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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q1 2022 Neste Corporation Earnings Conference Call.

(Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Juha-Pekka, Kekäläinen, Head of Investor Relations. Please go ahead.

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

Thank you, and good afternoon, ladies and gentlemen. Welcome to this conference call to discuss Neste's first quarter '22 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 Maki-Kala; and his successor, Martti Ala-Härkönen, effective May 1. Matti Lehmus who will start as the new President and CEO on May 1 as well. Today, Matti, in his current role as the Head of Renewables platform. And also the business unit heads, Markku Korvenranta of Oil Products; and Panu Kopra of Marketing & Services. We will be referring to the presentation that can be found on our website.

Please pay attention to the disclaimer since we will be making forward-looking statements in this call. And with these remarks, I would like to hand over to our President and 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 also on my behalf. It's great to have you all participating in the call, which will be my final as the President and CEO of Neste. We, at Neste are appalled and concerned about the war in Ukraine, and we strongly condemn the invasion by Russia. We have now mostly replaced the Russian crude oil with other crudes and the remaining supply contracts for Russian crude oil will end in July 2022. We have not bought Russian crude oil on the spot market since the start of the war nor are we making any new supply agreements for Russian crude or fossil heat stocks.

Our employees have done an excellent job in replacing Russian crude oil with other grades in a safe way. In addition to the great human suffering, the war has caused significant market disruptions, which are ongoing or possibly still ahead of us. Despite this turmoil Neste's financial performance was strong in the first quarter. Our company continues to be in great shape and we are proceeding with

high-speed executing our strategy to be a global leader in renewable and circular solutions. This is also impressively demonstrated in how we started the year 2022.

If I can now move to Page #4 of the presentation. We had a strong financial performance in the first quarter. Our comparable EBITDA was EUR 578 million, and that is almost 35% higher than in the corresponding period last year. All of our businesses improved their comparable EBITDA compared to the first quarter of 2021. Our renewable products had an excellent performance in the first quarter, which was one of its best quarters ever. Our comparable sales margin averaged a record-high $806 per ton. This outstanding achievement was supported by our strong sales performance by successful margin hedging and the flexibility provided by our global optimization model.

This was an excellent result in a very expensive feedstock market environment. Our sales volumes were 747,000 tons and that is slightly higher than last year. During the first quarter, our renewables production facilities reached a new quarterly record of 858,000 tons. Oil Products was able to clearly exceed to previous year's results and that is mainly driven by the improved refining markets.

Due to the changes in our crude oil supply and prevailing market volatility, we have discontinued splitting or total refining margin into reference margin and additional margin. The total refining margin was supported by exceptionally high product cracks, but on the other hand, burdens by high utility costs driven by very expensive natural gas and electricity.

Operationally, the quarter was quite smooth. On the sales side, we limited product exports and it built inventories to mitigate possible risks related to the war in Ukraine. Our Marketing & Services segments performed very well in the first quarter. We were able to increase our sales volumes and unit margins were supported by significant inventory gains driven by the surge in oil prices. Our strategy execution is successfully on track with the announced production joint venture with Marathon Petroleum in the United States as a prime example, and I will come back to that later in the presentation.

Our financial position remains solid. Since the beginning of the year, we have adjusted our ROACE calculation formula, and we excluded assets under construction from the average capital employed. This is seen to better reflect the underlying profitability of the company while we are implementing significant growth investments. With this adjusted formula, we reached an after-tax ROACE of 19.1% on a rolling 12-month basis. At the end of March, our leverage ratio was 12%. This solid financial position enables the implementation of our growth strategy going forward. And with these remarks, I'll hand over to Jyrki to discuss the financials in more detail.

Please, Jyrki.

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

Thank you, Peter. Really, if you look at the quarter 1, it was really conducted during very special circumstances since late February, the world truly changed and as the organization really managed the quarter in a very, very prudent manner. But let's look more closely on the quarter 1 financials. We delivered record-high quarterly revenues. In fact, it was the highest ever in a quarter, up another 10% versus quarter 1 2021. Of course, reasons behind being the fossil oil-related price increases across all the segments, oil products, also renewable and marketing and services. Like you see from the table, we are now focusing on comparable EBITDA.

So we do not present anymore the comparable operating profit as it used to be the key KPI. We basically posted the same comparable EBITDA as quarter 4, '21, EUR 578 million and some 30% higher than quarter 1 2021. We had a very strong renewable products, solid oil products and strong marketing and services and all again, enough difficult market circumstances since late February. Like Peter already mentioned, Renewable Products, they had an exceptionally high sales margin with solid 750-kiloton volumes. And what we witnessed is that the average sales price went up close to 25% compared to quarter 4, 2021. Oil Product total refining margin really was as quarter 4, 2021, with high utilization rate. And like mentioned already earlier, the usage of the Russian crude oil dropped to a level of 45%.

If we look for Marketing & Services, basically performance, they had a very strong quarter where, of course, the onetime inventory gains played a big role. The other segment, which is basically on a cost basis, they have larger activities relating to our growth strategy like innovation and IT and some other development projects. So something we have planned for 2022. I think the biggest, let's say, the negative figure in this material is the free cash flow. It was negative by EUR 960 million really reasons behind being the higher inventory

volumes, both product and also the feedstock of course, securing our feedstock for the coming quarters, but it's also preparing in the difficult market circumstances due to the war in Ukraine.

And if thinking about the RP, they will have basically turnarounds in quarter 3 and quarter 4, so we basically need the volumes to supply our customers with our products. If you think about the net working capital overall because that was the biggest contributor for the negative cash flow, it was EUR 1.3 billion higher compared to the year-end 2021, but roughly EUR 600 million came out of the inventory volumes, reasons being what I just mentioned concerning turnarounds and preparation really of this crisis that may last longer than we thought and EUR 900 million came from prices, both prices in inventories, but also prices in receivables.

So this is basically where the big change came in the working capital. Of course, payables increased then some EUR 200 million in the background as well. Our CapEx was relatively low in quarter 1. It's roughly EUR 200 million, but we have this big project going on like in Singapore for the rest of the year. And thinking about the comparable earnings that is based on certainly in the future also with our dividend policy, it was basically 50% higher than quarter 1, 2021.

