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+++ presentation

Operator^ Good day, and welcome to the Q2 2021 Neste Corporation Earnings Conference Call. (Operator Instructions) I also must advise you that this conference is being recorded today.

And I would now like to hand the conference over to your first speaker today, Juha-Pekka Kekäläinen. Thank you. Please go ahead, sir.

Juha-Pekka Kekäläinen^ Thank you, and good afternoon, ladies and gentlemen, and welcome to this conference call to discuss Neste's second quarter and half year results published this morning. I'm Juha-Pekka Kekäläinen, Head of Neste IR. And here with me on the call are President and CEO, Peter Vanacker; CFO, Jyrki Mäki-Kala; and the Business Unit Head, Matti Lehmus of Renewables Platform; 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^ Yes. Thank you very much, JP, and good afternoon. to all of you also on my behalf. It's great that you have again found the time, I mean, to join this call. The COVID-19 and its variants are still around us, but the progressing vaccination schemes give us a lot of hope to be able to return to normal life and the situation naturally varies a lot globally, but our people are dealing very well with this situation.

I am extremely proud of our people for how they successfully and safely managed the most complex refinery turnaround in Porvoo that we have ever conducted. We're also very pleased to be able to (technical difficulty) our solid performance in the second quarter under these conditions. So let's now move in our presentation to Page 4.

In the second quarter, we posted a comparable operating profit of EUR 241 million at the group level. We were slightly behind last year's numbers, mainly due to the lower sales volumes caused by the Porvoo turnarounds and a weaker U.S. dollar. Our Renewable Products had a solid performance, and we were able to deliver a healthy sales margin. As expected, the feedstock markets remained tight and feedstock prices continued to increase.

As a result of strong sales performance, we reached a sales margin of $700 per ton. This is an excellent achievement under these conditions. The sales volumes were a bit down due to the Porvoo unit maintenance and also some postponements of some June deliveries towards July. The negative EBIT impact of the Porvoo maintenance is estimated to have been EUR 40 million for Renewable Products.

The refining market continued weaker than normal, but the Oil Products second quarter was characterized by the Porvoo major turnarounds, which was safely and successfully implemented in very challenging pandemic conditions. In total, some 6,000 people took part in the turnaround and over 1.5 million working hours were completed. Safeguarding the health and safety of our employees, contractors and other partners was our highest priority. And for example, about 61,000 corona tests were taken to prevent spreading of infections.

The turnaround is a significant investment to ensure the safety, reliability, productivity and competitiveness of the refinery. The total investment of the major turnarounds was approximately EUR 630 million, of which approximately EUR 300 million is realized in 2021. The Porvoo turnaround had a negative impact of approximately EUR 100 million on the segment's comparable operating profit during the second quarter, and that's mainly in the form of lost sales volume and margin.

Our Marketing & Services segment performed very well and the sales volumes in aviation and marine were still impacted by the pandemic. But

road's traffic volumes and transportation fuel demand recovered. Jet fuel demand continues to be unfortunately at a low level. Unit margins have normalized from last year's level. And Marketing & Services has also continued to do well in managing their cost basis. As always, we continue to focus on our strategy execution, and I will come back to that at the end of the presentation.

Despite the Porvoo turnaround and challenging markets in the Oil Products business units, our financial position remains solid. We reached an after-tax ROACE of 15.6% on a rolling 12-month basis, and that is exceeding the 15% target. At the end of June, our leverage ratio was 7.7%, and this solid financial position enables the implementation of our growth strategy going forward.

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

Jyrki Mikael Mäki-Kala^ Yes. Thank you, Peter. Let's see the main financial items concerning the quarter 2, 2021.

On the revenue side, I think it's funny to see the quarter 2 revenues because we had big swings concerning the comparison with the previous year because our revenues increased significantly, mainly due to the higher prices in the segment, total of EUR 3 billion. And on the other hand, the lower volumes, mainly coming out of the Porvoo turnaround, minus EUR 2.5 billion. So overall, we landed at this level of EUR 3 billion turnover in one quarter.

And like mentioned already earlier, the OP sales volumes were really more than 60% lower than quarter 2, 2020. And basically, the same reason apply also when we are comparing the half year figures with EUR 6 billion turnover versus the EUR 5.8 billion on the previous year. So big swings in the top line.

But if we then go to the comparable EBIT, basically, if we took first the Renewable Products, we posted a decrease of EUR 27 million in the comparable EBIT level, and that was mainly due to the weaker U.S. dollar with a negative impact of EUR 37 million. So basically, all the other elements were, as a total, positive compared to this impact coming from the U.S. dollar.

We had a higher sales margin, meaning the healthy one, and we had the improved results coming, EUR 48 million of the margins, but we had slightly lower volumes. And like mentioned earlier, we have also some volumes at the end of the quarter 2, which were basically postponed to the July, meaning the quarter 3 in this case.

We had also slightly higher fixed cost because we are really still focusing on implementing the strategy and focusing on the segments or the -- segment in that sense in the Renewable Products, meaning the Aviation and also the Polymers & Chemicals. So OP's changes between these 2 quarters are pretty clear in many ways.

OP, if we go back to the Oil Products, slightly better or let's say, at the same level as 2020 the quarter 2. But here, we had the big impact coming out of Porvoo turnaround volumes more than EUR 50 million. And again, the weaker U.S. dollar some EUR 7 million. Other elements in OP were positive like refining margin, overall, a positive of EUR 23 million. So if you think about the big things between these 2 segments, yes, Renewable Products and Oil Products suffering off of the U.S. dollar but then having positive things in the business performance in many ways.

It was also an OP that the base oil business has performed tremendously 2021. And then MS, like discussed earlier, they delivered strong results with EUR 18 million comparable EBIT in the quarter. They had slightly lower margin, but volumes basically are coming back.

If we look the IFRS EBIT that has certain impact also in our P&L, it was much higher compared to the comparable one and the reason being really the gains in inventories, mostly in Renewable Products. We had a positive quarter free cash flow positive of EUR 261 million. But if we look half year because we still have some work to be done for the full year to get this also in a positive mode.

If we look then the difference in the segment level, the next slide, this is basically pretty easy to explain. In this sense, like already mentioned, Renewable was below EUR 28 million. Remember, EUR 37 million already coming from the weak U.S. dollar. OP basically the same and all the others, basically, 0 or slightly positive. The others make mainly lower fixed cost in the corporate level. So EUR 40 million lower comparable EBIT in the quarter.

If we then look to more bridges, basically looking first to quarter 2, overall, you'll see the main elements here, the 5 different ones. We talk about volumes. We talk about Porvoo turnaround. It was minus EUR 72 million overall. Most of that came from the Porvoo turnaround, mainly in OP, EUR 51 million, and then the balancing is certainly the Renewable Products, EUR 24 million. So nothing significant concerning on the volume side, which wasn't basically already explained in our call in late, late June.

Positive thing certainly is the margin improvement, EUR 71 million, and that was in both businesses; RP had the biggest one, EUR 48 million. So FX, it hit hard in quarter 2, EUR 45 million, mainly in OP. So remember that also in quarter 1, the impact was already EUR 56 million negative. So it's -- on a year-to-date basis, it was more than EUR 100 million in comp EBIT just coming out of the FX, mainly U.S. dollar.

We had a positive development in the fixed cost despite we had a strong focus on the RP growth. And the others, like I mentioned already earlier, it is also coming out of a strong performance in the base oils business. And basically, the same story goes on then with the half year figures. I mentioned about the big impact coming out of the FX changes, more than EUR 100 million. And the other part is certainly the volume development coming out of the turnaround in Porvoo and also the COVID-19.

If you take these negatives out, then we'll see the positive things coming out of the margin. It's only EUR 1 million improvement, but it has 2 sides of the going, basically, RP improved by EUR 56 million and OP had a negative of EUR 55 million. So those are basically balancing each other. Fixed cost, already EUR 43 million savings and RP was higher some EUR 11 million. So we basically had a lower fixed cost in other businesses and functions by more than EUR 50 million.

