITDA was supported by a very high comparable sales margin, but sales volumes decreased clearly year-on-year due to the fire in Rotterdam in late '22. The fire impacted both our renewable products production and sales volumes in the first quarter. Our total sales volume in renewable products was 678 kilotons, 90 kilotons lower than a year earlier.

Then on the next page, when we look at the first quarter comparison bridged by profit driver, we know that sales margin improvement all in all, contributed EUR 355 million to our performance improvement. In Renewable Products, we achieved a record high sales margin, like Matti already noted, USD 945 per ton versus $783 million a year earlier. And the outlook into the second quarter is also strong.

I would here like to mention that we have slightly changed our renewable product sales margin calculation formula to fully also take into account the impact of byproducts. The role and importance of byproducts is growing in our renewables business as we have now more new production facilities coming online. The comparable sales margin figures for '22 have also been adjusted accordingly. Last year, in the first quarter, our reported comparable sales margin was $806 per ton. And now with the adjusted formula, the corresponding new figure is $783 per ton, so hence, $22 per ton lower.

Going into Oil Products. Our total refining margin was solid in the quarter at $21.8 per barrel, more than double compared to a year earlier, yet lower than in the fourth quarter of last year. Regarding oil products, it is good to note here though that our product margins have clearly come down in April as the market has also been coming down compared to the first quarter, and particularly so in diesel. The impact of the downturn seems to be more visible in the Oil Products segment at present.

Finally, our fixed costs were EUR 88 million higher than in the first quarter of last year, mainly due to our growth and capacity projects and ramp-up preparations at the renewable side of our business. When then looking at our cash flow in the first quarter, the first note, again, is that the decrease in commodity prices and changes in the fair value of open hedges, it had a significant impact on our IFRS EBITDA, like I already said. So our IFRS EBITDA, which is a starting point in the cash flow calculation, it was EUR 463 million.

And this is, like I said, EUR 367 million lower than our comparable EBITDA at EUR 830 million. The change in net working capital was EUR 209 million negative, but it's good to mention that materially better compared to the EUR 1.3 billion negative change a year earlier. The net cash generated from operating activities was EUR 377 million positive, clearly better than the negative EUR 639 million a year earlier.

Our capital expenditure, including M&A was EUR 550 million in the first quarter, clearly higher compared to EUR 195 million a year earlier. And cash flow before financing activities then was EUR 102 million negative, again, clearly better than the EUR 960 million negative a year earlier. So as a summary, our cash flow improved clearly in the first quarter year-on-year, although being impacted as I went through by our growth investments and the decrease in commodity prices.

Finally, I would like to highlight the issuance of our 2 new green bonds with 6- and 10-year maturities, fixed maturities which were issued in March, EUR 500 million each in total, EUR 1 billion. The proceeds will be used for investments as set out in our green finance framework. The green bonds have enhanced our liquidity position and debt maturity profile, and they will importantly secure the implementation of our growth strategy.

Our liquid funds and committed unutilized credit facilities amounted to EUR 3.35 billion at the end of March versus about EUR 2.87 billion at the end of last year. The group's net debt-to-EBITDA ratio was at a very healthy level at 0.7x at the end of the first quarter. And it is also of note here that there are no financial covenants in the group company's existing loan agreements.

I will close here and hand it over to Carl to then go through our Renewable Products business in more detail.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thank you, Martti. This is Carl. Good morning, good afternoon to everyone on the call. So let me take you through the RP figures. In Renewables Products, the strong performance continued during the first quarter of the year. Our comparable EBITDA was at EUR 415 million, slightly shy of the year back EBITDA of EUR 419 but the exact same level actually as our Q4 results. The comparable sales margin increased significantly year-over-year as well as quarter-on-quarter as we reached a new record margin of USD 945 per metric ton, up from $783 per metric ton a year back.

What is good to note here now as well is that the sales margin calculated formula has changed as we are including byproducts as part of the volume denominator effectively reducing the margin with roughly $25 per metric ton compared to the previous calculation method.

The strong margin was the outcome of well-optimized supply a weakening relative waste and residue prices, a strong sales performance over the quarter. Waste and residue share remained high in the quarter as well at 96%.

On the other hand, we had lower sales volumes in the first quarter of the year as volumes dropped from the high sales volumes in Q4 of 779 kilotons to 660 kilotons in the first quarter, which also was substantially lower compared to 1 year back sales volumes of 747 kilotons. The lower sales volumes were mainly impacted by the reduced production due to the production outage in the beginning of the year caused by the fire at the Rotterdam refinery at the end of the fourth quarter. This can also be seen in the lower utilization rate of 93%, down from 104% a year back.

The sales of SAF volumes also more than tripled over the course of the year and reached 23 kilotons in the first quarter. SAF sales will continue to keep the growth over the course of the year as Singapore SAF production ramps up. Investments rose quarter-on-quarter reaching EUR 506 million, up from EUR 370 million in the fourth quarter and more than EUR 350 million, up from the year-back figure in Q1 2022.