So overall, strong quarter in a quarter where a lot of things happen in a geopolitical arena. If we look first, this, basically simple bridge from 2021, basically EUR 150 million improvement. There are basically 2 elements here. All the businesses, all the segment improved their performance, very clearly OP for example, 160%, marketing and service is 40% and RP 20%. So you can truly say that it has had a very strong performance in the background.

Okay. And then if we look a little bit close into basically a little bit more elements, what is behind this EUR 150 million improvement. You see that the volumes margins basically improved by EUR 130 million across the businesses. FX changes are starting to be positive for us. It used to be like last year, pretty much on a negative side. And then, of course, we had the items relating to the fixed cost. And it is like explained already earlier relating to renewable products. So preparing for the future, the fixed costs were higher by EUR 34 million, most of that in RFP.

So nothing special in that sense. I'm very pleased with the results in the circumstances that were unfortunately witnessed during the latter part of the quarter. So with these words, it's then Renewable Products and Matti Lehmus, please?

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

Thank you, Jyrki. Good afternoon also on my behalf.

And I would start by saying that in a very volatile market environment impacted clearly by the war in Ukraine, we are able to continue a really strong business performance in renewables with an EBITDA level of EUR 419 million, which is more than 20% over last year's first quarter's level. And really, the team did an excellent job, whether it's in sales, whether it's in supply whether it's in production to reach such result level.

The main driver was the outstanding sales margin, which increased by $107 per ton versus last year and also if I compare to the previous quarter versus $28 per ton. And behind this, there is a very good sales performance, but it's also good to note that the waste and residue markets increased with a time lag in late Q1, which enabled this exceptional level. The sales volume remained high at 747 kilotons, almost identical to a year ago and slightly under the previous quarter.

This reflects the continued healthy demand but also very good production performance with a record production of 858 kilotons. So if you compare production and sales volume, we were able to build some inventories also in anticipation of the planned turnarounds in the second half of the year. And then worth noting also that the North American sales share decreased slightly to a level of 32%, reflecting our geographic sales optimization.

And at the same time, you can see that our feedstock optimization continues. And again, we were able to increase the share of the waste and residues to a level of very high 95% which I'm very pleased with. So overall, very good quarter. Turning to the waterfall. Let's have a look at the comparison to last year's Q1, and as sales volume was almost stable, there are 3 items to highlight. The first one that is clearly visible is the sales margin improvement of more than $100 per ton, which had a EUR 61 million positive impact. But also worth noting,

like Jyrki mentioned that FX changes had a clearly positive impact of EUR 40 million as the euro-dollar rate moved from 121% in Q1 last year to EUR 1.12 million this year and all this before hedges.

And finally, our fixed costs increased by EUR 28 million year-on-year, reflecting again the fact that we have built up resources and capabilities in preparation for Singapore growth projects start-up and the expansion of our feedstock platform. Let me then turn briefly to the feedstock market. The Q1 feedstock markets were characterized by a significant increase of the average vegetable oil prices during the quarter. So for example, farm oil during the quarter increased its quarterly average by 18%. And like for petroleum products, the price increase for palm oil increased and accelerated in the second half of the quarter following the start of the Ukraine War.

Also, the waste and residue market strengthened, increasing on average around 10%. And it is good to note that this price increase was less deep than for vegetable oils. As most waste and residue markets followed the vegetable oil market price trend with a time lag. So for example, for animal fats, the average quarterly price increase was around 7%. Let me then turn briefly to the product markets and especially the U.S., where I have 2 highlights I would like to make. So first of all, the LCFS credit price decreased throughout the quarter and it averaged $139 per ton, which is down roughly 10% from the previous quarter. And the softening of the LCFS credit price was driven by supply-demand with supply growth outpacing the demand growth during the quarter.

At the same time, the RIN average values increased slightly to $1.52 a gallon, and the RIN values have also increased in recent weeks. Overall, the combination of higher feedstock costs and lower LCFS means that the U.S. margin environment was less strong than in the previous quarter. Let me finally make some comments on the sales margin, which was on an exceptional level of $806 per ton and representing an increase of $27 versus the very strong level in the previous quarter.

So on one hand, we had the feedstock prices continued their increasing trend with average feedstock prices increasing by a bit more than 10%. And at the same time, the waste and residue price increase was less pronounced than for, for example, petroleum products over choice. On the other hand, the margin was supported clearly by the increasing average sales price. Our sales performance was excellent. It included a successful sales mix optimization, but also the increasing of our sales premium. And this was one of the key drivers behind the sales margin increase versus the previous quarter and explains approximately 1/3 of the average selling price increase.

And even more significant driver was the increasing diesel price, and the overall impact of sales, premium and diesel price exceeded the feedstock price increase, which then enabled the margin increase. And as a final comment, our hedging again mitigated partially the feedstock price increase as we had quite a high hedging ratio in the first quarter.

At the same time, we're noting that the absolute hedging result was slightly lower than in the previous quarter. So finally, stating that our production had a very high utilization rate of 104%. It reflects the excellent reliability that we continue to have, and it did enable a production record as we did not have also any plant shutdowns. With these words, I hand it over to Marko to discuss the oil product results.

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

Thank you, Matti. Good afternoon, everybody. A quick update from Oil Products side.

We had a strong quarter amid a very turbulent market. The comparable EBITDA was EUR 137 million compared to EUR 52 million the year before. Sales volume was broadly unchanged at 2.6 million tons, while refining margin improved from USD 6.7 to USD 10.3 per barrel. The average overall share of the feed was still at 45% in Q1 2022 in average. This reflects the use of inventories acquired prior to the Ukrainian war. Ural sourcing was down by 2/3 in March and further down by 80% in April. Comparable RONA increased from minus 1.3% to 6% compared to the previous 12-month period.

Then if we turn to the waterfall. The main improvement here really is compared to the first quarter of 2021 is from a total refining margin. This contribution is EUR 65 million. The other drivers are broadly unchanged. And I would move over to the margin slide. The war in Ukraine has had a profound impact on the product and crude market. If we look at the product margin, we see diesel cracks reaching as high as USD 50 per barrel at the highest and gasoline cracks at USD 25 per barrel.

At the same time, Urals versus Brent differential has increased to more than USD 30 per barrel reflecting unwillingness of the usual customers to buy Russian crude oil. As a final slide, a few words on the refining margin. The total refining margin has been stable when compared to the previous 3 quarters at around USD 10 per barrel. The average refinery utilization rate was at a very good level of 92% compared to the 83% in the first quarter of 2021.