Other items, positive things certainly coming out of the base oil business, what I mentioned. We have also slightly higher depreciation as we are investing back to the business. So those are also very visible in the depreciation level.

So this was kind of the short version, and I hand over now to Matti Lehmus to continue to talk about the resilient Renewable Products.

Matti Lehmus^ Thank you, Jyrki, and good afternoon also on my behalf. So if I comment on the Renewable Products, I would start with the comment that the EBIT level was solid at EUR 287 million. This was approximately 9% below previous year's second quarter level, but only 2% under the first quarter that we had. And I have to say this is a good result given that it was achieved (technical difficulty)

Operator^ You're back to the conference, sir. Please go ahead.

Matti Lehmus^ So this is Matti Lehmus. Apologies, the line was cut. Let's continue. And I was just commenting on the -- first, on the sales margin. Now to the sales volume of the Renewables. This was also relatively stable at the level of 732 kilotons, stable versus the previous quarter, and this in spite of the Porvoo turnaround. It's good to note that we also increased the share of our North American sales to 39%, which is clearly higher than a year ago and also higher than in the previous quarter. This, again, reflecting our active geographical sales optimization.

Our production volume reached 764 kilotons. And given the major Porvoo unit turnaround, this was a good achievement. It reflects good operations in both Singapore and Rotterdam. And finally, I would comment that our feedstock optimization continues. The share of waste and residue increased again by 3% versus the previous quarter, now reaching 93%. And this increasing trend reflects our continued development of our global waste and residue sourcing capabilities. So overall, good quarter.

A quick look at the waterfall then. And it's actually -- when we compare the result differences versus a year ago, there is 3 items I would highlight. First of all, the sales volume was 41 kilotons lower. This was driven by the Porvoo major unit turnaround, but also some deliveries being shifted into the following quarter. And this explains EUR 25 million lower result contribution than Q2 last year. This is then more than compensated by the higher sales margin, which had EUR 48 million positive impact as it was $75 per ton higher.

And finally, like also Jyrki Mäki-Kala pointed out, like in the previous quarter, the FX changes represent the third major driver, and they

explain a EUR 37 million decrease year-on-year, excluding the FX hedges as the U.S. dollar market rate weakened from 1.1 last year second quarter to 1.21 this year second quarter. So my final comment would be the fixed costs were slightly higher than previous year and other items also account for an EUR 11 million difference, this mainly including higher depreciation.

Let me then have a quick look at the feedstock markets. In the second quarter, the feedstock markets were characterized by a steep increase of vegetable oils in the first half of the quarter with most pronounced changes in soybean oil and also rapeseed oil given a tight inventory situation and strong demand. As visualized in the chart, in the second half of the quarter, the veg oil markets corrected downwards. And as an example, for palm oil, the expectation for a seasonal production volume increase in the second half of the year was one driver.

For waste and residues, the quarter was characterized by an increasing price trend, reflecting the tight market fundamentals and following, of course, also the veg oil price trend. In the chart, this trend is illustrated by the European animal fat, which increased steadily during the quarter. And looking at supply, COVID-related lockdowns continued to affect, especially used cooking oil supply, which we estimate currently to be approximately 15% lower than pre-COVID levels for used cooking oil.

Then turning to the U.S. market. I would make a couple of highlights again. So first of all, on the LCFS credit price, it averaged $185 per ton, which is slightly below the previous quarter, which was at $195 per ton. Here, of course, demand for diesel and gasoline in California continued to be affected by the COVID-related lockdown measures.

The bigger change occurred in the RIN values, which increased very steep in the first half of the quarter, reflecting the increasing soybean oil price. And although the RIN values corrected towards the end of the quarter, the quarterly average price increased clearly from $1.20 per gallon to $1.70 per gallon, thereby counteracting the impact of the increasing feedstock prices for biofuel producers.

Finally, some comments on the sales margin, which was practically stable versus the previous quarter. And here, I would highlight 3 main drivers. Firstly, the average feedstock price increased significantly, as discussed in the market section. As an example, I would mention that European quarterly price average for both animal fats and used cooking oil increased by more than 20%.

And on the other hand, it was the good sales performance and product market increases, which were then the main drivers compensating the feedstock price increase. The sales performance included in particular a successful price premium optimization supported also by a continued geographical sales mix optimization. And as you could see, for example, the North American sales share increased from 35% to 39% quarter-on-quarter. From the product price movements, I would highlight, especially the RIN price development as it appreciated by EUR 0.50 per gallon.

Final comment, it's worth mentioning that also margin hedging, which had a positive results. The impact from the margin hedging compared to the previous quarter was slightly higher. So in general, it's good to note that the sales margin in the second quarter was also again supported by good operational performance, utilization rate reached 96% in spite of the 12-week Porvoo turnaround.

With these comments, I hand over to Peter Vanacker, who will comment on the oil products.

Peter Z. E. Vanacker^ Thank you very much, Matti. As you have all read, I mean, from our stock exchange release early this morning, Marko Pekkola has decided to continue his career outside of Neste, and he will be replaced by Markku Korvenranta latest in January 2022. And therefore, he is not joining us today. So allow me to make some comments on the performance of the Oil Products business during the second quarter.

The most important topic during the second quarter was a scheduled, highly complex, complete turnarounds of the Porvoo refinery and the finalization of the transition of the Naantali refinery towards harbor and terminal operations. Both these strategically important projects were executed successfully, meaning safely within the announced time frame and within the announced budget. Our Porvoo refinery is now operating again at full capacity.

Unfortunately, the refinery market continued to be oversupplied and impacted by the pandemic. Market demand continued to be weak and the reference margin during the second quarter averaged a low USD 2.2 per barrel. Due to the turnarounds, we had substantially lower production volumes available. And as a consequence, our sales volumes were 62% lower compared to the second quarter in 2020. The total refinery utilization during the second quarter was 20%. This resulted in a negative comparable EBIT of minus EUR 58 million.

Looking at the EBIT bridge between the second quarter 2021 and the same quarter in 2020, the impact of this major turnaround and the weak market environment is clearly visible as lower sales volumes and margins. They had a total negative impact of EUR 33 million on the comparable operating profit year-on-year. Good fixed cost management and a very good performance of the specialty business had a positive impact of EUR 37 million compared to the second quarter of 2020.

As you can see from the graphs on this page here -- yes, excellent -- volatility in the market remains high. The good news is that there was a slight improvement on product margins, but, of course, still at a historically low level due to the unhealthy supply and demand balance. The Urals-Brent differential averaged on the level of minus $2 per barrel for the second quarter.

When taking a look at our own margin performance, our total refinery margin improved but was still low at USD 9.7 per barrel as the additional margin was supported by currency hedging. During the quarter, refinery production costs were exceptionally high due to the turnaround. As

mentioned before, the strategy execution in Oil Products is proceeding well.

The scheduled 12-week turnaround was successfully and safely executed in very challenging pandemic conditions, and Naantali operates now as a terminal and harbor. We want to turn our Oil Products business into one of the most sustainable refineries globally by transforming the Porvoo refinery operations to coprocessing of renewable and circular raw materials, combined with our commitment to reach carbon-neutral production by 2035.

Now with these comments on the Oil Products business, I would like to hand over to Panu to talk about Marketing & Services.

Panu Kopra^ Good afternoon. This is Panu Kopra speaking. Solid financial performance continued in Marketing & Services in Q2. And if we look first half of the year, we are approximately EUR 8 million ahead of last year. Unfortunately, still, aviation and marine volumes are both recovering slowly. However, diesel volumes increased by 10%, and also gasoline volumes were a bit better than the last year in Q2. Fixed costs were EUR 1 million lower in Q2 and EUR 5 million lower compared to first 6 months of the last year as a result of the cost-saving program.

We have expanded Neste, more availability at the station network, and now we have been active in marketing as well. The results of advertising conference are good and both the awareness and the volumes of Neste might have improved. We also launched new EV charging service with one of our B2B customers in order to expand our sustainable solution offering.