We concluded the acquisition of the West Coast UCO Collection business of Crimson Renewables, enabling a further expansion of our UCO platform in the U.S. As we continue to execute our growth strategy, our RONA continues to remain strong and was 23.8% in the first quarter. Our CapEx expenditure will remain elevated over the year as we continue to invest in our production capabilities and product flexibility at our production facilities in Rotterdam, Singapore and Martinez.

If we then move to the next slide, let me take you through the EBITDA bridge between Q1 '22 and Q1 '23. So as mentioned, sales volumes were down from a year back, lowering EBITDA by EUR 65 million. On the other hand, sales margin took a steep jump impacting EBITDA for the quarter by more than EUR 100 million. The stronger dollar also contributed towards a stronger EBITDA by EUR 25 million year-on-year. On the other hand, our fixed costs continued to grow year-on-year as we continue to scale up our business ahead of the Singapore expansion and Martinez renewables.

So as I mentioned, year-on-year, our quarterly EBITDA ended up EUR 4 million below the Q1 EBITDA in 2022 at EUR 450 million. If we then turn to the feedstocks, let's look at how the market developed over the quarter. So it seems that palm oil has found good support at these levels and has remained relatively range bound over the course of the quarter. Soybean oil has, on the other hand, continued to decline over the course of the quarter, mainly on the back of fears of an economic slowdown narrowing the spread between the 2 veg oils.

Waste and residue spreads continued to soften over the course of the quarter, in line with the trend we saw during the second half and following the lower values in the veg oil complex. The weaker soy prices are also likely to keep a lead on waste and residue values as their need to remain competitive to soybean oil, especially in the North American market. On a medium- to long-term basis, we expect waste and residue markets to remain supported as demand growth continues to be robust.

Let's then finally take a look at the U.S. credit prices on the following page. If you start by looking at the LCFS prices, it seems that the market has found support at $60 per metric ton. Prices started to slowly trend up towards the end of the quarter to reach a level of approximately $70 per metric ton. It's so clear that the year-on-year, the prices have significantly eroded as the LCFS prices have more than half from a year ago. However, quarter-on-quarter, prices remained stable at 66%. The carbon intensity target in California will continue to grow, and there are also discussions ongoing, which could tighten the targets in the near-term future. Since the end of the quarter, LCFS credits have also continued to strengthen and are currently trading at around $80 per metric ton.

On the other hand, RIN credit prices started to trend down over the course of the quarter, trading at an average of $1.66 per gallon, down from $200 per gallon during the previous quarter, but up from the level seen 1 year back. The market seems relatively stable and supported at these levels on the back of current bean oil heating oil spreads and is currently trading around $1.55 per gallon. All in all, as will be more elaborated by the CEO later in the outlook section, we are expecting a strong margin also in Q2 with a guided range of $800 to $900 per metric ton, and the quarter has started well.

This concludes the renewables products part. Thank on my behalf, and over to you, Markku.

Markku Korvenranta ***Neste Oyj - EVP of Oil Products Business Unit***

Thanks, Carl. Good afternoon, all. Now a quick update from Oil Products. Let's look at first at comparable EBITDA development. We had again a strong quarter in a tight, volatile refining market. The comparable EBITDA was EUR 393 million compared to EUR 137 million the year before and EUR 450 million in Q4 last year. Sales volume was at 3 million tons, up from 2.6 million tons the year before and on the same level as the previous Q4 last year. The total refining margin was USD 21.8 per barrel, up from USD 11.5 per barrel compared to Q1 2022 and down from down USD 1.7 per barrel from the previous quarter. Comparable RONA increased from 6% to a respectable 55.5% compared to the previous 12-month period.

Now over to the EBITDA bridge. Total refining margins and sales volumes were the largest drivers of improved results compared to the Q1 last year, the remaining items, FX changes, fixed costs and other items had a minor net impact on the results.

Let's look at the market. We see the market development of main drivers. The disruption caused by the war in Ukraine and general supply-demand situation continued to drive the volatility of all products. Diesel margin peaked in January after which it declined towards the end of the quarter, even if the Russian oil product sanctioned became effective at the beginning of February.

The main drivers were global economic uncertainty and declining heating oil demand in Europe due to mild weather and competition from lower natural gas prices. The gasoline margin increased during the quarter, primarily to serve as the diesel margin at the end of the quarter. Heavy fuel oil margin continued to strengthen throughout the quarter. This completes the quarterly update from Oil Products.

Now handing over to Panu for the Marketing and Services presentation.

Panu Kopra ***Neste Oyj - EVP of Marketing & Services***

Thank you, Markku. Good afternoon to all of you. This is Panu Kopra speaking. Solid financial performance continued in Marketing & Services. Q1 EBITDA was EUR 23 million, which is better than Q4 last year. During last year, Q1, fuel prices were increasing a lot, and we were gaining high stock profits. And this year, we were not. So therefore, EBITDA is less than last year. However, looking back, Q1 performances in the last years, it is still a healthy start for this year.

