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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the quarter 1 Neste Corporation Earnings conference call.

(Operator Instructions)

I must advise you that this call is being recorded today on Friday, the 24th of April 2020.

I would now like to hand the call over to your host today, Juha-Pekka Kekäläinen. Please go ahead.

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

Thank you, and good afternoon, ladies and gentlemen, and welcome to this conference call to discuss Neste's first quarter results published this morning. I'm Juha-Pekka Kekäläinen, Head of Neste IR. And with me on the call in various locations are President and CEO, Peter Vanacker; CFO, Jyrki Mäki-Kala and the Business Unit Heads; Matti Lehmus of Renewable platform; Marko Pekkola Oil Products; and Panu Kopra of Marketing & Services.

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

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

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

Thanks to JP and thanks a lot then everybody, for joining us in this call today. Very good afternoon on my behalf. We have, of course, all experienced unprecedented circumstances due to the COVID-19 epidemic. And I hope, of course, that you and your families have stayed safe. As well as in good health. We're pleased to share with you our solid performance in the first quarter and the outlook going forwards. If we now skip the slides with the disclaimer and immediately go on Slide 4

on the Q1 highlights. Our first quarter comparable EBIT was $408 million, which is about 8% higher than in the corresponding period last year. Renewable diesel demand was good in early 2020, but as expected, I mean, the feedstock markets remains tight. And combined with the significant impact of the COVID-19 situation on commodity pricing, the tight feedstock market created some pressure on the sales margin. As a result, our comparable sales margin, including BTC, averaged at USD 685 per ton during Q1. The EBIT contribution of the BTC was EUR 52 million in the first quarter. And the Renewable Products' result was boosted by high sales volumes, 731,000 tons, which was about 6% higher than in the previous year. This was enabled, and I'm very proud on that and the work that our people have been accomplishing again. It was enabled by a new quarterly production record of 795,000 tons, as the production facilities were operating at a high utilization rate of 101%. This production record would indicate a potential nameplate capacity of close to 3.2 million tons. So crossing the bridge between the 3 million that we had announced last year and then the 4.5 million capacity -- nameplate capacity in the middle of 2022. Oil products had a decent result in a very challenging market environment and especially during the second half of the quarter and its first quarter comparable operating profit was at Q1 2019 level. The reference margin reflected in general market conditions was very volatile and averaged lower than in the year before. Our good operational and supply performance supported the additional margin, which reached USD 6.7 per barrel. The warm weather and the COVID-19 epidemic substantially limited air and road traffic and this had an increasingly negative impact on product demand towards the end of the quarter. The Marketing & Services segment had a challenging first quarter in a very competitive market, and its result was impacted by lower sales volumes caused by substantially lower demand due, as said, to the weather and the COVID-19 pandemic. In addition, of course, the divestment of our Russian business, which was successfully completed in October last year, reduced the comparable EBIT by EUR 3 million. Health and safety remains 1 of our top priorities, and of course, even more so now with the COVID-19 epidemic and also, of course, a focus area. Our occupational safety performance measured by the total recordable incident frequency was above the average 2019 level and improvement actions have been defined. Process safety performance continued on a good basis. And we, of course, also implemented far-reaching business continuity plans to ensure safe and reliable operations during the COVID-19 epidemic. We continue to make good progress in our strategy implementation, and I will come back to that at the end of the presentation. The Neste AGM is now -- that was originally scheduled for the 7th of April had to be postponed due to the COVID-19 restrictions in Finland. And the Board of Directors have today given notice of a new AGM date to take place on the 18th of May. The Board of Directors now proposing a dividend of $0.46 per share as a first installment to be paid in May. And the Board is also proposing to be authorized to decide separately on a second dividend installment of maximum $0.56 per share and that consists out of the ordinary dividend of $0.46 per share and the extraordinary dividend of $0.10 per share to be paid later in the year. That would be done tentatively in October and here, the Board of Directors wants to be prudent in a time of significant market uncertainty.

