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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to today's Q2 2020 Neste Corporation Earnings Conference Call. (Operator Instructions)

I must advise you that this call is being recorded today, Thursday, the 23rd of July 2020.

I would now like to hand the call over to your host today, Juha-Pekka Kekäläinen, Head of IR. 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 and first half 2020 results published this morning.

I'm Juha-Pekka Kekäläinen, Head of Neste IR, and here with me on the call are President and CEO, Peter Vanacker; CFO, Jyrki Mäki-Kala; and the business unit heads, Matti Lehmus of Renewables Platform; Marko Pekkola of Oil Products; and Panu Kopra, our Marketing & Services.

We will be referring to the presentation that can be found on our website. Please pay attention to the disclaimer since we will be making forward-looking statements in this call.

With these remarks, I would like to hand over to our CEO, Peter Vanacker, to start with the presentation. Peter, please go ahead.

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

Thank you, JP, and thanks, everybody, for joining this call. Good afternoon from me as well.

As you have seen, I mean, the second quarter was dominated by the developments of the COVID-19 epidemic globally, and we are very pleased to be able to share with you our strong performance in the second quarter and in the first half of 2020 as a whole, especially considering the COVID-19 epidemic globally.

So if we have a look at the year in brief on Slide #4. Despite the unprecedented market turbulence due to the COVID-19 pandemic, our performance was solid in the second quarter. The comparable EBIT was EUR 255 million. Renewable Products had another strong quarter as the business proved to be very resilient. The renewable diesel demand remained good, and our sales volumes reached a record 773,000 tons. This sales volume was also supported by the excellent operational performance at the refineries. I'm also happy, I mean, to announce that now the nominal production capacity of our renewable units has been increased to 3.2 million tons per annum. The scheduled catalyst change at the Singapore refinery had to be slightly delayed due to the COVID-19-related lockdown measures in Singapore, but it was successfully completed in July. And as expected, the feedstock markets remained very tight. That, combined with the low oil products prices, created some pressure on the sales margin, which averaged at $625 per ton, which I consider still a very healthy level. And I must say our people, all the teams have done excellently in managing through that COVID-19 turbulent environment, so very well done by our team.

The Oil Products was hit by this unprecedentedly weak refining market that was caused, of course, by the global COVID-19-related demand destruction, and the segment was loss making. The reference margin reflecting the general market conditions was impacted by an exceptionally weak product market and unfavorable Urals-Brent differential. The reference margin averaged at minus $0.3 per barrel compared to $6 per barrel in the second quarter of 2019. And that alone had a negative impact of EUR 165 million on the comparable operating profit year-on-year.

Due to the COVID-19 restrictions in Finland, we were forced to postpone the scheduled Porvoo refinery major turnaround to 2021, and only critical unit maintenance was performed successfully during the second quarter. The unit maintenance had a negative impact in the current environment of approximately EUR 20 million on the comparable EBIT.

Several measures have been taken to improve the segment's profitability in the short term. And even if the results are quite negative, also here, our team navigated very well during that extremely difficult market situation.

Same is valid, I mean, for the Marketing & Services segment. It performed well in the challenging market and also considering the divestment of the Russian operation that was completed in late last year, which had a negative impact of EUR 8 million on the second quarter comparable EBIT. Sales volumes were impacted by the COVID-19-related travel restrictions in Finland and in the Baltic countries, but the team was able to improve the unit margins. So very well done as well.

We continue at Neste to take the risks related to the COVID-19 pandemic seriously. Our primary objective is to ensure the health and safety of our employees, our customers, our contractors and other partners as well as to ensure the continuity of our operations and secure supply of products to our customers.

Our occupational safety performance was very good in the second quarter, and the total recordable incident frequency was 0.9 incidents per million hours. The process safety event rate increased to 2.2, which is still not satisfactory, and several improvement actions have been defined to take process safety to the targeted level.

We continue, of course, to further focus on keeping our costs well under control during this period. And despite the market turbulence, we want to focus on our strategic execution, and I will come back to that at the end of the presentation.

If we have a look at the financial targets. Our strong financial position is also visible in those financial targets. We reached a high after-tax ROIC (sic) [ROACE] of 24.5% on a rolling 12-month basis, again clearly exceeding the 15% target. Our leverage ratio was 8.8% at the end of June. As stated before, the strong financial position enables the implementation of our growth strategy going forward while maintaining a healthy dividend distribution. And this is even more important in these turbulent times.

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

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

Yes. Thanks, Peter, and good afternoon, everyone.

Another quarter behind us, and really what a quarter it turned out to be at the end of the day. We have people in Neste who have been in the company for 40 years and basically have never seen a negative reference margin quarter for Oil Products, so this was really something really, really unusual. COVID-19 certainly left its earmark to the history.

But on the other hand, if you look at the strong quarter for renewables, that clearly shows that the business has been more resilient with the COVID-19 period. And also, if you look to Marketing & Services, it's really delivered a strong comp EBIT, actually better than last year's second quarter.

But let's go to some of the details.

We have here the second quarter and also the first half of year figures. But if you look at the revenue line, you really see the impact of the lower crude oil price. Basically, we had EUR 1.1 billion lower sales in quarter 2. And of course, the deliveries of the Oil Products certainly lifted EUR 400 million less revenue also in the quarter. And if you look at the first half year, we are talking about EUR 1.6 billion coming out the crude oil price and EUR 600 million coming out of the volume. So really big changes in the top line also when looking at the financials.

But when you go to the comparable operating profit, we delivered EUR 255 million comp EBIT. It was clearly, of course, below 2019 second quarter, EUR 112 million below, but it's really coming out of the fact of the unforeseen weak refining market in the form of the lower reference margin. This alone was EUR 165 million impact. So you'll see that the rest of the business has really, really improved their performance in many ways.

Marko Pekkola will later give you details about the low reference margin. But for example, the Urals-Brent differential was positive for most of the quarter and the OP reference margin was negative. So it was kind of the vice versa normally when you are seeing a look in the quarter.

Renewable Products really had another strong quarter with record high sales volume, 773, which is very high figure. And also, sales margin was very good, $625 per ton. And this will be a little bit more explained by Matti Lehmus when looking to renewable diesel products in more details.

Marketing & Services, EUR 19 million comp EBIT. And really, for like-for-like business compared to 2019, they improved their operation. That's an excellent achievement as well.

There has been already some questions about the free cash flow position because this was negative in quarter 2. But remember, due to the COVID-19 restriction in U.S.A., we didn't receive the EUR 372 million BTC '18 and '19. That will be received in quarter 3. That is the major part of the explanation. But we had a lot of activities in quarter 2. If you remember, we acquired Mahoney U.S. and also Count Terminal in the Netherlands. And we had a high CapEx coming out of -- still from the Singapore operation even though it was mostly down from the CapEx point of view in quarter 2. And we have built Contango inventories for 2009 -- 2020, mostly will be then cleared in quarter 4. That is basically how all this lower free cash flow basically is coming from. But towards the year-end, most of these unexceptional items will disappear.

And then the first half comp EBIT -- comp earnings per share, sorry, EUR 0.76, is pretty much the same as last year 2019.