Fixed costs were higher due to high inflation, especially in Baltic countries. Gasoline and diesel volumes were slightly higher than last year, and also our market shares developed well in Finland. Jet A1 volumes grew by 17%, mainly due to increased air traffic in Helsinki Vantaa Airport. Also Neste MY volumes increased in Finland very well by almost 80% year-on-year, driven by B2B segment. LFO volumes were clearly lower compared to last year due to warm weather. In Baltics, tight competition, inflation and economic recession decreased ourselves. We have opened now 2 new EV charging stations here in Finland and continue to invest into 8 new EV sites during this year. Customers have been satisfied to our charging experience at our first sites. This was shortly about Q1 in Marketing & Services.

Handing over back to Matti.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Panu. And let's now move on to the current topics. So first, a few words on our strategy execution during the first quarter as we continue to make good progress in many important areas. The Singapore renewables capacity expansion project started up production after mid-April with minor delay versus our internal target of end Q1. Following a complex construction project over more than 4 years, this was a great achievement, and I congratulate the whole team for a successful and safe startup. The focus now is on ramping up the production and sales in the coming quarters.

The Martinez Renewables joint operations started up its first phase in February. The next phase, including the pretreatment is expected to start up in autumn 2023, and the third phase enabling the full production capacity of 2.1 million tons per year is targeted by the end of the year. I also note that the Rotterdam expansion project is proceeding well, obviously being our largest CapEx project in the coming years. Then mentioning that we have today sent out the invitations and opened the registration to our Capital Markets Day, which we will host on the 20th of June in London, and I welcome you all to join and look forward to sharing more about the strategy there.

We continued on sustainability, our efforts to reach our ambitious climate and other sustainability targets. Our carbon handprint for greenhouse gas emission reductions in the first quarter was 2.4 million tons, and we expect our growth projects to support a clear increase in this handprint during 2023.

Then moving to the outlook. For the renewable products, the second quarter renewable diesel and SAF sales volume is expected to be 30% to 50% higher than in the first quarter of 2023, subject to the ramp-up phase of the capacity expansions. Based on the current outlook, Neste's second quarter comparable sales margin is expected to be in the range of $800 to $900 per tonne. The second quarter utilization rates of renewable production facilities are forecast to remain high, assuming a successful ramp-up of our new facilities. The market in oil products is expected to remain volatile. Based on the current forward market, the second quarter total refining margin is expected to be clearly lower than in the first quarter. Second quarter sales volumes are expected to remain high, supported by the summer driving season. And in Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern in the second quarter.

Moving then to some other topics for the year 2023. We, first of all, continue to execute our strategy and invest in our business. Neste estimates the group's full year 2023 cash out capital expenditure, excluding M&A, to be approximately EUR 1.7 billion to EUR 1.8 billion. I also note that we have scheduled a 5-week maintenance shutdown at the Singapore original refinery in the third quarter and a 4-week maintenance shutdown at the Rotterdam refinery in the fourth quarter of 2023, which are our regular catalyst changes.

So this concludes the presentation, and we would now be happy to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll now take our first question. This is from the line of Joshua Stone from Barclays.

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

Three questions, please. Firstly, just congratulations on starting up Singapore. Do you have any greater clarity now and when you expect that project to reach plateau? And also maybe the proportion of SAF within the mix? And then secondly, on the margin, I would say how have margins and trending in April, perhaps or any data you have for the beginning of the quarter versus your guidance? Just trying to get a sense of how conserved are you guys for 2Q might be. And then just a last quick one. You highlighted the LCFS prices in California that have been creeping higher. I was wondering if you know what's driving that? And what are you hearing about potential changes in the essence to the climate as well.

Matti Lehmus ***Neste Oyj - President & CEO***

Thanks, Joshua. Perhaps Matti can start with the first question. Carl will comment on the 2 other ones. So just on Singapore expansion, obviously, we're very happy with the safe startup -- that means the feet is in. The product is in quality. We will now really focus on ramping up both production and then sales. And given this large complex refinery, typically, this happens over the coming, let's say, next couple of quarters, but this is obviously something that we focus on to do as smoothly and as quickly as possible.

And then on the margin question, I hand it to Carl.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thanks, Joshua. This is Carl. So on the margins, so we had indeed a very strong end to the first quarter on the margin and the margin remains relatively strong here in the beginning of the second quarter as well the relatively weak waste and residue prices. So we kind of see that this probably will continue. At the same time, these are very volatile markets currently and hence, we are guiding with this kind of range. Maybe it's good also to note that with the new margin calculation as well. This is also a guidance, which is slightly above the guidance we gave for Q1. So all in all, this is where we are seeing it now.

With regard to the LCFS prices, so there has been some discussions ongoing that there might be an increase in the target levels in the CARB LCFS program and that might be some -- 1 of the background for the increasing LCFS prices here. But as commented, it seems that the market has bottomed out up out of the $60 and is now trending upwards. But we don't see a big jump in the prices either.

Matti Lehmus ***Neste Oyj - President & CEO***

And Joshua, this is still Matti. I forgot to comment on your SAF question. Just adding that, obviously, as part of the start-up, we will also be testing that flexibility. Obviously, then it's during the second half of the year when we would expect the sales of SAF to be able to grow.

Operator

We'll now take our next question. This is from the line of Sasikanth Chilukuru from Morgan Stanley.

