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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Second Quarter 2019 Neste Corporation Earnings Conference Call. (Operator Instructions) I must also advise you meeting is being recorded today on Thursday, 25th of July 2019.

And I would now like to hand the meeting over to your host, Mr. Juha-Pekka Kekäläinen. Please go ahead, sir.

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

Thank you, and good afternoon, ladies and gentlemen, and welcome to this conference call to discuss Neste's second quarter results published this morning. I am Juha-Pekka Kekäläinen, Head of Neste IR; and with me here are President and CEO, Peter Vanacker; CFO, Jyrki Mäki-Kala, and the Business Unit Heads, Matti Lehmus of Renewables Platform; Marko Pekkola of Oil Products; and Panu Kpora 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 CEO, Peter Vanacker, to start with the presentation. Peter, please go ahead.

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

Thanks, JP, and thanks, everybody, for joining the call. Good afternoon to all of you, also on my behalf. And we are very pleased to present to you our strong performance in the second quarter and to discuss the way forward. So let's now skip Slides 2 and 3 and go immediately into Slide 4, quarter in brief.

Neste's strong result was supported by a record high sales in Renewable Products, and I would like to underline that, record high sales that we had in Renewable Products. We made a solid comparable EBIT of EUR 376 million (sic) [EUR 367 million], which is 32% higher than the corresponding quarter in 2018. Renewable product sales grew by over 25% from the second quarter last year, and we achieved 745,000 tons that we were able to sell in the markets. This is a new quarterly record, as I indicated already. And it was supported by a very good operational performance at the refineries, which were running at an average of 105% utilization rate. We can now -- with confidence, we can now say that our Renewable Products nameplate capacity has increased further. Remember, last year, we had 2.7 million tons, then we increased to 2.9 million tons, and now we can say that we have a nameplate capacity of 3 million tons moving forward.

Our sales margin was higher than in the second quarter 2018, but it was impacted by higher feedstock costs compared to the first quarter of this year. We successfully used the higher capacity to start entering into new geographic markets, which also had an impact on the sales margin compared to last quarter. The changes implemented in the timing between the California low-carbon fuel standard credit generation and sales had a negative impact of EUR 5 million on the comparable EBIT compared to Q1.

Oil Products result was impacted by a less supportive refining margin environments, and that was driven by a relatively weak product markets and a narrow Urals-Brent differential. Our additional margin averaged at $3.40 per barrel, based on the updated reference margin formula. The additional margin was burdened by the narrow Urals-Brent differential, currency, hedging results and higher utility costs. The base oils margins were also lower than in the second quarter than of 2018.

The Marketing & Services segment improved its unit margins and had the best second quarter results ever. As you know, we at Neste are highly committed to safety. And I'm pleased to note that our performance improved in both occupational safety and process safety in the second quarter. The improvement actions defined during the first quarter with a special focus on contractor management have been actively implemented. We're making very good progress in our strategy implementation, and I will come back to this at the end of the presentation.

Let's have a look at Slide #5, our financial targets. The solid financial performance is also visible in these targets. We reached a return on average capital employed of 21.1%, clearly exceeding the 15% target, and our leverage ratio was at 5.7% at the end of the second quarter. As stated before, the strong financial position enables implementation of our growth strategy going forward, while maintaining a healthy dividend distribution.

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

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

Yes. Thanks, Peter. Let's go to the opening slide with the group financials. It is like mentioned, Neste delivered a strong quarter, another one. If you think about comparing figures to quarter 2, 2018, we improved by 32%. With this 2 quarter, and if you think about the year-to-date and taking out the Blender's Tax credit, what we received early part of 2018, the improvement was close to 40%. So quite a steady strong quarter behind us. If you think about what has kind of the summary, meaning, what are the main reasons for the strong performance, it was certainly the sales volumes, both in RP and also in OP in quarter 2, but also the refineries, they really run with good utilization rates. So operationally, it was a great quarter.

But if we go to the next slide, where we have enough figures to basically describe little bit what's behind this. If you think about the first quarter items, the first 2 columns, with EUR 4 billion revenues, we made this EUR 367 million comparable EBIT. And like I mentioned earlier, the improvement compared to last year, it was 32%. If you think about Renewable Products EUR 286 million last year -- sorry, this year and last year, EUR 177 million. So the improvement is a massive 62%, really driven like I earlier mentioned already with the high volumes, both in sales and also in production, and also the improved sales margin by 12% compared to last year's quarter 2. Oil Products, that were really colored by significantly vehicle market conditions, slightly lower reference margin, as an example, and also the narrow Urals-Brent differential that was in place 2019 second quarter. But again, the higher sales volumes and also our internal actions made the result that was only EUR 9 million lower compared to last year's quarter 2. Marketing & Services really post the strongest ever quarter 2 result coming out of the unit margins, and this 25% improvement versus last year's quarter 2 is really a great achievement.

Cash flow under EUR 132 million in quarter 2, it was more or less the same as last year. But if you look at year-to-date figures, the first half of the year, there you'll see that we are further behind 2018. But that is mainly due to the fact that we had really, really heavy sales activities in quarter 2, meaning our trade receivables went up, but it's also a matter of preparation for the upcoming turnaround. So our net working capital was some EUR 200 million higher at the end of quarter 2 this year compared to last year. But very clearly, the reasons behind to be maintained basically during the second half of the year. And again, comparable earnings per share, big improvement compared to last year, both in quarterly figures and also the half year figures.

And then if we move to the next page where we have the first breach, telling the story compared to last year's quarter 2, where this EUR

90 million improvement came from, it's certainly renewables led the way together with Marketing & Services, improved this EUR 114 million as a total and then OP, weaker markets basically made the EUR 9 million less profit. And then in the EUR 15 million, the others, I think that maybe needs a bit more explanation. Our joint venture, or let's say, minority-owned company in Nynas -- in Sweden Nynas, they made roughly EUR 8 million lower net profit this year compared to last year with the known reasons. And of course, our activities and our strategy implementation adding some fixed costs, and that is basically minus EUR 15 million compared to 2018 second quarter.