This was shortly about Q2 in Marketing & Services. Handing over to Peter.

Peter Z. E. Vanacker^ 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 according to our schedule. We currently have about 4,500 people working at the site and in our workshops. We continue, of course, to take our precautions and follow the development of the COVID-19 situation in Singapore very closely.

The 500,000 tons SAF optionality project in Rotterdam has been organized after the final investment decision and is now also moving ahead. This, about EUR 190 million project, will be completed by the end of 2023 and further strengthens our leadership position in the sustainable aviation market.

The engineering phase in preparation for the possible next world-scale renewables production facility in Rotterdam is also proceeding well, and we continue to aim at decision readiness for the final investment decision late this year or early 2022.

During the second quarter, several commercial agreements were signed in both Renewable Aviation and Renewable Polymers & Chemicals. Sustainable aviation fuel supply has been set up in the United Kingdom at London Heathrow and Farnborough, at Zurich Airport in Switzerland and at Cologne

in Germany. And the first sale of SAF to a corporate customer, Boston Consulting Group, has been agreed to enable business travel-related emission reductions in collaboration with Finnair and SAS.

The first Neste RE, so here, we talk about Polymers & Chemicals, deliveries to Asia were made together with South Korean LG Chem. And we have successfully expanded our partnership with Mitsui Chemicals and Toyota Tshusho to start Japan's first production of renewable plastics. A long-term commercial agreement was also made with LyondellBasell to ensure the availability of renewable solutions for the polymers value chain.

The successfully completed Porvoo refinery major turnaround as well as the transformation of the Naantali facility to harbor and terminal operations was -- there were significant efficiency efforts during the second quarter. And our short-term cost management measures have also continued very well. In the area of innovation, our clean hydrogen-related projects in Porvoo have been applied for the IPCEI, and that is Important Projects of Common European Interest, status.

We have also received Business Finland circular economy investment aids for chemical recycling, and that is relating to site and laboratory investments. In feedstock retreatment development, we found promising new purification concepts for challenging waste and residues, which will enable us to continue to expand the amount of different types of waste and residues that can be used for our NEXBTL Renewal Products production processes.

And as you all noticed, I mean, European Commission recently published its Fit for 55 proposals, which is a road map reflecting a higher ambition in climate change mitigation. As we have announced, we are pleased to see that SAF mandates are an important part of this package. And we expect that the proposal will drive growing demand for renewable products and solutions. However, we need to ensure access to all sustainable raw materials to meet these ambitious targets. No single solution, electrification of transport or other will be able to solve the challenge alone.

These are just some of the highlights I wanted to mention. We have a clear strategy and continue moving ahead. And we will talk more about this at our Capital Markets Day in September.

As an outlook for the third quarter, we see the following: Third quarter sales volumes of renewable diesel are expected to be lower than in the previous quarter due to the scheduled maintenance in Singapore that currently is ongoing. The waste and residue markets are anticipated to remain tight as their demand continues to be robust. And the renewable sales margin is expected to remain healthy, but to be lower than in the second quarter. Utilization rates of our renewable production facilities are forecasted to remain high, except for the scheduled 7-week maintenance turnaround at the Singapore refinery, which is estimated to have a negative impact of EUR 90 million on the segment's comparable EBIT.

In the third quarter, Oil Products' market demand will continue to be depressed as a result of the COVID-19 pandemic. The reference margin is expected to remain low and volatile, and an approximately EUR 20 million of the negative result impact of the Porvoo refinery turnarounds, that is completed in June, is still expected to materialize in the third quarter.

In Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern and some negative impact on demand and sales volumes is still anticipated due to the COVID-19 pandemic. Our strategic project proceeds as planned with our Singapore expansion and the Porvoo turnarounds being the major projects this year. Our cash-out capital expenditure is still estimated to be approximately EUR 1.2 billion in 2021, and that excludes M&A.

Regarding the Renewable Products, we have currently scheduled a 4-week catalyst change at the Rotterdam refinery in the fourth quarter, which is estimated to have a negative impact of approximately EUR 50 million on the comparable EBIT. And we will host, as you know, our Annual Capital Markets Day as a webcast on September 23. We would, of course, have liked to see many of you in person. But unfortunately, due to the pandemic situation, this still needs to be conducted as a virtual event. And at the CMD, we will also share our views on recent developments and give direction on the strategy ahead. You are, of course, all warmly welcome to join and details will be provided by our Investor Relations team closer to the event.

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

+++ q-and-a

Operator^ (Operator Instructions) We have questions that came through and the first question comes from the line of Joshua Stone.

Joshua Eliot Dweck Stone^ Two questions, please. Firstly, on the Fit for 55 and the RED II revision, there was a proposal for a 1.7% cap on part the feedstock for road and rail. So I was interested to see what's your opinion on that? Are you likely to oppose that? And how likely do you think that will get overturned or amended back into a soft cap?

And then my second question on the renewable diesel margin. I was wondering if you could try and talk about how the underlying market is developing in July and stripping out anything to do with hedging or maintenance? Would it be fair to say that maybe margins are getting better because of higher prices underlying and any opinions on that? And also how you think the underlying environment will sort of move as we go through the second half of the year?

Peter Z. E. Vanacker^ Yes. Thanks, Joshua, for your questions. Peter here. I will take the first one, and then Matti will take the second one on the RD margin.

As you rightfully say, I mean there is still -- I mean this -- in the proposal, it is 1.7% cap. And as I said also and alluded to EBIT, I mean,

in my opening comments, it's clear that we are happy, on one hand side, with all the proposals that the commission has made -- have made, I mean, in terms of leading to market creation of more demand for renewable diesel, but also for sustainable aviation fuel. But on the other hand side, we also need to have the means that this -- we can contribute, I mean, to the greenhouse gas emission reductions. So not just the ones that were then stipulated in RED III, but also the ones, I mean, that are then stipulated as greenhouse gas emission reduction targets of the member states.

So as such, we are in discussion, of course, and that will be intensive work that we are asking, I mean, for a broader acceptance of a lot, I mean feedstocks, and that includes, of course, also removals of caps and these kind of things because the big problem that we have or the big issue that we have at the table is reducing greenhouse gas emissions overall.

Matti Lehmus^ And this is Matti, I'll take the second question on the renewable diesel margin outlook. Perhaps, the comment I would make, Joshua, is that I'll start with, obviously, that feedstock continues to play a very important role. You could see from the chart I showed during the second quarter, we had a clear increase in waste and residues. If you look at the third quarter, I would say that the tight waste and residue market continues. We are clearly on a high level.

On the vegetable oils, you could see quite a lot of volatility. We had a price correction at the end of the second quarter. Now there has been some recovery in the early parts of the third quarter. So the high volatility clearly continues also on the veg oil side. But in general, I would say, it looks like, let's say, waste and residue feedstocks will continue to be tightened on a high level. There has not been really a clear direction there on the waste and residues in the early part of July.

The other one I would, from Neste perspective, highlight is, apart from the tight feedstock market and that we have had this ramp-up in feedstock prices during second quarter, I would highlight the fact that we have the Singapore major turnaround. What this does, of course, is 2 things. It adds some costs, also -- also variable costs are typical during a turnaround. But secondly, it also reduces our flexibility when it comes to geographical sales optimization. So in practice, we have, for example, less volume that we can allocate to the North American market.

So these are the drivers that affect the short-term margin from our perspective. And like you could see, we were guiding that we expect that margin to be -- sales margin to be lower in the third quarter than it was in the second quarter.

Joshua Eliot Dweck Stone^ Okay. And Peter, if I could just follow up on the first question a little bit, maybe just can you share any time line of when you think you're going to get sort of new drafts out the door -- not you, but when the commission or the EU gets new drafts out the door on any potential changes to the sort of feedstock requirements?

Peter Z. E. Vanacker^ Well, I mean the process is that the commission has now made all the drafts, I mean, available, and they need to be discussed, I mean, with the European Parliament as well as with the member states of the council. We foresee that, that will be a discussion probably ongoing somewhere 18 months, 24 months until it is then leading, I mean, to the final, let's say, legislation or legislative documents. They can be directives, they can be regulation.