Sasikanth Chilukuru ***Morgan Stanley, Research Division - Equity Analyst***

I have 2, please. Again, the outlook that you've provided for the sales margin. I was just wondering, given the Martinez refinery is ramping up, and you had previously highlighted it could be potentially dilutive. I was just wondering, excluding this effect, are you kind of looking at margin which is similar to 1Q? Or I just wanted to understand what the effect of the Martinez ramping up was on your outlook.

The second one was related to the 5-week turnaround program that you have highlighted for the Singapore original refinery in 3Q. Just wondering if this had any impact on the ramp-up on at all? Or is it of the expansion plan that is and if -- or whether this turnaround was essentially independent of the ramp-up altogether.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thank you. And this is Carl. So if I start with the turnaround in Singapore, so it's a slightly longer turnaround is the usual catalyst change, but we're also making some maintenance work relating to our program for the refinery. There is no link with the startup of the expansion of Singapore. Then with regards to the margin. So indeed, the Martinez volumes will be increasing over the course of the second quarter, and they do have dilutive element to them as we are still -- we still do not have the pretreatment capabilities and hence, have limitations on the feedstock slate. I would say that, as commented previously, I mean, it's partly -- I would say that if you look at the margins overall, it is linked to how the waste and residue prices are developing.

Then of course, what we are seeing in the market currently as well is that the diesel cracks have been coming off, and that is, of course, an important other element here as well. But as we are guiding, this is the range where we are seeing that we will be landing.

Operator

We'll now take our next question. This is from the line of Artem Beletski from SEB.

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

I actually have 3 to be asked. So the first one is still continuing on Q2 margin guidance. And you have highlighted basically negative impact when it comes to Martinez. And I was just thinking about Singapore expansion unit whether it is having also some negative impact on margins maybe due to the fact that we are in a ramp-up phase and there are some inefficiencies. So this is question number one.

The question number 2 is relating to new formula relating to comparable margin calculation. What is the reason behind this type of change what you have implemented? Is this really due to the fact that do you expect the SAF volumes to grow significantly and maybe also byproducts will be increasing as a share of total volumes. And the last one is on regulatory front. Could you maybe shed some light when it comes to final agreements relating to RED III and ReFuelEU aviation basically reached quite recently. What are you seeing there? Are you happy with those ones?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thanks, Artem. So if -- Carl here. So if I start with the first one. So we don't see any impact from the Singapore expansion on the margin. So there are no impact from the ramp-up as such from the Singapore. Of course, we -- the volumes as also, as Matti commented, so especially when it comes to SAF, you will see that there's a significant ramp-up in volumes probably mostly to the second half of the year. But as such, there is no dilutive element from the Singapore expansion to our margins.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

And just on the new formula change. So thanks for the question, Artem. So when we refer to the byproducts, so the renewable diesel SAF impact has been there already before. But here, we mean the impact of naphtha and biopropane, which have been sort of byproducts for us earlier, and they've been sold actually by renewable polymers and chemicals unit. And now when we are optimizing and growing our capacities, we have some targets to also optimize and grow those amounts and they are -- their importance is growing. So hence, take them fully into the formula. That is the reason.

Matti Lehmus ***Neste Oyj - President & CEO***

And this is Matti. I can comment perhaps on the question on the regulatory situation. So we are indeed following closely what is happening on an EU level. There is 2 key regulations that have been discussed over a longer period of time. One is the RED III, the Renewable Energy Directive #3; and the other one is the ReFuel aviation. In both of these, our understanding is that the Trilogue process is progressing, and we expect quite soon actually some decisions from those processes. Our understanding on the RED III is that the outcome would include, first of all, a clear increase according to the expectation I had earlier on the GHG reduction target for 2030, to our understanding as high as 14.5%, which is basically double to what the RED II was.

And we also understand that the outcome would be when it comes to feedstocks, let's say, enabling still quite a broad feedstock base also going forward. But we are, of course, now waiting for the details to be confirmed. When it comes to ReFuel aviation, here, our understanding is that the EU is -- continues to look at a 2% mandate starting in 2025 which would then move up to 6% in 2030. So also in line with some earlier discussions that have taken place. But again, we are waiting for the final confirmation.

Operator

We'll now take our next question. This is from the line of Henry Tarr from Berenberg.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Three quick ones, if I may. One is just on the U.S. availability of feedstock. You've closed a couple of those acquisitions, as you say, RED Crimson, et cetera. How are you able to tell us how much of the feedstock you can cover from waste and residues for Martinez as we sit here today.

The second question would just be on the hedging impact for Q1 and then whether it's likely also to have a -- are we going to have a positive hedging impact potentially for Q2? And then just lastly, on the fixed costs, which continue to go up. Have we got much further to go on fixed costs with Singapore and Martinez as they ramp up? Or are we getting towards a plateau.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thanks, Henry. And maybe if I start with the first question. So with regards to the feedstock supply for the Martinez renewables. So as we communicated, we are -- it's 50-50 sharing of the supply of the feedback to the facility. And of course, I mean, how we are approaching the feedstock supply for both Martinez as well as the rest of the system is a global approach. And these companies that we have been acquiring in the U.S. are, of course, an important part of that, but we look at it on a global basis. And hence, it's an overall optimization. But we continue to build our capabilities and the UCO collection platform definitely in the U.S.

