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CORPORATE PARTICIPANTS

Juha-Pekka Kekäläinen *Neste Oyj - VP of IR*
Jyrki Mikael Mäki-Kala *Neste Oyj - CFO, Strategy & IT*
Marko Pekkola *Neste Oyj - EVP of Oil Products Business Unit*
Matti Lehmus *Neste Oyj - EVP of the Renewables Platform*
Panu Kopra *Neste Oyj - EVP of Marketing & Services*
Peter Z. E. Vanacker *Neste Oyj - President & CEO*

CONFERENCE CALL PARTICIPANTS

Artem Beletski *SEB, Research Division - Analyst*
Erwan Kerouredan *RBC Capital Markets, Research Division - Assistant VP and Analyst*
Henri Jerome Dieudonne Marie Patricot *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*
Iiris Theman *Carnegie Investment Bank AB, Research Division - Financial Analyst*
Joshua Eliot Dweck Stone *Barclays Bank PLC, Research Division - Analyst*
Mehdi Ennebati *BofA Securities, Research Division - Research Analyst*
Michael James Alsford *Citigroup Inc., Research Division - Director*
Monika Rajoria *Societe Generale Cross Asset Research - Equity Analyst*
Nikolaos Konstantakis *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*
Pasi Väisänen *Nordea Markets, Research Division - Senior Analyst of Utilities and Energy*
Peter James Low *Redburn (Europe) Limited, Research Division - Research Analyst*
Sasikanth Chilukuru *Morgan Stanley, Research Division - Research Associate*
Thomas Yoichi Adolff *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2020 Neste Corporation Earnings Conference Call.

(Operator Instructions)

I must advice you that this call is being recorded today on Friday, 5 of February 2021.

And I'll now like to hand the call over to your host today, Juha Kekäläinen. Please go ahead.

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

Thank you, and good afternoon, ladies and gentlemen, and welcome to this conference call to discuss Neste's Fourth quarter and Full Year '20 results published earlier today.

I'm Juha-Pekka Keklinen, Head of Neste IR. And here with me on the call are President and CEO, Peter Vanacker; CFO, Jyrki Maki-Kala and the business unit head, Matti Lehmus, of Renewables Platform; Marko Pekkola, 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*

Thank you very much, JP, and a very good afternoon to all of you participating around the world, also on my behalf. We appreciate you joining us to discuss our fourth quarter and also the full year results for 2020.

2020 was unlike anything that we have ever seen or experienced. Oil price volatility, very low refining margins, a global pandemic and an associated recession.

Early in the year, as it became clear that the virus is becoming more widespread, our leadership team established 3 guiding principles for the short term. Number one, protect our employees and communities; number two, keep our commitments to our investors; and three, take actions to strengthen our company for the future. And beyond the very good progress that we made on our strategy implementation, I also want to take a moment to acknowledge our global team that delivered our results. These individuals, both those who were able to work remotely and those who continued to work on the front lines at our manufacturing sites form a strong and nimble team. They have my sincere and deepest gratitude.

If the pandemic reinforced anything, it is the value of our renewable products and serving the need to reduce greenhouse gas emissions. The uncertainty caused by the COVID-19 epidemic continues. And the vaccination schemes seem not to proceeding as fast as we would all hope. Therefore, we are pleased to share with you our solid overall performance in the last quarter and in the year 2020 as a whole.

If we move to the year 2020 in brief. Despite the market turbulence and disruptions caused by the COVID-19 pandemic, the year 2020 was a success for Neste in many ways.

We had a solid performance and posted on comparable EBIT of EUR 1.416 billion. We focused a lot on delivering an excellent cash flow.

As a result of our actions, our cash flow was strong, and I will make some comments on that later.

In 2020, our Renewable Products proved to be very resilient with increased sales volumes and strong margins. The renewable diesel demand remained good, and our annual sales volumes were almost 3 million tons. As expected, the feedstock markets remains tight and particularly the palm oil price continued its way up. As a result of successful sales performance and the optimization of market mix and feedstock mix as well as a significant positive contribution from margin hedging, we were able to generate very strong sales margins. The comparable sales margin averaged $703 per ton in 2020, and a very high $760 per ton in the fourth quarter. That was a great achievement and may be difficult to replicate.

Oil Products suffered from a continued historically weak refining market caused by the global COVID-19-related demand reduction and the resulting oversupply situation. The reference margin reflecting the general market conditions, averaged only $0.6 per barrel in 2020. It was about $5.6 per ton lower per barrel, lower than in previous year, which had a negative impact of EUR 490 million on the comparable operating profit year-on-year.

On a positive note, our additional margin was strong at $6.9 per barrel, supported by good operational performance, currency hedging and contango inventory profits. Substantial cost reduction measures have been successfully taken in Oil Products.

Our Marketing & Services segment performed very well in the challenging market. Sales volumes were still impacted by the COVID-19 pandemic, but we were able to improve unit margins.

Marketing & Services has also done a great job in reducing their cost base. Despite the market turbulence, we continued to focus on our strategy execution. And I will come back to that at the end of the presentation.

In order to ensure the long-term competitiveness of the Oil Products business, we initiated cooperation negotiations on a plan to restructure our refinery operations in Finland.

The negotiations were concluded in November 2020. And as a consequence, we have decided to shut down the refinery operations in Naantali. We will focus the sites on terminal and harbor operations as well as renew the oil products operational model. In the second phase of the transformation, the porter refinery will be developed towards coprocessing of renewable and circular raw materials.

We have also started the implementation of measures to bring our greenhouse gas emissions to net 0 by 2035. The shutdown of the Naantali refining operations and the renewable -- the renewal of the oil products operating model will lead to approximately 370 redundancies.

We're supporting our people and adapting to this change in several ways. These restructuring measures are expected to result in annual fixed cost savings of approximately EUR 50 million.

The Board of Directors' dividend proposal to the AGM on the 30th of March is EUR 0.80 per share. It is fully in line with our 50% distribution policy.

A couple of words on safety, Neste continues to take the risks related to the COVID-19 pandemic seriously. Our primary objective is to ensure the health and safety of our employees, our customers and other partners as well as to ensure the continuity of our operations and secure supply of products.

Our occupational safety performance was the best ever in 2020. And the total recordable incident frequency was 1.3 incidents per million hours. The process safety event rate was a bit up from the previous year at 1.6%, but we met our target for 2020. And our systematic safety work continues every day.

On cash flow, I would like to make a special point about our excellent cash flow developments.

It has really been in the focus during the pandemic year when we have also continued to invest in strategic projects and made several acquisitions. Prime examples of these are the completed Mahoney acquisition and the yet to be closed Bunge acquisition. Our net cash generated from operating activities was over EUR 2 billion and a free cash flow over EUR 1 billion.

Our people have really done a great job in safeguarding our cash flow. On the next slide, despite the challenges in Oil Products and the extraordinary retroactive BTC contribution, not impacting the return figures anymore, our financial position continues solid. We reached an after-tax ROACE of 17.3% on a rolling 12-month basis, clearly exceeding the 15% target.

At the end of December, we were net debt-free as our leverage ratio was minus 4.7%. As stated before, the strong financial position enables the implementation of our growth strategy going forward. This continues to be very important in these turbulent times.

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

Jyrki Mikael Mäki-Kala ***Neste Oyj - CFO, Strategy & IT***

Yes. Thank you, Peter. If you think about last year 2020, I think it's good to say that let's close the COVID-19 year.

I think that it was a year that provided more uncertainties and scenario thinking than any other year since 2009. For Neste, like already heard earlier, it was a year of resilient Renewable Products, high volumes and solid sales margins. Global oil industry really hit Oil Products, like mentioned, with really low reference margin and it was impacted close to EUR 500 million. And then on the other hand, we had a well-managed Marketing & Services business. So what all of these meant in figures, that will be with the next pages. So if we have the group finances, let's start with the full year figures, the first 2 columns there. I will comment comparable EBIT separately.

But if you look at the full year comparison, we basically deliver EUR 4 billion lower revenues, and that's basically roughly EUR 1 billion each quarter. Throughout the year, it was EUR 3 billion coming out of the -- out of the crude oil price and EUR 1 billion out of the volumes, mainly fossil volumes, and that is the impact of the COVID-19 during 2020.

Like mentioned just earlier, we had a very strong cash flow, talking about the free cash flow, this EUR 1.02 billion. It was again over EUR 1 billion like 2019, but really like in the totally different market environment, and we really continue to focus on the cash flow.