Refinery production costs were USD 7.5 per barrel compared to USD 5.6 per barrel the year before. The higher utility costs were the main contributor to this increase. With this update, I'll hand over to Panu to talk about the Marketing & Services.

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

Thank you, Markku. Hello to all. This is Panu Kopra speaking. Solid financial performance continued in Marketing & Services in Q1. Actually, EUR 32 million comparable EBITDA was best ever Q1. Both gasoline and diesel volumes were slightly better than last year. CT1 volumes increased a lot compared to previous year, but still approximately INR 40 less compared to 24 fund debt. Light fuel oil volumes were very healthy, and I'm also happy to tell that Neste volumes increased by INR 26 crores compared to last year, which is good achievement, taking into account record-high prices at pumps. Fixed costs were a bit higher than last year, but under control.

Main reasons for such good results their inventory profits and excellent pricing. Since war started and prices start rapid to increase.

We did a lot of work with pricing and focused for our pricing, not and only for the pumps, but also in B2B pricing. So, therefore, we were able to deliver healthy unit margins. We also launched new EV charging service with 1 of our B2B customers in order to expand our sustainable solution offering. And the first feedback from the customers have been very, very positive.

So we continue to improve our charging services also in the future. This was shortly about Q1 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. First, A few words on the progress made in our strategy during the first quarter. As announced in early March, we have agreed to form a renewables production joint venture with Marathon Petroleum in the United States. This will mark a major leap forward in Neste's renewables and growth strategy execution. Let's recap some highlights of the planned venture.

Marathon's refinery in Martinez in California will be converted to a renewable fuel production. Neste will obtain a 50% interest in the Martinez renewable fuels project with production operated by Marathon and Neste's investment will be approximately EUR 900 million. The production is to start in the second half of 2022 and is targeted to reach full production of 2.1 million tons by the end of 2023, and the production output will be split 50-50 between the partners.

Both Neste and Marathon will be responsible for raw material sourcing for the joint venture, and they will market and sell the products under their own brands independently. This transaction is subject to customary closing conditions and regulatory approvals, including obtaining the necessary environmental and other permits for the site. Combined with the Singapore expansion projects, we are set to come the only global renewable hydrocarbon producer with production in 3 continents with 5.5 million tons of capacity by the end of 2023.

The Singapore renewables capacity expansion project continues to be on schedule for start-up by the end of the first quarter, 2023. And as announced in February, the engineering phase of the possible next world scale of renewables facility in Rotterdam continues. And we are approaching the readiness, technical readiness of a final investment decision during the next months. And this decision, as I have alluded to before, will be made independently of the joint venture with Marathon Petroleum. And in the meantime, of course, we also are investigating the impact of the war in Ukraine on this project.

Let's have a look at the second quarter. What do we see? We see the following. In Renewable Products, the sales volumes are expected to be slightly higher than in the previous quarter. The waste and residue markets are anticipated to remain tight and following the oil product and renewable feedstock market price increases started in the latter part of the first quarter, the renewable sales margin is

expected to be within the range of $6.75 to $750 per ton.

Utilization rates of our renewable production facilities are forecasted to remain high. Oil Products market seemed to continue to be very volatile and impacted by the Ukraine war and possible further trade sanctions. The total refining margin is currently expected to be at a roughly similar level as in Q1. It's good to remember that the high natural gas price impact that impacts our production costs with one month delay, replacing natural gas with other fuels have been tested, and we are initially very positive about the results. Sales volumes are forecasted to increase slightly from the levels seen in the previous quarter.

And with the base oils business now sold, only the long-term offtake of Porvoo base oil production will contribute to the total refining margin going forward. In Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern and similar exceptional inventory gains as in Q1 were not expected, so negative impact on demand and sales volumes is still anticipated due to the COVID-19 pandemic.

We continue to execute our strategy and make investments in our business. Our cash-out capital expenditure is estimated to be approximately EUR 1.9 billion in 2022 and that is now including approximately EUR 800 million for the Marathon joint venture that is still subject to closing. Other possible M&A is excluded from this number. With the sale of our base oils business, we have now concluded an impressive portfolio change wave at Neste.

During the last 3.5 years, we sold our marketing and services business in Russia, we exited Nynas. We sold the nonstrategic business units at Neste Engineering Solutions and our base oil business, including our participation in the joint venture in Bahrain. We also consolidated the Oil Products business through a restructuring that included the discontinuation of oil-based refining in Naantali.

On the other side, we have concluded more than 20 acquisitions, including joint ventures and equity investments in startup companies. And these actions have aligned our activities to fit with our strategy to be a global leader in renewable and circular solutions. Today, more than 70% of our passionate employees and more than 70% of our investments are in the area of renewable and circular solutions. And the percentage continues to grow. As announced in February, we have a scheduled 6-week turnaround at the Singapore refinery in the third quarter and a 7-week turnaround at the Rotterdam refinery in the fourth quarter. The negative impact of the Singapore turnaround is expected currently to be approximately EUR 90 million, and the negative impact of the Rotterdam turnaround is approximately EUR 100 million on the segment's comparable EBITDA.

This concludes the presentation now, and we would now be happy to take your questions. Sharon, back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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

Peter, I wish you all the best in your new position, and I hope that you will be as successful as in your position at Neste. And thanks a lot for all the time spent with you, it was very interesting. I will ask 2 questions, please, on your guidance. First, the guidance on the oil production -- on the Oil Products division, sorry. So you are guiding on Q2 '22 realized refining margin, roughly in line with the first quarter, which was a $10, so I fully understand what you said. And there is a 1-month lag on the gas price you pay to run your refinery.

So what I did, I did something very simple. I looked at the average gas price from December 2021 to February 2022. And this is very close to the average gas price from March 2022 to April -- to today. So it seems that you will not pay significantly higher gas price in Q2 than in Q1. So under that context, how is it possible for you to guide for refining margin in line Q-on-Q, knowing that diesel crack margin is currently $30 per barrel above the first quarter and diesel represents 50% of your refinery output. So there is something that I am missing here. It seems to be something really big. So I want you to explain it to me, please.