Matti Lehmus ***Neste Oyj - President & CEO***

And this is Matti. Perhaps I can comment on the hedging and market then on the fixed costs. So in general, just stating, like we had actually said after the first -- after the last quarter's results that for the first quarter, while our hedging ratio for the margin was close to 50%. Those hedges were quite reflective of the market. And this indeed is the situation we didn't have any significant hedging results that would have affected our results. Also, when I look at the second quarter, we continue to have a hedging ratio now that we are rolling those hedges between 40% and 50%. But again, at the moment, we don't expect any significant impact on our results as these hedges are quite reflective of the current market.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes, correct. So thanks, Matti. And on the fixed cost. Firstly, on the second quarter, we are there forecasting to see particularly in renewable products, still roughly EUR 20 million of higher fixed costs compared to the first quarter. But having said that, so we have programs and initiatives ongoing we're looking carefully into what we call a fixed cost efficiency as well, we are looking at net working capital, which have been looking for long.

But we do forecast that we should start to seeing our fixed cost in relative terms against the renewable sales volumes tons to start going downwards, particularly in the second half of this year and then onwards. So standing at the operating leverage. So we have needed to upscaling fixed costs, like we have earlier commented a bit ahead of the new ramp-ups and the capacity increases. But once we can fully ramp up, we are expecting to start seeing those efficiencies and at the same time, we are running on programs which are driving on mid, long-term efficiency improvements as well.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Okay. So peak around middle of the year, maybe?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. Maybe we can comment later and say that we are targeting that kind of efficiency, yes, correct.

Operator

We'll now take our next question. This is from the line of Matthew Blair from TPH.

Matthew Robert Lovseth Blair ***Tudor, Pickering, Holt & Co. Securities, LLC, Research Division - MD of Refiners, Chemicals & Renewable Fuels Research***

The first is on SAF margins. I think your original expectation was that SAF would not be dilutive to your overall system I know it's only about 3% of your total sales, but is that holding up so far? Second question is the final U.S. RVO will be coming out in June. Are you expecting any changes to the D4 obligation compared to the preliminary RVO?

And then the final question is on Page 17, where you show these waste and residue feedstock prices. From a modeling standpoint, do we need to think about any sort of lag on these prices as they roll into your financials? Or for Q1, was it January 1 to March 31 and pricing per this chart that rolled into your Q1 reporting.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Matthew. And perhaps this is Matti starting with a question on the SAF margins. So exactly like you noted, last year, of course, our SAF sales was still limited to that roughly 100 kilotons. And now during this year and especially in the second half, we will have the opportunity with the increased flexibility in Singapore to hopefully then also ramp up the sales. We continue -- we haven't yet and obviously, that volume will then move when we are in that period. We continue to see that the SAF demand is robust, and we expect also from a margin perspective that it will not be dilutive. We will then see when we are in the second quarter, whether we are able to have higher margins, for example, but we maintain that statement that it at least should not be diluted.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Matthew, this is Carl. So if I come back to your RVO question. So we have indeed seen that the market seems to be recovering a little bit. I think that there was a bit of a negative sentiment when the RVOs were announced. There has been some discussions around how this kind of hearings would be treated, and there are some question marks around that. So the market seems to be factoring some constructiveness let's say, in the market. But we don't have any further details on that yet. But as I said, the market seems to be relatively well supported where we see it now.

With regards then to the feedstock costs and their impact to our results. So basically, how it works for us is that we see it's pretty immediately actually in our margins. So there is no delay as such. There is, of course, a delay in the market and how the waste and residue markets are reacting compared to the veg oil market, for instance. So this the kind of element of this kind of smaller commodity markets that are, let's say, reacting at a slower pace than these larger commodities basically. But as such, the prices are coming directly into our results.

Operator

We'll now take our next question. And this is from Peter Low from Redburn.

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

Yes. So the first was on the acquisition of Crimson Renewables, which you completed that joins kind of other UCO and feedstock acquisitions you've done like Mahoney and RP trading. Can you give any indication as to how material the contribution to the RP result is for these nonrenewable fuel businesses. I think the RP trading at least had some revenue, which you disclosed at the time of that deal. I just wanted to know if that could get these companies were now making a positive contribution.

And then secondly, I know you get this question a bit. There's been some concern about how much new capacity is in the market or coming into the market in kind of the coming quarters, your margins continue to be very strong. Can you just give any comments as to kind of whether you're seeing increasing competition and whether that's having any impact in the market you operate in?

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Thank you, Peter. This is Matti. Perhaps I can briefly comment on the both questions. So indeed, on the acquisition of Crimson, it's obviously from a strategic logic, very clear, we want to strengthen our used cooking oil platform. It complements geographically, nicely the platform we have had with Mahoney now also strengthening that, especially on the West Coast. The way we have looked always at this, we obviously report the contribution from these collection businesses as part of our overall renewable products result. It's also included in the margin. They do have a positive contribution, but we look at this as an overall contribution in our entire renewable products business.