If we look then by bridges -- if you look these first by business areas, you see the huge impact between '19 and '20 coming from Oil Products, EUR 143 million, and this is about the unforeseen market circumstances, what the business witnessed. It was simply a weak refining margin -- market and our turnaround. But remember that on the positive side, like will be explained later, the additional margin was strong in Oil Products, meaning what we can do in our operation, it was again about $5 per barrel. So excellent achievement in that sense.

Renewable Products, they had a high volume, like I mentioned, but they have the higher feedstock prices. They had the effect coming out of the low diesel price. And they had a higher fixed cost compared to last year. But the fixed costs were about the same level as 2020 first quarter.

And then Marketing & Services, like discussed already here, last year we divested the Russian operation. And otherwise, the Finnish operation and the Baltic operation basically improved their margins. And the others, like mentioned already earlier, the Nynas company in Sweden, it does not affect our operation anymore as we have totally write that down already 2019.

But if we look at quarter 2, where the profit came from, here you'll see that we have added here the quarter 2 2019 BTC just to make things comparable for you. So EUR 70 million was the quarter 1 -- sorry, quarter 2 2019 BTC, and this means overall, you see that in the figures -- so in a way, we delivered EUR 180 million lower compared to 2019. And you'll see that it is mostly coming out of the margins. In OP, it was EUR 150 million; and in RP, EUR 30 million negative. So this is basically where the difference between '19 and '20 quarter 2 is coming from. All the other items, basically, volumes, FX, fixed cost, et cetera, it's plus/minus. So we are talking about effect coming out of COVID-19 and the impact on our businesses. But nevertheless, EUR 255 million comparable EBIT in a period where the COVID-19 was basically hitting us the hardest, it was a strong result but not to dismiss that by any means.

But if you look at the first half year figures, talking about the bigger figures, it has basically the same message like in quarter 2. If we're adding again the first half 2019 BTC, we were roughly EUR 200 million lower comp EBIT. And again, it is explained by sales margin coming out of OP and also coming from the RP. And again, all the other items where we focus, volumes, FX, fixed cost, et cetera, they were pretty much plus/minus 0, slightly positive. And remember that the fixed cost increased mainly in RP compared to last year. It's really about the heavy focus on strategy implementation and execution. But it also had an impact coming out of the Oil Products 2020 turnaround. So this is basically how all these figures come through and landing, like mentioned, this EUR 255 million comp EBIT in quarter 2 2020.

But with these words, I leave the stage now to Matti and Renewable Products.

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

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

And I start with, again, stating that it was a strong quarter for Renewable Products. We came in with an EBIT of EUR 314 million, which is roughly 10% over the level in the second quarter last year.

Perhaps analyzing some of the main drivers, sales margin was at a good level of $625 per ton. This is roughly $50 below the level that we had last year, but I think it's also an indication that the renewable diesel market continued to be favorable with the sales margin trend also reflecting a very tight feedstock market and the decrease of diesel price level following the COVID-19 situation.

Sales volumes were at a record level of 773 kilotons, almost 30 kiloton higher than last year. And again, this reflects continued solid demand for renewable diesel, also very good sales performance. And at the same time, it also reflects the fact that we did slightly postpone our Singapore catalyst turnaround versus the original plan and completed that in late Q2 and in early July.

The production in the second quarter ran very well. We reached a good production volume of 717 kilotons in spite of this catalyst turnaround. And I have to say that completing the turnaround successfully in first half of July was really a great achievement because with all the special measures to ensure safety and health for all the workers because of COVID, it was a very good achievement to complete the turnaround as planned. I'm also very happy that we can now state with all the continued operational excellence work, that our nameplate capacity has increased to 3.2 million tons, like our CEO also mentioned beforehand.

A quick look at the waterfall. And again, I think it's a couple of key messages that I would like to highlight. The first one is that the big impact when we compare this year's second quarter to last year comes from the sales margin impact. It was lower than last year if we take into account the BTC readjustment, and this had an impact of EUR 32 million. And it's clear we're also operating in an environment with clearly higher feedstock pricing at the moment. This was then compensated by volume partially. So we -- the fact that we have been able to grow our volume -- sales volume quarter-on-quarter means that EUR 16 million positive impact. And the other fact that supports this year's second quarter is indeed a stronger U.S. dollar, which has strengthened to $1.10 with an EUR 8 million impact.

Then perhaps a couple of words on feedstock prices and feedstock markets. In general, I can state that the waste and residue market in the second quarter was tight, was very tight as the COVID situation impacted the availability of some of the waste and residue streams. On used cooking oil, the availability initially dropped by more than 25% but started then recovering during the second quarter, first improving in Asia and then followed by Europe and North America. The animal fat availability was less affected, but there were still some temporary disruptions to slaughtering activity, for example, in the U.S. and in Germany. So also, the animal fat market was tight.

Looking at implications on the market prices, one can state that in the early second quarter, in March, April, basically, waste and residue prices both for animal fat and used cooking oil decreased clearly following the general commodity price correction but then started recovering as the demand continued to be solid. Still, the average pricing in the second quarter was lower than in the first quarter. And still today, it's somewhat below pre-COVID levels. On the vegetable oil side, prices decreased significantly in March, April, roughly 30%. But also here, we have then seen, for example, for palm oil a recovery in recent months.

A quick look then at the product markets, and I'll just make some comments on the U.S. market. Like you can see on the chart, the LCFS credit price in California continues to be on a high level, averaging $201 per ton versus $189 last year second quarter. And then here, like the chart shows, the LCFS credit price decreased after the COVID outbreak but very quickly recovered close to the ceiling as basically the tightening carbon-intensive targets continued to create growing demand for LCFS credit.

On the RIN, you can see that also here, we have seen RINs slightly strengthening in the second quarter, averaging $0.58 cents per gallon.

Finally, a quick look at the sales margin development. Sales margin in the second quarter was at a very good level of $625 per ton, still lower than last year at the same time. And I would basically highlight 3 factors that affected the sales margin development in the second quarter 2020. So first of all, the market parameter changes, and especially the fact that oil products, diesel prices decreased, and also the price differential between vegetable oils and oil products increased and had an impact on the margin and explain most of the margin decrease. There was also a slight impact coming from the feedstock mix and the price differentials, which were slightly less favorable than, for example, in the previous quarter. And finally, the third very important driver, we had very good sales performance, which then again supported the sales margin development, and this was reflected in good price premia and in an optimized sales mix.

A final comment is that the operational performance in the second quarter was also very good. We reached 90% utilization in spite of the Singapore turnaround. And here, I would just note that as we rescheduled the turnaround slightly, then this EUR 50 million impact is split between the second quarter and the third quarter quite equally.

With these words, I would like to hand over to Marko Pekkola, who will go through the Oil Products second quarter.

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

All right. Thank you, Matti, and hello, everyone. I'll comment the Oil Products second quarter.

Comparable EBIT totaled out minus EUR 60 million driven by global unprecedented demand destruction, causing weak refining margin -- market and an even positive Urals-Brent differential. And like earlier already mentioned, during the quarter, the reference margin averaged on a minus level, that being on a level of minus $0.3 per barrel.