And the second question is about your guidance on renewable product margin. So you used to beat the top range of your guidance by around $80 per ton during those last 2 quarters. So why should I think that you will not beat again your guidance in Q2 by another $80 per ton?

What's the big difference here. Besides, if I remember well, so we have long crude palm oil contract, even though you don't use that much of crude palm oil as a feedstock, only 5%. So is it fair to consider that the export ban and crude palm oil from Indonesia could allow you to realize very significant trading days?

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

Yes. And first of all, Mehdi, I mean, thank you very much for your kind comments. And then, of course, also your very good questions as usual. Let me give a little bit of high level reflections on what you said. And you base your assumptions, of course, on current assessment of Q1 and how we move in Q2. And we -- I don't believe that we disagree on that, both on the oil product sides. partly, I mean, on the renewable product side, but especially on the oil products side. It's clear that the quarter has started, I mean, very strong.

But we may not forget that we are in the middle of a big disruption in Europe with the war that is going on. So that is why we have decided to continue to be prudent in our guidance and not base the guidance upon a statistical correlation between what has happened in the previous quarters, whereas natural gas prices, but rather on a qualitative assessment on what eventually could come. The fact is, as said, the quarter has started, I mean, quite well. And happy to hear, I mean, further comments on this, I mean, from Markku.

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

So thank you, Peter. I think you said all the essentials, the quarter has started well. The cracks are high, both for diesel and gasoline, so in that sense, very good. However, the utility costs continue at a high level, and quite right, the trend hasn't been quite as explosive as it had been earlier. So it's rather rolling in at the same level from month to month. But when we look at the totality, we are still at the very high level.

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

Can you please tell us roughly, in April, so if I understand well, in April is the worst month for you because you are suffering from extremely high utility costs which are now coming down? What kind of realized margin did you get in April? Because all your peers are highlighting extremely extraordinarily high refining margin in April. So can you help us a little bit there? I understand your cautiousness, okay? And I think this is fair. But just for us to understand, in April, where you significantly above $10 per barrel refining margin?

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

I don't think we comment on the specific figures. I'd rather say repeat that we've seen a good April. We have a very little visibility for May and June. This will be the main reason for us to say of an expectation of the margin at the same level as we had in Q1.

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

But very clear, Mehdi, I mean, it is not the $10 per barrel that we are seeing in April. So yes, we don't give a specific, I mean, guidance and yet 1 month basis. But your assumption is right that in April, I mean, the reference margin as said, a very good start is much better than $10 per barrel.

If you go, I mean, to the sales margin, maybe on the renewable products, and then Matti will explain this as well. I think, first of all, it's not because in the last quarter, I mean, that we did have a very positive beat. Let's not forget that about $800 per ton. I have never seen, I mean, about $800 per ton and I know when I took over, we were talking about good margins, which were $400 per ton. So this is double than the $400 per ton.

So let's put everything, of course, also in the right equation and despite very high waste and residue costs that we are having, we are able to achieve, I mean, above $800 per ton in Q1. And this was not something that we could anticipate when we were giving the guidance on Q1.

But as you know, we have then changed our guidance during Q1. And as a consequence, consensus has substantially also moved up. I don't see that we would be able to beat, again, this guidance that we are now giving 675 million, I mean, to $750 by another $80 per ton, simply because of the fact that even if fossil-based diesel prices continue to be very strong. But on the other hand side, waste and residue differentials have moved up, as Matti said, towards the end of Q1. Whereas, we still have a strong hedging position in place. And yes, we are seeing that in the first months there is a 7 in front of it in terms of our sales margin, so we're not -- definitely not desperate. I mean, remember, these are very healthy margins that we talk about that.

But then on the other hand side, when we reflected just to bring a little bit of color around it, when we move them in from this qualitative guidance towards more quantitative guidance, we also said, look, we cannot guide, I mean, at the beginning of the quarter, on a level of accuracy with very dynamic markets, which is $50 per ton.

So we have said for ourselves at that time that we said, look, $75 per ton is the range that we are guiding towards, but as I said, I mean, we start -- I mean, the quarter with 7 in the first month, but we have the volatility, of course, I mean, in the next couple of months with a difficult visibility because of this work in addition to that. So $675, $750 is the guidance, but we start with a 7 in front of it. Matti, you want to add something?

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

No. Very well explained, Peter. Perhaps, I'll just briefly comment maybe on your additional question, which was around this impact of the Indonesian ban. And as reminding indeed, like you say, our feedstock is mainly waste and residue. It was 95% waste and residue in the first quarter. So from that aspect, we don't see perhaps that much direct impact. What is on the question around the hedging?

This is actually not related. The way we hedge is that we are basically trying to hedge with an instrument, which is typically palm oil gas oil price differential, a proxy hedge of what our feedstocks and the end product prices would be. So in a way, there is no direct link to this Indonesian ban. It's more noting what Peter also said that we continue to have a relatively high hedging ratio also in the second quarter.

Operator

Your next question comes from the line of Joshua Stone from Barclays.

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

I'd also say thanks to you, Peter, the discussions over the years, and I wanted to also just share my best of luck for your new job. And also to you Matti, congratulations on your new role and upcoming leadership at Neste. So a couple of questions, please, on renewables. Firstly, there has been a number of countries in Europe that have been revising their bias your mandates of late in response to high prices. I was wondering if you could just share your latest thoughts on that. To what extent could that be driving some of the caution you're talking about in your margin guidance and in particular, on ask about Finland because you clear that your home market with a sizable cut in the mandate there.

So how are you going to respond to that? Where will those volumes go? And does it impact your sort of investments you're thinking about all do there? And then my second question on the feedstock environment. We're hearing liquidity is simply drying up at the moment because the markets become say, binary around export bans, mandate cuts. So to what extent are you seeing the same thing? Does that -- has that affected your ability to procure feedstock in any way or even your ability to hedge? So I'll leave it there.

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

Let me go into the first one. On the biofuel mandates, you're right, Josh. I mean here and there, there has been some changes on the mandates that have a short-term impact in our view. We don't see immediately. I mean that the impact will come in Q2. Let me remember you that we are not just dependent on 1 or 4 different countries in terms of our sales. We have expanded that substantially during the last 3.5 years. And therefore, this, let's say, for us, relatively small impact in terms of demand reduction in Finland for volumes, we can easily move these volumes, I mean, into other markets.