Our CapEx and M&A activities were EUR 400 million higher than 2019. So what we basically did, we had a very, very tight focus on inventories, closing the contango inventories at the year-end, with oil products getting the 2018/'19 BTC from the U.S. -- from U.S. and then really focusing on the tight collection of receivables. So this EUR 460 million that was there as a cash flow item coming out of working capital was a great -- great achievement.

And then at the end of the day, the comparable earnings per share, it was EUR 1.60. And then according to our policy, the dividend, like discussed, it was EUR 0.80 per share.

But if you look at the full year comparable EBIT, you see a big change between '19 and '20. And I think the big thing here is really the retrospective 2018 BTC, EUR 142 million, have the figures still.

And the true profitability change during the year, it was basically EUR 123 million. And basically, in RP, it really means that half of that came from higher fixed cost like we have basically focused on the strategic elements, and then we had the FX changes.

But the positive thing certainly with RP during 2020 was the higher sales volume and slightly lower sales margin compared to 2019.

We talk about the Op week performance already. The COVID-19 basically make a big change in their profitability, that was EUR 336 million lower. So combined RP and OP for EUR 600 million. And then we have the positive things coming out of MS and also coming out of the other segment that also improved, but it was really colored by the BTC that basically kind of disturbed the companies that we always have to take into account.

But if you then look the 2 last columns talking about quarter 4, 2020. Again, like mentioned, our revenues were EUR 1 billion lower coming out of basically mostly crude oil price, some effect also the FX. It's now totally different level compared to 2019, especially U.S. dollar.

In comp EBIT in quarter 4, if we just take out these changes that took place in the BTC element, the EUR 380 million in quarter 4, it was very close to the level of quarter 1 and quarter 3. So basically, making the full year figure, then what it was like mentioned earlier.

But to quarter 4, it has really big changes because of this BTC. You see 2019, it was EUR 781 million, and you need to take away the 2018, and then you need to take the 3 quarters 2019 that you get kind of the comparable figures. So basically, then you are talking about EUR 473 million versus EUR 380 million, meaning EUR 93 million lower. I will talk a little bit later in detail.

This is the comparable figure we need to focus on. And basically, all the other businesses, like mentioned here, Marketing & Services, if they improve. And again the others improved or making a positive impact on our overall comparable EBIT.

But if you look at the next page, just by business areas, again, if you just look this for the first time, you may be a little bit surprised that how can the profitability be half what it was last year, 2019 fourth quarter. But you have to take away the BTC impact full year '18 and 3/4 of 2019. And then you are seeing the comparable figures, basically how the figures come alive.

And that's kind of the point that RP basically had roughly EUR 25 million lower profitability compared to quarter 1 2019. And then OP had this low reference margin in the background and then marketing services and the others, again, they basically improved compared to 2019.

If you put the next page. This is then, again, we wanted a little bit give you a feeling that how you compare these figures, like I mentioned earlier, the quarter 4, you have to take away the '18 and '19 three quarters, basically.

BTCs comes to this EUR 473 and then 380, meaning this EUR 93 million difference. And if you look at the big picture here, you have to think about the sales margin, why it is EUR 150 million lower, and that is coming from OP, EUR 95 million and EUR 25 million is coming from RP.

We had a positive distributor. We did volumes, mostly coming out of RP side. And again, now we are starting to see here the FX changes impact. In 1 quarter, it was minus EUR 51 million.

We did a lot of things 2019 with our fixed cost. And you see here 1 quarter example, EUR 42 million lower compared to 2019.

And I think that is an example that, for example, OP's impact was EUR 26 million. So we basically did all the scenario thinking and actions in a very difficult year, what was needed and landed EUR 380 million.

And then one more slide, basically talking about the full year figures. The figures are getting bigger and the columns as well. So basically overall, if you just look at the figures, we had basically EUR 546 million lower profitability. But if you want to focus on the things operationally, you need to focus on this EUR 1.8 billion and this EUR 1.4 billion means basically roughly EUR 400 million lower profitability in competed level. And you have this one big-ticket item there, sales margin, talking about more than EUR 430 million lower sales margin. And that is item coming out of OP preference margin very negative compared to the 19. But additional margin was very good. So the comparison is here, EUR 350 million coming out of total refining margin and RP, then EUR 85 million. So that is basically the negative thing between these years and then followed by the FX.

And FX was basically mostly coming out of quarter 4, like I presented in the previous slide. And then we have the positive things, again, impacting the full year figures. Talking about fixed cost, talking about the volume impact, talking about the thing also in the other segment in our operations, but EUR 1.416 million was the outcome of the full year.

And I think that is an excellent achievement also in a very difficult circumstances.

So I'll now leave the floor to Matti Lehmus, who will comment more on the Renewable Products 2020.

Matti Lehmus *Neste Oyj - EVP of the Renewables Platform*

Thank you, and good afternoon also on my behalf. So if I start with the first slide and commenting on the EBIT on the renewable products, I'm very pleased that we continue to have a strong EBIT level of EUR 338 million in the fourth quarter. And when you look at the chart, you can see that this was, of course, below Q4 2019. If you include the BTC, but if we then, like also our CFO explained, only take into account the BTC for the fourth quarter of 2019, it is only slightly below this number. The difference then becomes EUR 25 million.

And I have to say, for me, this reflects a strong operational performance in spite of the COVID impacts on the business environment in spite of an increasing feedstock price. So I'm very pleased with that. The sales margin was at a very good level of $760 per ton. This is slightly lower than in the fourth quarter of previous year, which was $787, but it is stronger than what we had in the third quarter of 2020.

Positive factors supporting the Q4 margin in spite of a continued tight feedstock market included hedging, market development and sales performance, and I will discuss this in a bit more detail.

The sales volume was at a good level, stable level of 732 kilotons. This is 5% above last year's level at a very similar level as in the previous quarter.

And it's worth noting that sales to North America increased to 34%, which reflects solid demand in the U.S. and continued market optimization.

The production volume was 719 kilotons. This again reflects the successful completion of our scheduled turnaround in Rotterdam and otherwise very good utilization across our sites.

Finally, I would comment that the feedstock optimization continued, and the share of waste and residues inched up again to 87% in the fourth quarter, which is in line with our increasing longer-term trend.

And also reflects our efforts to continually expand waste and residue availability. So overall, a very good quarter. Briefly looking at the waterfall and the comparison to last year's fourth quarter.

This illustrates quite nicely that if we make the BTC readjustment, then you can see that the right comparison point is the EUR 363 million.

And the key changes year-on-year is that the volumes were higher, which had a EUR 25 million positive impact. And at the same time, the sales margin was slightly lower, which had a EUR 20 million negative impact. And the third main change is then, the FX, like also CFO commented, which had a EUR 31 million impact versus last year because the U.S. dollar-euro rate was at $1.19 versus $1.11 a year ago.

Let me then turn briefly to the feedstock markets. Waste and residue market dynamics were similar as in previous quarter, with a tight market.

Following continued solid demand into both oleochemical and biofuels markets. The waste and residue price increase was, however, more moderate than for vegetable oils, which increased deeply in the fourth quarter.

So for example, quarterly animal fat prices increased by 7%, used cooking oil by 3%, whereas the quarterly crude palm oil price rallied by more than 20%.

I would also state that the key market driver in the fourth quarter was a rapidly strengthened vegetable oil market. And for example, crude palm oil prices increased by more than 20% during the quarter.

The reason behind is a combination of production being impacted by heavy rainfalls, which is related to the La Nina weather phenomenon. And at the same time, solid demand for crude palm oil into, for example, India and China, which then contributed to the rapid price increase. It's also good to note that the crude palm oil market in 2021 is in backwardation as there are expectations of a positive production development later in the year, supported actually by the recent rainfalls.

Finally, I would comment on waste and residues that animal fats, used cooking oils, other waste and residues actually followed vegetable oil price trends. But the movements were less pronounced. And in practice, this means that the price differential between waste and residues and vegetable has actually narrowed in the fourth quarter.

Let me then turn to the U.S. market and a few comments on some market developments there. First of all, the LCFS credit price in California continued to be on a high level and average $198, just a few dollars higher than in the previous quarter.

The LCFS credit deficit continues to be balanced, even if short term, the demand for diesel and gasoline has been low due to COVID-related lockdown measures.

And in 2021, then the carbon intensity reduction targets will be tightened again in California.

If you look at the RIN price development, it's interesting to note that in the fourth quarter, the D4 RINs clearly strengthened from $0.67 per gallon to $0.88 per gallon during the quarter. And have continued to increase actually in January to a level of roughly $1.10 per gallon currently. The RIN market values has responded to an increasing soybean oil price. And actually, if you look at the soybean metal is the biofuel margins, they have actually been relatively stable. So for renewable diesel, this RIN development has supported the development of U.S. margins in the fourth quarter.