So it will be -- it's a bit like -- remember, taxonomy. Of course, everybody is eager to get, I mean, immediately an assessment. But these things, I mean, do take -- they take time. And so will be lots of discussions going on.

Operator^ And the next question comes from the line of Henri Patricot.

Henri Jerome Dieudonne Marie Patricot^ Henri Patrica from UBS. I have 3 questions, please, on Renewable Products. And the first one is just on the second quarter and the average selling price in Europe, which seems to have gone up quarter-on-quarter by much more than the increase in the diesel price. So I was wondering if that's simply a function of you shifting less profitable sales in Europe to the U.S. or if there is some other kind of more structural change of these supporting higher premium versus diesel?

And then secondly, I just wanted to come back on the comment you made around some new concepts for pretreatment. I was wondering if you can give us a sense of which feedstocks are you working on? And what's the time line to be able to have a commercial use of these new pretreatment concepts?

And finally, I just wanted to come back to announcement you made during the quarter around renewable gasoline production. I was hoping you can give us a bit more details around how you produce that renewable gasoline and what's the potential for that product?

Matti Lehmus^ Yes. Thank you, Henri, for the questions. Matti here answering. So I'll start with your first question on the second quarter average selling price that indeed went up.

Perhaps, I would, first of all, say that it indeed reflects the successful sales performance, the successful sales optimization. And if I take a couple of main drivers that explain that trend, I mean the first one is, of course, in general, the optimization of the sales premium. And it links, of course, then also to the geographical sales mix optimization.

So one very clear, let's say, example is the fact that we increased the sales to North America, which, of course, benefited from a very high RIN price. But also within Europe, we, of course, continued, let's say, optimizing the segments and looking for an optimization of the sales premium as we have created, over the last years, a large number of markets where we can serve the customers.

So these are both very important drivers. And then thirdly, obviously, we have simply the market parameters like the RIN, which, of course, also then are reflected in the average selling price.

Your second question was on the new concept for pretreatment. It is indeed something that we are continuously doing. And I would mainly highlight here that we, of course, in particular, look at pretreatment when we think of challenging feedstocks. And I would give you 2 examples perhaps of where we, for example, see the need.

One is continuously looking for the ability to process lower quality of waste and residue, whether it's animal fats, whether it's used cooking oils. So this is clearly something where we are going. And of course, also, if I think of challenging feedstock, in general, there is this category of acid oils, which is again very low-quality side products residues. So that would be another example where we are experimenting -- let's say, developing this pretreatment for.

And then finally, on the renewable gasoline, I would mainly make the comment, it's a pilot. We are testing it. So time will show how we develop it further.

Operator^ And the next question comes from the line of Michael Alsford.

Michael James Alsford^ I just got a couple, please. Just coming back to Matti's comments on the Renewable Products margin. I appreciate feedstock markets are clearly very volatile, but given the forward curves that we see now to some of the feedstocks, so when I look at the kind of medium-term look -- outlook or into at least 4Q for Renewable Products margins, it tells to me that directionally, it should move higher 3Q into 4Q given the comments you made around, I guess, the impact that Singapore has on your sales optimization. You're not going to be able to sell as many volumes into the U.S. in 3Q, but that should be clearly not the case into 4Q. So could you maybe just talk a little bit about anything on this, again, in terms of that, I guess, profile for the margin over that period?

And then secondly, on feedstock optimization, clearly, you're seeing an increasing amount of waste and residues as you saw again this quarter. I was just wondering whether you could talk a little bit more about how big the feedstock pool is now that you can access relative to your current production base? How big is it expanding given the work you've been doing on the feedstock sourcing strategy?

Matti Lehmus^ Yes. Thank you, Michael, for the questions. So first, again, on the margin outlook and your question, I think, was mainly on then looking already into the fourth quarter. So like you correctly commented, of course, feedstock development will be one important one. But I can confirm your comment, of course, we don't have the Singapore turnaround in the fourth quarter. We have a Rotterdam turnaround, which is 4 weeks then. But especially for this geographic sales allocation flexibility, Singapore is, of course, needed for the maximization of the U.S. volumes. So in that sense, I agree with your comments that -- in that sense, the fourth quarter is different.

From the feedstock optimization work, I would probably refer to the comments we also made in last year's Capital Markets Day that we do see that the global pool of waste and residues is growing towards 35 million ton with all the work that is being done. And that is something which we continue seeing, and we will then update in the upcoming Capital Markets Day if that number can be updated. But the work, of course, continues to keep opening new feedstock sources.

Michael James Alsford^ Matti, if I could just squeeze in a follow-up, just on demand. I think last quarter or previously in the year, you've talked about demand of renewable diesel growing by, I think, 1.5 million to 2 million tons in 2021 versus 2020. I'm just wondering whether you could update us as to where you see demand shaking out for this year?

Matti Lehmus^ Thanks for that follow-up question on demand. Indeed, last quarter -- last spring, we commented actually that we see it more towards the low end of that range, so more like 1.5 million tons. I don't see dramatic changes. Probably what we see is that with the continued impact of the COVID lockdowns in some regions, the demand this year may be slightly lower than that. That's probably where we see it at the moment. But again, to be then updated in the Capital Markets Day.

Operator^ And the next question comes from the line of Artem Beletski.

Artem Beletski^ This is Artem from SEB. I still have a couple of ones on renewables. So Matti, could you maybe comment on hedging outlook for second half of this year? And this type of big volatility, what we have seen in vegetable oil prices, especially during June, whether you have utilized this opportunity down the road?

Then maybe on share of North American sales, so it has been indeed close to 40% now in Q2 and pretty high also previously. Is it still -- so is the formula still valid that basically North America should be roughly 30% of your volumes over time?

And the last one is actually relating to Oil Products. A quick one, you are talking about EUR 20 million negative earnings impact in Q3, is it purely volume related? Basically impact that should be visible, so basically normalizing inventories on that side?

Matti Lehmus^ Yes. Thanks, Artem. I'll start with the first 2 questions. So first one on hedging. So indeed, if I look at the second half of the year, we have increased our hedging ratio versus the first half of the year. We are currently at something like 55% of total sales for the second half of the year. And if you remember, in the first half of the year, we were more somewhere like 35% to 40%. So we have increased that ratio. And of course, it's good to note when -- last quarter, when we commented on it, we still had quite a low hedging ratio for the second half. It was under 20% still 3 months ago. So we have, indeed, during the quarter, increased that hedging ratio for the second half of the year.

And then on the other question, the U.S. share, I mean, like you have seen in the previous quarters, it is, of course, something that we

continuously do that we optimize the geographic allocation. We have been able now to go all the way up to 39% in this second quarter. There are, of course, limitations because we, for example, have also term commitments that we also need to take into account and other type of limitations. But I would say there is not a fixed number we are aiming for. It's more a function of the optimization that we do.

Peter Z. E. Vanacker^ Yes. But -- I mean all of that, I mean, to bring it into the right context, of course -- yes, of course, I mean we leveraged upon the hedging position. You know that we are following that, I mean, extremely closely, just also, I mean, from Matti, Jyrki and myself. So when we saw the opportunity, of course, we did build up, I mean, our hedging positions for the second half of the year because we also saw that -- not like anticipated beforehand, you have some rumors in United States on droughts.

So that means that the soy harvest, which is normally, let's say, around, I mean, September-October time frame, could eventually be a bit lower if it doesn't start raining. So that had an influence and you have some import duties that were waived for the palm oil. So you have very good buying, I mean, from India, from China. You have Malaysia then with, I would say, the fourth wave and a complete lockdown. So not the availability of the workers.

So there was quite a lot of dynamics, I mean, let's say, in the last 3, 4 weeks. So from that point of view, I think, it's good that we did build up that hedging position in the second half of the year. But if I put it back into the context, I mean, just to bring a little bit of clarity, from today's perspective, we are estimating that our sales margin in renewables would be more around the middle of the range of being healthy in the third quarter. Of course, that may change because we are just at the first month of the third quarter. But at least, I mean, that's what we believe, I mean, today.