Our sales volumes were 16% lower versus Q2 2019 due to COVID-19 impact and the scheduled Porvoo refinery unit maintenance. Refinery's utilization rates were 67% due to the adjusted production rates and due to the lower demand and the scheduled Porvoo maintenance work. Urals' share was 67% on lower levels than normal.

Moving then on to EBIT bridge. Between Q2 2020 and 2019, here we can see the impact of the weak product market and the unfavorable Urals-Brent differential. Main positive impacts in Q2, EUR 21 million, were -- came from additional margin and a stronger USD exchange rate.

If we then have a look on -- at the markets. Here we can see the unprecedented situation of the COVID crisis in exceptionally low product margins and, towards -- during the quarter, towards the quarter-end, positive Urals-Brent differential. And for the whole quarter, the

Urals-Brent differential averaged at minus $0.1 per barrel.

Crude oil prices were very volatile, recovering from below $25 per barrel at April level above $40 per barrel in June mainly due to demand destruction and the OPEC+ countries first failing to agree on the new production cuts, which led to the price war in the early part of the quarter.

When then taking a look on -- at our margin performance, same phenomena of exceptionally weak refining margin -- market and an adjusted production rates you've seen. Our total refining margin was very low at $4.8 per barrel, supported by good additional margin of $5.1 per barrel in Q2 2020. Refinery production costs were over last year's level due to the planned maintenance and adjusted production rates. And like already said, several measures have been and will be taken to improve the short-term profitability of the business.

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

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

Thank you, Marko. Hello to everyone.

Q2 was good and solid in Marketing & Services unit. If we eliminate last year's Russian EUR 8 million EBIT contribution, we did actually EUR 2 million better result this year. Taking into account very turbulent environment and markets, impact of COVID-19 and the drop of middle distillate prices, I would say it was indeed a strong Q2 for us.

In mid of March, we saw almost in all our segments the drop in demand. Gasoline, diesel, bunker and Jet-A1 volumes collapsed. After first shock, we started immediately to adjust our operations to new level of demand, and we were able to cut our fixed costs. In addition to lower fixed cost, the result was improved by slightly better unit margins and the fast recovery of markets already since of -- mid of May.

During COVID time, our touchless mobile payment has got more usage than ever, and it enables to have real online marketing with our customers. This is, again, steps ahead in our journey to more and more efficient, even more automated and customized marketing. We have expanded Neste MY availability from 70 to 120 stations during Q2. Same time, supply is completely rearranged in order to meet new, higher volumes. New Neste My marketing strategy is launched, and the most important of all is that our customers are warmly welcoming Neste My Renewable Diesel, and the volumes are growing nicely.

This is shortly about Q2 in Marketing & Services. Now handing over to Peter.

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

Thank you, Panu. And let's now move on to the current topics.

First of all, on strategy implementation. The very good progress on our strategy implementation has continued. And the Singapore renewables capacity expansion project is proceeding, but, as we announced, it is delayed due to the lockdown measures by the local government implemented in the mid-April. The permit to restart our construction work has been successfully obtained in early July, but the restrictions related to the execution of works will have an impact on the productivity and demand or availability. And I will come back to our current estimate on these impacts in the outlook section.

The acquisitions of Mahoney Environmental in the United States and Count Terminal in the Netherlands were successfully completed in the second quarter. They are important building blocks for further developing our Renewables Platform and for ensuring access to growing needs of waste and residue feedstock.

We are expanding the distribution of our Neste MY Renewable Diesel by adding stations, having the product available, as Panu also mentioned, in Finland but also in Sweden. And as you know, we already did that in the Netherlands.

We have joined forces with McDonald's and HAVI in the Netherlands to create a circular economy partnership, and the collaboration will see recycling of used cooking oil from the McDonald's restaurants into renewable diesel, which will be used in the HAVI trucks delivering goods to McDonald's. This will be circular economy in real action.

Discussions with partners and customers are proceeding well in Renewable Aviation and Renewable Polymers & Chemicals. As an example, I would like to mention the new strategic cooperation with Covestro in Europe, the global leader in polycarbonates, to promote the use of sustainable raw materials in plastics production. Covestro will be supplied with material from renewable sources to replace a significant portion of the fossil raw materials in the manufacturing of these polycarbonates.

We continue to focus, of course, on our Neste Excellence program with a target to achieve at least EUR 225 million EBIT improvement by the end of 2022. And a recent example of this work is the upgrading of our Renewable Products nominal production capacity to 3.2 million tons.

In the area of innovation, we were awarded EUR 20 million research development and innovation funding from Business Finland to boost innovation activities in the renewable and circular solutions. So that fits very well with our innovation acceleration strategy.

These were just some of the highlights I wanted to mention. We have a clear strategy, and we are moving consistently ahead in the implementation of that strategy.

Now have a look at the third quarter. What do we see? We see the following. The sales volumes for renewable diesel are expected to remain relatively stable in that quarter. The feedstock markets are expected to remain tight. Utilization rates of our renewable production facilities are expected to remain high, and that -- with the exception of a scheduled catalyst change in one of our smaller Porvoo units. In the third quarter, oil products market demand is expected to improve but, of course, still severely reduced due to the COVID-19 pandemic. And the reference margin is also expected to remain low and highly volatile. In Marketing & Services, the demand and sales volumes are expected to see some negative impact due to the COVID-19 pandemic.

Let me also highlight a couple of other topics for the year 2020. As a reminder, we will have a scheduled catalyst change at our Rotterdam renewables refinery in the fourth quarter of 2020. The catalyst changes in Rotterdam and Porvoo were currently estimated to have a total negative impact of approximately EUR 60 million on the segment's comparable EBIT.

And as discussed earlier, the Singapore capacity expansion progress is expected to be impacted by the COVID-19-related restrictions by the local government. As a result, the estimated start-up of the facility has now been moved from mid-2022 to the first quarter of 2023. At the same time, the estimated CapEx has been increased by EUR 100 million from the earlier communicated EUR 1.4 billion. And due to rescheduling of our projects, our group capital expenditure is expected to be reduced from the previously estimated EUR 950 million to approximately EUR 850 million in 2020.

The unprecedented uncertainty related to the further development of the COVID-19 pandemic and its impact on the global economy continues. However, we remain very confident on our ability to navigate through these challenging times like we did in Q2.

Now this concludes our presentation, and we would be very happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Nick Konstantakis from Exane.

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

A couple from me, if I could, please. Just starting with Singapore. Obviously, you had to push the start-up date. Would that impact at all the timing around the decision for the next wave of capacity to be added (inaudible) until the end of next year? And in relation to that, do you mind giving us an update on what's [driving] the various engineering studies?

And then secondly, I think you start around June usually to talk about the term agreements with your customers. Can you give us any color around how this discussion going? Is this recognition that feedstock prices are quite higher than last year? And how are you -- how is that discussion going?

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

Thanks, Nick. I mean let me take, first of all, your questions on the investment program in renewables, and Matti can make some comments also on the term agreements as well -- or eventually add some comments to the investment program.