But if we then look the same material, the next page, in a little bit different kind of elements, going a little bit deeper with the business issues that will be further described by our BU Heads, higher sales volumes, very clearly the #1 game in this quarter. RP and OP creating nearly EUR 100 million more profit, coming out of sales volumes, and it was really both RP and OP. Certainly, RP the major part, EUR 79 million and the rest, EUR 19 million coming from Oil Products. Really good, solid performance, thinking about the operations. And then the sales margin has a combination of both elements, positive and negative, as Renewable Products made a better margin, roughly EUR 32 million improvement and then OP coming out of the lower reference margin and coming also with the low additional margin made the minus EUR 41 million. So the combination was then this -- that is in the material, minus EUR 9 million. But really, volumes and margin, it was plus EUR 90 million as a total. FX was in this quarter positive, roughly EUR 30 million, and then followed by the fixed cost, basically that was higher. We are focusing on delivering our new strategies. So we are adding some fixed costs into our P&L. And then the others, that is mainly depreciation. We have invested a lot during the last 2 years, so the depreciations are going higher. And that's basically how we then landed to this EUR 367 million.

And then very briefly look just half a year as well. The story is pretty much the same. Now the figures are slightly bigger ones. The volumes, if you think about renewable volume growth impact on EBIT, EUR 166 million. It was more or less -- it compensated the BTC that was last year EUR 140 million, and it was still positive. And then thinking about how the renewable sales margin improved year-on-year, the first half a year. So it was EUR 113 million improvement the first half a year this year compared to last year. [It has to be] the margin. And then unfortunately, OP margins were significantly lower this year compared to last year. There, we ended to this EUR 49 million improvement. FX change is mainly U.S. dollar. That's a big one this year, but you have seen the development of U.S. dollar versus euro. And then perhaps the big one is there at the end is this others. That is like now the combination of the others, talking about Nynas and the corporate cost, but also the depreciations in the background and that is basically the change between these 2 quarters or 2 half a years, minus EUR 72 million.

So overall, there's a lot of different kind of activities comparing 2018 and 2019, but operationally, volumes, margins were very strong, supported by the U.S. dollar, they are in the background, and that's how the first half of year, EUR 746 million, comparable EBIT then ended.

So now I will leave the word now to Matti Lehmus to describe the excellent performance of Renewable Products.

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

Thank you, Jyrki, and good afternoon to everybody. I will start with the general comment that I'm very pleased with the strong second quarter in Renewable Products. The team really did great work. And like it has been mentioned, both sales and production were record high, and also the renewable diesel market continued to be really supportive with a good demand.

If you look at the quarter as a whole, a couple of highlights. The EBIT increased to EUR 286 million. And indeed, it's good to note that it is more than 60% increase versus second quarter 2018. The sales volumes reached a record level of 745 kilotons, which is more than 25% growth versus last year. And I would think about a couple of comments from the sales volume growth. For example, the sales to North America grew by almost 40% versus second quarter 2018 and also versus the previous quarter, and we reached a very high level of 260 kilotons. Also, like mentioned, we did some very good work in opening some new markets, both in Europe and in North America, which was also important. If I look at the production performance, we indeed did reach a record high-volume of 765 kilotons. This is a 105% utilization rate. Also, there was very good safety performance, which is very important. And like mentioned, also by our CEO, I just mentioned that it's good to note, we now have 2 consecutive quarters at this rate, and we can indeed state that our nameplate capacity is now grown to 3 million tons. This underlines the continuous efforts we are making to debottleneck, and we are well on track to reach that 4.5 million ton by 2022, like communicated on our Capital Markets Day.

On the feedstock side, the waste and residue share was at 77%, slightly below 2018 average and as anticipated, the feedstock market prices increased for selected waste and residue streams, and I'll comment a bit more on that later. On the investments, I would highlight that they increased from a year ago. And this is natural link to the Singapore expansion project, which I'm pleased to note that is proceeding very well according to plan, and we'll, for example, be having a foundation stone ceremony next week. So that's very positive that we are progressing there.

If I move to the next slide, with the waterfall comparing this year's second quarter to last year's second quarter, it's actually a very clear picture, like also discussed by our CFO, 3 main factors. Sales volume growth accounting for EUR 79 million, positive 156 kilotons more sales. At the same time, also sales margin growth, growing from $508 to $568 per ton from last year, that was EUR 32 million. And then I would pick the third factor, which is the FX change with the dollar strengthening from 1.19 to 1.12. That also had a EUR 15 million impact on our result. So overall, this explains really well how we are able to grow our result to EUR 286 million.

Let me then turn to a couple of comments on the raw material markets. And perhaps the comments I would make is that, first of all, if you look at the crude palm oil market, this continues to be weak. The price actually -- the average price decreased quarter-on-quarter from $537 to $499. And this follows from a dynamic where we have had high production, high inventories. So we continue to see a very weak palm oil market. At the same time, if you look at the animal fat market, that is also visible in the chart, this strengthened clearly during the quarter. And it's a combination of factors, healthy demand, then also seasonal effects. It is typical for the animal fat market that in summer, the market becomes tighter because of lower rendering activity. So we're seeing some of these effects. On top, in this quarter, we also had effects of the Chinese swine flu situation, which has tightened, in particular, the European animal fat market. I would also comment, which is not on the chart, that for some other waste and residues, we also have quite a strong market, like, for example, used cooking oil. And this, of course, means that we saw a widening spread between palm oil and the waste residues that follows from different animals.

If we then turn more to the product markets, and I'll comment specifically on the U.S. A couple of comments. So first of all, in general, I would say we continued to see really good strong demand for biofuels and bio -- renewable diesel. If you look at the Californian market, the LCFS credits continue to be on a high level, close to $200 per ton. And the market there remains tight with increased carbon intensity reduction targets for 2019. And in the background, you have last year for diesel, for example, the carbon intensity reduction was 3.5%, now it's 6.25%. Also on gasoline, it's grown from 5% to 6.25%. So this means, in practice, that also the generation of credit needs to grow substantially in order to meet that growing demand. On the other hand, if I turn to RINs, the RIN market remained weak, and we continued to see D4 RIN values below $0.40 per gallon. And this is on the back of the uncertainty on the Blender's Tax credit renewal, also uncertainty on small refinery waivers. And in general, I would just say that removal of these uncertainties would be positive for the RIN market as this level is obviously very low compared to fundamentals, and we have now quite recently started seeing also announcement of biodiesel plant closures at this type of RIN levels.