On the mid- to long term, we don't see any influence on this whatsoever. On the contrary, energy independency and therefore, also more discussions around higher greenhouse gas emission reductions, higher independency from crude oil coming, I mean, from Russia, all

places, let's say, in the discussions that are currently taking place in Brussels with the council as well as with the members of parliament. Matti, anything you want to add to that as well as the second question on the feedstock liquidity?

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

No. Thanks, Peter. And on the first one, I would just emphasize what you said. The important thing is, of course, the long-term predictability and that commitment to that high ambition longer term continues to be there. So that is, of course, very important. On the feedstock type next question, how I would comment is, yes, like we have said in previous quarters, we have continued to see a strong and in a way, a tight feedstock market. From my perspective, it looks like more than this is driven by robust demand. When we look at the supply side, there are, of course, like always, specific regional impacts, you may, for example, at the moment, have the Chinese situation on COVID impacting local UCO availability. But in the big scheme of things, we have continued to see availability of feedstocks being good for us. And it is more driven by the robust demand that has been there also for the previous quarters.

Operator

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

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

So I would like to congratulate you on strong Q1 results with a couple of records being done once again. And a couple of questions from my side. So first one comes to FID related to Rotterdam and the delay on that side. Could you maybe provide some further granularity? Was it more above of the CapEx levels, what you have to investigate in this kind of inflationary environment? Or is it basically some sort of say, energy cost-related topics and so on. So maybe a question on that side. And the other one is related to fixed cost outlook for '22?

So in the past quarter, you have stated that those will be increasing by EUR 140 million. Is there any impact or basically if there is a pressure due to the fact that you are basically doing Marathon joint venture? So 2 questions.

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

Yes. On the FID, I mean, Rotterdam, strategically, nothing has changed. Let me be very clear on that. And we -- I alluded to in my comments, this is a decision which is independent of our Marathon joint venture decision in the United States. The growth that we are seeing has not changed. If it is in sustainable aviation fuel, it is in renewable polymers and chemicals or also if it is in renewable diesel, I mean, for road transportation and the whole discussion is around Fit for 55, RAD 3, the refuel aviation and so on and so on. Plus in addition to that, also a market that is starting to develop in Asia Pacific in certain countries is all supporting that. So we have never said what months the decision would be taken.

We've always said, I mean, it is readiness in the next couple of months. So we are currently continuing to say readiness in the next couple of months, technical readiness, but we highlighted also that we are, of course, also looking at what are potential implications because of this war to the projects to how we set up the projects, how we follow a procurement strategy, there are different aspects as this is a highly complex matter that we need to take into consideration to eventually come to the conclusion that what we had as a base case is unchanged or maybe we make a couple of changes here and there in how we are setting such a project up.

But since I will be gone when the final investment decision will be ready to be taken, then I would give that question to the future CEO of Neste, Matti?

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

No, thanks, Peter. And just adding to the comments you made, indeed, these 2 different things. So first of all, yes, we are approaching technical readiness for the investment decision and this goes to your question that is what we are doing at the moment, finalizing the engineering, looking at the project market, equipment market, materials market, that is a very important part of the analysis.

However, I think what is important is also the note that we said that the time line for the decision-making will also take into account the current geopolitical situation. And what that means is that there is, of course, we are also very closely following up this geopolitical situation, the possible impacts on overall economy, on the business environment. And of course, the time line to make decisions of the project is then -- may well be impacted by this geopolitical uncertainty.

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

Second question on the fixed cost outlook. I mean we are not changing that EUR 140 million number. Remember, I mean, the original EUR 140 million number guidance that we gave was on the basis of not yet having decided the joint venture with Marathon Petroleum. But we managed a bit our fixed costs, I mean, during Q1, so the increase in fixed costs was relatively limited in Q1, and therefore, we keep the guidance of the EUR 140 million for the full year basis. But of course, what is not included in that or the production fixed costs because that will depend on the timing of the startup of the production with -- in the joint venture with Marathon.

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

Okay. Great. Thank you. And Peter and Jyrki. Thank you for also operation for the past years, and wish you all the best.

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

Thank you, Artem.

Operator

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

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

A couple of questions. First one on the Renewable Products side of the business, I was wondering whether you've been able to hedge some of your exposure in the second half of the year. What sort of level compared to the first half? And then secondly, on the refining business, can you give us some sort of potential financial impact of replacing natural gas in refining?

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

Okay. Let's go to Matti for the first one.

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

Yes. Thank you, Henri. So indeed, like we commented in the first quarter, our hedging ratio has been high. It has been over 60% of total sales. Also in the second quarter, it continues to be relatively high, a bit lower, I think, around 50%. In the second half of the year, it's still lower. Overall, I think for the year, we are looking at something like 40% on average.

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

Okay. And the second question on refining.

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

Yes. Well, thank you for the question. So as we've said, we are testing the use of propane in our system to replace natural gas in production of hydrogen. And if this is successful in the operating environment in its full force, it will substantially reduce our natural gas demand. This is done primarily to prepare for possible supply disruptions. But in the current pricing environment, it will also have a positive margin impact from Q2 onwards. I would not, at this stage, put a figure on it, but there is a positive delta between propane natural gas.

Operator

Your next question comes from the line of Anish Kapadia from Palissy Advisors.

Anish Kapadia ***Palissy Advisors Limited - Director & Head of Energy***

I had a couple of questions about the renewable diesel business. First of all, just looking at the market, there's a large amount of new renewable diesel and sustainable aviation fuel capacity planned. I was wondering if you can explain how you see Neste's competitive advantage versus peers, kind of also in the light of you being happy to acquire a stake in Martinez that doesn't have your own specific technology. So we're looking to see the risk of commoditization of the renewable diesel business and the squeezing of future margins.

And then kind of second question is somewhat related to that. Neste's current valuation implies a very high EV per ton of renewable diesel capacity, significantly higher where new build and replacement cost is. So I was just wondering if you could explain the rationale for this. And if that continues, would you be looking to make more acquisitions around new build costs similar to Martinez?

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

Yes. I mean as -- I would say the inventor of renewable diesel and the player in the market that has developed this market. We, of course, have a closeliness to our customers, a huge amount of different customers, different business models that we have implemented. So not just are we selling in 1 country to mandated parties, for example, we are also selling directly at the firm. We're selling in B2B. We're having circularity models with McDonald's and others in place, but in addition to that, we also have a leading access to waste or residues.