If we move to Slide 5 on the financial targets. The solid performance is also visible in our financial targets. We reached a record high after tax ROACE of 26.7% on the rolling 12 months basis. And again, clearly exceeding the 15% target. Our leverage ratio remained negative at minus 1.1% at the end of March. Our strong financial position will support us in navigating through the increasing market volatility. On the next page, let's turn now to the big topic of our lives today. The COVID-19 crisis caused significant and unprecedented uncertainty related to economic development and the demand and prices of oil products. And a lot will depend on the pace, timing and geographical distribution of a possible market recovery. Market consultants currently estimate that oil demand will decline somewhere between 4 and 9 million barrels per day in 2020 year-on-year. And the IEA expects 29 million barrels per day of year-on-year oil demand decline in April and 26 million million barrels per day of year-on-year oil demand decline in May alone. And this is expected to have a negative impact on the market demand. The sales and profitability of our Oil products and Marketing & Services businesses. The biofuel regulations and mandates are expected to continue supporting renewable diesel demand and possible decline in the overall fuel demand could, however, also negatively impact the sales and profitability of Renewable Products businesses. Neste has a strong balance sheet and the liquidity position, and that is good to navigate through these uncertain and difficult times. Business continuity and contingency plans are in place and corrective actions have already been started. The part of a major turnaround had to be split, as you know, between the years 2020 and 2021. And the Singapore capacity expansion continues to be on track as planned. Locked down measures by the local government could, however, pose some risks to the progress. But I have very full faith in our management and the employees to navigate successfully through these challenging times. Now with these opening remarks, I would like to hand over to Jyrki to discuss the financials in more detail. Jyrki?

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

Yes. I hope you can hear me.

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

Yes, we can hear you.

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

Yes. Okay. Thank you. So thank you, Peter. And let's let's move to the next page. So let's talk about the group financials. So I have only a few slides here concerning the quarter 1 figures. So if you turn the next page, with the figures.

Yes. Thank you. So talking about the quarter 1 and making some comparison now for the corresponding quarter last year. Our revenues really had this drop that was very visible in the quarter 1 coming from the Brent oil plant price drop in the first quarter, and that had roughly EUR 400 million impact on the revenue side. And that, of course, also caused the fact that we had to do a write-down in the inventories that was roughly EUR 300 million, but that is not part of the comparable figures. I will talk that a little bit later.

But the EUR 500 million lower net sales, like I mentioned, it had an impact coming from the crude oil price, roughly EUR 400 million and then EUR 100 million lower sales in both OP and also in the Marketing & Service businesses, including really the Russian divestment what we did later in quarter, quarter 3 2019. So actually, it was Renewable Product that increased their net sales coming from higher volume, roughly EUR 100 million impact in quarter one compared to 2019, '19 first quarter figures. If you look at the EBITDA figure EUR 326 million, it's lower than 2019 by EUR 160 million. And since this is a higher ROACE figure. This figure includes, for example, the write-down of the oil product, EUR 300 million inventory write-down, that certainly is not then part of the comparable operating profit, but it is part of the normal EBITDA, what you can see in this column, EUR 326 million. I think then we move to the most important figure, what we are always reporting is the comparable operating profit, it improved by EUR 30 million compared to 2019. And that is something that is only coming basically from businesses. I will talk a little bit later about those because Renewable Products, Oil Products and also Marketing & Services, they basically have more or less the same comparable EBIT with 2019 first quarter than 2020 first quarter and the big improvement, like you see is in the Others, where we had the big negative net profit of our -- minority-owned company, Nynas in Sweden, for roughly EUR 30 million. So that is no longer affecting our comparable operating profit across 2019 figures. And there, you see the big improvement, what is in our figures. Operating profit going down (inaudible). Again, it's lower than last year. Same story here. It is about the inventory write-down of the oil products. And then our cash flow that was negative by EUR 120 million compared to slightly positive 2019, we had much higher investment activities this quarter 2020, roughly EUR 220 million more and that is very clearly seen in the cash flow figures. And then finally, the comparable earnings per share, it's much higher than 2019 first quarter as the bottom line net profit is much higher than 2019 when we are excluding the inventory write-downs, the EUR 300 million. So it's a very good, solid start of the year also from the comparable earnings -- earnings point of view.