So my final comments are on the sales margin. And like commented earlier, the sales margin was at a very good level of $760 per ton, slightly stronger than in the previous quarter.

And I would say that the main factors affecting the sales margin development in the fourth quarter where, first of all, that the average feedstock price increased by approximately 5% versus the previous quarter. And like commented earlier, this is a combination of, let's say, animal fat, used cooking oils increasing more modestly and then vegetable oil prices like crude palm are increasing considerably.

At the same time, and that's the second factor, our hedging mitigated the feedstock price increase as the hedging ratio in the fourth quarter was approximately 40% of overall sales. And this mitigated more than 3/4 of the feedstock price increase. And finally, I would comment that the good sales performance and the market development compensated approximately half of the feedstock price increase. And for example, the RIN appreciation had a positive impact. And in addition, the sales mix optimization continued with increasing U.S. sales. So in general, I would note that the sales margin in Q4 was also supported by good operational performance. So for example, no unplanned shutdowns or similar events. And utilization reached 90% in spite of a 1-month scheduled shutdown in Rotterdam.

With these words, I hand over to my colleague, Marko Pekkola, who will discuss the Oil Products.

Marko Pekkola ***Neste Oyj - EVP of Oil Products Business Unit***

Thank you, Matti. I'll comment on the oil products fourth quarter, which was dominated by exceptionally weak and oversupplied market.

Comparable EBIT totaled out EUR 37 million, supported by additional margin and lower fixed costs.

During the quarter, reference margin averaged at that minus USD 0.7 per barrel. Our sales volumes were 8% lower compared to the Q4 2019, reflecting lower demand continuance. Refinery utilization rates were adjusted down to 86%.

Urals' share was 63% on a lower level than normal due to dedication actions for Urals' differential being unfavorable for us.

Moving then on to the EBIT bridge between Q4 '20 and 2019, the impact of exceptionally weak product market and the narrow Urals-Brent differential is very visible. This resulted in refining margins trading mostly at negative values during the quarter, which had a negative impact of EUR 151 million on the comparable operating profit year-on-year.

The weaker U.S. dollar had a negative impact of EUR 20 million. Main positive impact in Q4, EUR 56 million came from additional margin, which was supported by contango inventory profits and currency hedging. Positive impact of EUR 26 million came from successfully implemented short-term cost-reduction measures.

When having looked at on the markets, we could see the continued impact of COVID-19 pandemic on physical product demand and low margins in both diesel and gasoline during the quarter.

Urals-Brent differential was very narrow during the quarter, mainly due to the OPEC+ production cuts impacts. Urals-Brent differential averaged at slightly negative minus $0.10 per barrel for the quarter. Brent crude oil prices recovered above USD 50 per barrel levels towards the end of the year.

When you look on our margin performance, our total refining margin was low at $8.3 per barrel.

However, it was supported by a strong additional margin of $9 per barrel when the reference margins -- when the reference margin for the quarter was negative.

Refinery production costs were below last year's levels, mainly due to the successful implementation of short term cost-reduction measures.

And as already mentioned by Peter, on the strategy execution, the restructuring of oil products is proceeding, the cooperation negotiations were completed during the quarter and then the closure of refinery operations in Naantali by the end of March this year and transforming the Porvoo refinery operations to coprocessing renewable and secular raw materials are proceeding, as the main building blocks of oil products future success to continue solid cash generation. We have also currently scheduled an approximately 12-week major turnaround at the Porvoo refinery in the second quarter.

But with these comments, I would like to hand over to Panu to talk about Marketing & Services.

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

Thank you, Marko. This is Panu Kopra speaking now.

All in all, Q4 was good and solid in Marketing & Services unit. And if we compare 2019 to 2020 without Russian business contribution, we actually were able to improve more than MEUR 11 of our results. And if I just shortly comment still about last year market and market conditions out there. So that in the mid of March, we faced almost in all our segments, a huge drop in demand. Gasoline, diesel, bunker and Jet-A1 volumes were collapsed.

After first half, we started immediately to assess our operations to meet new level of demand. And we were able to cut our fixed cost growth. In addition to lower fixed costs, the result was improved by excellent margin management.

During Q4, we made decision to Pilot EV charging for our B2B fleet customers. We expanded our sustainable solutions offering by launch of Neste MY nonroad diesel in Finland. We continued network optimization, actually, during last year, we were able to close more than 35 stations in Finland, which obviously improved competitiveness of our network even further in the future.

During COVID time, our touchless mobile payment has got more users than ever before, and it enables to have real online marketing with our customers. This is, again, a step ahead in our journey to more and more efficient, even more out than customer marketing. We have expanded Neste MY availability now into 120 stations. Neste MY marketing strategy is ready for launch and the most important is that the customers are warmly welcoming Neste MY Renewable Diesel. This was shortly about Q4 and the last year in Marketing & Services. Handing over back to Peter.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Thank you, Panu. And let's now move on to the current topics. The very good progress in our strategy implementation has continued, and the Singapore renewables capacity expansion project is proceeding well and the updated completion schedule targeting startup in Q1 of 2023 remains valid. We continue to take all precautions and follow the development of the COVID-19 situation in Singapore very closely.

The feasibility study phase of the next renewables capacity expansion project in Europe is progressing well. The next step for decision-making will be to select the site, Porvoo or Rotterdam during the first half of 2021. For clarity, this will not be the final investment decision, since such a decision is only made shortly before starting the construction.

Several new contracts and partnerships have been made in the Renewable Aviation and Renewable Polymers and Chemicals businesses during the year. In the fourth quarter, we signed a sustainable aviation fuel supply agreement with ANA, All Nippon Airlines, which was the first of its kind in Asia. We also acquired a minority equity stake in the AFS storage company to get access to the full delivery system at the Amsterdam Schiphol Airport.

In Renewable Polymers and Chemicals, we announced a strategic partnership with Royal DSM in November. We also launched Neste Re, 100% renewable and recycled raw material for Plastics & Chemicals production. There is a lot going on in the new businesses and their traction continues good. Both are still in the market making phase though.

As mentioned earlier, the cooperation negotiations to restructure the Oil Products were completed in the fourth quarter, and we are now implementing the decisions. Substantial short-term cost reduction measures have been successfully implemented and we are well ahead to exceed our Neste Excellence program target to achieve at least EUR 225 million EBIT improvement by the end of 2022 compared to the year 2018 baseline.

By the end of 2020, we have already improved by EUR 237 million. In the area of innovation, we acquired a minority stake in Alterra Energy at the very end of the year. And similarly to recycling technologies, in which we made an equity investment earlier, Alterra is an innovative plastic liquefaction technology provider.

We're also getting more active and increasing our influence in the European hydrogen circles by co-chairing the European clean hydrogen alliance and chairing the Finnish hydrogen cluster.

As an example of growth with strategic research partners and new catalyst development units, tailored for Neste needs has been started by VTT in Finland. These are just some of the highlights I wanted to mention.

As said before, we have a clear strategy and continue to move ahead. As an outlook for the first quarter, we see the following.

Sales volumes for renewable diesel in the first quarter are expected to be on the same level as in the previous quarter. The waste and residual markets are anticipated to remain tight. And sales margin is expected to be lower than the very high level of the fourth quarter, but to stay healthy. The margin will not be supported by similar hedging gains as in 2020, and the hedging rate is expected to be lower than normal in the first quarter. Utilization rates of our renewable production facilities are forecasted to remain high in the first quarter.

In the first quarter, oil products market demand will continue to be depressed and volatile due to several lockdowns as a result of the COVID-19 pandemic. The reference margin is expected to remain very low and volatile.

The January average materialized at $0.10 per barrel. And refined operations at the Naantali refinery are planned to be closed by the end of March 2021.

In Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern in the first quarter and some negative impact on demand and sales volumes is anticipated due to the COVID-19 pandemic.

On the next slide. Our strategic projects proceed as planned, but we continue to prioritize everything else. Our cash out capital expenditure is estimated to be approximately EUR 1.2 billion in 2021, and that is excluding M&A.

Regarding the Renewable Products, we have currently scheduled a 12-week major turnaround at the Porvoo refinery in the second quarter, which is estimated to have a negative impact of approximately EUR 30 million on the comparable EBIT, mainly in the second quarter.