We are collecting through quite some acquisitions that we did in a short period of time. We're collecting used cooking oil, for example, in the United States of about 50,000 restaurants. These are things whereby we are, of course, are also providing quite a lot of services to those restaurants. So it's not easy on me to replace such an enormous network that we have built up over the years. But it's not just limited to the United States. It's also in Europe, in animal fats. It's in China, in Australia, and so on and so on. So I have more than 30 years, I mean, in the chemical industry and do not believe everything that you see that is being announced either will not be financed and we will not see the construction or it will not be at the same time as it has been announced or it will not be in the size as it has been announced. And we have seen a lot of these announcements already disappearing or being pushed out as well.

The other point I would like to make is what I said also in my comments, we are the only global producer in this field. And that gives us, of course, quite a lot of optionality, things that we have demonstrated even if there was more capacity that came onstream last year. The third point I would like to make is, we are not just in renewable diesel. We currently are the leader in sustainable aviation fuel. And we are in more than 20 different airlines. We are in more than 20 different airports as well and we continue to expand our access so that we have different business models, including also into plain supply of sustainable aviation fuel across the globe.

And of course, with our facility that we have in Singapore we are ideally placed to capture the growth in Asia Pacific as well. And then on Renewable Polymers & Chemicals, if you look at our Capital Markets Day's presentations, what is our value proposition there. It's on one hand side, the renewable hydrocarbon that we already have in place with important partners that are leading companies in polymers and chemicals across the globe. But in addition to that, also, we are one of the leaders in terms of chemical recycling.

So taking that waste and residue that comes out of waste plastic and then recycle that take the carbon out of it to make a new hydrocarbon that is a drop-in solution in a steam cracker. So there are lots of fields that we are working on is my message with an important access to customers in different companies and different regions, plus also the upstream integration into the Western residue. When we are looking at supply and demand, then we do not see over the next visible period that you have, which is normally around 5 years in this type of an industry that there is a disruption in supply and demand. Why? It is because the demand is growing, I mean, substantially and a big part is that because of the regulation. So I would leave it there.

Of course, I could go on, I mean, for an hour in the Capital Markets Day presentation type of approach, but we do believe we're very well positioned in this market. And if there would be more competition in a particular region, then, of course, we have the flexibility then as we have done in the past as well to shift to other markets or to other applications.

Operator

Your next question comes from the line of Erwan Kerouredan from RBC.

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

I've got a follow-up on the renewable product sales margin. Last quarter, you mentioned that the average selling price was up $150 per ton quarter-on-quarter with underlying diesel driving roughly 50% of that increase. The question I have is, did we experience similar contribution in the first quarter? And I guess looking ahead, can you just clarify the linkage between the underlying diesel price and the ASP in European contracts? So this is my first question. And then the second question is just the tiny detail. Peter, you mentioned 50,000 restaurants in the U.S. when it comes to UCO collection, I think you remember 40,000, it is -- has it been growing over time, or is it resulting from like further like minor acquisitions that you made or organic growth at Mahone or just, I don't know, an updated number?

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

Yes, Erwan, good questions. Thank you for that. I mean on the first question, on the term deals that we are having in the majority of the deals, we have an underlying fossil-based diesel, so we are fixing the price premiums in the negotiations with our strategic customers. For this year, we have about 75% of the planned volumes that were in term deals. So you can almost assume that on the 75%, practically everything has an underlying component, which is fossil-based diesel.

And Matti alluded to that, I mean, in Q1, about 1/3 was because of the higher price premiums and about 2/3 was because of the higher fossil diesel. On the second question, yes, I did not make a mistake when I was talking about 50,000 restaurants. This has, I mean, to do with the fact that we have continued to expand our Mahoney platform. Remember, when we did a first step and bought Mahoney, we said it is a platform.

So since then, we have added quite a lot of bolt-ons to the platform through acquisitions. And in addition to that, we have been able also to grow organically. So remember, in my opening comments, I said we have more than 20 acquisitions that we did during the last 2 years. So if you just look at the big ones that we have announced, you will not come up to more than 20%, which means that we have done quite a lot of other stuff, which is smaller and therefore, more in the bolt-on box.

Operator

Your next question comes from the line of Matthew Blair from TPH.

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

I just have one, it's on the upcoming Canadian CFS regulations that should start-up in December 2022. And I'd like to get your opinion on how significant you think this will be, on one hand, the Canadian diesel market is twice as big as California and using the California LCFS program raised RD blend rates up to 25%.

On the other hand, there's been some commentary from the Canadian regulatory officials saying that not all companies will be required to comply right away and that the program probably won't even reach a deficit until 2027. So I just like to get your opinion on how significant this will be?

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

Yes. I mean if you look at it over the mid- to long term, so 5- to 10-years's time frame, it's like you said, I mean, Canadian market is quite big. So the opportunity value is extremely high. We're talking about the demand of multiple millions of tons. If you talk about it, I mean, on the next couple of years, then we're going to have to see, I mean, how it is going to be implemented. But it could be easily, let's say, market demand, which is adding to the total global demand of about 1 million tons. But again, it will depend a bit on how it will be fees in and how then it will be enforced by the authorities. But generally spoken, this is one of the markets that we, of course, also have on our list as a potential important market.

Operator

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

Sasikanth Chilukuru ***Morgan Stanely, Research Divison - Equity Analyst***

I had 2, please. The first one, I was just wondering if you could comment on the -- on your expectations for the LCFS credit prices. It was mentioned during the call earlier that the softening was due to the supply-demand dynamics. Do you expect the trend of decline in LCFS prices to continue over the remaining part of the year? Or was there anything specific one-off that impacted the prices in 1Q? The second question was related to -- I was wondering if you saw any potential risk to operations, even temporarily for the Porvoo refineries if there was indeed a disruption of gas supply to Finland from Russia. You've talked about testing the use of propane as the alternative. How quickly can this be put in place in order to minimize the risk of any disruptions?

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

That's the first question is, go to Matti on the LCFS expectations.