And then, of course, I mean, as Matti said, in terms of the volumes, we believe, I mean, that with the Singapore shutdown that we have, I mean, in total, probably 30 to 50 kt, I mean, lesser volumes that we are calculating with -- for the third quarter. And then some EUR 20 million, I mean, higher fixed costs as we continue to build up innovation, aviation business, Polymers & Chemicals and all these kind of things. Just to bring a bit of clarity, I mean, to -- that could help you, I mean, of course, also.

Operator^ And the next question...

Peter Z. E. Vanacker^ You had that question on OP, sorry. You had this question on OP. I mean, yes, Artem, I mean your estimation is good. I mean, that has to do, I mean, with the ramp-up of the facility. As I said, I mean, in my introduction, safety first. So we were very prudent in how we did step-by-step the ramp-up of that very complex, I mean, refinery. We've done quite a lot of investments also on projects and new things. So therefore, the guidance is a bit higher than what we said, I mean, in Q1, and then the remaining EUR 20 million is mainly a volume impact in Q3.

Operator^ And the next question comes from the line of Nick Konstantakis.

Nikolaos Konstantakis^ I would go back to the European realizations, if you don't mind. Can you just give us an idea of what kind of differential do you see between, say, your best region and your worst region? Just trying to understand a little bit what -- given the string even within Europe, what kind of an impact that has?

And related to that, as we look into 2022, the direction of the feedstock seem to be going one way for now. Let's say that changes, can you just talk to us a bit about the evolution of your pricing? Just trying to understand how much pricing can you pass through a bit -- maybe it's a little bit premature to talk about it, just to get some comfort around how do we move into 2022 in an increasing demand environment and tight feedstock at the same time?

Matti Lehmus^ Yes. Nick, thank you for the question. I'll start with the first one. I mean, in general, I would just state that we have, obviously, very systematically worked on opening a number of markets in North America, in Europe, in order to have that flexibility. And it's good to note that there is different customer segments in these markets. There is different regulation.

So from that perspective, you will see some variation over time in the exact average selling price, for example, also the feedstock base. And I don't -- can't quantify what that range is, but it's just a normal part of our optimization that we continuously follow the market and try to optimize, at the same time also, of course, making term contracts for a certain share of the volume.

And that leads me a bit to your second question. I mean the normal procedure of how it has been going is that during the autumn time during -- towards the end of the year, quite a lot of the term agreements are made on an annual basis for the calendar year, and this is then, again, something that we will be, let's say, looking at this autumn also to then decide what volume exactly and how to build our term portfolio.

Peter Z. E. Vanacker^ And also here, I mean, Nick, I mean, as you know, I mean, one thing is not -- it's not -- one thing is the same for everything. And you know that these penalty levels, they are on a local level, yes? So this is something that a member state is defining. So you may have a bit of flexibility in one country and maybe lesser flexibility, I mean, meaning distance in the price that we currently have compared to the ceiling, let's say, if you call the ceiling a penalty level.

But then, of course, there are other things. I mean I remember, I mean, that I was talking, I mean, to the authorities in Belgium. And if you look at the RED implementation -- RED II implementation in Belgium, then you see there that they say, "Look, if you don't meet the requirements, you need to pay the penalty. But if for the second time, you don't meet the requirements, then actually, your penalty is actually going up." And it's really, I mean, a very strong penalty.

So the reason why I'm explaining that is, you see this is not cast in stone, yes? And if we put it in the context of the Fit for 55, then -- with these higher targets, then there will have to be a reflection by the member states in how will I now accomplish these key pieces of legislation, like, for example, I mean, effort sharing regulation with higher, I mean, percentages on greenhouse gas emission reductions that need to be accomplished if the penalty level is at the same level as it was, I mean, let's say, with the old targets.

Nikolaos Konstantakis^ And if I just may touch on this, I mean for the sustainable aviation fuel, the penalty level seems to be quite well defined at the EU level. Do you think, as part of the proposals, are there ongoing, I guess, discussion for the revision of RED II that could be scope to move towards a European penalty if you want universal? Or do you think would continue to stay on a country-by-country basis? I don't know if it was discussed at all or -- yes, whatever thoughts you have.

Peter Z. E. Vanacker^ Again, this is crystal ball, of course. It's a good question, Nick. But I think -- I would think, I mean, road transportation is more something, I mean, on a member state level. Aviation level playing field discussions that have taken place, I mean, in the context of the ReFuelEU. So therefore, I mean, here you go more towards, I mean, a European and every plane that is leaving an airport in Europe. So it goes beyond even inter-European flights with all these obligations and, therefore, also these well-defined, I mean, European penalty levels.

Operator^ The next question comes from the line of Peter Low.

Peter James Low^ The first one was just on the new renewable refinery you're studying in Rotterdam. What has to happen for that to move forward to FID? Are you looking at whether you could secure feedstock and how policy will evolve in Europe or is it simply a case to go through the design and engineering work to the plant itself as you're already confident on the demand and feedstock outlook?

The second was just another one on the Fit for 55 package. Looking through the various proposed policies, it feels as though the EU's preferred long-term route to decarbonizing road transportation is through electrification and hydrogen, perhaps, rather than biofuels. Would you agree with that characterization? And how can Neste ensure it's part of helping to provide those solutions?

Peter Z. E. Vanacker^ Yes. Matti, if you can take the first one. You're close, I mean, to the Rotterdam FID, of course.

Matti Lehmus^ Yes. So thanks for the question. I would say it's like for any major investment. Of course, it's technical and commercial evaluation that we are now doing at the moment. And part of the work we are doing with a more detailed engineering is to get a better understanding on the capital expenditure. That is, of course, very important.

But in parallel, we will, obviously, also be updating our view on the market, including regulation and everything. And then at the end of the

day, these 2 aspects will help us make a decision on, let's say, make an evaluation on the feasibility of the project and that then creates the basis for decision making.

Peter Z. E. Vanacker^ Yes. And then a couple of reflections. And of course, I mean, we will further discuss this during the CMD, I'm absolutely sure of that. On the Fit for 55, I personally had a bit of the impression, with all the discussions that we had in Brussels, that the European Commission is looking at difficult to decarbonize industries and easier to decarbonize industries.

So if you talk about the easier to decarbonize industry, personal vehicles, for example, or small transporters, here, the tendency goes, I mean, towards electrification. But under the realization that electrification, of course, also takes a huge amount of investments and, therefore, biofuels will be needed as well as a solution, whereby then the more difficult to decarbonize industries and here we're talking about definitely heavy-duty transportation. We're talking about clear commitment from the European Commission on the aviation industry.

And please remind that the proposal is really high. I mean it's about 60% SAF blend by 2050. So this is huge in terms of market demand that, that would create for renewable fuels. So you see that there is this kind of a tendency. And I believe, I mean, that fits very well to our strategy because, as you know, I mean, we have anticipated, and that's why we are building up the SAF, I mean, flexibility production capacities in Singapore, in Rotterdam, so that we can leverage upon that.

And of course, what is currently not really covered, I mean, in the Fit for 55 is then what is happening in Polymers & Chemicals because also there -- we see that there is good traction -- and the only way, I mean, to get out of fossil-based, I mean, raw materials is by going into bio-based, I mean, Polymers & Chemicals on one hand side or recycle, I mean, the carbon from waste plastic on the other hand side. So from that point of view, we see good traction, I mean, in the marketplace even if we have not talked about it yet a lot in this call.

Operator^ And the next question comes from the line of Matthew Blair.

Matthew Robert Lovseth Blair^ I'd like to start with a strategic question. Can you talk about how open you might be to a partnership on RD production? It looks like some of these refinery conversions appear to have pretty low CapEx relative to greenfield projects. And then a company like Neste could, obviously, bring the edge on feedstock. So, I guess, I'm just a little surprised that there haven't been more joint ventures in this space. And I'm just wondering how open Neste might be to such a partnership?