We've also scheduled a 7 week turnaround at the Singapore refinery in the third quarter, which is estimated to have a negative impact of approximately EUR 80 million on the comparable EBIT.

Additionally, we have scheduled a 4-week catalyst change at the Rotterdam refinery, and that will be in the fourth quarter, which is estimated to have a negative impact of approximately EUR 50 million on the comparable EBIT.

In the Oil Products, the main operational event is the Porvoo major turnarounds, currently scheduled for 12 weeks in the second quarter.

It's estimated to have a negative impact of EUR 110 million on the comparable operating profits, and that is mainly in the second quarter. This concludes now our presentation, and we would now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Nick Konstantakis of Exane.

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

I would like to start on the dividend, please. Can you mind -- just reminding us what is the dividend policy and how you derive the number. And I guess related to that you have a very strong balance sheet, why did you keep it flat at the very least, I guess, come get an indication that you're saving some firepower to potentially slightly higher deal with (inaudible) in 2020.

Then secondly, look, we're heading into the publication of the annual report, where we're going to get more visibility around the hedging. I was wondering if we could be a little impatient, you can tell us what was the overall fine contribution in 2020, so we can understand a bit better the moving parts as we go into 2021.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. Thanks, Nick. Good questions, of course, as expected.

First question to dividends. And maybe I start and Jyrki can add I mean to that. You know that our dividend policy has been 50% of comparable EPS, which is something that we have followed also in the past.

So we simply followed them in the same dividend policy based upon the results that we made in 2020. And if you do the calculation that leads them into the EUR 0.80, as we have announced. So that doesn't give any indication. I mean you know what the financial status of the company is. We did very good cash flow management, as I explained.

So we have a negative leverage. And you also know, I mean, that we are investing heavily in Singapore. We've done, what, approximately 10 acquisitions or equity investments in company to strengthen our waste and residue upstream.

We are careful in terms of our cash management. That helped us, I mean, to maneuver very well during the pandemic.

And yes, I mean, we are discussing, of course, not a final investment decision, but investments in sustainable aviation fuel in Rotterdam, investments in a world-scale facility in Porvoo or Rotterdam. So it's quite a lot that is actually going on in our company. Nothing surprising, I mean, to you, Jyrki.

Jyrki Mikael Mäki-Kala ***Neste Oyj - CFO, Strategy & IT***

Yes, I think that is exactly like Peter was mentioning. So we have the policy. And then we are, of course, thinking about the coming years and the investment and following the strategic implementation that is very important for Neste as we go further. So EUR 0.80 is a good solid dividend. Yes.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. And then you also saw, I mean that our words that had received from in the endorsement from the AGM to pay this extra dividend last year.

We did not -- we did not doubt or the Board did not doubt and it was also paid. So if you look at the proposal that we are now making to the AGM and you combine that with this very high dividend payment in 2020 paid for the year 2019. Of course, I mean, we're coming with a dividend payment of EUR 1.4 billion. And this in an environment with a pandemic, I think that's -- that's a very good number.

So the second question on hedging, I give that to Matti.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes, thanks. So the second question was on the hedging and its impact in 2020. And first, I'll just reiterate the logic of our hedging, we typically hedge around 40% to 50% of our entire sales volume for the calendar year, which is also where we were in 2020.

And our target is, of course, to reduce the margin volatility. Unfortunately, there are no perfect hedging instruments. So what we are typically doing is we are using vegetable oil instruments like, for example, palm oil being a liquid one.

And we are using, on the other hand, oil products, derivatives, like, for example, gas oil, in order then to have at least a proxy hedge for our margin.

And we have, in a way, not been disclosing the exact impact of our hedging. But what I would highlight as a logic is typically, when we have the visibility into our term contracts, that is the timing when we start doing the hedging for the following year.

So you basically have to see what the forward markets looked like in late 2020 -- I think late 2019 and then compare it to how the market evolved. And of course, it's fair to say that, for example, the price differential between palm oil and gas oil did widen during the year 2020. So it had a substantial positive impact in 2020.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

And again, Nick, I mean, I think all the analysts are extremely smart, you can do the back of the envelope calculation. I mean, if you look back at where palm oil versus gas oil was trading at the end of 2019, where we were building up these hedging positions to offset, say, potential risks in the term contracts with the guidance that Matti has given on the percentages. And then if you looked at how the palm oil versus gas oil was developing during the year 2020, you know what volumes that we have sold in 2020.

So I think you can do a relatively simple, let's say, calculation, volumes plus palm oil, gas oil at the beginning -- at the end of 2019, multiply with that and compare it to how palm oil gas oil has developed over 2020. That gives you a very good number. But again, let me express what we have said always. It is always in the context of our term deals. So we're trying to offset risk of the term deals with our hedging.

Operator

And your next question comes from the line of Michael Alsford of Citi Group.

Michael James Alsford ***Citigroup Inc., Research Division - Director***

I've got a couple, please. So it was really just on the future expansion. You talked a bit about, Peter, that the feasibility studies are ongoing.

And that you'll have a decision on the plant by the end of -- or during first half of 2021. It seems to me that's a little bit of a delay to what you said previously. So I was just wondering whether you could talk a little bit about that.

And based on that timeline, when we should see, I guess, first production from that new capacity in the medium term.

And then secondly, just to quickly follow-up on the hedging. As I say, Matti talked a bit about the fact that you have lower volumes hedged in 2021.

I was wondering whether you could just give a number on that. And then finally, just on the term sales, I think since we obviously last spoke on this 3Q call, the discussions were ongoing with customers. I was wondering whether you could maybe update as to how those discussions ended and whether you were able to pass-through fully the higher feedstock prices that we're seeing in the market?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. Thanks a lot, Michael, for your questions. On the first one nothing has changed. Just to be clear on that, nothing has changed. So we are proceeding extremely well on the feasibility engineering studies for the 2 locations as said Porvoo and Rotterdam.

We are intending to take the decision on the location. Now we say first half of 2021. If you ask me, this is 6 months period. So it's not my decision at the end it's a Board decision.

But I expect, I mean, that somewhere, March, April, that decision will take place. It's irrelevant, let's say, on the progress that we are making on the studies for the 2 sites.

Important is that the final investment decision will then come, it's end of 2021 or just the beginning of 2022. And we are still working with the same target start update, provided the Board is taking the final investment decision, and that would be around the middle of 2025. So also there, nothing has changed. On the hedging, Matti?

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. Thanks for the question. So indeed, like we commented, the hedging ratio in the first quarter is a bit lower than this 40% to 50% of total sales that we typically target. We are currently around 40% of total sales in the first quarter. That's where we are for the hedging in '21.

And then your second question was around the -- how the negotiations went. Obviously, it's something we cannot comment in detail, but I would just state that we are pleased with the outcome of the term deal negotiations. We have termed up roughly 75% of our volume for 2021.

And also, of course, the negotiation about updating pricing, I would just state that we are quite pleased with the outcome of that negotiation.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. The team I agree. I mean, Matti, what you say. I mean the team has done a very good job on the term deal negotiations.

And therefore, we have agreed to lock in 75% of the volumes. If we would not have been happy, of course, we would have gone for a lower percentage.

And again, I come back, I mean, to this palm oil gas oil differential. If you just look at the numbers and how the numbers moved, I mean, during the last, what, days and weeks, I think it would be a wrong management decision to build up a very high hedging position, especially, I mean, for the second half of the year because we don't know where the floor will be in terms of the palm oil gas oil differential.

What is the new balance that, that we'll find. So already, if you look, I mean, where palm oil gas oil was at the end of last year. Imagine, I mean, if we would have taken up the same hedging position, like we did in percentage of the term deals at the end of 2019 for the year 2020, we would have locked in at too high costs in our opinion. Does that help you a bit, Michael, in understanding?

Michael James Alsford ***Citigroup Inc., Research Division - Director***

Yes, it does, Peter. That's great.

Operator

And your next question comes from the line of Artem Beletski at SEB.

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

Yes, this is Artem from SEB. Three questions from my side. So firstly, looking at the renewable products and fixed cost development in the segment. So we have seen some pickup in Q4, what is roughly a ballpark, what we should be expecting for this year? Is it a good proxy for the development in 2021. Then if I may continue on hedging side. So is it fair to say that basically, you have 40% hedges for the beginning of this year. So latter part of year is at clearly lower levels and it might change a lot depending on market conditions. And the last one is relating to oil products and very strong additional margin in Q4. So how much of it has been helped by contango rates and should we basically assume that in Q1 development or early part of '21, the level will be more normal, so, say, or closer to your target, but you have at USD 4.8 per barrel.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

So let's go -- I mean, first question, Matti, on the fixed cost development?