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

Yes. And perhaps in a way, the general commented on it also in earlier quarters. What we, of course, keep monitoring is this general supply and demand. And if you, for example, look during the whole year of 2021, how this credit balance and credit bank in a way has developed, and we could see that during 2021, it started from a quite high deficit, but there have been some build. So that's quite natural in a way that we have seen the LCFS credit price reflect that development. Going forward, it will obviously like always depend on one hand, fuel demand development.

We have the positive thing underlying that the carbon intensity target is increasing every year, which increases the needs for the credits. But ultimately, of course, there is also new supply of both renewable fuels or it could be renewable electricity, et cetera. We don't actually have a view, which would be somehow different from what the market reflects. I mean that, of course, reflects the current understanding of all these different drivers for the short term.

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

Then the second question is for you, Markku.

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

Yes. Thank you. On the natural gas and the replacement of it, propane. So our intention is to be able to do the shift from natural gas to propane without a major impact on the operations in Porvoo. That's clearly the goal. And as Peter said, the first indications of our test runs are positive. So I have no reason to believe that we wouldn't be able to do that.

Operator

Your next question comes from the line of Matt Lofting from JPMorgan.

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

Two, if I could, please. First, on the feedstock side of the equation, I think you talked earlier about tight markets, but availability within the tight market still being good. Within that, clearly, the waste and residue component move to the sort of the top end of the historical range in Q1, 95%.

Can you talk about that a bit more in terms of the extent to which that's an active shift in the context of higher absolute pricing through the vegetable oil complex and the extent to which we should expect to see that continue to trend higher towards 100% as we look forward? And then secondly, I think you talked earlier around supply/demand and particularly the sort of the supply side of the equation. But could you expand a bit on demand, sort of the strength of market demand you're seeing for renewable diesel through the course of the last sort of 3, 6 months and your thoughts on the sort of demand setup as we look forward?

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

Yes. Thanks, Matt. Very good questions as well. On the -- there are different aspects, I mean, to your first question. On the feedstock availability and accessibility just like during the pandemic, when restaurants were closed down and so on, due to the fact that we have the extremely broad network now from collection aggregation in the waste and residues and the different types of waste and residues that we are collecting.

We don't see for our company, difficulties with the availability and the accessibility. The second point on the crude palm oil sustainably sourced phase-out. This has been a strategy that we have discussed in the Executive Committee with a clear commitment from the entire executive committee that we want to go to 0%. So we are now at a bit less than 5% of the total equation.

And we've said latest 2023, but we are doing, I mean, the fast as we can. And if I look at -- Matti was a very important member because it's in his area and the executive committee that strategy is not changing. Next, Matti?

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

No, this is clear. We have, for a long time, focused on waste and residues, and we have that commitment to phase out palm oil by the end '23. Of course, next year, then with the start-up of our partnership in the U.S., there, we will then also need to develop the feedstock base given, let's say, also the technical development of that facility.

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

Yes. Yes. But of course, very clear in the U.S., I mean in the joint venture. We're not talking about crude palm oil here, but then we're talking eventually about starting up with soybean oil and technical corn oil. In terms of market demand, and I would expand it a little bit your question, Matt, from renewable diesel also to SaaS and renewable hydrocarbons for polymers and chemicals.

We see very strong demand. You saw, I mean, the numbers in Q1. Of course, we are preparing a little bit because we have these important shutdowns in the remainder of the year, Q3 and Q4, as we guided to words as well.

So, therefore, we are very happy that we reached another production output record in Q1. We also said in Q2, and that is also an indication of very good demand that we expect that the volumes will be higher than in Q1. And this is in all the areas. I mean it's in renewable diesel. It's in sustainable aviation fuel. And as said, I mean, it's also in polymers and chemicals. There are renewable hydrocarbons where we see more and more actions even if that market is not regulated yet coming from the brand owners as well as coming from the big players, producers of polymers and chemicals in the world. And I also highlighted, I mean, in terms of market demand that keep on repeating that Asia Pacific continues to develop very well. So as a consequence, it means that the original concept of deciding on the investment in Singapore in December 2018.

Remember, the concept was that we would export to the West Coast of North America. Well, of course, it's clear from our -- what we said in the joint venture with Marathon Petroleum is that -- part of the new capacity that we are building up in Singapore, we will need for our customers in the 3 market applications in Asia Pacific.

Operator

We will now take our next question from Kate O'Sullivan from Citi.

Katherine O'Sullivan ***Citigroup Inc., Research Division - Analyst***

So firstly, on renewable products, going back to the weakening credit price environment that we're seeing in the U.S. How much more flexibility do you have to move more volumes into Europe through the end of the year and we were at 68% in the first quarter. And then if credit prices continued to weaken into early 2023, would you reassess the portion of term sales you allocate to the U.S.? And I'll come back on the second question.

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

Okay. Matti?

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

Yes. Thanks for the question. Like we have communicated, it is very typical for us that when we look at our annual sales plan, we do significant share of term sales. We have also communicated this year that share of term sales is around 75%. And that means that only some part of the volume is flexible to be shifted. And in that sense, I don't have an exact number. I mean, it's -- you can see from the earlier quarters also where that range has been. So that is the type of flexibility that we have.

Katherine O'Sullivan ***Citigroup Inc., Research Division - Analyst***

Okay. And then going into next year, just if there was a continued weakening environment in the U.S., would that kind of change your thinking on how much you allocate into that market?

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

Well, we have always, I mean, said that our model that we are running is a very flexible one, leveraging upon the optionality that we have and then shifting volumes to where we believe we have the better sustainable value. Does that mean that just like in the past, that we are

completely exiting certain markets because the value is too low compared to some others, while I don't believe that, that would be sensible because we also have strategic interest in those markets as well.

So you saw, I mean, in the last couple of years where we then moved, I mean, more to the United States because, of course, we had very, very good margins. And then we did less in Central Europe. But then again, we have quarters where we then said, okay, we have better margins in Central Europe, so we shifted then more to Central Europe. But we are a global player. So we never exit the market and then come back into a market because as I have alluded to also in the past, this is a specialty type markets it's the service that we are bringing, I mean, also to our customers. This is not a commoditized market.