And then my follow-up is on OP. Sometimes, after a major turnaround, the refinery will just run better. With the Porvoo turnaround behind you, should we expect a pick up in margin capture or a structural reduction in OpEx?

Peter Z. E. Vanacker^ Yes. Good questions, Matthew. And I would say, I mean, on your first question, I mean, on partnerships, we have said, I mean, a couple of times at our Capital Markets Day, that was in 2019 and also in 2020, we don't exclude anything. But of course, it needs to fit, yes. And we do believe that in terms of our NEXBTL technology, we have the most advanced, I mean, technology. We do believe that we have the most advanced technology when we're talking about pretreatment. And in addition to that, our model is that we want to have, I mean, that flexibility, both in terms of the waste and residue side as well as on the other hand side being able to produce the products for road transportation, aviation and Polymers & Chemicals. So these are very clear requirements, of course, that we do have.

Then on the Oil Products side, yes, we did do quite a lot of work. I mean, of course, in terms of ensuring reliability and sustainability plus also due to the fact, I mean, that we exited refinery in Naantali. For example, take specialty products, I mean, solvents, we were producing in Naantali. Today, we are producing them in Porvoo. So that was part, of course, also of the consolidation, let's say, of our work so that we only then have to focus, if we talk about refinery production on one side. So a bit premature now to say in your model, okay, that will lead, I mean, to OpEx costs that are going to go down.

On the other hand side, I mean, what we have said, I mean, is also on our strategy, we want to make sure that we are net zero by 2035 in terms of scope 1 and scope 2 emissions. And then on the other hand side, we also want to replace crude oil streams with waste and residue streams. So also these elements, I mean, they will play an important role.

And then, of course, I mean, if you go back, I mean, to the Fit for 55, a bit premature, I mean, to see. But what will that have as implications on the Oil Products business in terms of CO2 costs. And then if you compare that again with them being the most sustainable refinery, what of that can be offset. So I can't give you a clear answer on that, Matthew. But that is definitely something that in our master plan for Porvoo, we're looking at all these parts that are moving and what does it then mean at the end.

Operator^ And the next question comes from the line of Erwan Kerouredan.

Erwan Kerouredan^ Most of them have been answered actually. So I've got maybe 2 questions on cost, one on Singapore and one on depreciation. If I'm not mistaken, you previously guided for an impact on EBIT for the third quarter of EUR 80 million, and now it is at EUR 90 million. I just wanted to -- you to clarify the difference between the 2 and what drove the increase?

And then thanks for providing some more color on the depreciation. You mentioned that the higher depreciation was due to investing back in the business. So I was just wondering if we should expect the same level of depreciation charges for the next 2 or 3 quarters? And these would be my 2 questions.

Matti Lehmus^ Yes. Thanks, Erwan. I'll take the first one. This was on the impact of the Singapore turnaround. Good observation. We slightly increased that impact from earlier EUR 80 million to EUR 90 million, I think, mainly as a result of modeling it more in detail. At the same time, of course, good to note that if you look, for example, at the U.S. market development with the RINs, they are clearly on a high level. So of course, there is also an element that this number captures also the margin impact of the lost volumes. So that would also play into it.

Then the second question, Jyrki?

Jyrki Mikael Mäki-Kala^ Yes, it was the question about the depreciation. You're absolutely right. It was -- in quarter 2, we had roughly EUR 136 million depreciation. And it was roughly EUR 10 million more than last year. So we are going to see depreciation varying between EUR 140 million and EUR 150 million now on a quarterly basis going forward. Certainly, always depending on the CapEx, what we are basically providing there.

Erwan Kerouredan^ So just a follow-up. So are we right in assuming a stable percentage of depreciation of a CapEx?

Jyrki Mikael Mäki-Kala^ Yes, of course, it depends on what kind of CapEx you have. But if you look just purely the depreciation figures going back. So we have now come to the level of EUR 140 million roughly on a quarterly basis. So -- and EUR 140 million to EUR 150 million going towards the bigger CapEx since we have Singapore coming in '23 as an example. So between now and '23, they will be pretty stable at this EUR 140 million to EUR 150 million levels.

Operator^ And the next question comes from the line of Iiris Theman.

Iiris Theman^ I still have 3 questions. So firstly, what is your waste feedstock supply split by region? Is Europe the largest region?

And secondly, on the waste feedstock price development. Are you seeing some price decreases so far in July if you compare to late June? Or -- but is it too early to say anything about the short-term trend?

And then thirdly, in the Q1 call, you were talking about potential capacity debottlenecking. Is the comment still valid? And could this be visible later this year?

Peter Z. E. Vanacker^ Yes. So good questions, Iiris. I will give it again, I mean, to Matti.

Matti Lehmus^ Yes. Thanks. So first one on the waste feedstock split by region. We haven't really opened that one. You know, of course, that we are active globally. There is a number of important regions for waste and residues. It's Asia Pacific, it's Europe, it's North America, it's South America. So we are active in all these regions. So -- but that's...

Peter Z. E. Vanacker^ And it changes.

Matti Lehmus^ And it may change, of course, also over time. And that's the whole key of our concept that it's a global platform, and we can also optimize that over time.

Short-term development just specifically on waste feedstock price development, market development early July, it's a bit in a way, I would say, I commented earlier already that there hasn't really been a clear direction in the first weeks of July. So after this very clear ramp-up during second quarter, we see stable. We see some regions bit moving up, others a bit down. So it's a bit without direction in the first weeks of July, but we will see, of course, how it develops going forward.

And then on the capacity bottlenecks, I would mainly comment, it's more I would look at it as part of our continuous improvement that we, of course, continue working on continuously improving our operational excellence, our operations, capacity debottlenecking is part of it. Of course, it's clear that if you look at how much we have debottlenecked over the last few years that it becomes always harder and harder to find opportunities.

Operator^ And the next question comes from the line of Mehdi Ennebati.

Mehdi Ennebati^ Can you hear me?

Peter Z. E. Vanacker^ Yes, we can hear you.

Mehdi Ennebati^ So this is Mehdi Ennebati from Bank of America. I'm not sure I understood my name. I will ask 2 questions, please. First one regarding the hedging that you realized during the month of June. If I look at the price of the crude palm oil at that time and the current price of the crude palm oil, it seems that you might be able to do -- to make extremely high hedging gains. So my question is, did you take this into account in the guidance that you gave us regarding your Renewable Products margin for the third quarter? First question.

Second question, regarding the Renewable Products margin variation. So you said $700 per ton in Q2, could be mid range around $650 per ton in the third quarter, if I understood well. And you highlighted that this is due to the sales mix and also the fact that the feedstock market remains tight. Just for us to understand, would you rather say that most of the decrease quarter-on-quarter is due to the sales mix or the fact that the feedstock cost market remains tight -- will remain tight quarter-on-quarter? This is just for us to understand if in Q4 you might go quickly back to $700?

Matti Lehmus^ So thanks, Mehdi. This is Matti. I'll take your questions. So first of all, on the hedging, I mean I mentioned actually earlier also, we did increase our hedging ratio for the second half of the year to roughly 55% of total sales. And when we started the second quarter, we were at a clearly lower level, it was under 20%. So we actually did do this hedging ratio increase over the second quarter. And in a way, it's, of course, part of our estimate when we made our estimate for the sales margin development for the third quarter. That was part of it, at the

same time, appreciating the uncertainties that there are always related to the market out there.

And that would also be the comment on the third quarter guidance. Peter commented it already earlier, our guidance is clear that we expect it to be lower than in the second quarter and we mentioned as main drivers, the fact that the feedstock market continues to be tight. It is on a high level after the increase during second quarter and also the second driver being the Singapore turnaround where we are more limited in our sales flexibility. And of course, again, impossible to give any exact numbers, but if we take the current estimate, it could then also be mid of the range when we give our healthy margin range.

Operator^ And the next question comes from the line of Jason Gabelman.