If you move to the next slide, that basically tells how the comparable EBIT then moved between '19 to '20, by business areas. Can you change the slide, please.

Great. Thank you. So here is specific story of what I mentioned. Basically, the business is pretty flat from the operating profit point of view and then the others improving mainly through Nynas, at the end of the day. So that's basically how we landed to EUR 408 million. And then I think the most interesting slide is this one when we are having a breakdown of elements with our comparable EBIT 2020 first quarter. And now, now it is a little bit different, different way to show it because the reason is now very clear. Now that we have BTC in place for 2020 and also up to 2022, it is an essential part of the performance, the EUR 40 million, that is the last -- the left part of the material, the EUR 40 million improvement and really to make things comparable now during 2020, we have allocated basically here the 2019 first quarter PTC that was EUR 40 million. And then we have the true comparison of apples-to-apples between 2019 first quarter and now certainly the first quarter of 2020. So actually, we are looking then comparable 2019 first quarter, it was EUR 418 million when the BTC is included and this year, it's EUR 408 million.

So actually, it's more dropped in the comparable EBIT. So if you look first, the sales volumes, there's a small increase for the operating profit coming from the sales volumes that is mainly coming from Renewable Product. They had a very good, solid first quarter with a volume point of view. And then both Oil Products and Marketing & Services had a negative impact coming out of the sales volumes with the known reason, especially with the COVID-19. And certainly, like mentioned earlier, Marketing & Services they divested the Russian business in quarter three '19. So it's no longer in the books of Marketing & Services. So that's basically how we landed to this EUR 5 million improvement coming from the sales volumes. And then I think the more important is the sales margin. But it is minus EUR 22 million. And basically, the biggest part of that is coming from Renewable Products. They had $71 per ton lower sales margin that is roughly EUR 45 million impact negative in this column. And then Oil Product, it has a positive impact EUR 4 million, and it has basically

2 different kind of element. It had a lower reference margin in 2020 compared to 2019, roughly 4% lower, but they had an excellent performance in the operations. So their additional margin was 35% higher this year than 2019, and that gave a boost of EUR 28 million positive to this margin level. So combined Oil Products was with the reference margin additional margin, EUR 24 million better this year than 2019. So excellent achievement in that sense. And then finally, Marketing & Services, it was pretty much flat. There was no impact coming from the margin side. It was more about the volumes, like I mentioned earlier. FX changes. This is a mainly U.S. dollar and mainly impacting Renewable Products. Roughly 80% of that is in the Renewable side and the rest is mostly in the OP side. And then on the fixed cost side, we had an increase of FX (inaudible) fixed cost, like we have said also earlier, high focus on the growth activities in Renewable Products. So they had a EUR 31 million higher fixed cost in this first quarter compared to last year, Oil Product was more or less at the same level, EUR 3 million, so really focusing on internal efficiencies in a high level. And then Marketing & Services, they had EUR 7 million lower fixed cost this year than last year. Of course, part of that is the Russian business was sold. So that is basically how the -- how the things go. And then the final piece of the [puzzle will be the] fixed cost is then EUR 8 million lower fixed cost in the Others, mainly group level items. So that's basically how we landed to this EUR 19 million higher fixed cost. So mostly coming out of the Renewables with a very, very good reason like everybody -- everybody knows. And then the last part, the positive thing in the other items, it is a combination of the Nynas net profit no longer affecting Neste's comparable EBIT and then higher depreciation due to high CapEx activities, what we had basically also in 2019. And that's how we basically land to this EUR 408 million comparable EBIT at the end of the quarter one, 2020. So basically, these 3 slides was something that I was planning to present. So now I hand over to Matti Lehmus to describe what happened in the Renewable Products. So Matti, please.