Both things are not related to, one, each other. So we have a team that is focusing upon the current investment project in Singapore. And as we explained because of the government's -- I mean, the restrictions that rightfully have been put in place, I must say, we have taken a prudent approach in relooking at what is now going to be to ramp up now that we have received the permit at the beginning of July and are bringing contractors, people back to the site. Remember, we had about 2,000 people on the site when COVID-19, the second wave, did hit, and we had to stop all construction work. So it takes a while until you get back to 2,000 people. And then we continue to ramp up, I mean, to about 6,000 people on the site. So this will not go from one day to the other. And we promised also that we would give good guidance around that COVID-19, so we thought it's the right time now that we have a little bit more visibility on how we can conduct the ramp-up of the work on the new construction in the Singapore site.

As you heard also from Matti, we have successfully concluded this catalyst change turnaround in Singapore, and you heard from his comments also on the excellent production that we had in Singapore. So even with the second wave of COVID-19 in the existing production, we have not seen any interruptions, and we have been able to successfully execute without any incidents, any accidents as well as any COVID-19 cases in our workforce as well as with the contractors.

So we will keep you updated, of course, on that Singapore new facility, of course during the next months and quarters, how it goes.

Now independent from that, as we communicated through the CMD, we are looking at 2 important additional investments. One of the investments that is now in a feasibility study is building up the optionality in our existing Rotterdam facility to be able to serve all the 3 different markets, Renewable Road Transportation, Renewable Aviation as well as Renewable Polymers & Chemicals, by building up the optionality here to be able to produce sustainable aviation fuel. So that is running full speed as we speak.

And the second thing that we have also communicated is we looked at different opportunities, I mean, where is going to be the next full-scale, full-optionality and flexibility, world-scale plants for HVO. A bit copy-paste like Singapore. And there, we have announced that we have decided that this will be in Europe. We are running now studies around the facility Porvoo as well as Rotterdam. We've said that we target a startup of 2015 -- 2025, sorry, 2025, and that has not changed. So it's not because we have a Singapore delay in startup that we have started pushing out as we speak the investment projects that we have for renewable jet fuel or for the new HVO plants in Europe. Matti, if you want to add something, feel free.

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

Yes. Only comment, I think excellent summary, perhaps mentioning on the next world-scale units, we are progressing also on the engineering side. So from a pre-study phase, we have now moved into what we call a feasibility phase. So that is progressing as planned.

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

And on the term agreements?

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

Yes. I would be happy to comment on the second question, which was on the term agreements. And indeed, like Nick pointed out, we have typically had share of term agreements in our sales portfolio of around 70%, and that means that we are indeed preparing to have our term negotiations for next year, during the second half of the year. We have done, I think, very good systematic work during the last year to broaden our customer portfolio, to open new markets. So that is a very good basis for starting this term negotiation round.

And I would say in general, I mean, like we see in 2020, that in spite of the COVID situation, we have seen a continued growth in the renewable diesel market this year. Even if the COVID has probably slightly slowed that down, we do expect the growth to continue also in 2021. And hence, I see that as a good starting point for these term negotiations.

Operator

Our 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 2, please, 1 on inventory and 1 on the U.S. So regarding the -- on inventory, regarding the strong performance of the quarter for Renewable Products. I guess you sold the inventory at higher prices versus average sales margins of $625 per ton as this may have sold later in June when the market was recovering. I guess also, the underlying question is, what part of the costs of these inventories could have been absorbed in prior quarters? This is my first question.

And my second question, regarding the U.S., if you look at Joe Biden's campaign website, it mentioned doubling down on liquid fuels for the future. What implications do you think this will have on renewable diesel and sustainable aviation fuel for the (inaudible) in the U.S.? Any change in economics? Is there any change in economics and revenue potential expected there?

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

I'll start with the inventory question. Perhaps I'm not sure if I got 100% the question, but what I would emphasize when -- if the question is whether there was any impact of inventory revaluations or anything on the quarter, I think it's more -- if you look at the second quarter, it's indeed good sales performance that supported our margin. We were able to place a high amount of volumes. We were able to optimize well between the different markets. We were also able to increase price premia in some markets. So I think it's really that sales performance which supported our margin.

And on the other hand, like commented earlier, of course, at the same time, we did see general market parameters around diesel price, around price differentials between vegetable oil and oil products put some pressure on the margins. But this is really what is behind it.

On the U.S., if I make a general comment. I'm not familiar with the quote that you referred to. But in general, what we have seen, that there continues to be very high commitment to the long-term road maps that are in place in different states. We have, for example, in California continued commitment to that LCFS road map, which will continue increasing the carbon intensity reductions this year at 7.5%, and that will grow to 20% by 2030. We have also in North America, for example, in British Columbia, just announced a commitment to a similar type of low-carbon road map that is now in place all the way to 2030. So I think that shows that there continues to be commitment to decarbonizing traffic also in North America.

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

Yes. And I would add to that. I mean you see that -- also the dynamics. Even if the aviation industry is really under heavy pressure right now, you see a continuous dynamic also in the United States that this market is being created. And we are alluding to that. I mean we're positioning there. We have a fully operational supply chain. And you saw our announcements that we are now also in San Francisco airport, that our sustainable aviation fuel is also available and being sold there. So I think one needs to look at the complete picture that in both road transportation as well as in aviation, there is lots of things happening. And of course, we'll see, I mean, what the U.S. elections, what the outcome will be and what that will do, of course, also to the future dynamics.

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

That's very helpful. One follow-up question, if I may. Just can you remind me -- on the first question on the inventory, can you just remind me of the different markets? You mentioned you've been optimizing well between the different end markets. Can you just remind me of the different end markets you're addressing?

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

Yes. I mean if you look at -- and I have said this in Q1 and I will keep on repeating this. You'll remember Q2 2019 where we said we had excellent work done by the teams. We were producing higher volumes, and we started preparing, even if it was at a bit lower margins at the time, new geographic markets. If you look at the external revenue in RP for Q2, then you see that we have more than doubled in Q2 the revenues to other European markets that are outside of our old, let's say, home markets like Finland and Sweden and Norway. So that part in Q2 in external revenue has now grown from 20% in Q2 2019 to almost 40% in Q2 2020. So even if the external revenue in Q2 went down in Finland, Sweden, Norway due to the fact that we actually have executed this strategy very successfully, the overall growth of the external revenue was extremely successful in Q2. So -- and that's a major element, I mean, that we have in our strategy. We said before we want to build up more optionality by going into different geographic markets, supporting our customers there, building up the supply chain, going in different applications like aviation and Polymers & Chemicals. And Q2 results are, for me, a very, very good evidence of that and excellent execution by our people.

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

And one last question, if I may. In the U.S., do you think a change to mandates like in Europe is possible from an economics perspective?

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

Well, we have seen that California remains very confident, like Matti said. We have seen that some other states, they have implemented similar types of LCFS credit mechanisms based upon carbon intensity like Oregon. We have also seen that some other states, they have postponed the implementation, but it's not completely off the table. And that's a bit what I was alluding to. Let's see what happens in November with the elections and what does that do in terms of what other states would eventually start moving into different type of programs. Canada had a bit of a delay because of COVID-19 on so-called RFS, a bit similar like in the United States program, but it's still on the table. So we are -- continue to be confident that both in Europe as well as in North America, that also in 2021, there will be an additional demand that is going to be created, as said, in both. So you remember, I mean, in 2020 and 2019 we said for 2020 above, yes, 1 million tons, just, I mean, in Europe in demand creation. That has gone down a little bit because of COVID-19. But on the globe in 2020, we experienced still a demand creation of a total around 1 million tons, maybe a bit more than 1 million tons. So I hope that answer your question, Erwan.