Then finally, I would like to comment on the sales margin. And I would start with the comment that if I compare to a year ago, we obviously have had positive sales margin development from $508 to $568 per ton. And this is really a result of continued good sales optimization, increasing production, which means decreasing production costs. Also, we have clearly seen the California LCFS market strengthen over the year. So that's very positive. At the same time, the margin -- sales margin level is lower than in the previous quarter, so reducing from $692 to $568. And I would like to explain this quarterly move in some more detail. So there are 2 main drivers. The first driver is that we did see an increase in feedstock price as anticipated. And this explains roughly 40% of the margin decrease. CPO price is decreased. So that's palm oil prices, but other key waste and residue feedstock showed a strengthening trend. The other main factor is that there was also a change in the sales allocation mix, which also had a similar impact of roughly 40% of the sales margin decrease. And this is related to a number of factors. Firstly, we have been opening new markets to support our sales volume growth and this is also really important for future flexibility. And secondarily, you can also note that the regional split between Europe and North America changed during the second quarter. So there is also this quarterly variation there.

There are some more specific drivers to this quarter, which also contributed to the margin decrease, I would highlight mainly the margin hedging result has decreased versus first quarter, and this is quite normal. The margin hedging result tends to be quite volatile, following crude and vegetable oil markets. Another factor I would like to raise is that the Californian LCFS credit contribution on the margin also decreased. And this is due to the accounting rule change for generating credit. Credit generation was basically postponed from second quarter to third quarter. And in total, the impact on our results was roughly EUR 5 million, if you take into account all factors around LCFS.

So these factors really explain that move from the first to the second quarter. My final comment would be on -- still on utilization, the production. So as said, really happy with the utilization rate of 105%. There were no turnarounds, really good reliability and also an increase in volume then supports the declining production costs. So for example, we produced 50 kilotons more than in the first quarter, if you look at the quarterly development. And we expect this very strong utilization rate to continue also in third quarter.

With these words, I'll hand over to Marko Pekkola, who will comment on the Oil Products business unit. Please.

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

Okay. Thank you, Matti. Hello, everyone. I'll comment then on the oil products, second quarter. And I'm sure, starting with the comparable EBIT. It came at EUR 83 million, which was EUR 9 million lower than we reached in Q2 2018. And this reflects the weaker and more volatile market than we had in the second quarter this year. We had good utilization rates of our refineries and good 12% higher sales volumes with the normal planned small unit maintenance during Q2. And ended up with a sales of 3.7 million tons. The Urals' share in the second quarter was at the level of 74% on a long-term normal level and slightly lower than last year. These changes in the Urals' share are reflecting the continuous crude mix optimization, what we are doing in the market, where the Urals was very strong in the second quarter.

If we then move onto the bridge between Q2 2018 and 2019, good sales volumes had the positive impact of EUR 19 million versus Q2 2018. Main drivers impacting the result came through the markets, where we had reference margin level on $6 versus $6.80 last year, which had EUR 18 million negative impact. Also, market-driven impact can be seen in additional margin, where our margin was $3.40 versus $5.00. And this had a negative impact of EUR 23 million. Main factors for additional margin where the narrow Urals differential, higher utility costs and lower hedging results, mostly market-driven impacts. Positive impacts came through FX rates and then from our own fixed cost improvements. And these had together EUR 22 million positive impact versus Q2 2018. In the others, EUR 9 million negative change versus last year mainly reflects the weaker markets and unprofitability of our base oils business and higher depreciations, like I mentioned earlier here during the call.

If we then move on to the markets, where we could see a lot of volatility driven mainly by gasoline also in Q2 2019, like in the first quarter this year and a very narrow Urals-Brent differential. Comparing Urals-Brent differential average to corresponding period last year, the difference is big with almost $2 per barrel difference. Very narrow Urals-Brent differential naturally has impact on our margins. The very narrow Urals-Brent differential in Q2 was due to various factors like medium, heavy crude oil supply limitations caused by sanctions on Iran, OPEC cuts and a decreasing supply of heavy crude from Venezuela. So there's a number of factors creating this tightness on heavy crude supplies. On longer term, differentials should be widened due to the decline in the heavy fuel oil market, mainly as a result of IMO bunker sulfur change.

On the product margins, like you can see in the chart, gasoline market recovered from Q1 this year, but was still very volatile, mainly due to disturbances in the market. Inventories in the U.S., for example, are now at the 5-year average. Now in the consumption seasons when they were 5% above last year in the beginning of the year. Distillates margins was quite solid over the quarter, average being $13.70 for Q2, which was lower than in the first quarter, where it was $16.40. And in Q2, it was $14.50 per -- Q2 2018, $14.50. And at the same time, inventory levels have fallen below 5-year average towards IMO 2020.

If we then look on the -- take a look on the margins. Total refining margin continued at the level of Q1 this year, level being $9.40 for Q2, main impacts to the total margin and mainly through the additional margins were already mentioned that are Urals-Brent differential, higher utility costs and currency hedging. On the positive side, we had good sales, good utilization of our refineries and our own improvement actions, lowering our fixed costs. This ended up with reference margin being on a level of $6.00, being lower than in Q2 2018 at $6.80. Additional margin came in $1.60 lower than in Q2 2018. And with the old formula, additional margin would have been 4.4%. Also, as earlier mentioned, weaker markets and profitability of base oils business had negative impact on additional margin. In the quarter, our margins were reflective of the weaker markets. And for the rest of the year, we are naturally continuing all the efforts to maximize the additional margin and manage the production costs of our refinery.

And now I would like to hand over to Panu to talk about marketing assets.

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

Thank you, Marko. This is Panu Kopra speaking. I'm pleased to report that we had a record high Q2 result ever in Marketing & Services, comparable EBIT increased from EUR 20 million to EUR 25 million EBIT. In Q2, we lost a bit of volumes in terms of the traffic fuels. But on the other hand, our Jet-A1 and bunker volumes were growing well. Slightly lower this gasolines volumes were compensated by very healthy margins, mainly due to excellent performance of the station network. Return on net assets, almost up to 30%. Customer satisfaction improved as well. B2B average Net Promoter Score was over 60, which is also very high result for us, and we continue, of course, to work still even harder to get even better customer experience in the future. Just to mention one example of that, we launched new Neste application for our B2B customers and the customer feedback has been good, and the volumes are also now growing very well. And this is, by the way, only this kind of application, which is for B2B customers in the entire Baltic Sea area.

The availability of Neste MY is expanding, not only in Finland, but also in the Baltic countries. Now we can say that Neste MY is enabling all sorts of Latvian and Lithuanian consumers to make more sustainable choice when filling up their cars. By the way, Finnish government selected to use Neste MY Renewable Diesel in their diesel fleet during the presidency of the Council of the European Union. So we can, in a way, say that we have enabled the politicians to move in a more sustainable way.

All in all, strong Q2 for Marketing & Service.

Handing over to Peter.