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

Thank you, Jyrki, and good afternoon on my behalf. So I'm happy to state that the solid performance of the Renewable Products continued in the first quarter and like you did hear, we were able to achieve a comparable result of EUR 329 million. If I immediately comment on the sales margin, like our CFO was explaining, we were coming in at the sales margin of $685 per ton, which is $71 lower than first quarter 2019, if you take into account the retroactive BTC for 2019. And I would comment that this is in spite of the -- or let's say, a result of the tight feedstock market, in particular, and the fact that we are able to have a good sales margin reflects the successful efforts to mitigate these raw material price increases. On the sales volume side, I'm very pleased with the level of 731 kilotons we were able to increase the share of our European sales to 75% versus 60% in the previous quarter. And in general, it's good to state that the demand for Renewable Diesel was solid in the first quarter. And like you have heard the production run very well, and we achieved a record production volume of 795 kilotons. And I have to say this is a great achievement by the entire supply chain because in practice, we were avoiding any disruptions coming from the lockdowns following the COVID-19 pandemic. If we then turn to the waterfall, I think it grows a very clear picture. And again, you can see that the BTC 2019 has been reallocated to 2019 first quarter. So it starts from EUR 377 million. And the big items is that we were able to increase our volumes of sales, following also a very good production. And that increase of 39 kilotons had a EUR 24 million positive impact. The fact that the sales margin decreased by $71 had a EUR 45 million negative impact. And then the third big item is the fixed cost increase of EUR 31 million versus a year ago. And this indeed reflects, in particular, the investments we have made in strategic growth projects on 1 hand and the ongoing studies. And at the same time, it also reflects the strengthening of our resources throughout 2019 in order to prepare for the Singapore expansion start-up.

Then turning to the feedstock market. And obviously, and like the title says, there was very high volatility. If I first comment on the vegetable oil prices, they started the year very strong but you can see that, for example, from the palm oil curve that they decreased significantly during the first quarter following the outbreak of the COVID crisis. And this has been also here on the vegetables like palm oil, quite a significant move because the starting level at the beginning of the year was $900 per ton, and the quarter ended below $600 per ton. At the same time, it's good to note that quarter-on-quarter, the Q1 average versus the fourth quarter last year was still reflecting a higher price for palm oil, for example, by $27 per ton. So the average was still higher.

Turning to the waste and residue prices. It's good to state that they have also reacted to the business environment change, but to a much lesser extent during quarter one because the market remained very tight. And this is, for example, reflected if you look at the animal fat curve by the fact that the quarterly average for animals had increased by more than $50 per ton from the fourth quarter to the first quarter and also used cooking oil prices increased from the previous quarter. And so I reiterate, the waste and residues have reacted to the COVID market change, but effects have been much slower, much less pronounced than for Oil Products. And if I comment a bit on the supply, I would state that the animal fat supply volume has been quite stable. But for example, for used cooking oil, the availability has decreased following restaurant lockdowns in a number of regions. So this completes the feedstock part.

If I then look at the U.S. market briefly. I would state that LCFS credit, which is important for the Californian market, averaged $206 per ton in the quarter one, which is, as in the previous quarter, a very strong level, close to the cap that has been set. And like you can see from the price curve, after reaching actually that $210 per ton level in early 2020, the LCFS, there was some volatility after the outbreak of the COVID situation. Prices momentarily dropping under $180 per ton, but they have recovered to over $190 million, which reflects a solid demand for credits.