Operator

Next question comes from the line of Mehdi Ennebati from Bank of America.

Mehdi Ennebati ***BofA Merrill Lynch, Research Division - Research Analyst***

Congratulations for those very strong results. So I will -- 2 questions as well, please. First one on the Renewable Products sales volumes. So during the first quarter conference call, you guided on sales volumes stable in the second quarter versus the first quarter. And it has finally been significantly higher. So can you tell us what's unique when you were guiding us, if you were just cautious given the lack of visibility, so just, in fact, for the analysts to try to better assess what you tell us in the future?

And a second question regarding the waste and residual feedstock price. So you say that the market remains very tight. However, you also said that the availability is increasing. So do you think that the price of the waste and residue feedstocks is now coming down versus, let's say, the top of the second quarter or no because, in fact, the demand for those wastes is also increasing given that a lot of industries have restarted?

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

Yes. Thank you, Mehdi. This is Matti. Thanks for the questions. First one on the volume guidance. I think I would highlight there's 2 things why we ended up with this record volume in the second quarter. First one is, of course, it was very good operational performance. No hiccups. That is one thing. But probably the main reason why it ended up being higher than we guided is that we did also then reschedule in Singapore the turnaround within the quarter. We had originally anticipated to be earlier in the quarter. And now in reality, we added in very late Q2 and the 1st of July. So that also then impacted our inventory, let's say. We reoptimized the inventory plan.

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

And then on waste and residue price?

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

Yes. That was the other question. On the waste and residue price, I mean, perhaps a couple of comments. We obviously can't predict the future. But if you see what happened in the second quarter while the availability was very tight, we, at the same time, saw, first, a clear price correction downward following the general commodity trend; and then we started processing (sic) [prices] recovering, again following the general commodity trend. So of course, there is some link to other commodities here as well.

And in parallel, we had, from a fundamental perspective, indeed the availability, at least for some streams, first going down and then starting to recover. And I think looking forward, of course, very important will be how the recovery continues and whether we see any second waves of COVID. We are in a tight market with solid demand for waste and residues. So it will depend very much on the continued recovery and hopefully no further major waves of COVID.

Operator

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

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

Josh Stone from Barclays here. I've got 3 questions, please. Firstly, just focusing on the margin in renewables. It came in better than we thought, I think possibly better than even you thought earlier in the year. So can you help us understand exactly what's going on there? What was it that surprised you most? And to what extent do you think this margin at $625 is repeatable for the rest of this year?

And then my second question, if I look at the renewable diesel sales, I noticed there was about 56,000 tons sold from inventory during the quarter. Did that have anything to do with the strong margin performance this quarter?

And then the last question was looking at the feedstock. There's been some reports of quality issues associated with used cooking oil, particularly out of China, and some operators having issues with that. Is that something Neste had seen? Is it an issue, do you think?

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

Yes. Thanks, Josh. I'll answer on the 3 questions. So on the RP margin and why it came out stronger than what had perhaps been indicated earlier, I would probably raise a couple of items. I mean the most important one is obviously that we did have a very good sales performance. I think especially in May, June, we did extremely well in the sales optimization and also in, let's say, finding the best market segments for our product.

I think it's also, as a second thing, good to note that there was quite a big feedstock price downward correction in the early second quarter after which the recovery started. So this is, of course, also something that happened during the quarter.

And finally, it's, of course, good to note that the Singapore shutdown happened a bit later and also part of that went into the third quarter.

So I think there are some drivers, which explain particularly why the margin was...

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

Yes. Joshua, I mean, also to add to that. I mean at the beginning of -- at the end of Q1 and at the beginning of Q2, we were in the midst of this COVID-19 crisis situation. And the quarter started, I mean, relatively slow. So there was quite a lot of work, I mean, that our team did in order to further optimize, I mean, the sales margin. So yes, we said somewhere at the beginning of the quarter, $500, $600, but we did not accept and we're not happy, I mean, with somewhere between $500 and $600. And therefore, there was intensive work. And as Matti also said, I mean, the markets continued to improve. And then, of course, we had the Singapore effect as well.

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

Very good. Then on the second question, I think short answer, as -- the sales margin we are reporting is what we call a comparable sales margin. There should not be any effects of direct effects of whether we have sold from inventory or so. I think the comparable mechanism should make quarters comparable between each other. On the UCO quality, I think in general, I would say this -- it's very important for us that we have a good, transparent understanding of the quality of the materials we receive. That is exactly why we have moved closer to our suppliers, whether it's in North America or by also locally having the right partners, our feedstock offices. And I think quality assurance is a core part of what we do, of course combined then with our capability to also, through our pretreatment, be flexible with different feedstock qualities. But I would just say in general that this is a very important part of waste and residue sourcing to be able to control the quality.

Operator

Our next question comes from the line of Michael Alsford from Citi.

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

I've got a couple of questions, please. I'd like to pick up, Peter, if I could, on your comments around our outlook. You mentioned, as you say, the outlook for demand growth for the renewal diesel this year of about 1 million tons globally. As you look into next year, mandates are rising. I'm just wondering if I could ask you for a number, what you think the demand growth will be into 2021?

And at the same time, I guess what you think the supply side is going to do because it doesn't feel like there's much in the way of supply growth, certainly in Europe into next year. So if you could maybe elaborate a little bit more on that supply-demand balance would be great.

And then secondly, you mentioned obviously the continued focus on improvement and the cost target of, what, EUR 225 million by 2022. I'm just wondering whether you can give us a number as to where you are today as to what sort of, I guess, in the number in terms annualized number to get a sense as to where the bridge could be towards the end of 2022?

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

Yes. Thanks, Michael. I mean it's -- of course, it's a bit early to make any firm guidance on demand creation in 2021. It's clear that, of course, R&D 2 needs to be implemented in 2021. There are higher targets in there. There will be more demand being created because of that.

Currently, we're kind of in the midst of this phase where the countries are adapting or deciding are they going to take the R&D 2 mandates? Are they going to go above the mandates? So -- but I would say, I mean, if you just look at what 2020 did compare to 2019, it's going to be probably somewhere in that ballpark in terms of demand creation.

But you're absolutely right. I mean if you then look at the supply side, will the supply side be able to follow with renewable diesel? There is not a lot of additional capacities that we see coming on stream during 2021. There are some, but not that much. And it remains to be seen, of course. I mean we have not given guidance at our Singapore the investment start-up will be delayed. I don't know, I mean, if there will be delays, I mean, with the other projects that were also related to the COVID-19 pandemic.

So it's not a clear answer. It's a good question. It's something that, of course, in the next couple of months, we will try to give more clarity on what we are actually seeing between supply and demand for 2021.

Your other question that you had on the EUR 225 million, let me be clear. I mean this is not cost reduction. We are a growing business, of course. This is EBIT improvement. So we have a number of items that were directly related, of course, to cost reduction that are going back into cost centers and how we run our business.

But the vast majority is actually the creation of additional EBIT. And we alluded to that. I mean if you create an additional capacity of 0.2 million tons, that, of course, is also counted towards the EUR 225 million targets. We have a very detailed accounting mechanism. So all even smaller projects are all being considered and accounted.