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

Okay. Very good. Thank you, Panu. And let's now move on to the current topics. Slide 23. We're making very good progress in our strategy implementation. I'm extremely pleased about that. As discussed earlier, we have grouped the key program in 3 focus areas of execution, and these 3 group areas are; first, scale up faster and bolder; second, drive efficiency in our operations; and thirdly, increase innovations. The Singapore expansion project is proceeding as planned, as Matti already alluded to and actually on my way to Singapore for the groundbreaking ceremony that takes place at the beginning of next week. So we are within budget, and we are on time. The first commercial deliveries of renewable jet fuel and renewable polymers have taken place. And we expect that the sales volumes in both of these new application areas will slowly ramp up. Our recruitment process of key people is ongoing, and I'm very pleased to note that Mrs. Mercedes Alonso has been appointed as EVP of Renewable Polymers and Chemicals. And she will become a member of the Neste Executive Committee. She will join us in September. And she will also be the Managing Director of Neste Germany GmbH, our new legal entity and global headquarter for the polymers and chemicals business unit that we have in the meantime installed. Mercedes will transfer to Neste from LyondellBasell, and she had an impressive career in the polymers and chemicals space.

Our target to become a global leader in renewable and circular solutions is also getting more and more concrete. And in order to focus on our strategic priorities, we have agreed to divest our Russian fuel retail business to Tatneft. We have also agreed to create a strategic partnership with the engineering consultancy services company Rejlers, which will strengthen the delivery capability and improve the focus of Neste Engineering Solutions. And as part of that partnership agreement, Rejlers will acquire the regional business unit of Neste. The divestments -- both of these divestments are, of course, subject to normal regulatory approvals. The record-high production that we have seen in the Renewable Products is also a proof of our operational excellence in action. And overall, we are very well on track to meet the target set for our operational excellence program, that target is to improve our EBIT by EUR 100 million by the end of 2022. And in the area of innovation, we have, for example, and of course, I only can here talk about a couple of examples, quite a lot of activities ongoing there. We formed the strategic alliance with VTT in Finland to develop innovative solutions, and we have been in several internal partnerships related to strategic growth areas that are also progressing very well. So these were just some of the highlights that I wanted to mention, and we're very excited at Neste about doing things faster and bolder and that together.

Now let's have a look at the third quarter, what do we see there. Renewable Products third quarter sales volumes are expected to remain high. The utilization rates of oil renewable production facilities are also expected to remain high in that third quarter, and we will continue to prepare new geographic markets in anticipation of higher mandates that will start as of 2020. We continue to plan for a scheduled capital exchange at the Rotterdam refinery, and that will take place in the fourth quarter of this year. And this catalyst change is currently estimated to have a negative impact of approximately EUR 50 million on the segment's comparable operating profit in that fourth quarter.

The Oil Products reference margin in the third quarter is expected to be higher than in the first half of 2019, and that is driven by a seasonally stronger product market and the refinery outages that were occurring. The utilization rate of our production facilities are anticipated to remain high in the third quarter, except for normal unit maintenances. We've scheduled a 4-week decoking maintenance at the Porvoo production line 4, and that will take place in September, October. And this scheduled maintenance is currently estimated to have a negative impact of approximately EUR 15 million on the segment's comparable operating profits, and that will mainly be in the fourth quarter.

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

Now this concludes our presentation, and we are happy to take your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first request is from the line of Josh Stone of Barclays.

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

I've got 3 questions, please, on renewables. Firstly, on this decline in margin in renewables, you highlighted high feedstock pricing. But I wanted to focus on the entry into new markets. Specifically, how should we think about this margin dilution on the new customers? Is it the case that the dilution is coming from a switching of sales from your home markets to these new markets? Or is it the case, maybe just the new production you're seeing is being sent to these new customers? But perhaps might help if you can quantify how much renewable diesel was sold in 2Q to new customers versus old customers? And then secondly, on the same theme, why did your sales to North America increase at the expense of the sales margin? Was there a reason for that? And then lastly, you highlight maintenance at Rotterdam in 4Q. Are you able to say how much production you expect to lose and if you're expecting to sell from inventory to offset some of that?

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

Yes. Thank you, Josh. This is Matti Lehmus answering. So I'll start with a question on the margin decrease from Q1, and specifically, the impact of the new market. So like highlighted, indeed, roughly 40% of the margin decrease is related to a different sales allocation mix. And I think it's important to highlight that part of that is coming from, indeed, opening new markets. And as you could see, we have increased our production volume, we have increased our sales volume, so it's natural. We want to open new markets. But I would also emphasize that this is very important. If you look a bit beyond 1 quarter. If I look at 2020, I look at development of the mandate in the European market, there will be actually quite important mandate tightenings in a number of countries. And we expect, for example, in the European Union, the demand to grow by more than 1 million ton next year, mandate-driven. And if you look at this one, then that's important work to open new markets, not only regional markets but also market segments. And this then increases our flexibility going forward to capture the opportunities that come. Just to give you an example of 2020, take an example like Germany, the GHG reduction target will jump from 4% to 6% next year. So that's a substantial change.

The second question was on North America. Here, I think it's in a way, a very positive thing that we see the strong demand in North America. We have, like I commented also the credits in LCFS market in California continues to be strong. So we are very happy that we have been successful to increase our sales. Here, of course, it's a continuous optimization of the sales mix, but it is, of course, also important to note that it's important for us to grow our customer segment for longer-term purposes.

On Rotterdam, the impact was commented to be around EUR 50 million in the fourth quarter. It's a normal catalyst change. The duration is roughly 1 month. So you can calculate if you want to have some volume estimates then with that roughly 1 month production being lost.

And yes, we have built inventories, so we, of course, intend to also maintain serving our customers in spite of this turnaround. So that is part of the preparation we have done that we have been building some inventories in anticipation of this turnaround.

Operator

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

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

I think it's really a clarification of the proceeding one, just on the new markets. Can you just clarify exactly what caused that margin dilution? So was it the higher costs associated with entering those? Or rather was it that you had to actually go into those territories with lower prices and then your legacy markets, which of course, as you mentioned, you hope that in the future as those mandates tighten, the prices in those markets will rise to be competitive with your current core ones.

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

Yes. Matti Lehmus, again. Thanks for the question. I obviously won't go into the detail of every market that we operate in. But if I take the example of the European Union, we have 28 different markets, which typically all come with their special features. So I would say it's important for us that we open all of these markets. And we, at the same time, depending also on each quarter, there may be differences between each region or each market segment. So it's normal that we don't have exactly the same margin level in every market.