On the RIN side, prices have actually on the D4 RIN has been relatively stable in quarter one, the average being $0.47 per gallon. And if, again, comparing to the previous fourth quarter last year, this is slightly lower, which is obviously also a reflection that the RINs came down after the BTC was announced in December. And it will be interesting to follow the RIN development going forward as biodiesel margins at the moment are very weak in the U.S. markets. Finally, a few comments on sales margins. So the sales margin were at the solid level of $685 per ton in the first quarter. And compared to the first quarter 2019, also the fourth quarter of 2019, this is somewhat lower when we take into account the retroactive BTC for the 2019 numbers.

So for example, compared to the first quarter, the comparable number would be $756 per ton. The sales margin development was driven by 2 main factors. Firstly, the market movement had a decreasing impact on the margin, stemming from the combination of tight waste and residue feedstock markets resulting in increasing feedstock cost and at the same time, decreasing oil product prices and in particular also diesel, on the other hand. Our hedging strategy, of course, softened this impact slightly. But only partial mitigation was possible. And at the same time, the other factor is that the sales performance was very good, and this was reflected in increasing price premium very good optimization of the sales mix. And like mentioned earlier, as part of this optimization, for example, European sales share increased to 75% from the previous quarter, 60%. Finally, I would like to state that the sales margin in the first quarter was also supported by really good operational performance. We reached 101% utilization, and that means a record production volume of 795 kilotons. And this is, of course, clearly higher than the production volume that we, for example, reached a year ago. With these words, I would be happy to hand over to Marko Pekkola to discuss the Oil Products segment.

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

Okay. Thank you, Matti, and good afternoon, everyone. I'm Just making sure that you're able to hear me.

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

Yes, we are.

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

Good, okay. Then I'll comment -- let me change the slide to Oil Products. I'll comment the Oil Products first quarter, starting with the comparable EBIT, where we came in with a decent EUR 74 million. At the same time, when our sales volumes were almost 10% lower versus the first quarter of 2019. And the main reasons were the COVID-19 pandemic and also then the warm beginning of the year. Our refinery utilizations rates were on a planned level and good operational and supply performance supported our additional margin being on a good level of USD 6.7 per barrel. Investments were higher compared to the 2019 due to the preparation of the major turnaround in Portugal, and then which will be, as already said, executed in phases during 2020 and '21. If we then move on to the next slide, I'll comment on the EBIT bridge between first quarter '20 and '19. And like I said, main positive impact in Q1 '20, EUR 28 million came from good additional margin. And like said, also already good operational performance and supply performance also behind that. And in Other Items, EUR 17 million negative change versus last year mainly reflected is reflecting the lower profitability of our trading and specialty products businesses and also higher depreciations in 2019. If we then move on to the next slide. And let's take a look on the markets, where we certainly could see this unprecedented situation of the COVID-19 pandemic. And crude oil price drop impact resulting big volatility in both product margins and then also Urals-Brent differential. Urals-Brent differential averaged at minus USD 2.30 per barrel during the first quarter and widened towards through the end of quarter. And crude oil prices were trending down during the first quarter, and Brent price fell from level of USD 66 per barrel to the level of USD 23 per barrel. And then we all know what the physical oil demands were hit -- first in China and then followed by the rest of the world. If we then move to our margin performance, if we move to the next slide. And taking a look on at our margin performance, our total margin -- refining margin was on a good level of USD 11 per barrel. Supported by strong additional margin when at the same time, the reference margin, which reflects the general market conditions, averaged on the level of USD 4.3 per barrel. Refinery costs were below last year's level due to strict control -- cost control and general crude oil-related due to the costs coming down. With good operational and supply performance, supporting the additional margins, we were able to deliver comparable decent result in -- on the same level as in Q1 2019. But with this short recap, then I would like to hand over to Panu to talk about Marketing&Service.