And I would say, originally, the target was EUR 100 million. Remember the CMD that we had in 2019, and then we increased it to EUR 225 million, CMD 2020. We are very, very well on track on the EUR 225 million. So I'm personally, I mean, very confident that we will not just meet, but also exceed that EBIT creation targets.

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

And a follow-up, if you don't mind. Just on your CapEx guidance, you've lowered it, I guess relating to probably the timing on spending on Singapore expansion. But you also said it's excluding possible M&A. I know you've been quite active already building out your value chain. I just wondered if you could talk a bit about where you see potential areas to strengthen further.

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

Well, our strategy is very clear. We have discussed a lot around it. It's very clear that we are going more upstream. And going more upstream can be, of course, critical, supply chain assets like we did in Rotterdam with the acquisition of Count Terminal. But it can be also acquiring -- if we find the right partner, like we did with Mahoney, companies that have thousands and thousands and thousands of customers and collection points.

So it's clear that we are continuously looking at that. So if we don't find any of these targets, then we are going with organic investments. So that continues to be. Then, of course, in the area of innovation, we continue to look into that market. You can say seed funding or capital injections in early-stage development companies where we do see that their technology could be successfully ramped up.

I mean, based upon our experience that we have gathered in ramping up our Renewable Products business. So we've done a couple of these investments. And we continue to look at others as well or eventually if progress is being made at one of those companies, and there is a need for higher equity injections, we would also spend money for higher equity investments.

It needs to fit to our strategy. So we're not investing or acquiring, no seed funds, I mean, let's say, in big portfolios or whatsoever. So it needs to fit to our communicated strategy. And that means that a lot is actually then happening in the area of innovation as well as in the area of chemical recycling, liquefaction technologies.

Operator

Our 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***

I have 2 questions as well, please. On Renewable Products, you didn't mention the impact of hedging for the second quarter. I assume that means that the impact wasn't that significant. But could you please comment on that?

And also what you expect the impact of hedging to be in the third quarter and whether you've been able to hedge a bit more of your sales for the following months with the market improving a little bit?

And then my second question is around the feedstocks and where we should expect a significant change in the mix of feedstocks now that you've acquired Mahoney and that you'll continue to make efforts to develop new feedstock markets?

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

Yes. Henri, thanks. It's Matti. So first, on the hedging question. Perhaps reiterating what we said last quarter and also in our Capital Markets Day. We have in place a hedging strategy where we typically hedge around 50% of our sales for roughly 12 months. And the logic being, we're using vegetable oils on one hand and oil product like gas oil or diesel on the other hand. And it's a proxy hedge.

What -- given this very special market circumstances where we have seen high volatility, very quick market movement, we have clearly shortened the duration of our hedging, and the duration currently is limited to the year 2020. So that is something that we have done on the hedging side. If you see what has happened during the last 12 months and compare the prices of Oil Products on one hand and vegetable oils on the other hand, it's clear that, that differential has widened. So the hedging has a positive impact like it did in the previous quarter.

Then the other question was on the feedstock mix. And here, in a way, I would say, it is, of course, a continuous optimization that we do.

That's part of our, let's say, business and margin optimization model that we look at both feedstock mix optimization and sales allocation optimization continuously. I do not see any specific reasons why we would have abrupt changes in that one. I think it's more a continuous optimization that we do in the market.

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

Yes. And a bit on the mid- to long term. Of course, we are looking very intensively at Annex IXA and what were the feedstocks in Annex IXA. So there is quite a lot of development work in the innovation department so that we can also taken these kind of feedstocks in the future, either for our existing NEXBTL process technology with the respective advantages that we have on the pretreatment side, or on the other hand side, if new technologies would need to be developed.

Yes. And we've talked about that on the Capital Market Day, on the innovation business development platforms that we have set up. We have hired people out of the market on these innovation business platforms that were very knowledgeable about those respective areas, fields. And despite some even restrictions with COVID-19 and home office work and so on, these people are onboard. The leadership is there, and we're starting -- I mean to really drive these programs forward.

Operator

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

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

It's Artem from SEB. Three questions from my side. So continuing this sales margins within Renewables. Could you maybe comment that current prices, what do you expect from impacts relating to basically linked to fossil products, what you have there? So I guess this has been one element, which was present in Q2 margins.

Then the second question is relating to Oil Products. And just wanted to pick your thoughts on margin development during the second half of this year against the quite depressed levels, what the -- exceptional depressed levels, what we have seen in Q2.

Do you expect margins potentially improving from these levels, what we have seen recently? And the last one is relating to this interesting cooperation, what you announced, with McDonald's, basically collecting used cooking oil in Netherlands.

Do you see scope for this type of cooperations with fastfood chains being done on a global basis and whether this type of joint efforts could be contributing significantly to the feedstock sourcing in the midterm?

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

Yes. Thanks, Artem. I can take the first and the third question. This is Matti. So first, on the renewable sales margin linked to fossil oil product prices. I would just highlight that this is, of course, a very typical pricing mechanism that there is a link to oil product prices. I mean we have often referred to the example of California where you have a mechanism where you have, on top of the diesel price, the LCFS and the RIN. So this is quite typical.

On the McDonald's example that we have in Holland, I would say it's a great case. We are really happy that we have been able to demonstrate the circularity together. And obviously we continue looking for these kinds of opportunities. At the same time, it's, of course, always a lot of work to put this together. So I think it's a concept that we are very happy that we have it now in Holland, and we keep looking if there are other opportunities going forward.

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

Yes. And most of these kind of circularity topics, they are local, yes, because you build up local circularity. We had announced also, I think, one was at the end of last year or beginning of this year, also one in the United States with the city of -- yes, around San Francisco.

So we keep on looking, I mean, for these kind of opportunities because it all fits under the strategy that Carl Newberg had communicated in building up customer centricity. There may be certain areas where companies want to do this on a more global basis. But my feeling is more at these kind of things start locally, and then eventually, they grow. So on the OP margins?

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

Yes. Marko here. I can comment on the -- of course, I think it's fairly -- well, the outlook for the H2 or Q3 is very uncertain. And I think that is highly dependent on the recovery of the products or product or the consumption in that sense. That has the other impact.

And then, of course, the crude -- the physical crude market, that how does it develop now related to the OPEC cuts in that sense or the production increases in that sense and how that would then imply the (inaudible). I would assume that if the right recovery would continue, then that would have some positive impact. But really hard to estimate.

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

Yes. You saw it also on the opening comments presentation and what Marko said there in segment outlook for Q3. Reference margin also expected to remain low and very volatile. So there is -- yes, it's a very, very prudent guidance that we give here because COVID-19 pandemic is not over yet. And you see that Austria has moved back, I mean, into wearing masks. Spain has moved back to wearing mask.

My home country, Belgium, is in the process of putting restrictions. The Netherlands -- so we need to be realistic that there may be second waves and hopefully, they will be contained in small scale on a local basis and that everybody is disciplined and has learned a lot, I mean, from the first wave.

But reality in the Oil Products business is, it would be very silly and imprudent from us, if we would say, look, Q3, the reference margin will improve. It's going to be very, very difficult, and we will have to manage through that difficult time in Q3.