Jason Daniel Gabelman^ I wanted to first guess on the polymers business. I was hoping for some more color on that. I know you're trying to grow that business. Can you just discuss maybe what needs to happen from a regulatory standpoint and incentive standpoint from that to contribute more and for you to grow volumes more or is the roadblock to growing the business more of a technology issue right now?

And then my second question, just on the supply-demand outlook for renewable diesel and renewable fuels. It seems like with the EU Fit for 55 program, we have a good sense of what demand could be over the next 5 to 10 years. And clearly, there's a lot of capacity coming online over the next 5 years for renewable fuel production. So if you could just discuss your outlook for how those balances -- how the supply-demand balance shakes out over the next 5 years?

And then my final question just on feedstock availability. You've mentioned a few times the tight market right now in waste oils and given the amount of new global capacity coming online to produce renewable fuels. Is that tightness a feature that you expect to remain with us for the foreseeable future?

Peter Z. E. Vanacker^ Let me start, I mean, with the first question, Jason, and -- around the Renewable Polymers & Chemicals business. The -- if we talk about waste and residues of bio-based polymers and chemicals, so not chemical recycling, then this is a proven technology we are supplying and we have sales contracts, so it's repetitive business, both Europe, U.S. as well as in Asia Pacific.

It's more, let's say, demand being creation by -- being created by the brand owners, and the brand owners wanting to reduce their dependency in, for example, packaging on fossil-based plastics. Of course, it always helps if, in addition to that, you have some regulation that is supporting that tendency. And therefore, we are in close contact also with European Commission. There are a couple of positive things in Europe, like, for example, plastic -- waste plastic tax of EUR 0.80 a kilo. All these kind of things are helping and driving that demand in addition to the demand that is being driven by the consumers.

The chemical recycling is a bit different. So here, we talk about waste plastic being chemically recycled. We've made very good progress. I mean -- you remember, I mean, that we have invested in this company, Alterra. We've done the first industrial-scale trials with Alterra. We will have second trials, I mean, again, in the next couple of months, and then there will be a third round of trials, of course. But so far, I mean, everything did run quite well.

But here, we're still talking about technology development. We know it works. We've done and produced waste plastic-based recycled hydrocarbons that went back into the plastic chain. So from that point of view, a proof of principle has been achieved. But, of course, it will take a little bit of time. Until then, the first liquefaction plants will be put in place and so on and so on.

So on the renewable diesel supply and demand and, of course, I mean, one may look at renewable diesel, I would like to look more at the combination of renewable diesel and sustainable aviation fuel as, of course, there is -- these mandates that are coming in Europe for SAF plus also the incentives that are being discussed in the United States, dedicated BTC for sustainable aviation fuel and so on. This is still on the table, and we hope to get clarity on that, I mean, during the course of this year. So therefore, for us, I mean, we look at both renewable diesel as well as sustainable aviation fuel demand.

If you look at the Fit for 55, it's a bit difficult, I mean, to read because in the RED III, there has been a change where in the past, it was energy-based targets, and now it's greenhouse gas emission reduction targets. So you can't compare it, I mean, one to one with what is in RED II. But if you look at the assumptions that the European Commission has taken, then their assumptions tell us that the greenhouse gas emission intensity reduction target at minus 13% in 2030 would equalize a 20% renewable energy targets.

We personally believe it's not going to be 26%. If it stays like that, it's lower than the 26% because the European Commission took an assumption that the greenhouse gas emission reduction average is 50%. And as you know, we are having renewable diesel that has a greenhouse gas emission reduction potential even up to 90% based upon that calculation methodology. Yes, so it's probably more somewhere, let's say, around what 20% to 26%, depending on what assumptions are being taken.

And therefore, what I said before, we will definitely [plead] for even more aggressive targets. But then, again, you need to take that into consideration, again, with the other parts, I mean, of the regulation, especially the effort sharing regulation, which would lead, I mean, to being more of a driver in terms of demand creation and then RED III being more of a tool in how to accomplish the effort sharing regulation in addition to eventually other tools.

So all that, we'll talk about that, I mean, more on the Capital Markets Day. But just if you look at what we have said in the past in terms of market demand creation in Europe, we see that number, at least, I mean, being confirmed both on the RD side as well as on the sustainable

aviation fuel side. So therefore, as a consequence, I mean, continue to say no decoupling, let's say, over time of supply and demand in the renewable fuels.

Matti Lehmus^ And then I can take the third question, which was a bit on the waste and residue outlook in terms of availability, perhaps a couple of short comments I would make. I'll just -- if you look at situation this year with the COVID still having impacts, I mean, animal fat availability has been relatively stable throughout this one. It's more used cooking oil which has been affected. And I mentioned earlier that from there, of course, we still today see that the impact of the lockdowns probably reflects that only 85% of the volume is available currently versus pre-pandemic levels.

So from that perspective, taking a midterm view, there is hopefully potential to come back to more normal levels over time. At the same time, it's clear that we have solid demand, whether it's in HVO, whether it's in oleochemicals, feed, whether it's the first-generation biodiesel. So I think it's clear that we also have, with also the new projects that are going to start also, solid demand development.

So I think in short, I would say, it looks like it continues to be tight. And then, of course, the importance comes both to, if we look at from Neste perspective, continue to work on the quality flexibility on the geographic reach and also on the longer term development, thinking of new sources such as could be algae, it could be novel vegetables with reduced indirect land use impact. These are very important in longer term.

Operator^ And the next question comes from the line of Sasikanth Chilukuru.

Sasikanth Chilukuru^ I had 3, please. My first question was related to the share of waste and residue feedstock in the Renewable Products segment, which has touched 93% in 2Q. I was just wondering, should we consider this to be the new baseline as we look into the future? Or is it possible for this to revert back, say, below 90% in the future? Also, does this new level of waste and residue feedstock, does this affect the way you hedge which I believe is more towards based on the vegetable oil price differential?

My second question was related to the lower sales volumes in Renewable Products in 2Q relative to the guidance that you had provided with 1Q results, which was then highlighted to be stable quarter-on-quarter. You have highlighted postponement of some end-June deliveries as the reason for lower volumes. Does this completely explain the miss relative to that guidance? Also, can you provide more color -- or some more color on the guidance for sales volumes in 3Q? How much lower than the 732 kilotons do you expect the sales volume to be in 3Q? Any guidance on that magnitude will be helpful.

My third was essentially related to the net debt. Can you please comment on your expectations of net debt till year-end? I was wondering if there was any specific cash payments or proceeds or any material working capital changes that we should be aware of?

Matti Lehmus^ Yes, thanks for the questions. I'll start with the first 2 ones. So first of all, on the share of waste and residue, I mean, obviously, it will vary a bit from quarter-to-quarter. You could see we're at 90% in the first quarter. We were now at 93% in the second quarter. But I think it's good to remember our feedstock strategy. We have said clearly that we are a bit longer term, focused on enabling and reaching 100% waste and residue and that target by 2025. So that gives you, of course, then the trend that we are aiming for. And then like I mentioned earlier, longer term, hopefully, also some novel vegetable oils and others that can then complement the mix.

You asked whether it affects the hedge. Our hedging philosophy stays the same. So we are using liquid instruments, and that means that we have to use, as a proxy, typically palm oil, for example, even if it does not perfectly reflect, of course, waste and residues. And then on the other hand, we use liquid instruments on the petroleum side such as gas oil or diesel, again, to reflect the other part of the hedge.

Your second question was on the sales volume in both Q2 and Q3. So I would say the fact that we delayed some deliveries into the third quarter, which is quite normal. I mean the exact timing of the shipment is always depending on operational reasons, weather, et cetera. That explains most of that small difference that we had versus the earlier guidance. And then into the third quarter, we actually -- Peter mentioned earlier that we expect at the moment that reduction versus the second quarter could be in the range of 30 to 50 kilotons. That is our current estimate of the third quarter volume, again, of course, depending always on this short-term operational variations.