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

Thank you, Marko. This is Panu Kopra speaking. Yes. Indeed, much worse start for the year than expected. I will go through quickly the reasons behind this. First of all, January and February were roughly 8 celsus degree warmer than they average are and even much more warmer compared to the last year. Obviously, it did hit hard to the diesel and large fuel oil demand. Secondly, diesel demand was hit by the February strikes here in Finland. Third hammer for the demand was COVID-19, which almost stopped our aviation and marine. In light of traffic, especially compared to the network and then this traffic dropped was roughly 25,000 to 35,000, depending on the markets where we operate in, and that obviously has a big impact also to our volumes in the network sales. In order to have something positive to say, I would mention that the heavy traffic is still going quite well as well as the agricultural volumes. Like Peter already said, the sales of Russia had impact also to our comparable EBIT this year compared to last year. In fixed costs, we were able to save something compared to last year. In spite of this very turbulence in the markets, we were able to continue the expansion of Neste MY availability in all markets we operate. And COVID-19 has boosted also the usage of mobile [app .net] and mobile applications, and our customers have been very satisfied to use touch less payments and then this is, of course, good for us also in the future. Now handing over to Peter.

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

Thank you very much, Panu. And let's now move on to the current topics. First of all, progress in our strategy implementation, has continued. I mean, the Singapore Renewables capacity expansion project is proceeding as planned within budget and on time. And of course, as discussed earlier, the COVID-19 situation requires a close attention and may impact progress through restrictions set by the local governments. A new sales agreement on sustainable aviation fuel has been signed with Finnair and JetBlue, and with others to be communicated later. And the current COVID epidemic has reduced, of course, flying significantly and poses a serious issues to the entire aviation industry. However, our customers continue to be committed to reducing their carbon footprint going forwards. A new step in our global feedstock sourcing strategy execution was taken when we announced the acquisition of Mahoney Environmental, which is a major collector and recycler of used cooking oil in the United States. And this transaction supports Neste and our efforts to build a global waste and residue feedstock platform that can keep pace with the world's growing demand for renewable products. And closing is expected to happen during Q2. In the Renewable Polymers and Chemicals, the strategic cooperation with Borealis for production of renewable polypropylene has started at Borealis sites in Kallo and Beringen. The biopropane produced at our refinery in Rotterdam is used for this purpose. We also recently announced the combined investments with Mirova into recycling technologies, a specialist plastic recycling provider, and the aim is to accelerate the developments of chemical recycling and foster the transition to a circular economy for plastics. We are well on track to exceed the targets set for our Neste Excellence Program and new higher targets to improve EBIT by EUR 225 million by the end of 2022. And by EUR 300 million by 2030 were introduced at our Capital Markets Day. In the area of innovation, we've made a minority stake investment in Sunfire, a leading developer of high-temperature electrolysis technology. And the company's patented technology allows production of renewable hydrogen as well as a direct conversion of water and CO2 into raw materials for the petrochemical products. And innovation continues to offer us exciting new opportunities to build upon in the medium and long term. So these are just a couple of highlights that I wanted to mention. We have a clear strategy and we continue moving ahead consistently.

So now let's look at the next slide on the outlook for the second quarter of 2020. I mean, first of all, the visibility in the global economic development is extremely low due to the COVID-19 pandemic, as you know. As a consequence, we expect unprecedented volatility in the oil products in renewable feedstock and renewable fuels markets to remain very high. Sales volumes of renewable diesel are expected to remain relatively stable in the second quarter despite the market impact of COVID-19 pandemic. And we expect the waste and residue feedstock markets to remain very tight. Also driven by lower availability of used cooking oil due to restaurants not operating. The utilization rates of our renewable production facilities are expected to remain good, except for a scheduled 4-week catalyst change at the Singapore refinery in the second quarter. It's currently expected to have a negative impact of EUR 50 million on the comparable operating profit. The exact timing of the catalyst change in Singapore will, however, be subject to the lockdown restrictions set by the local authorities. The Oil Products second quarter market demand is expected to be severely reduced by the COVID-19 pandemic. And the reference margin is also expected to be lower than in the first quarter of 2020, and very high volatility is expected to continue. As announced on the 23rd of March, the scheduled major turnaround at the Porvoo refinery has been postponed to 2021 and only business-critical unit maintenance will be performed during the second quarter of 2020. The maintenance of the critical units is currently estimated to have a negative impact of approximately EUR 85 million on the segment's comparable operating profits and that mainly in the second quarter. And as Panu also alluded to in Marketing & Services, the COVID-19 pandemic is expected to have a significant negative impact on the demand and sales volumes in the second quarter as well.