Operator

Our next question comes from the line of Thomas Adolff from Crédit Suisse.

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

I just wanted to first go back to one of Josh's questions, and you mentioned 3 reasons to why the sales margin ended up being better than you even internally anticipated for the second quarter. And you've mentioned the downward trend in feedstock price that you benefited from. And then obviously, the dividend of Singapore capital has changed.

Are you indicating that the rise in feedstock that we've seen since, which hasn't really impacted the second quarter as much, is going to impact the third quarter a lot more?

And then secondly, kind of going back to the hedges, and 50%, 60% of the margin or as a proxy is hedged. And you've mentioned the second quarter had a positive impact as did the first quarter. But I wonder what the magnitude of the positive impact is? Is that $50 per ton, less or more? Just if you can perhaps provide us a bit more of a number there.

And then does the second half of the year, the hedges you have in place, do they look better than the first half of the year? And then I guess importantly, for 2021, you said you have no hedges in place. So obviously what is spot looking like right now? So if you can provide a little bit more on that, that would be very, very helpful.

And then my final question, I do apologize for so many questions. I have to ask a question on the interim dividend. You've obviously had a decent 2Q. What's stopping you for not going forward with paying that interim dividend?

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

Okay. Matti, if you make a couple of comments, and maybe I can add to that as well.

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

Yes, very happy to. So first question was, again, on the sales margin and on the Q3 outlook. I think in general, I mean, it's of course the same drivers which continue to be important for us. I mean, one is always the feedstock price development. And like I said, we have seen a gradual recovery of the availability. We have, at the same time, seen gradual recovery of the prices after the correction in the early Q2.

It really will depend, I think, a lot on how the COVID situation evolves and how that fundamental supply-demand balance evolves. So from that perspective, we follow that very closely. Another one which is, of course, important is what happens on the oil market side. If you look at the forwards, there has been a gradual recovery of crude price. But again, that is an important thing to follow.

And then, of course, we have sales performance. We have specific market parameters such as LCFS RIN, we keep following this. But then on the hedges, I would say, we actually haven't opened the exact magnitude of the hedges. It's -- of course, you can have a look at what the price movements have been of vegetable oils, of crude oil or gas oil. And it's the same way you can also make some educated assumptions for next year. I mean it will, of course, depend on how the crude price, for example, continues recovering into next year.

So in that sense, we have shortened the duration of the hedges at the moment, and we keep also ourselves analyzing that situation very careful.

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

And of course, hedging is not per se, I mean, the purpose of hedging. So it's always in function of the sales contracts, term sales that we are concluding. So as we have not yet really started negotiating these term contracts, the hedging element is -- the function of the hedging is to take as much, let's say, risk out of the term contracts. Yes, so these elements do play into one each other. And it's clear, if you currently look at palm oil versus gas oil, that is hovering around now, Matti?

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

At the moment, over 200.

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

Yes, over 200. It's clear that not having entered into term sales negotiations, it's not the right time now to start, I mean, hedging at these levels for 2021. Yes, so we will definitely, in Q3 towards Q4, look at these elements and how they play together term-sale negotiation as well as need for hedging and what conditions can we get in terms of hedging. Jyrki, you want to make a comment on dividends?

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

Yes. I think that maybe reiterate the comment that what we made in May, that second part of the dividend will be decided at the end of October by the next POD, so that's basically statement what we have still currently. And that decision will be then made when we are getting close to the end of October.

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

And we are, of course, very pleased that we have very robust, yes, very strong results in Q2. And we have a good financial performance of the company. But at the end, it's a decision to be taken by our Board.

Operator

Our next question comes from the line of Peter Low from Redburn.

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

The first which is in refining, you talked about taking action to improve profitability. Can you give some examples of what this entails and whether we'll see any impact from that in 3Q? And the second was just on Mahoney given you completed the acquisition in the quarter. Are you able to give any indication as to what volume of UCO that brings to you?

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

Yes. I can, maybe on the refining side, and actually, it covers the overall company. We've established a program already at the beginning of this year when COVID-19 in Asia started to hit. We immediately focused on different scenarios and business continuity plans. And in those business continuity plans, we had triggering points that we had defined. And then based upon those triggering points, actions that needed to be taken.

So that was really a -- it's a very detailed, fully blown-up program that we have here. We've not disclosed, let's say, compared to our performance plan, so our so-called plan for 2020, how much this actually encompasses in terms of cost element measures, and these are really cost containment, but it is quite substantial. And we are well on track.

You can see a bit of the evidence if you look at our fixed costs in Q1 and in Q2. And compare that to last year, knowing that we have increased, of course, our costs with the implementation of our strategy by creating new business units and expanding in innovation, et cetera, et cetera. Also, the hiring, we have slowed down. And we have put in place a hiring freeze with certain exemptions that are still possible, where it absolutely is crucial to the implementation of our strategy.

We have all the expenses that can be avoided where it's not really crucial, I mean, to the execution of our strategy, substantially reduced, for example, also consultancy costs. And also, there is a number of people costs involved that we have not really openly disclosed. But there is a whole package that is being supported also by management and by our employees.

So that also, the people costs would go down per individual. In addition to that, we have specific items that are running in the OP business. But it's not just in the OP business. I mean Panu has a fully blown program in the Marketing & Services business. And otherwise, if you wouldn't have implemented that, he wouldn't have reached, I mean, EUR 90 million in Q2. But I would say maybe you can give a little bit of comments, I mean, to that as well, Marko.

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

Well, I think in addition on what Peter already mentioned, it's about the normal cost cutting. What do you need to do at the moment, or in that sense also, what is practical to be done on your own that you don't need actually the expenses or the external expenses on those kind of a costs. And there is about the timing of the things that -- what needs to be done now, when the times are like that or what can be EBIT-postponed so kind of a normal, normal operational things that we are executing.

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

Yes. You look at your maintenance, for example, spending, and then you look at the risk matrix and where is maintenance actually needed, where is the things that you'd say, you know what -- we're postponing it, I mean, to 12 months, 18 months later.

So all these kind of things are part of it both in the Marketing & Services as well as in the business of Oil Products. Our people are very busy with all those programs. So we are having a very lean organization as well, so there is no temporary unemployment that is currently being put in place.

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

Then there was another question on Mahoney. We haven't disclosed the exact volume. I would just comment that, of course, out of our waste and residue sourcing of around close to 3 million ton, this is, of course, only a small part, but it is an important part of our global used cooking oil sourcing.

And I would also highlight that in the U.S., for example, Mahoney is among the 4 biggest collectors of used cooking oil. It's a very important platform for us also to grow the availability of used cooking going forward. So we continue developing this platform and growing that volume going forward.

Operator

Our next question comes from the line of Monika Rajoria from Societe General.

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

I would like to ask 2 questions, please. The first one is just a clarification. So when you say that the delay in the Singapore scheduled catalyst change, which actually moves to end June and a little bit of July. And then there is Porvoo as well in this quarter. So would it be fair to think of the utilization and then the sales volumes being down quarter-on-quarter because that factor helped in improving the record volumes in 2Q?