But of course, clearly stating that if I look, for example, last year, of course, this -- for example, Mahoney and RP Trading has had a positive contribution to our results. Then perhaps commenting briefly on the new capacity in the markets. It's exactly like we commented earlier quarters. We do expect during this year, on one hand, global demand to grow, especially in North America, will be driving demand growth. We see the mandated demand growth in road transportation segment, somewhere around 2 million tons globally.

And it is true that we, at the same time, expect supply growth once the different projects ramp up to be clearly larger than that 2 million tonnes. Obviously, like always, when starting up a new unit, the impact will only then be seen once these units are actually up and running and how quickly that happens. So it's something we keep monitoring. In our case, we focus obviously on our business model of optimizing continuously the feedstock and also the mix between products and markets, and that continues to be extremely relevant even with new supply coming on stream.

Operator

(Operator Instructions) We'll now take our next question. This is from the line of Iiris Theman from Carnegie.

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

Firstly, on SAF pricing. So what is the current premium compared to your average renewable diesel price and do you expect that this premium could stay in the short, medium term. And secondly, a housekeeping question basically is depreciation level, a good proxy for the rest of the year and probably finally on biofuel demand that have you seen any hesitation among your customers? And -- or basically, do you continue to see very strong demand, thanks to positive regulation? That's all.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Iiris. And this is Matti. On the first question on SAF pricing. Obviously, the market is now forming a very typical pricing formula is similar to what we see on the renewable diesel side that the price is linked to a fossil quote. In the case of aviation, then typically the fossil jet quote, and there is a premium. We haven't now started comparing how that exact premium compares to the renewable diesel. But obviously, like I said, we've optimized based on the margins. So we will, from our perspective, over time, ensure that the margin contribution is equal or strengthening also for aviation fuel.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

And then on the depreciation, Iiris. So indeed, we had EUR 178 million of depreciation, up EUR 25 million year-on-year. We haven't kind of, of course, very precisely this figure, but we do expect that to go for upwards as we get also the new ramp-ups regarding our capacities, and we have these assets under construction fully turn into an asset that we start depreciating. So I do foresee that going upwards and also for the full year compared to last year's figure. Maybe we can come offline if you want to discuss in a bit more detail.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

And Iiris, this is Carl. So I'll come back to the question on biofuel demand. So overall, we have said that the demand has been robust over the course of this year. And I mean that's also what we communicated after the term negotiations. So we see that there is good demand, and demand is also growing year-on-year here by a couple of million tons.

I think that the regulatory environment is, of course, also now shaping up in Europe with RED III as Matti commented, and that's, of course, an important element of how the demand is growing specifically in Europe. Of course, we'll then have to see how this transitions into the different member states as well and how they implement the RED III and that will, of course, be an important element here as well. But -- and if you look at the on the U.S. side again, so I think that it looks also relatively constructive in terms of the IRA discussions and overall, the demand for biofuels. So for the time being, we are seeing good support and good demand for biofuel.

Operator

We'll now take our next question. And this is from Raphaël DuBois from Societe Generale.

Raphaël DuBois ***Societe Generale Cross Asset Research - Equity Analyst***

The first one is about the animal fat and used cooking oil pricing trend. What is your take on those 2 feedstock prices coming off? It was -- I mean we've been hearing for a very long time that it will be the key bottleneck to bring in new supply. So it's a bit surprising to see those prices trending down now. So it will be great to have your views. That's my first question.

Then I have a question about the mix. As you grow SAF production, should we expect that you also produce more by naphtha. Is there a market for that? It would be great if you could tell us a bit more about that as well. And lastly, there was a press release not long ago about the departure of your head of renewable aviation. And I was wondering if you could share a bit more light on either the reasons why this person left. And also what replacement you have in mind? Is there someone coming in quickly.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Raphaël, it's Carl. So maybe if I start with the feedstock question and the mix question. So I would say that what you've seen in the market here in the UCO and animal fat this is really a result of partly the veg oil prices coming down and eventually also driving down the fundaments and sentiments for the waste and residues. At the same time, there has probably been a bit of a supply demand glitch as well and probably partly also, of course, by this change in the fundament in the overall veg oil markets. And that -- I would see that to be the primary reason for why the prices have been coming off this much and rather steeply also to some for part of these waste and residues. However, I would say that, I mean, if you look at the investments going into this industry and the increased R&D capacity, it is clear as well that there will -- there is robust demand for these feedstocks and let's say, the medium, long-term demand picture is very constructive.

So as a whole, I don't think that the picture has really changed, but it's more of a correction in prices. They were very elevated in the last year. Then with regards to the mix. So there are some minor impact from the SAF distillation, but it's not really impacting too much the naphtha yield. The naphtha yield is -- has been there all the time. And of course, as we are continuing to grow our presence in the polymers and chemicals market this naphtha field is, of course, of very high interest as well and something that we will continue to the market -- towards this market. But there is no link in that sense to the SAF production.