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes, thanks for the question. So on the fixed cost.

Indeed, in the fourth quarter, we were again back at the more normal level that we already had in the first half of the year. And I would just in general comment that we are, of course, preparing for the start-up of the Singapore expansion. We have also other strategic projects. So we do expect to continue having a slight increasing trend on the fixed cost. And of course, also, we have done a number of M&A, which means we also need to integrate this, which is also visible in our M&A -- in our fixed cost. So some increase will likely occur also in '21.

On the other question around the hedging ratios beyond the first quarter, I would just comment, you are fully correct. Our hedging ratio, especially for the second half of the year is lower at the moment than in the first quarter. So probably somewhere around one quarter of the total sales for the full year.

And then the OP question?

Marko Pekkola ***Neste Oyj - EVP of Oil Products Business Unit***

Yes. The strong additional margin for the Q4. Yes. I think, like I said, the contango profits were the one and then also the hedging what the result is. And of course, depending on the markets now out the market. Now we are in the backwardation situation where the oil prices are increasing.

Well, we have the ability to continue that, but not expecting that to cover the full loss of the demand distraction with -- or the demand destruction in the refining margins.

In the first quarter or even largely in the year.

Operator

And your next question comes from the line of Joshua Stone at Barclays.

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

I've got a few follow-up questions, and I'm afraid it's all on the renewable sales margin. For the first quarter, you said the margin to be healthy. If I look at consensus is at EUR 670 million, would you say that's a healthy margin, but perhaps you could be a bit more specific of what you're thinking for the first quarter? And then you also made a comment that you thought that the 4Q margins would be difficult to replicate. Is that in reference to the first quarter or more generally? So do you think we've already seen peak margins for this business?

And then my third question is a bit tongue in cheek, but you had given margin guidance before and surpass that number. So what gives you the confidence to -- or why should we believe you this time around?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Thanks a lot, Josh, for your questions and especially your last remark.

Let me give to Matti, first on the healthy, yes, of the sales margin.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. Thanks. Thanks for the question. And like we explained, I think if you look, first of all, at the fourth quarter where we came to this $760 per ton. That's, of course, a very good level. And like I said, there were a number of positive factors that we had in there, including also the hedging result. And if you look into the first quarter, we have, on one hand, of course, potentially a continued feedstock price increase. We don't have the hedging support. And at the same time, we have renegotiated the term contracts. So there's different factors playing into it. But -- and we are not giving exact guidance what that healthy means.

But I would just state, if you look at the previous years, average, we had EUR 702 in 2020. If you look at 2019, we were a bit higher. In 2018, we were at EUR 670 million.

So all of these are healthy levels.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

And then to your second question, Joshua.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. The second question was about the comment that the Q4 margin is difficult to replicate. And of course, looking at the Q1, like we have clearly said, there are clear drivers.

Why we also said very clearly that we expect the margin to be lower than in the fourth quarter where we had a number of positive drivers, including the very positive hedging result.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

And I hope you believe us, Joshua.

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

Fair enough. I guess my second question, the point more broadly, is this a business where margins can still expand as you build out capacity, do you think?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Well, I mean, of course, it's a very good question, Joshua, but also very difficult. I mean, to give any guidance on this.

It's a bit, I mean, back to what Matti said. If you look at '18, '19, '20, the average, I mean, sales margins that we had. I mean, the way how we consider that, I mean there are very healthy margins, I mean, for the kind of a business that we are in. And we are definitely focusing our business.

As I have said, I mean, in previous calls, as well in not overstretching the limits as well. I mean, this is a growth market that we are in. And we are investing heavily in that growth. We want to capture that growth, both in road transportation, aviation and polymers and chemicals.

And you don't want to run this business also as a pure commodity business that, okay, because now there is maybe a shortness in the market, then you overstretch it. And then on the other hand side, you want to build up a very good sustainable business relationship with your customers. That's one point. The other point is if you zoom in into European region, then there are also penalty levels.

I think I mentioned that in previous calls as well. So the customer can always make a choice, do I pay the penalty, of course, that has a negative reputation effect. If they would do so. But it also shows a bit, I mean, that there is a ceiling in terms of sales prices. So as we have moved to having different geographic markets that we are now supplying. And then over the next couple of years, continue to develop aviation, polymers and chemicals, we will have more optionality in how and where to position our product so that we can optimize our margins.

Operator

The next question comes from the line of Erwan Kerouredan at RBC.

Erwan Kerouredan ***RBC Capital Markets, Research Division - Assistant VP and Analyst***

Two, please. So on the future renewables capacity plant in Europe, so we understand that location will be disclosed around March, April. I guess, can you just remind us what are the key criteria in selecting the site?

This is my first question. So criteria, whether it be financial or operational, anything like that? And second question on the U.S. So the RIN obviously supports the development of U.S. margin. Do you expect this to continue? Obviously, in the headline like the Biden administration seems to be very, very renewable fuel-friendly. In the meantime, there's additional supply coming to the market. I guess I'd just like to have like -- what's your sense of the next few months in terms of LCFS and RINs in the global market and overall market in the U.S.?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Matti?

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. Thank you for the question. So first on the criteria for the future renewables side in Europe.

I would say this is a very typical one where we would compare both technical, commercial and strategic criteria. Of course, very important one is, for example, what we expect the capital expenditure level to be in the different sides.

Another one that is, of course, important is what we expect the operating cost structure to be in both site locations. And thirdly, we would obviously look at feedstock access market proximity, market outlook. And then it's a combination of all these factors really that we would look at. So I would say very typical technical commercial evaluation, like we have also done in the past, when we have made these decisions.

On the RINs, I would say, in general, that it's, of course, something where the RIN mechanism is also linked to the renewable fuels standard in the U.S. And of course, what we are looking at when we look into the future is what kind of renewable volume obligations will be set. This is something then probably to happen in spring time.

And of course, another one interesting to watch is also to what extent there will be this kind of small refinery exemptions. The expectation may be that they are perhaps less than in the past that there is a more stringent approach to this one.

But in general, these are the type of factors that we continue following, and they will then -- alongside the development of the soybean oil market and the heating oil markets influencer in going forward.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

But we agree, I mean, Erwan, also to your remarks and your observation that with the Biden administration, there has been quite some movement already in such an early phase in the United States. We see very good development in discussions in Washington State and New Mexico, New York, even Massachusetts.

So there is a good atmosphere, good developments. In addition to that, also on the aviation side, early discussions ongoing on incentives on a federal level for aviation.

Of course, that will not come into the implementation phase in 2021. But for us, it's important, I mean that this development continues and then leads, I mean, to new regulations that were enforced, let's say, 2022, 2023 and beyond.

Operator

And your next question comes from the line of Henri Patricot at UBS.

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

Yes. I have 2 questions, please. The first one is going back to the comments you made on the higher share of long-term contracts in renewable products. I was wondering to what extent this reflects the stronger demand for renewable diesel this year? I believe you were last talking about demand growth of 2 million tons for this year. Has this changed material? Is it higher than you expected previously? And then secondly, just looking at Europe, specifically discounts around sustainable aviation fuel mandates and perhaps some changes to RED II and the higher targets there. Where do you see these discussions going? Could we see mandate for sustainable division show in particular in Europe in the near future.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Let me give the first question to Matti.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Okay. Thank you, Henri. So perhaps on the general demand outlook for renewable diesel for '21, I would still see it very similarly like we commented in previous quarters. So obviously, giving an exact number, will also depend on how exactly the COVID situation unfolds. But in general, we would expect that a level of roughly 2 million tons demand growth globally could well result. If you look at the regulatory mandate updates that have already been made. And if I take a couple of examples of decisions that have already been taken, of course, for example, in California, the carbon intensity target will be increased in '21. So I think it's a level of 9.25%.

Then also in Europe, we have a number of countries that are going to increase their mandates in '21. So just to give a few examples, there would be, for example, Norway that is moving up from 20% to 24.5%. Sweden is increasing, it's GHG reduction target from 21% to 26%. Italy is going from 9% to 10%. U.K. from 9.25% to 10.1%.

So this is basically how we come to these estimates. And so that level of 2 million tons globally -- globally reflects our best estimate at the moment.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Which would mean, I mean, a market that we estimate, I mean, moving from 6 million tons to 8 million tons in 2021.

On the SAF, sustainable aviation fuel mandates.

There is lots of discussions currently ongoing in the European Commission. There have been some countries that have made some very good movements. The Swedish government is introducing a legislation on a soft mandate that would start around the middle of 2021.