And the second question is also a clarification. So when I understand that the Singapore expansion is being delayed. And -- but that also has a pretreatment unit attached to it. So when the production moves to 2023, is there a possibility to start the pretreatment earlier so that you can use the lower-quality feedstocks much before? That's my question.

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

Thank you, Monica. This is Matti. I'll answer first on the question on the sales volumes. I mean like we said in our outlook, we expect the volumes in the third quarter to be relatively stable, the sales volumes. At the same time, if you look at the fact that, yes, the Singapore turnaround, we completed in first half July.

We have the Porvoo turnaround. We also have an upcoming turnaround in Rotterdam in the fourth quarter. I think it's fair to say that we would expect the sales volume to be slightly lower than in the second quarter based on these turnaround timings.

On the second quarter question on the Singapore expansion, we are basically completing the project, and we will also see if there are opportunities to start the pretreatment slightly earlier, that's something we will be evaluating.

Operator

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

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

Yes. I think most of my questions have been asked already, so just 1 left. On CapEx, I think you've lowered the guidance for the full year to EUR 850 million. I imagine that's at least partly linked to the lower activity and spend in Singapore for obvious reasons.

So could you just explain how much of the changes relates to rephasing versus efficiency? And to the extent that the former is playing apart in the guidance change, where you now see 2021 CapEx incorporating that and also the sort of the rescheduled maintenance at Porvoo?

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

Yes. This is Jyrki. It's really when you are looking at CapEx for 2020, you are absolutely right. Most part of that is coming to the back of Singapore expansion and the current situation with the COVID. But of course, in these kind of circumstances, the company always look the CapEx more critical going forward and take actions relating to normal maintenance, productivity, et cetera, et cetera.

So this changed from $950 million to $850 million, it's a combination of all these elements. And if you then look forward to '21, et cetera, I think these CapEx figures, I think will come back more when we are there in the early part of the year, and see how all this COVID-19 effects will then be for 2021. But certainly, the turnaround 2021 in Porvoo be will there in the inning of that quarter 2 time horizon. But it's too early to say the figures at this point of time. So more in February, like I mentioned.

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

Yes. The turnaround, I mean we're now -- we have the main focus. Of course, in the COVID-19 pandemic situation, safely, that means also health of our employees and contractors execute a turnaround in Porvoo successfully. So that was the main focus. And we still have some maintenance work, I mean, in the second half of this year. But in the meantime, the teams have now started since, let's say, mainly July in looking at what is the scope for the turnaround 2021.

And we're looking very critically at the scope. So it's not going to be copy-paste, the original scope of 2020 minus what we have been doing in 2020, minus what we will do in the second half of this year, and then that is what is going to be 2021.

We really have a completely new view on the entire scope, taking into consideration that we are not sure that next year, the COVID-19 pandemic will be -- will have completely disappeared. Now on Singapore, it doesn't mean that because we were not allowed to continue our construction, that we have not continued, of course, with the detailed engineering, that we have not continued also with the procurement.

So we actually had to expand, I mean, the lay down area. So we already have quite some equipment that had come in. So I would say the majority of the work moving forward will now be focused on the construction. A big part of the equipment has arrived already on-site. So also that has an element and again, in the CapEx.

So therefore, to add to what Jyrki said, that EUR 100 million difference is not now the big part is coming out of Singapore. There is quite a lot of very detailed work that we have done since the beginning of this year in relooking at our CapEx under this COVID-19 pandemic situation. So we just didn't look at cost, but also looked at all the expenditures, and that includes then also CapEx.

Operator

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

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

This is Pasi from Nordea. Nice to be the last one. But I heard that Matti Lehmus actually said that the price premiums were up in the second quarter. So could you actually, please open up these margin components in a bit more detailed level? So was it only a kind of a drop in premium or some other premium up in the second quarter? And what probably are kind of in terms of dollars per ton on these premiums?

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

Pasi, this is Matti. So I mean I referred to my earlier comments. We said, in general, the sales performance in the second quarter was very good. We were able to optimize very well between the markets. I think the work we have done to really open many markets, to be able to address many markets, that's a very important background. And in parallel, of course, we are always trying to find those segments where we can also have the highest value and the best price premium, but I can't quantify that now.

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

Just want to, Pasi, and it has a bit of an element also to do with this transformation that we have made in the renewable, especially diesel business. When I alluded before, I mean to geographical scope that we have changed, so we have, on one hand side, I mean, we had about 70%, I mean, term business. On the other hand side, we had built up a very good access to several European countries, and that means then, of course, mandated parties and companies and customers.

So that's where our team did an excellent job then to leverage upon that in that 40% -- 30%, I mean, spot business to have a pick and choose in those different geographic markets to point the best markets in combination always with what kind of raw materials do we actually use and what is the CO2 emission reduction that the product is actually providing them to our customers, to the mandated parties.

So we leave it a bit up to you, I mean, to make an estimation on how much that part was. But it's clear, it's not in the term sales. It's in the spot sales. And it is related I mean then mainly to the other markets in Europe. I mean the mechanisms in Americas are clear.

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

Yes. I mean so there is even a chance that you're able to improve the price point going forward by kind of finding the right customers in from the right markets. And just to highlight that, if you're kind of continuing that to optimize your kind of setup and kind of customer portfolio, would it be possible that you will have a slightly higher volatility also think forward in the margin or the sales price in that sense?

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

Yes. From the past, that we have established, new levels, yes, of margins. If you look back 3, 4 years, and then you looked at what we were able to accomplish I mean in 2019, and what we are currently being able to accomplish in a COVID-19 pandemic situation with limitations on availability on feedstocks and higher prices for feedstocks and high differentials between palm oil and gas oil.

If you look at that pool scenario, it's clear that we continue to look at -- the more optionality we have, I mean the better we can run our business and leverage upon that. So it's clear that, that will also be, again, the approach that we take, I mean, when we start with our term agreements and when we start reflecting on how much do we want to have in term and how much do we want to have in spot for 2021. So we have always said, I mean, at the core of our business is that margin optimization.

Operator

That was the final question. Please continue.

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

Yes. Okay. Let me maybe end -- and thanks a lot. I mean very, very good questions, and we had a very long and interesting session. Again, very, very pleased with the results in the current environment on Q2. We continue -- if you look at the segment outlook for Q3, even if everybody would like to hear from us how it's going to be all better and feedstocks are going to be lower and costs and margins are going to be better and utilization rates are going to be super, and we have clarity on the our products business.

We need to be very considerate that this COVID-19 pandemic is not gone. It's still around us. So it will still be very challenging to manage, and it will demand a lot from our people to manage successfully during that third quarter. So I'm rather prudent on the outlook for Q3 than to promise, let's say, the best of all worlds in Q3. This is an abnormal situation. But the most important thing is just like in Q2, we have proven that we have a very robust business in the renewables areas.

And that's even in Oil Products and Marketing & Services, with all the actions that we have taken, if we wouldn't have taken them, it would have been a huge disaster in terms of the margins that we make there. So I'm very pleased, I mean, with all the hard work that our people have done and it brings a lot of confidence that also for the future, if we are looking at the future without a COVID-19 pandemic.

So thank you very much for participating in this call and looking forward to future discussions as well.

Operator

Thank you. That does conclude today's conference. Thank you to everyone who's participated in today's call. You may now all disconnect.