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

Can you just make a comment on whether the pricing in those markets is lower than the legacy ones? Or actually was it -- were you having to invest and putting in infrastructure and sales in place in those new territories?

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

I don't have that level of detail. I think it's just noting that part of the margin decrease resulted from lower margins in some of the new markets we were open.

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

But you may make the assumption that of course, if you have a market, which not -- where the mandates are not very stringent, and you want to position in that market. Then of course, your position in that market at an acceptable sales price level, so -- to get traction in the markets. And as mandates are getting tighter and tighter, once we are positioned and have done the investments on that positioning, so taking the spots in that market, then of course it's much easier for us then to grow as these mandates are getting more stringent and as of 2020. And again, we're not talking just about 1 country here in Europe, we're talking about several countries, and we're talking also about several states in the United States.

Operator

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

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

Three questions, if I may. The first is on the sales allocation change. The past results presentation, you told us there will be no major changes in sales allocation this quarter. Could you explain to us what changed your mind during the quarter to now? Then the second question is around feedstock price seasonality, and you mentioned with the animal fat price rise, there is some seasonality in that. Can you walk us through how much seasonality we should expect in your margins? And if 2Q tends to be, say, the worst for margins and 4Q the best? And then finally, can you also walk us through your thinking on the African swine flu impact on animal fat prices and how you think that will evolve into the rest of the year?

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

Thank you for the questions. This is Matti Lehmus. So I'll start on the sales allocation. I mean obviously, sales allocation is something we also do continuously. It's a continuous effort. And at the same time, the fact that we are able to run units at such a high utilization rate also means it opens some opportunities for additional sales. So I think it's just a natural outcome of the continuous operation we are doing that we ended up with this sales mix. At the same time, like commented earlier, we also very clearly look not only at the running quarter, but also at the following quarters to prepare ourselves for the tightening mandate in 2020.

The other questions were on the animal fat market, I'll start with the swine flu question. It's a very detailed area, but perhaps to open, the general logic what has happened here is that because of the swine flu epidemic, there has been a lot of, let's say, animals being killed, pigs being killed in the Chinese market, which has then led China to increase their imports considerably for meat. And it is not only processed meat, but it's also carcasses. And that just means in practice that, for example, Europe, there has been less rendering than usually. So this is a impact which results from this -- in a way, short-term impact that we're having because of the swine flu.

The question on the seasonality, I don't have exact numbers how much the impact is in each given year. But the general logic here is that the rendering activity tends to be slightly lower in the summer period than it tends to be in the winter period, and hence, if you look at it from the animal fat market perspective, it tends to be tighter in the summer quarters than in the winter quarters. And this is very typical pattern, as expected, and we expect that kind of seasonality to continue also going forward.

Operator

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

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

Two more questions for me. The first one is, I was wondering whether if you can provide a bit of color on whether you're -- and to what extent your investments in Demeter and your rendering plant is -- has helped you protecting from swings in the feedstock market? And give us an idea on how that work? And second question comes on -- back to the new market sales. And if I just look at in terms of your revenue per ton in Americas, this has dropped significantly relative to the last quarter. And just wondering if there was anything in particular there other than new markets that could explain the substantial reduction in the revenue per ton figure. And I'll leave here.

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

Yes. Thank you. So I'll start with the question on Demeter, and I assume you refer to Sluiskil, which was the pretreatment facility that we have developed. I have to say, we are very pleased with both of these. The Sluiskil facility has been running at very high utilization rate. Also there, we are continuously debottlenecking activities. And in general, whether it's the pretreatment or whether it's the better commercial reach through the meter, I think it's extremely important that we increase our flexibility when it comes to the sourcing of animal fat or other waste and residue qualities. And hence, it is clearly something which is a priority and which we continue developing, and we have been very happy to have that as part of our supply chain.

On the new market sales, and your observation that the U.S. revenue per ton decreased considerably. I think it's -- I don't have any specific, let's say, analysis on this one. Perhaps 2 items I would note is, one is that like we commented, there is this element of LCFS credits generation being postponed from second quarter to third quarter. So that naturally impacts the revenue. And then the other one is that, obviously, it's also this typical volatility coming from both oil and vegetable oil movements. So that will also from quarter-to-quarter, sometimes, create variations in the revenue.

Operator

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

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

Two, if I may to begin with, I guess. So with all the nameplate capacity increase, given the catalyst change in 4Q, would it be reasonable to assume that you'd be a step closer to your 3.2 million tons nameplate capacity target? Or are there further steps to be taken next year to get to that figure? And I guess the second question, good development on the renewable aviation volumes ramping up before Singapore. Could you give us an update on how is the executive search going for the head of the division? And what is the status of the FEED study for Rotterdam to add the distillation plant there? Could we see any announcements happening before the end of the year?

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

Yes. Good questions, definitely. And Matti, will you take the first one?

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

I'll be happy to. It was the question on nameplate capacity. And like you say, I mean we have obviously communicated that our target is to reach 4.5 million tons by 2022, including the Singapore expansion. So yes, we are targeting definitely to increase the current site's capacity towards the 3.2 million. And I think it's continuous work we are doing. Some of it happens by operational excellence, so like a continuous thing. Sometimes it also means we need to make some small investments in order to remove the bottlenecks. So I don't have an exact time line here, but very confident that we will be moving towards this 3.2 million tons during the next 2 years.

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

Yes. So we're well on track on that. And yes, the proof of principle is actually that the fact that moving from 2.7 million, 2.9 million and now we are at 3 million tons. So we have a high degree of confidence that the remaining gap to get to that 4.5 million tons by 2022 will also be closed. And maybe a side comment from my side. I mean when we did some operational excellence work to get to that 3 million tons and this excellent results in terms of volumes produced in Q2, then we have done some work on the pretreatment unit in Singapore. And we knew that this would work when we were talking about Q2 numbers, but we were not yet that confident. And then when we put everything into execution to operation, we were extremely positively surprised that everything what we thought would work, actually worked better, and that led also to then further ramp up in volumes. And then we took the action, of course, to say, okay, let's make sure that we use those volumes in the appropriate way, so that we go into certain new markets and start preparing those markets.

Now to Rotterdam aviation renewable jet fuel distillation, we continue to work intensively on the master plan for the site in Rotterdam. A bit too premature to say if we will make an announcement at the end of this year. We need to look at what all the opportunities are that we have. So we need to look at the engineering results coming out of it. We need to look at what does it cost. We're confident, yes, but I would not yet get to the point whereby, I say, by the end of the year, you may expect an announcement coming out.