Matti Lehmus ***Neste Oyj - President & CEO***

And this is Matti. I'll shortly comment on your third question. Indeed, we announced in the beginning of April that Thorsten Lange, who has been -- had been leading our aviation business since the early 2020 left the company. I think a lot of important good work done during this period. I don't really want to go into any detailed all the reasons. But of course, we are focusing now on the replacement that search is ongoing, and we will come back with more information when we are complete with that process and can communicate about it.

Operator

We'll now take our next question. And this is from Christopher Kuplent from Bank of America.

Christopher Kuplent ***BofA Securities, Research Division - Head of European Energy Equity Research***

A few last questions left for me. Maybe you could give us a little bit of an insight into your second half of the year planning how did you come up with those EUR 85 million, EUR 65 million impact? Can you give us a bit of an indication what the underlying assumptions are on perhaps volumes or margins that you're missing out on?

Secondly, I think you mentioned that you do expect net working capital to perhaps reverse a little bit into the second quarter and the second half? Any additional insight that you could give us here would be, again, greatly appreciated. And the last one is regarding the restatement again of your renewable product margins.

Now I'm a little confused. Your original guidance for the first quarter. Was that based on the old or on the new definition of these margins? And perhaps you could help by simply telling us what the Q1 margin would have been using your old definition, i.e., instead of $945, where would you have ended up? That would be great color.

Matti Lehmus ***Neste Oyj - President & CEO***

Yes. Perhaps I can start. This is Matti with the first question. So like traditionally, when we've commented on this expected impacts of our planned turnarounds mainly, of course, what we have also there in the outlook is that they have a certain length. So in the case of Singapore, it was expected to take roughly 5 weeks in the third quarter in the case of Rotterdam roughly 4 weeks. So this, of course, then correlates with the expected impact on the production volume. And this is then the basis when we make a rough estimation for what the EBITDA impact could be then versus a situation where we didn't have this shutdown. For the other questions, net working capital, I hand it to Martti.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. Thank you, Christopher. So on the net working capital, of course, now with this EUR 209 million negative change, and I mentioned that we are driving efficiency on that side and very happy on the days rolling figure. We do have this larger scale capacity ramp-ups now in our plants and also in the SAF side. And I do foresee that because of the volume growth, we're going to see some negative change in the second quarter, possibly also in the third quarter. Having said that, overall in the second half of the year, we will be running a program sort of trying to further optimize after we have had the ramp-ups on our inventories and the general and VC levels. And Overall, I think we are managing this well already now, but this is sort of normal optimization after major ramp-ups.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

And this is Carl. Maybe I'll come back to the RP margin for the Q1. So indeed, our guidance was on the basis of the old margin calculation. And actually, if you look back at the quarter, so with the old calculation, we would have been roughly $25 per metric ton higher, so at $970. Going forward, this impact be roughly the same slide, potentially slightly higher, but this is the kind of magnitude we're talking.

Operator

We'll now take our next question. This is from the line of Matt Lofting from JPMorgan.

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

Two follow-ups, please, on waste and residue feedstock markets and the maintenance guidance. On the former, it seems to some of the comments and points that you're highlighting for the east waste and residue markets like the lagged nature of the response to more liquid vegetable oil trends make sense, but presumably, Neste would have anticipated that previously. So what sort of changed relative to where you saw things at the beginning of the year. And I'm just trying to understand how much of that softer outlook relates to delays and deferrals in global supply additions that perhaps get caught up over the course of the next 12 months?

And then secondly, on the maintenance be surprised in some ways by the second half turnarounds, given they weren't really guided and quantified clearly within the full year outlook in February, and you're now seeing EUR 150 million combined effect. So what changed there? And what is the regular maintenance cycle of the portfolio that investors should expect going forward?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Matt, so this is Carl. Maybe if I start with the first 1 on waste and residue. So I would say that in the previous call, I think we were highlighting that there is this delay and the palm oil had been going lower already. I think what changed over the course of this quarter was that the soybean really started coming off quite steeply. And that eventually then also drove down -- further down the waste and residues. And I think it was difficult to forecast the movement of soybean oil. And I think that this is probably 1 element that's really changed over the course of the quarter.

But as communicated earlier as well, I mean, the smaller commodity groups price movements are -- I would say they're much more difficult to predict as well. And there is a certain kind of logic like described that they are following eventually. But actually, that can be delayed. There's no clear understanding on how quickly that happened, actually. And I think these are maybe the main elements of why we saw this change, and we couldn't fully predict it.

Matti Lehmus ***Neste Oyj - President & CEO***

I'll perhaps -- Matti here commenting on the second question on the maintenance. You're right, when we commented on the full year focused on these major turnarounds, which we have typically commented on. We basically just wanted to add it now for more transparencies. These catalyst turnaround is, of course, a recurring event every renewable refinery has to change its catalyst in regular intervals. That may vary over time, but typically something between 12 and 15 months. And we just wanted to provide the transparency to provide some more information.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

This is Martti. So I would like to add exactly so that there is nothing like that we would have made a new decision now after the February to initiate these catalyst changes they were then already now. So we are just providing a bit more detailed information. And I think early on, Neste has not always provided that information for catalyst changes, but now we decided to do so.

Operator

(Operator Instructions) We'll now take the next question. And this is from Erwan Kerouredan from RBC.