Still has to have the final thought, let's say, I mean, the parliament, but the ruling parties, I mean, have agreed upon that. It's, of course, also in Finland on the table. The Netherlands is having this up to 14% or a minimum 14% in 2030.

France has also introduced a mandates and that will go up to 5% in 2030. So stay tuned. I mean, how the discussions on a European commission level will proceed in 2021. But -- and we are, of course, I mean, very close to those discussions and very deeply involved in those discussions. So I'm quite positive that we'll see something happening in terms of mandates on a European level.

On the RED II, I mean, RED II is very clear that in order to achieve the greenhouse gas emission reduction of at least 55% by 2030. And that RED II is on the list of regulations to be opened. It has been opened, and currently, discussions are ongoing. So this could eventually lead, who knows, I mean, to what I would call a RED III. RED II is enforceable as of the middle of this year. And then if you look at these timelines in getting all the approvals and public consultation, et cetera, then probably that this so-called what I call RED III, this is my name now would -- would then have to be implemented somewhere around 2025. Currently, Road transportation, RED II, as you know, it's 14% by 2030. And we hear numbers that are going around, let's say, 20% to 24% is what we currently hear as the new numbers and for the future.

Operator

And your next question comes from the line of Sasikanth Chilukuru at Morgan Stanley.

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

I had 2, please. The first was regarding the investment now of sustainable aviation fuel facility in the Rotterdam refinery. Just wondering if there is a time line by which we could expect the decision for this project to go ahead. If there's any indication of what the investment levels would be for this project? And whether this can actually go ahead in conjunction with the -- an expansion project, should you proceed to go in the Rotterdam refinery -- to do it in the Rotterdam side. So any comments on that would be helpful.

The second question I had was related to the CapEx guidance for 2021. It would be helpful if you could provide a split of the EUR 1.2

billion of CapEx between the segments and also let us know how much of that is related to the Singapore expansion project?

And also, if you could provide us how much of the EUR 1.5 billion CapEx related to this expansion project would be left after 2021?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Okay. Let's go, Matti, to the first question.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. So for this investment into sustainable aviation fuel capability at our Rotterdam refinery.

We -- the engineering work is progressing very well. We are still targeting here clearly that the start-up could be in 2023.

And that already answers your question that we see it as a separate project from the next speed deal capacity expansion project in Europe. We -- the timeline is different.

We will, of course, see when I don't have an exact time line for the decision-making on this one, but let's say, we are trying to create the maturity of the engineering so that after the mid of this year, we would have that capability to look at it.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. I mean, adding to what Matti said, the SAF investment in Rotterdam project has nothing directly to do with the European world-scale facility. So what we are focusing upon is that in the existing facility in Rotterdam, we are building up the same optionality as we have it, let's say, and the new facility that we're building up in Singapore. So that today, we can serve from the Rotterdam facility, the road transportation market with renewable diesel and polymers and chemicals with biopropane as well as with renewable hydrocarbons.

We cannot from Rotterdam, serve the aviation industry with the Inspec sustainable aviation fuel. So that's what we are trying to build up.

And then separate from that, we have then the 1.3 million tons, let's say, facility that is either Porvoo or Rotterdam, which also would have, of course, the optionality to produce sustainable aviation fuel. So we would then be able to continue to grow in the capacity of sustainable aviation fuel.

Timeline, I would expect, I mean, that we take a decision on that during the course of this year, towards the end of 2021. On the sustainable aviation fuel, flexibilization of the Rotterdam facility.

Then on the CapEx guidance, split, it's clear that on the EUR 1.2 billion, as we have the turnaround 2021, that is a very important part of that.

And if you look at the Singapore facility, we are ramping up now. We have about 3,000 construction workers at the site.

We will ramp up during this year to, let's say, a bit above 5,000 people. So this is a heavy phase that we are in, in 2021. Pretty much all the engineering work has been done.

All the procurements proceeded very well. Lots of material we have already in Singapore. The vast majority of the materials is in the lay down area. So it's now really all about constructing, so to building up -- I mean, and installing, do all the steelwork, the reactors, the DCS systems and so on and so on.

So that will be an important part, of course, of the EUR 1.2 billion spending that we have. One could say, I would say, I don't have the exact numbers now in front of me, and I'm looking at the same time at Jyrki. Probably around, what, EUR 800 million during this year is on the turnaround 2021 plus than the Singapore investments of the EUR 1.2 billion.

Yes, round number. And then the part that would be remaining in 2022 on the Singapore investments.

Jyrki Mikael Mäki-Kala ***Neste Oyj - CFO, Strategy & IT***

Overall -- overall Renewable Products at more than EUR 600 million, Oil Products a little bit more than EUR 400 million, and then the rest is basically talking about common function and the other basically strategic topics where we are land to the roughly EUR 1.2 billion.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. So that said, I mean, it's even more than the EUR 800 million, I just said that is going towards, I mean, TA2021 in Porvoo and then the Singapore facility.

And then remaining on the Singapore facility in 2022 is, I would say, somewhere around EUR 200 million to EUR 300 million cap.

Operator

And your next question comes from the line of Thomas Adolff at Crédit Suisse.

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

I've got a few questions as well, please. And I do apologize one of them is on the dividend. And just wanted to clarify the exact wording of your policy. You said 50% payout. Just reading on your website, it's at least 50%.

Can you just confirm it's 50% and not at least?

The second question is just going back to the hedging again. You said 40% in the first quarter, a bit less than 2Q and roughly 25% in the second half of 2021. Is it fair to say that these hedges were put into place once the term contracts have been finalized at the end of 2020. So essentially, gross volumes have been locked at a less attractive spread, if you will. And then gradually as the year progresses. And as you see what happens with gas oil and palm oil prices, you may place additional hedges, perhaps on more favorable spreads should be materialized.

And my final question, just do apologize, the third question. Obviously, maintenance heavy year, and there was also maintenance heavy last year.

And is it fair to say that the only difference this year versus last year in terms of cost is the Singapore turnaround. And instead of just incurring the cost for the catalyst change, typically around EUR 50 million. You have an additional EUR 30 million for the additional work.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Thanks a lot, Thomas. And absolutely, you're right. I mean, the policy is reading minimum 50%, yes. So 50% is minimum.

But we have always applied, I mean, that 50%, at least as long as I could look back and as I have a history in the company, we have applied that 50% exactly. And Jyrki is nodding and confirming that.

Then some more information on the hedging and the spreads?

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. I mean, just a brief comment. Indeed, what we said earlier also in the Q1, the hedging ratio is currently around 40% of our total sales. It is actually that comment I made that it's roughly 1/4 reflects for the whole year on average.

I would say the timing is a bit a sliding one. We typically start putting in the hedges when we have visibility into our term contracts, but then it's, of course, also something that we do gradually over time. And the logic that you referred to is exactly correct that it's, of course, something also depending on the development of the Porvoo that we can then decide when and how to ramp up the hedging ratio.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Then I would make some comments on your third question, which is on the maintenance. And indeed I fully agree that also, of course, in 2020, we have had a number of scheduled turnarounds for the catalyst changes, for example. The main difference is indeed, I would take 2 things. In Singapore, it's Not only a catalyst change. It's a bit longer turnaround of 7 weeks. And this is, of course, also related in order to prepare for the upcoming integration of the new site. So it's important we have that major turnaround.

Also, I note that in Porvoo, of course, it's a longer turnaround because it's also a major turnaround that takes place every 5 years.

Operator

And your next question comes from the line of Monika Rajoria at Society General.

Monika Rajoria ***Societe Generale Cross Asset Research - Equity Analyst***

I'll have 2 questions, please. The first one is on the 7 week Singapore turnaround. I would like to understand what exactly goes into it? And in very crude terms, would it lead to any capacity increase in this year itself?

And my second question would be on your U.S. sales area. So I would like to understand that we have seen the parameters strongly improving in the last few, I could say, weeks of 2020, would that change your thinking around the U.S. sales area a bit? Can we see more sales to that area?

Also, any comments that you would like to make on the competition that's heating up over there. What -- how would you characterize it? How would you see it? That's all?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Matti, if you take the 7-week Singapore turnaround?

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. So thanks for the question. So as it's a major turnaround in support, I would just high level comment. Of course, it does include a catalyst change that is normal. But in addition, we also, typically, during these more major turnarounds do equipment inspections and overhauls, that's also the particular part of it. And like I mentioned, it's also important here, we, of course, have the opportunity now to prepare for the tie-ins for the upcoming refinery expansion. So these are main elements that are done during the 7 weeks.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

And well, we've done in the capacity increase. I mean, if you refer to creep capacity, we promised, I mean 0.5 million tons at the end of 2018.