Katherine O'Sullivan ***Citigroup Inc., Research Division - Analyst***

Great. And then just on feedstock supply. So you've got -- by the end of next year, you expected 5.5 million tons per annum I was just wondering what proportion is covered by your existing feedstock platform across Demeter arbitrating Mahoney? Or is there any need for additional bolt-on acquisitions to get to that volume coverage? And if you could provide any color on the proportion of feedstock for seeing by region?

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

Yes. I mean, first of all, the conceptual strategic aspect of that is that we always want to have more access to feedstock than we have own needs. So this is currently already the situation that we have. And we're currently not using all the feedstocks, for example, that we are collecting in the United States through our platform. So we are also trading some feedstocks in the marketplace and supplying them to other players in the market.

So we always -- every time we are looking at the feedstock and our growth platform that we have in terms of capacity, new builds, I mean, for the renewable products. we always reflect upon the fact, do we have an accessibility, I mean, to the feedstocks. And that's why we're building up that entire network on a global basis. So that is something that's set, I mean, in the strategy when Matti has been core in that because he had the responsibility both on the production capacity increase as well as on the feedstock buying and trading as well as, of course, also on the expansion of the feedstock platform on a global basis. So we have been very core of that and we'll continue to drive that forward.

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

And if I just add a short comment on your regional question, I would comment that all the main regions are important for us because we have indeed built over the last years a big global platform and whether it's Asia Pacific, whether it's Europe, whether it's the Americas, all of these actually have a significant role in our feedstock sourcing. And like Peter commented, we have important strategic supplier partners in all these regions.

Operator

Your next question comes from the line of Raphaël DuBois from Societe Generale.

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

Two, please. The first one is on hedging. You said that in Q2, you will be still very much hedged probably like in Q1. Can you maybe say a bit more about how it looks like for H2? And still on hedging, considering that you will quit palm oil purchases from the end of 2023. Does it imply that you are going to change the way you hedge? It will be great if you could tell us a bit more about that.

And finally, with regard to the ramp-up of the facility in California, could you please just reiterate how quick will the ramp-up be and the positive or negative effect it will have on your average sales margins as the rent-up occurs?

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

If I take your first question, the first question, at least around the hedging. Then Q2 hedging ratio is expected to be approximately at, say, the same level as in Q1. On the second half of the year, it's as usual, at this point in time, it's always a bit lower. So Matti, if you want to put a percentage on it?

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

Yes, I actually referred to one of my early answer. It was around 60% in the first quarter, a bit lower second quarter, but high around 50%. The balance of the year, if you look at it now is somewhere around 40% as indeed, the second half is lower rate of total sales.

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

Exactly.

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

And perhaps I can comment briefly on the other question. The way we are building our hedging strategy is that we are using in the palm oil, gas oil typically as instruments to be a proxy hedge for the different feedstocks we are using.

So it's actually -- we don't directly see a link to the share of palm oil we are using because it's a proxy hedge also for the other feedstocks. Of course, we're continuously developing our hedging strategy and also especially in -- depending on the region, we are into using the type of instruments that we feel have the best hedging capability.

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

And on the U.S. facility, please?

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

Yes. On the U.S. facility, I mean, the time line that we have. I mean, currently, we are seeing that there is very good progress that is being made by our partner that is in charge, of course, of the environmental permitting and so on because they are, of course, in California, they have the experience there.

So that's why we said -- I mean, we expect -- I mean, that this is -- now we are on target. We expect in the next couple of months that we will be able to close that -- once the environmental permits have been granted, it's normal that you then immediately start building. So we expect that, that will happen then as well. And that would then lead them into first volumes, Matti?

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

The target is that the startup could occur by the end of this year or the Phase I, which was 750 kilotons full capacity. And at the same time, like Peter said, that depends then on the timing of the closing of the permits, et cetera. But that is still the target.

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

Yes. So again, that capacity you need to take for us and Neste 50% of it. So the $375 million that we have alluded to before is over part of the first step of the investment.

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

Excellent. And on the impact on margins, please?

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

Well, the impact on margins will be dependent on the conditions of the market at that point when we are starting up. Yes, so...

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

But everything else equal, can you at least say if it's positive or negative? If it was to start today?

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

Well, or you're talking about the absolute margins, then definitely it is possible -- it is positive. If you're talking about the average sales margin, dollar per ton then of course, it is clear that if we produce and sell in the local markets, then you need to take the margins that can be made in that local market and then calculates in your business model, yes, with the volumes that we would then have. And as such then you can calculate what the impact would be on the average sales margin.

But it's very clear that we would -- if you look at it, I mean, from a joint venture point of view that the volumes in that joint venture, we would then sell in the local markets. Of course, this would enable us coming back to the comments I made before, that we have done volumes in Singapore that we can then sell in other markets and hopefully also had very good margins.

Operator

(Operator Instructions)

There are currently no further questions. Sir, I will hand the call back to you.

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

Yes. Thank you very much, Sharon, and thank you, everybody, for, as usual, very good questions and very active participation. And you alluded already, I mean, during the call, but let me repeat it. As you know, I will hand over my responsibilities as President and CEO of Neste Corporation to Matti Lehmus, and that will be now on Sunday on May 1, 2022.

I would like to conclude by saying that I feel grateful for having had the opportunity to lead such an amazing company for close to 4 years. I would also like to thank our amazing passionate leadership and the employees for their drive and focus. I also thank you, our analysts and investors for your trust in me, in Jyrki, in our executive team and in our employees. And without your trust and continued support, Neste would not be the same success for Front Runner and company.

I wish the best of success to Matti Lehmus as the new President and CEO; and Martti Ala-Härkönen, the new CFO. They will be supported by an outstanding leadership team and the whole Neste organization. The company is in great hands with this outstanding team and our strategy remains valid with full board supports. Neste's transformation story will continue. Thank you very much, and I wish you all that you stay safe in this environment and as well healthy. So thanks a lot.

Yes. Jyrki?

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

Yes. Also from my side, as this is my last working day in Neste and also the last quarterly report. I want to thank all of you for your continuous support of Neste. Many of you have been with me during this 9 years of journey in Neste and it has been really a pleasure working with you.

And as I said in Capital Markets Day 2015, don't stop believing and that is exactly what you have done. So I wish all of you nice weekend and the continuous support on Neste's future as well. So thank you all. And Martti Ala-Härkönen will then start as my successor 1st of May, and certainly, I wish all the best to Martti and end-up good discussion with you going forward. So thank you all.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.