Peter Z. E. Vanacker^ But I wouldn't read, I mean, too much into that, I mean, slippage that we had, I mean, from June into July. This is not market demand driven. I mean it was just, I mean, that one cargo and then we had one issue with one of our partners. I mean they had an incident in their facility and they were not able to get the material out. Otherwise, they would have been booked, I mean, in that quarter. So nothing, let's say, underlying in terms of market demand of any concern. I mean market demand continues to be very healthy.

Jyrki Mikael Mäki-Kala^ And then it was a question about the net debt. If you look at the first half of the year, our CapExes were pretty stable. So we are expecting a little bit higher CapEx for the second half. We did have the one acquisition in Rotterdam that will certainly not be there in the second half. So that is kind of a positive, basically, replacing kind of CapEx versus the first quarter.

And then certainly, we had one of the dividend. Dividend payment taking place in October, but no major situation or changes in the position with the second half, meaning, the year-end. So it will be still a very, very good cash position and pretty low net debt at the end of the day.

Operator^ And the next question comes from the line of Matt Lofting.

Matthew Peter Charles Lofting^ Two, please. First, just sort of, I guess, taking a step back and consolidating the observations you've made around feedstock markets. I mean it seemed, in some ways, sort of 3 months ago when you presented Q1, at the time you had, perhaps, a cautiously optimistic view that waste and residue market tightness [would ease through this] not in Q2 but through the second half of the year.

My sense today is that perhaps that process is taking longer than you previously anticipated. I wonder if your observations there in terms of whether that perception is fair, what changed? And how you, perhaps, think about the sort of the fourth quarter relative to the third quarter from that perspective in terms of operations and margins?

And then secondly, just coming back to the sort of the previous point on the sales volumes and sort of in the region of 30,000 to 50,000 tons lower quarter-on-quarter in Q3. It's noticeable, I guess, looking at the first half of the year that sales volumes have been materially lower than production volumes. So I'm just a bit surprised that you're not perhaps catching up on that during Q3 or the second half of the year as the sort of the maintenance kicked in. I wonder if you could sort of share any observations on that.

Matti Lehmus^ Yes. Thanks, Matt. Perhaps a couple of comments, first question on the feedstock market and how we saw it last quarter. Perhaps if I remember, I mean, from spring, what we probably commented at the time is that vegetable oils, which were already at a high level at the time, where at the time the forward markets were backwardated. And what actually has happened, if you see, what has happened in veg oil markets, the strength has rolled. Yes, there has been this volatility, but in a way that we continue to have a situation where it's very high in the front end, again, the forward markets were still backwardated. But that is probably the main change.

I think on waste and residue, it's -- like I commented also on the medium-term outlook, it continues to look tight. I don't think that has changed.

On the sales volume, just, I mean, correct observation. If you look at our first half production volume and sales volume, we have been building some inventories. This is quite normal in anticipation of the big turnaround that we now have in Singapore. You could also see from the guidance that although our sales volume is lower or expected to be lower in the third quarter, it's not the full volume impact of the Singapore turnaround, which lasts for 7 weeks. So indeed, that is exactly what we are doing, that we are a bit smoothening the impact of the turnarounds.

Operator^ And the next question comes from the line of Henry Tarr.

Henry Michael Tarr^ I'll just be brief. One question on the U.S. and RINs. And do you have any views on -- I know you mentioned it recently, but regulations there? And I saw that the recent U.S. Supreme Court decision around the biofuel waiver dispute, et cetera. Is there anything for you to add on that side?

Peter Z. E. Vanacker^ Yes, we don't see, I mean, that the environment is changing a lot, Henry, in the United States. Yes, you have this ruling on the Supreme Court. But since then, I mean, nothing really has happened. I would also be a bit more careful maybe than what I have said, I mean, in the past with regards, I mean, to when do we expect to hear about the volumes in the RFS program.

Today, I don't believe we will get any clarity on that during the course of this year. If at all, it will be towards the end of the year. Maybe we will see a bit more, I mean, on the so-called, I mean, small refinery exemptions. But still, the atmosphere continues to be that the Biden Administration, the EPA, I mean, not a lot of exemptions will be granted. So the atmosphere continues to be, I mean, supportive.

And as I said before, I mean, in terms of these proposals with regards, I mean, to incentives dedicated, for example, blenders tax credit, I mean, for sustainable aviation fuel, we think and hope, of course, that we will get some clarity on that during the course of this year. Yes. So I would give this, I mean, definitely above 50% that this will go through.

Operator^ And the last question comes from the line of Giacomo Romeo.

Giacomo Romeo^ I have just one left. And just wondering, as we -- well, in fall, we'll start getting into the period when you typically renegotiate your term contracts. I'm just wondering whether you are -- you have any concern that a lower-than-expected demand growth this year and potentially still pressure on the feedstock front could put some pressure on the pricing level of these contracts. Just interested to hear your reports around that.

Peter Z. E. Vanacker^ Yes. I mean if you look at demand creation, yes, maybe there is a little bit lesser, but still it's demand creation this year. But also if you look at all the key countries and states in terms of demand creation, higher greenhouse gas emission reduction targets starting 2022, then we continue to see that there will be a demand creation of around 2 million tons.

I mean I'll give you a couple of examples. I mean Sweden is moving from 26% to 30% -- from 26% to 30.5% of greenhouse gas emission reduction for diesel. The movement in 2021 was 21% to 26%. Germany is going up. The Netherlands, France is going up, Finland is going up. Possibly even, I mean, in the southern part of Europe, percentages are going up because RED II is still, in certain member states, being discussed and how will it be turned into legislation. And that legislation, I mean, it's enforceable as of the middle of this year. So that means that they have to have, I mean, higher targets.

And the same is also valid, of course, I mean, in the United States with the higher percentages as communicated, as known, I mean, in the key states like California, Oregon, British Columbia. So we continue to look at about 2 million tons of demand creation on a global basis for 2022.

Giacomo Romeo^ Just perhaps a follow-up on that. And so just to clarify, you don't think that the existing pressure you're seeing on the feedstock

market could have any pressure in terms of pricing negotiation and the demand growth you expect will still be sufficient to keep pricing at a healthy level as you enter the renegotiations of those contracts?

Peter Z. E. Vanacker^ Well, we are at an early stage. Same comments as I made, I mean, around this period of time, I mean, last year. We are at an early stage now at looking at where do we believe feedstocks will go. Where do we believe, I mean, the differential between palm oil and gas oil will go next year. Where do we see, I mean, where the penalty levels in the different member states are. And then based upon that, we will then develop, I mean, what is our term strategy with regard, I mean, to prices, price increase, et cetera, et cetera.

Today, too early to say. We are at the end of July, yes. This would be premature for us, I mean, to define a strategy because you have so many moving parts. So I have to say the same. I mean, like last year, this is going to take a couple of months before we really -- we need to have a clear picture on what we believe the scenarios will happen in 2022. And then only based upon that, we will then start with the term deal negotiations with our key strategic customers.

Operator^ No further questions obtained through, sir. Please continue.

Peter Z. E. Vanacker^ Very good. Lots of questions. Thank you very much, and we try to be as clear as possible with our guidance for Q3. I mean it's a bit a special year, I mean, this year with lots of these big turnarounds that we have, lots of moving parts. But the underlying business continues to do and perform, I mean, very well.

Let me conclude also by saying that, of course, I mean, the pandemic is not over yet, but I also believe that gradually we have learned, I mean, how to live with it. And for us, the third quarter will be another turnaround quarter, as we have discussed, I mean, today, with the focus, of course, of Singapore. So lots of attention to do that within the communicated time frame in a safe way and then, of course, within the budgets.

Otherwise, I mean, we continue to move forward with our chosen strategy, and that is to become a global leader in renewable and circular solutions. We will talk about that more in our Capital Markets Day and really looking forward to talking to you even, of course, if it, unfortunately, as I said at the beginning, is in a virtual way.

So thanks a lot, I mean, for your continued interest in our company. Stay safe and for all healthy. Thanks. Goodbye.

Operator^ Thank you. That concludes our conference for today. Thank you all for participating. You may now disconnect.