We've delivered on the 0.5 million tons. So that means the potential that we have on capacity increased recruit capacity in the existing facilities for renewable products is almost nothing, let's say, very limited. That does not mean that we continue with our Neste Excellence program and the specialists to find pockets, where we could eventually increase our capacity further, 10,000 tons here, 10,000 tons there. That will continue to be, but nothing, I mean that we can now, let's say guide towards, and that is then immediately related to the 7 week Singapore turnaround.

Then on the U.S. sales parameters. As we have done in the past, Monica, we continue to look at the different markets, build up that optionality that we can serve these different markets.

We have very good positions in the United States where -- and also in Canada where we are selling our products. So we always look at the different parameters. We have our central team that looks at, on one hand side, the cost, I mean for the different waste and residues. So we optimize that. And on the other hand side, we look at the different geographic markets. And also there, I mean, we optimize so that we can maximize, of course, our margins.

So if there would be, to answer your question, a favorable situation, I mean, in the United States. Yes, we may then decide. I mean to see more volumes to the United States. That's why also, we are not always terming up all the volumes that we have available so that we have the freedom, let's say, I mean, to maneuver and optimize our volume/margins.

Competition in the United States, yes, of course, there are these announcements and a number of these announcements will start producing. Some of them have had a bit of a delay, not all the announcements will get the financial funding, but the well-established players are proceeding.

So that capacity will gradually come available in the market. But as we also said and Matti alluded to, the market is also growing. So the market needs also more capacity.

And Matti already said that the target in California moves up from 7.5% to 8.25%, 2020 to 2021 and is moving up, I mean to 20% in 2030.

Oregon is moving from 2.5% to 3.5% [CI] reduction. British Colombia is moving from 10% to 11% in 2020 to 2021.

So these are all pockets. As we have said, global R&D demands, renewable diesel demand is in our estimations moving from 6 million tons to 8 million tons in 2021.

Operator

And your next question comes from the line of Iiris Theman at Carnegie.

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

I have 3 questions if I may, please. So the first one, do you expect North American volumes to be higher this year given the strong demand, especially from California.

And then secondly, do you think that the vaccine could improve the supply of waste to feedstock as restaurants and hotels, et cetera, would be -- would open more widely potentially later this year. And the last one is related to same topic. So there are -- there are a lot of concerns that the renewable diesel growth would be challenged by insufficient feedstock availability. So what is your view on that. Do you still expect demand supply to be fairly balanced in 2025?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Matti, if you take.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes, happy to. Thank you, Iiris, for the question. So first of all, on North America, I mean, I think it's a bit -- I would be along the same lines that Peter commented on the previous question. We, of course, continuously adapt our market mix, especially having some spot sales opportunities. You could see, for example, the third quarter, the share to North America was 28%, and then it moved up to 34% in the fourth quarter. So I think it's a good example of how we -- how we try to optimize the geographic mix also of our sales.

On the waste and residues, I think it's a very good question and commenting specifically on the used cooking oils that you were commenting on. I would comment that it's clear that if you look at fourth quarter, for example, that, for example, in Europe, where we had clearly tight lockdowns and tightening lockdowns, also some other countries like Malaysia would be an example. This, of course, has also been an impact on used cooking all because of the restaurant activity. So I think in that sense, it is one where, hopefully, of course, the vaccines will help, and we will get back to a normal situation. Also in these regions where the lockdowns have had a clear impact.

Of course, the risk is also to the other side that we have continued lockdowns.

But so the used cooking oil, it's -- there also, it's worth noting that, for example, in North America, the availability has improved in the second half of last year. So there, the situation has been quite good already. If I comment in general on the feedstock availability, that was your third question.

I think it's clearly an area that also in our strategy, we put a lot of strategic emphasis on to continuously grow the availability of feed residues -- waste and residues. It's a combination of improving the aggregation in existing markets, opening new markets and then at the same time moving towards enabling better and better feed treatment and, hence, also lower qualities. So in that sense, we also see the availability of waste and residues gradually improving. What we have said long-term is we believe the market will -- the availability will grow to around 35 million tons by 2030. And of course, on top of that, there are then -- there is development work on totally new type of feedstock sources like algae oils or it could be novel vegetable oils.

So this is something that happens continually. And of course, will also then take time for some of the new technology sources.

Operator

And your next question comes from the line of Peter Low at Redburn.

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

Yes. So your CapEx guidance is excluding M&A, and you said you're still looking at further deals. Can you give us an indication of what you're looking to add to your capability? Is it mainly on the feedstock side?

And then just secondly, on refining, you posted a profit in what must have been one of the most challenging years for the industry ever. So you're closing the Naantali to enhance your competitiveness further.

I think in contrast, some of your peers have had much weaker results and haven't really announced much in the way of capacity closures. Are you surprised there haven't been more closures announced in Europe. And do you think that's a requirement for the fighting margins to recover at the current vote levels?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. Peter, thanks for your questions.

To your first question, yes, absolutely. I mean, what we said is the CapEx does not include I mean M&A. You have seen that we followed up on our strategy, as we communicated during the Capital Markets Day. So we focused a lot on reinforcing the upstream side. So expanding, let's say, our leading position that we have there. We did the Mahoney acquisition and already won bolt-on acquisition to Mahoney.

But also, I mean, in terms of pretreatment with the Bunge acquisition that is expected to close in Q1 this year, plus also here and there, I mean some terminals that we have bought. So you may expect some, I mean, that we continue to look, I mean, for opportunities of bolt-on acquisitions in that regard.

Then, of course, you've seen us making a couple of equity investments in building up our technology leadership position on the chemical recycling of waste plastics. So these are areas that we continue to look in.

The other areas that I would refer to is on the innovation business platforms where we continue to monitor what technology do we need in order to also build up these platforms over the next 5 to 10 years.

Nothing concrete, I would say, that is now for directly 2021. But as we are, of course, doing these activities in M&A then and we will, of course, communicate them.

But that's really -- I mean, we're not doing, let's say, any M&As, I mean, where it really doesn't fit them into the strategy that we have communicated on our Capital Markets Day. And then these deals, I mean, to get access, I mean to the airports, they are important strategically, like the one that we did in Schiphol Amsterdam airport. We continue to look at a couple of others. But I mean, they are not, let's say, hugely expensive. It's just taking parts. I mean, everything is organized, I mean, through a joint venture, like in a couple of airports, I mean, especially in Europe, then it's just making sure that we are part of these joint ventures.

So this is not double-digit million investments that we are talking about. Closure of capacities. And here, you're referring to the oil refinery part of the business. Very clear answer from my side. Yes, I mean, negatively surprised. I mean, the -- I mean, there are -- if you know that we, with our refinery in Finland, we are having one of the best net cash margins in Europe. And if you look at the conditions of last year, and if that continues, let's say, in 2022, then there is 60% to 80% of refineries that have a negative net cash margin.

But still, if you relate that to how many announcements and closures are there, it's simply not sufficient. I mean, capacity needs to be taken out of the market.

Operator

Your next question comes from the line of Mehdi Ennebati from Bank of America.

Mehdi Ennebati ***BofA Securities, Research Division - Research Analyst***

So two questions, if I may. The first one, and excuse me, if you already answered it. Can you guide us on the sales volumes from the Renewable Products division in 2021. If I remember well, CFO told us in December that it should be in line with 2020. So can you confirm that, please?

And another question regarding the impact from the maintenance at Porvoo Refinery.

So you expect an impact of EUR 180 million or EUR 110 million -- EUR 110 million, sorry. I just wanted to know what we margin level need to use to get to that EUR 110 million because it looks relatively high or relatively close to the last year, let's say turnaround impact, which we are expecting to be EUR 180 million and which finally did not happen.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. Thank you, Mehdi. This is Matti. I can take the first question on the renewable product sales volume. So like we commented on the turnaround activity in '21, you can see that it's a bit higher than what we had in 2020. It was especially like it was asked earlier that Singapore turnaround is a bit longer because it's a major turnaround and the same goes for Porvoo.

At the same time, we, of course, continue to -- continuous improvements, look for all opportunities to maximize the production. So I would say, overall, it's probably a good target that it would be is roughly at the same level if we can make up for those longer turnarounds.