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

Okay. And if I can squeeze a third one there. With regards to the sale allocation geography. I mean you asked a lot of the questions. Is it fair to assume that you might move back to some of the most-established markets for the remaining of the years now that you have opened up the rest of the market? So could we see some strengthening of the revenue per ton figure for the rest of the year?

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

Yes. If I just briefly comment, I commented we expect production to be -- continue to be high, we continue expecting high sales. And at the same time, sales optimization, sales allocation, optimization is something we do continuously. So of course, it's something again, and we are working on it also for Q3, so fine-tuning it so that it's the optimal, both short-term and then also for the coming quarters.

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

Yes. And Matti gave an example, I mean on Germany, on the mandates [that are creating] 2020, and he also said that just in Europe, I mean, we expect that then there will be a demand increase as of 2020 by at least 1 million tons of demand. Yes, if I look at a couple of other countries, I mean the Netherlands, for example, is increasing their mandate from 12.5% to 16.4% next year. The same is also valid then at a lower percentage level in France and in Belgium and the United Kingdom and so on. So as said, it's all over the place. And we pick and choose where we believe we have the best chances then also for the next couple of years to continue to grow also beyond. And this is something we have said on the Capital Markets Day that we need to also position outside of our -- continue to grow, of course, into our markets in Scandinavia, Finland and California, but also start positioning and developing the other markets because they may be quite important as we bring then on stream our capacities in 2022 from Singapore.

Now one comment to your last question on the EVP search. I mentioned already on polymers and chemicals, now on aviation. We've made very good progress, and we're not yet at the point that we make an announcement. We have a fully operating team, but it will not take too long, let's say, until we will come out with an announcement on the EVP position for Aviation. But rest assured, I mean, we have a very good team in place, and they are driving quite a lot of sales contract negotiations as we speak. I can also say that we have another sales contract signed as we speak. I can unfortunately not say what airline company this is because this has been agreed upon with the airline company that first we run for a couple of months and then probably after those couple of months, we will together make then a formal announcement.

Operator

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

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

I had 2 questions, please, both in the Renewable Products segment. The first one is regarding the feedstock prices, essentially. You've mentioned that the sales margin has been impacted by higher raw material costs and entry to new markets. I assume that the entry into new markets has lowered your revenue, especially on a per ton basis and taking the lower revenue per ton in 2Q. According to the calculations and also taking the EBIT margin, I actually see a decline in the implied feedstock prices on a per ton basis, which is kind of different from what you're saying. What am I missing here? I just wanted to understand what else is playing there? The other one was regarding the potential extension of the U.S. I was just wondering if you had anything -- if you've heard anything there of potentially being extended or this coming through in September?

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

Yes. So thank you for the questions. And perhaps I comment on the feedstock. So unfortunately, obviously, I can't follow exactly your model and where the disconnect is, but it's relatively simple from our perspective. I mean like commented, we had a mixed feedstock market, you could say. On one hand, we had crude palm oil prices decreasing in the second quarter, but at the same time we saw a strong market, a tight market for animal fat, for used cooking oil, other waste and residues. So from our perspective, if you combine the market price impact, our feedstock mix, it just meant that our average feedstock price went up in the second quarter. So it's relatively simple, but that's, of course, something we also optimize continuously. And it's a result of that work. On the BTC, we don't actually have any new information. There is a lot of speculation, rumors from time to time, but we do not have any information about any concrete time line or proposal. So it is, of course, something that is not -- we are not dependent -- our business is not dependent on BTC, but we follow closely if there is some news about the stock.

Operator

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

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

Just one question for me, on the Oils Products side of things. I was wondering if you can give us an update on your preparations for IMO 2020, and in particular, in terms of testing and selling very low sulphur fuel oil and more generally, what you're seeing in the bunker market? I know you see this regulatory change impacting the market in the next few months.

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

Yes. This is Marko now. Thank you for the questions. So our internal -- our IMO preparations are proceeding according to the plan. We are doing the test runs. We are also doing the field testing in that sense. So I think we are in the plan as already said. And then -- well, that would be more or less the answer for your question, hopefully now for, if you want to have more detailed question.

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

Okay. So you've already started selling very low sulphur fuel oil?

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

No. No. We are still on the testing phase and trialing phase with both internally and also with our customers, with (inaudible).

Operator

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

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

I had 3, please. One is just looking at the comments you're making about the palm oil spread versus the alternative feedstock spreads. I just wanted to understand -- and your own palm oil use increased during the quarter as well. Just trying to understand whether you felt that also impacting relative pricing in the market, given the benchmark of other -- of the products? Then when talking about the volume that's gone to help start new markets, I was wondering if you could give some sort of sense as to how much volume has been switched in this direction? And maybe where that came from? For example, what did it come around as they withdraw from the Swedish PFAD market short term, as that goes through change? And then just on the strong looking forward on feedstock, when you look at the strong alternative feedstock pricing relative to palm oil, whether you see this as an ongoing factor driven by the demand growth for these feedstocks? And how you see yourself with your own logistic structure positioned to build margin against that benchmark for strong commodity alternative feedstocks?

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

Yes. Thank you for the questions. This is Matti Lehmus. So I'll start with the question on the price movements in the palm oil and the other waste and residue markets. So like you also commented, the spreads grew in the second quarter. And I think what we can observe that palm oil, of course, is the widest-traded commodity. So that follows, obviously, the fundamental driver, supply, demand, weather outlooks. And the palm oil weakness is clearly coming from this high inventories and high production. I think it's -- if you look at animal fat, as an example, while historically, in a way, following always palm oil, it's of course clear that it's also starting to have the dynamics of its own. And like commented now, we had the factors of robust demand, seasonality, even now the Chinese swine flu. So I think it's good to observe that it's not just always the same spread. It will vary from quarter to quarter. And to your other question on waste and residues, I think underlying, of course, it's a fact that there is healthy demand for the waste and residue streams. Whether it's animal fat, whether it's used cooking oil or others. And I think Neste is very well positioned to play in this market. I mean we have been systematically investing both in our capability in the production sites to be flexible with different types of feedstocks, but also then things like acquiring additional pretreatment capacity, the Demeter acquisition of having better access to the different streams. So it's clearly something that we are developing also going forward that we are using that flexibility to the maximum. And in general, I could say, our target is, of course, to be able to move always to lower and lower qualities over time with the efforts we are doing on the technical side as well.