Erwan Kerouredan ***RBC Capital Markets, Research Division - VP***

Congratulations on a strong start of the year. I've got 3 questions, please. First, on the OpEx guidance for 2Q, you indicated that the quarter has passed well. Can you just clarify which underlying driver you're pointing to, is it about cost premiums? Is it about feedstock costs, if you could provide some indication on that?

And then the second question is on fixed cost. So for the first quarter, it came in lower than guided in the fourth quarter, the incremental EUR 10 million. And for 2Q, you guide for an incremental EUR 20 million. So I don't know, should we expect like some kind of like volatility in the ultimate number? And does it have anything to do with the cost efficiency -- the fixed cost efficiency program that you mentioned, Martti earlier on the call? So this is my second question. And then the last 1 on SAF mandates, please. Thanks for providing your expectations for RED III and reflation. At country level, do you still see a risk of SAF mandate amendments on some of your key markets, including Sweden? This is my final question.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

This is Carl. So I'll start with the RP guidance on the margins. So I would really say that, I mean, first of all, as commented already, the staff volumes will not be increasing to any huge extent in the second quarter. We will see the actual ramp-up of SAF sales more towards second half of the year due to the length of the value chain. The key elements are around the feedstock cost, how they will continue to develop.

And then, of course, the diesel price is also a key element here. I think if you look at. In addition to this, of course, we have had a huge change in the utility cost as well if you compare to Q4, Q1, for instance, they seem to be stabilizing now at this current level. So I doubt that they will have a huge impact now when we go into the second quarter, really. The element of hedging as well I don't see it to be having a big impact. So it really is around the feedstock cost and then how the diesel crack will continue to develop over the course of the quarter.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Thanks, Erwan, for the question on the fixed cost again. So there is always some variance between the quarters last -- if you look at last year, so the fourth quarter, we have, by far, the highest fixed cost. And actually, if we look into the renewable products figures, the fixed cost for the first quarter of this year was EUR 5 million lower than in the fourth quarter of last year.

And in the bridge that my colleague, Carl went through here was against the first quarter of last year. So from the year-on-year comparison, the fixed cost is up, but against the fourth quarter, actually, we have a bit down. So there is always some variance also how we are providing on certain issues, et cetera. Now with the EUR 20 million higher fixed cost forecast, so I don't think there's anything rather extraordinary, but it's now again -- against the first quarter, which might have been a bit on a lower side.

And then for the full year, I mean, we are giving for RP the guidance per quarter. So what I said earlier that as we are ramping up, so it can happen going forward that we follow for the full year that our full year fixed cost continues to go somewhat up also in the third quarter and the fourth quarter, it's good to maybe assume.

So if I look for the whole, but in terms of efficiency, so I mentioned that fixed cost, as an example, compared to measured against the renewable product sales volumes, I think there, we should start seeing the efficiency in the second half as we have ramped up the capacity. So we need to have the fixed cost a bit more earlier. And then we have the capacity hopefully ramp up and then we start seeing the efficiency. So that's what I wanted to highlight earlier.

Matti Lehmus ***Neste Oyj - President & CEO***

And then finally, on the third question on the SAF mandate, this is Matti speaking. So we have obviously focused when we look at new regulation on the EU level process there the intent is -- or the plan is to propose a EU wide mandate starting from 2025. You are right on the country level, there is a few countries who have introduced mandates, for example, Norway and France. I'm not at the moment aware of any new development, but it's obviously something we are following in parallel to this EU level development.

And perhaps then adding the comment that -- if you look at the current situation where only a few countries have introduced mandates, an important driver for the market is, of course, the voluntary demand. So for example, airlines or transport companies setting their own targets for sustainability, and this has been also an important driver for the interest for the product.

Operator

We'll now take our next question. This is from Raphaël DuBois from Societe General.

Raphaël DuBois ***Societe Generale Cross Asset Research - Equity Analyst***

It's just a follow-up on the increase in annual demand. You mentioned earlier 2 million tons, and I was wondering if you could shed some light on what you expect from Sweden? I think we're still expecting what's going to be the next mandate for 2024. Have you heard anything that could lead to a change in the demand from this country.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Raphaël, it's Carl. Thank you for the question. So indeed, there are discussions ongoing in Sweden with the new government, and there are some discussions also around the food fit that they potentially would be reducing that. We haven't had any further information on that yet. So it's an ongoing process, and there are dialogues ongoing in the country with stakeholders. So nothing new from our side on that one.

Operator

No further questions at the moment. (Operator Instructions).

Matti Lehmus ***Neste Oyj - President & CEO***

If no further questions, I would like to thank you for your very good questions and the active participation. And as we have discussed, we are pleased with Neste's performance in the first quarter and a strong start to 2023. And while the macroeconomic growth expectations affect the energy markets, I'm confident that we will be able to navigate successfully in this environment and continue creating value for our customers, employees and shareholders. And for rest, renewables business, 2023 will be a year of significant growth. Thank you and stay safe.

Operator

Thank you. This does conclude the conference for today. Thank you for participating, and you may now disconnect. Speakers, please stand by.