Mehdi Ennebati ***BofA Securities, Research Division - Research Analyst***

Matti, if I may have a follow-up there. So if the sales volumes are roughly at the same level, given that you expect roughly the same kind of impact at the EBIT level than the normal maintenance, should we then consider that you expect your renewable product margin in 2021 to be roughly at the same level than 2020? Because if you were expecting lower renewable product margin, the impact at the EBIT level from the maintenance would have been lower.

Matti Lehmus ***Neste Oyj - EVP of the Renewables Platform***

Yes. I think it's high level estimates. We haven't looked at it from that angle.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Yes. If I may comment on the volumes. I mean, will depend, of course, on these shutdowns that we have. Now we need to get then the facilities up and running on time. I mean, we have always had a very good track record on that. But Mehdi, I mean, there's a lot of technical work that needs to happen on these 12 weeks in Porvoo and 7 weeks in Singapore. There's not the simple catalyst change simple, which is not simple either. Yes, if I remember, I mean, the last one that we did in Rotterdam and with heavy wins was not simple either. So -- and then that's one element. So will we be on time in starting up. The second element is, of course, as we will have lesser available capacity to keep the same sales volumes like last year, we will need to make a couple of improvements in terms of creep capacity. Yes. Because otherwise, it's simply -- yes, you just do the math, it doesn't add up. yes. We are losing capacity, I mean, 12 weeks of the 2 lines, 400,000 tons in Porvoo. You can do the math what 12 weeks means in terms of capacity loss.

In Singapore, it's 7 weeks, so it's not a 4 week, but it's a 7 weeks. So there's 3 weeks additional compared to a normal catalyst change. So if we want to have the same volumes, I mean, then we will have to find some pockets in creep capacity, which is not clear yet, as I already mentioned, if we will find these things in addition to the 0.5 million tons that we already did. Yes.

Then to your second question, on the Porvoo maintenance impacts for the Oil products business, so the minus EUR 110 million. You asked, I mean, for -- on what reference margin did we base that calculation? Good question. Marko?

Marko Pekkola ***Neste Oyj - EVP of Oil Products Business Unit***

Yes, Marko, yes, I can then answer the forward margins for the time when we are estimating we trading around EUR 2.22 million -- and EUR 2.22 million. So that's the volume or the number what we have used for the EUR 110 million payment.

And now if you in then comparing to 2020, of course, then they were trading higher level. Yes.

Operator

Our next question comes from the line of Pasi Väisänen from Nordea Bank.

Pasi Väisänen ***Nordea Markets, Research Division - Senior Analyst of Utilities and Energy***

Great. This is Pasi from Nordea.

When looking at a bit further away, I mean, are you only looking at the new fat based raw material pools? Or is there any chance that your new plants or units in next 10 years period would be actually using some another raw material, then that's.

And secondly, I mean, do you see that the synthetic traffic fuels, which are actually now on topic, is kind of a threat for your business model going forward? And if so, in what period? And maybe lastly, just to cross check. So did you say that the $700 per ton would be a healthy margin for diesel going forward?

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Thanks, Pasi. Thanks for your questions. Also, yes, I mean if we are looking, let me differentiate, first of all, looking at our NEXBTL technology that we have. Here, we're looking, as you know, to lower end of qualities of waste and residues, and we are enhancing the pool, but it continues to be chemically spoken, a pool of fatty assets that fit with the technology. We're also looking, as you know, into this innovation business platform on algae technologies. So we've done some work, I mean, in our technology department and the waste that comes out of cultivating algaes. Now you cultivate the algaes, you get very good sustainable proteins, approximately 80% and then approximately 20% is in algae oil that you cannot use for food consumption. So it's a waste, and that can be used. And we are quite confident that it would also fit, I mean, to our NEXBTL technology. So we don't need a separate process technology to work with that.

So that all belongs, I mean, to the expansion of that waste from residue pool that will drive, let's say, the continuous growth, Singapore investments plus then eventually also if we invest in Europe on the next line and whatever may come next.

But of course, we also look very intensively in our innovation business platforms at other sources of renewable carbon.

And these may be sources that come out of municipal solid waste. We talked about chemical recycling, so waste plastic. And as you know, also lignocellulosics. So these are early stage, of course, development platforms that we have. But I would, of course, not exclude that would add -- I mean, to the pie because otherwise, if we don't believe in that, then we would not already start looking at those technologies and our innovation business platforms.

And it relates also a bit, I mean, to your synthetic fuels question, we also have an innovation business platform called Power-2-x. So here, the source of renewable carbon, maybe air capture, maybe CO2 out of field mills or others, but it's a CO2 source. Here, we work closely together. We have done an equity investment in this German company, Sunfire, which is a, what we believe, leader in a novel electrolysis technology, solid oxide technology.

We have with the support of the European Commission, first renewable hydrogen project ongoing in Rotterdam. So out of that electrolysis, what do you get? You split a quarter, you get green hydrogen.

And you combine then the green hydrogen, which is CO2. So here, we would do the first. We are doing the first step. And that green hydrogen would then go and we would use it, I mean, for the NEXBTL plant that we have, the existing one that we have in Rotterdam.

It's still semi scale. There is a bit of a hike around these synthetic fuels. One needs to take into consideration that for synthetic fuels, if you want to produce 1 million tons of fuel, you need around 4 gigawatts in electricity, based upon the current technologies that are available. So that leads to the fact that if you want to have -- in sustainable aviation fuel, if you compare it to the HEFA Technology, so our technology that we are applying, then for that power to liquids, you're approximately 5 to 6x more more expensive than the HEFA technology.

So there's -- my point is will -- we believe it will add, but it will take time. So -- and here, we are looking at a time horizon where we'll start making any difference, 10 to 15 years, I mean, down the road. So -- and then if you look at the complete pie, and that's why we are saying that there is no limitation in the availability of waste and residue. There is sufficient renewable carbon on the planet to continue to grow.

So you have the NEXBTL technology that continues to grow. Over the next decades, 35 million tons we have identified of these waste and residues, leading to approximately 30 million tons of capacity in the world, leveraging upon these waste and residues, then you will get additional waves that will add with new sources of renewable carbon, if it is municipal solid waste, lignocellulosics or, as I said, I mean, over to liquids over 3 years, 5 years, 10 years, 15 years down the road.

Will they replace HEFA technology? I don't believe so because the HEFA technology compared to these other technologies has a substantial CapEx and OpEx or a cost advantage, and it's up to these other technologies to be able through scalability and technology development to close those gaps.

So I hope that gives a bit of a picture. And of course, in September, when we have our Capital Markets Day, we will definitely talk a little bit more about that because it is strategically very important, I mean, for the further development of our company, not short-term but really mid- to long and very long term.

Then, as we said, I mean, healthy margins, we referred to also at $670 per ton in 2018 being a healthy margin, Pasi.

Operator

There are no further questions at this time. please go ahead.

Peter Z. E. Vanacker ***Neste Oyj - President & CEO***

Okay let's -- thank you very much. I mean, as usual, yes, a long list and very good questions, of course. So thank you very much, I mean, for your active participation in this call. I would like to conclude, of course, and repeating again by saying that the high uncertainty related to the future development of the COVID-19 pandemic and its impact on the global economy continues. The renewable products business has proven to be very resilient in growing global markets. We answered your questions on that, hopefully.

It's good to remember, though, that this year, our results are not expected to be supported by similar extraordinary margin hedging gains as in 2020. So please keep that in mind as well.

Oil products continues to be in a very challenging market situation, and that does not seem to correct itself soon. So stay tuned there. It's, for us, going to be quite intensive amount of work.

Whilst we are implementing, of course, also this restructuring in oil products. So we will continue to focus on oil products on the own actions that we can take, I mean, to ensure that on a short and long term.

We have a good cash generation coming out of that business. So the market challenges have not disappeared, but we remain confident about our ability to tackle them.

And let me maybe, again, repeat, I did that also during the last quarterly call that we had. This 2021 will be a rather exceptional year for us in terms of quite a lot of technical maintenance work. The Porvoo, if you add the impact, RP and OP, 12 weeks shutdown, Q2, EUR 140 million impact. Singapore, catalyst change, but also a complete shutdown 7 weeks, starting with the tie-ins of the new facility. Q3, EUR 80 million impact. And then the Rotterdam 4-week shutdown at the end of the year, Q4, which, as you know, normally has a EUR 50 million impact.

So if you add up EUR 110 million impact in OP in Porvoo and EUR 160 million impact in RP, we're talking about an impact of EUR 270 million due to these exceptional shutdowns that we have during 2021.

So with this, thank you very much for your continued interest in our company and, of course, stay safe and overall healthy.

Thank you. Bye-bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.