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

Yes. So and also, my question was on that latter point, the extent to which if the, say, screen price commodity for animal fat and waste are high, your own logistic structure should be a sort of competitive advantage in terms of building margin against those prices. And I was wondering whether you felt that -- when thinking about it, rather than just looking at the prices you've shown on those versus palm oil, we should also think about the margin you can build in against those which your competitors cannot.

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

Let's say -- in general, I would say, we have also systematically developed our global presence, having good access to supply in all different continents, also having sufficient inventory capacity to be flexible. So it is, of course, another part of our optimization that we also try to, and we'll optimize the timing of our purchases, et cetera. But this is, I would say, normal part of the supply teams' daily focus and our size, of course, gives us a good position to hopefully understand well and anticipate also sometimes market movements.

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

Right. Okay. And then on the question on overall volume for new markets, how much has swung in that direction and from where it came?

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

I wouldn't comment as we wouldn't disclose now the exact volumes in the second quarter. But what I would come back to is a bit what we are talking about, looking a bit at the potential because I think the important message is also, we do see some really interesting opportunities emerging in also new market segments. And I would come back to this point on, for example, the European market, as one example, with already known mandate changes, we are seeing more than 1 million ton additional demand next year. And we are clearly moving into an area where it's -- also it needs good drop in biofuels because we have in many markets also then some blending limitations and others. So I think it's actually opening a very interesting opportunity for next year to develop new market segments because of this quite substantial market growth that we expect.

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

Yes. But my question was also around whether you may -- had withdrawn from very high-margin markets in the short term as well. So there's a swing on both sides when thinking about the short-term market in the interest of building the longer-term position -- or no, not even that far away position that you described?

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

No. That's clear. I mean it was not at the expense of high-margin markets where we have a very strong position.

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

I would add -- I mean, like we commented, our sales volume grew by 25% year-on-year. Even versus the first quarter, we grew by more than 50 kilotons. So this gives us good possibilities to both open new markets and maintain our strategic important markets that we have.

Operator

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

Erwan Kerouredan ***RBC Capital Markets, LLC, Research Division - Analyst***

I had a quick question on the U.S. Your U.S. Renewable Energy Group yesterday announced they were closing a biodiesel plant in the U.S. due to limited visibility on tax credits and also a certain level of inaction by Congress. I -- knowing that Neste's second-generation plants can also benefit from tax credit upside, I just wanted to have your sentiment on this. Is there any impact that we should expect in the future?

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

We have the situation of course in the United States currently that, it's a bit unclear. Will they take a decision? Will they not take a decision on, for example, BTC? And Matti alluded already to that when he gave his presentation. So there is, of course, always a influence, let's say, if BTC would not come, then you would expect that RINs are going up. Now of course, if there is kind of this party that nobody knows, BTC will come, will not come, then RINs keep on hanging in there at a very low level. At the same time, of course, you have these exemptions for small refineries. Also, that is not clear. Will there be a decision, when will there be a decision and what direction will the decision go? That also puts an additional burden on the RINs. And then of course, biodiesel facilities are even more dependent on BTC and especially also RINs. So if that situation continues, let's see what happens even further, I mean, in that market.

Erwan Kerouredan ***RBC Capital Markets, LLC, Research Division - Analyst***

And one follow-up question, if I may. Like absent -- without this lack of visibility, would there be any change in your sale allocation rationale or strategy? I guess, what could you be doing if you had more visibility on that front?

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

Perhaps -- this is Matti Lehmus. The way I would comment on the question is, like I mentioned in my presentation, if you look at the RIN pricing like we have seen now for the D4 RINs below $0.40 per gallon in the second quarter, it's very low. And if you just look at fundamentals, it seems too low to develop sustainably a business around it. So I think, in a way, if at some point, that uncertainty goes away and even if the BTC would not be renewed, we would anticipate that over time then it would have a positive impact on the RINs because it would then be -- the price would more reflect the fundamentals than this current unclear situation.

Operator

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

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

Two, if I could, please. Firstly, I want to just press you on sales allocations and this dynamic around higher renewables capacity and second quarter sales facilitating entry to new markets, but at the same time contributing to lower margins. Understand the points that you've made, more specifically around 2Q, but if we look forward, could this be a recurring rather than transitory relationship as Neste grows the business not just through really transport, but also the new business units? And then secondly, seems to be a trend that the second quarter renewables margins are invariably lower quarter-on-quarter. So in addition to Matti's point on animal fats earlier, are there any other clear seasonal patterns in demand, product grades, feedstock pricing, et cetera, that would indicate a recurring trend that should be factored in going forward?

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

Let me give a couple of comments on your first question. When we are entering in polymers, chemicals and aviations business in the renewables area, we are not doing that at the expense of margin. So I'm very clear on that. The mechanism that we have put in place with the governance around it in our company is clearly looking at margin optimization. So when we were referring to the fact that we had an allocation in preparing for new markets, this was not related to preparing for new markets in aviation and polymers and chemicals, we're talking about the allocation in preparing for new renewable road transportation markets in a geographical way. So Matti, if you can take the second and make some comments on that.

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

Yes. Thank you. And I'd just add the comment that looking a bit into, in a way, future forward-looking view, I think it's really important to actually have this flexibility between the markets because it, of course, means going forward we also can always continue our optimization. The more flexibility we have, the better it is. So it's also important that we do open these new markets. Your question on the second quarter, it's actually an interesting one. I haven't looked at the history, but you always see second quarter margins being lower. I mean I am not aware at the moment of other recurring factors than those coming from, for example, the animal fat market that I already commented on. I don't think there is a particular reason why the second quarter would otherwise be always different from others, but...

Operator

Your next question is from the line of Michael Alsford of Citigroup.

Michael J Alsford ***Citigroup Inc, Research Division - Director***

Just a couple of clarifications. Just on the cash flow, you obviously saw working capital outflow this quarter. I was just wondering if you could just elaborate as to how we should see working capital evolve through 3Q and into 4Q, given the turnaround activity planned for both oil products and renewables? That would be my first question. And then just secondly, I just wanted to clarify. On feedstock costs, are you saying you see downward pressure therefore on feedstock prices into 3Q? Or are we expecting on aggregate a relatively similar feedstock cost 2Q into 3Q? I just wasn't clear. Because I know you buy forward and you got hedging in place, et cetera, but it would be just very helpful just to kind of clarify that point.

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

Yes. This is Jyrki Mäki-Kala. Just commenting on the working capital, what I am also referring in the beginning. So we have seen the increase now roughly EUR 200 million in the working capital really coming out of a preparation for the turnaround that is both in OP and RP. But of course, in this quarter, it was more about the receivables. Also our sales was high. So we are expecting this to be normalized when we are heading towards the year-end as then the next big one turnarounds are 2020 in the springtime. So then it's OP. Certainly have to be prepared for the bigger inventories also at the year-end. But it will go down, working capital will go down towards the year-end, yes.

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

And on the feedstock cost, I mean the second question, just to be concrete, I mean we're talking about Q3, and we are in that quarter, Q3. We cannot give any guidance, I mean beyond Q3. So for Q3, what we are currently seeing, all the comments that we have made before. On the vegetable side, we see that there is a depressed market. So we expect prices will continue to remain low. Whereby on the animal fats, used cooking oils and these kind of waste and residues, we continue to believe that there will be an upward pressure. So there will be higher prices. So that is like we are commenting on Q2, yes, so that level or maybe a little bit higher.

Operator

Your next question is from the line of Iiris Theman of Carnegie.

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

Three questions, please. Firstly, on renewables, should we expect this new market openings continuing in Q3? I mean that -- should we expect higher expenses related to market opening activities? Or should we expect these sectors to decrease in Q3? And secondly, you are having maintenance activities in the second half and in next year as well. Is it correct to say that your maintenance activities usually lead to margin improvement if all else equal? And then thirdly, in Oil Products, additional margin was clearly below your target of $4.80 per barrel. Is that still valid? And what is the outlook for the second half in terms of additional margin in Oil Products?

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

Thanks for the questions. Matti Lehmus. So first on the outlook, new market openings Q3, just 2 comments. I mean obviously, we continue to serve the new markets that have been opened. At the same time, I would make the general comment, demand is good, demand is strong. So this gives good possibility for us to do our normal sales optimization also between markets. So I think it's, from that perspective, a good situation to go into Q3. The second question, if I understood it correctly, I would just comment, the turnarounds like for renewable that we have commented on, it's typically -- we are -- this is a catalyst change turnaround. So it's more -- the impact is that we don't have production in that period, but otherwise, I don't expect any major impact.

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

And then OP, yes. On the additional margin, was the question. And I think the normal variation during the -- between the quarters is, of course, between different elements on the formula that can impact on the additional margin. And now, especially for the Q2, we had the high Urals, sorry, narrow Urals differential impacting that one, utility cost being higher and also then the hedging costs also. But we are expecting then, and that's also our target. So the target for the rest of the year or for 2019 has not been changed. So we are keeping the target with our own actions, trying to get there, even the market is -- looks tough now.

Operator

Your next question is from the line of (inaudible).

Unidentified Analyst

Just on the back of all what has been said about raw materials and prices in order to -- [pricing efforts] in order to penetrate new markets. Is it fair to resume all that in saying that the margin for renewable per ton that we've seen on Q1 are a peak? Or can we hope for a higher level, I don't know, within next year or whenever you think it's possible?

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

This is Matti Lehmus. If I comment on it, we have only commented on Q2 margin and then the Q3 outlook. I would say, in general, we continue developing our free-float flexibility. We have a lot of demand development -- positive demand development which we continue working on. And at the same time, feedstock markets are volatile, we -- like we have now seen. We have had now, for example, strong waste and residue. But I think we are clear. We are not giving any guidance for next year. We continue of course working on maximization of the margin. We see a lot of [interesting things].

Unidentified Analyst

Okay. Okay. But you understood my question about peak is behind us or not, so you have no idea about that in terms of margin per ton?

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

I hope you understand that we don't have the crystal ball. We cannot give any guidance on that. I mean yes, it's like Matti said, I mean we are always targeting things to get the maximum in margin, if it is in aviation, polymers, chemicals and road transportation.

Unidentified Analyst

And how does that translate in term of return on capital employed on the new CapEx?

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

We have the same targets, I mean, on every CapEx investment. Nothing has changed there. So at least an IRR of 15%.

Unidentified Analyst

15%, 1-5?

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

15%, 1-5 percent, yes, at least.

Operator

Your next question is from the line of Yuriy Kukhtanych of Deutsche Bank.

Yuriy Kukhtanych ***Deutsche Bank AG, Research Division - Research Associate***

First of all, I'd like to congratulate you on excellent operational results. I think it's great that you're looking for -- to place the product in the new markets, and you're growing the business. I think it's fantastic even if it comes with a short-term deterioration in the renewable margin. So congratulations on operations, specifically. Unfortunately, all my questions have been answered, just have one very brief explanatory question on LCFS postponement or credit generation postponement. If you could elaborate on mechanics of this postponement and whether second quarter, a credit will be applied retrospectively in the third quarter to your financials?

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

Yes. Thank you for the question. So indeed, what we have had has been a change of regulation in California effective 1st of January. Until then, still in last year, what happened is that for sales, the credit generation happened in the following quarter. So basically, for sales in the fourth quarter, for example, the credits were generated in the first quarter of the following year. What is now happening is that the credit generation rules have been changed, and it happens 1 quarter later. So what it means in practice is that the credits, which otherwise would have been generated in the second quarter will now be generated in the third quarter, and then that continues from there on.

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

And I would like to thank you also for your congratulations, Yuriy. And of course, gives me the lead way to, again, repeat that last year, if you exclude the BTC, we had an operating profit in the first half of the year of EUR 450 million. We have now in the first half of 2019, EUR 740 million. I think that is an excellent result, and I would like to see companies like that can move from EUR 450 million to EUR 740 million in such a short period of time. So we (inaudible)...

Yuriy Kukhtanych ***Deutsche Bank AG, Research Division - Research Associate***

Absolutely, I totally agree. And good luck, gentleman.

Operator

(Operator Instructions) And we also have a question on the line from Monika Rajoria from Societe Generale.

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

I have just 1 question on Nynas. I would like to know if the results in 2Q are sustainable. And if you can give us some kind of guidance on this?

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

Sorry, I didn't get the question. So you're talking about the Nynas quarter 2 results?

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

Right.

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

Yes. So one thing to remember here that we are reporting the Nynas is at one quarter after, meaning this quarter 2 results, in fact, was Nynas quarter 1. So there, quarter 2 results that we are now reporting in quarter 3 will be better than it was in quarter 1. Their season is now with its bitumen going on. So their loss will be much lower compared to what we reported.

Operator

And there are no further questions at this time. Please continue.

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

Okay. Thank you very much. This is Juha-Pekka Kekäläinen. As there are no further questions, we thank you very much for your attention and active participation. Neste's third quarter results will be published on the 25th of October. Until then, thank you and goodbye. And wishing you all a great summer.

Operator

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

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