Moving to the next slides. Let's then conclude with some other topics of the remainder of the year. In the current volatile business environment, Neste continues to implement the Singapore capacity expansion projects, the modified Porvoo turnarounds and other strategic projects according to plan. All other projects are being reprioritized. And as a result, we expect that the group's full year 2020 capital expenditure will be reduced from the previously estimated EUR 1.2 billion to approximately EUR 950 million, excluding possible M&A. We've scheduled a 4-week catalyst change at the Rotterdam refinery in the fourth quarter. And this catalyst changood evening maintenance is also expected to have a negative impact of EUR 50 million on the comparable operating profit. Additionally, one renewable diesel unit at the Porvoo Refinery is scheduled to have a 3-week maintenance break and that in the third quarter. And the EBIT impact of that is estimated to be approximately EUR 10 million.

So this concludes now our presentation, and we would be happy to take your questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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

So 2 questions, please. The first 1 regarding the demand for the renewable diesel. So renewable diesel demand is linked to the (inaudible) fuels consumption, which is currently falling. However, you gave us a guidance of stable sales volumes in the second quarter compared to the first quarter. So why aren't you facing a decrease in the renewable diesel demand? Is it more linked to the kind of contract that you have, which are kind of, let's say, take or pay? Or are you lowering your renewable diesel price to keep relatively high sales volumes. Second question is about your hedging policy. So you've told us last time that you hedge your renewable products margins a year ahead. And I wanted to know if you are currently hedging your renewable margins for 2021, knowing that those margins are probably lower than when you were hedging them a year ago.

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

Mehdi, this is Matti Lehmus. I'll first comment on the demand for renewable diesel. And in general, exactly like you state, of course, the COVID-19 situation has had a significant impact on crude oil and fossil oil product demand, like we all have seen. And obviously, this situation also has effects on the global renewable diesel demand but the effect is much less pronounced. And I would state a couple of reasons. So first of all, it's good to note that diesel, in general, has been less impacted than gasoline. And obviously, a very important driver for the renewable diesel demand is the diesel demand, for example, in trucks. And the other comment I would make is that in, while, in some market segments, biofuels mandates are directly linked to fossil fuel volumes. There are also some segments where renewable diesel demand is not directly linked. And just to give you one example, for example, in California, the renewable diesel demand continues to be very solid. So I would state that overall, this means that we expect the renewable diesel demand in the short-term to remain quite stable. And this is also reflected in our comment that we expect our oil sales volume to be stable in the second quarter. And on the hedging, I would state that exactly like you stated, we have said that our hedging approach is that we typically sell hedge approximately 50% using vegetable instruments on one hand and oil product instruments on another hand as a proxy hedge, and indeed, we have also stated the typical duration is around 12 months. In this environment, I would say we have slightly shortened the duration of our hedging.

Operator

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

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

Just coming back on the hedging. Clearly, there must have been a positive impact from hedging in the first quarter on the margin in Renewables. Are you able to quantify that or give us some order of magnitude as to how significant that was to your margin and earnings in Renewables during the first quarter? And then any sort of guidance you have to provide, what do you think the effect might be over the second quarter and the remainder of the year? And then secondly, coming back to your comment about overall fuel demand falling and that negatively impacting the renewable diesel sales margin in -- for this year. Can you talk about what the mechanism is there for that impact? Is it just simply the lower diesel price? Is it maybe lower biofuel credit prices? Any kind of information you can provide on the mechanism into that effect would be great.

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

Thank you, Joshua. It's Matti. So first, on the hedging, we are not quantifying the exact impact of hedging. Like I explained earlier, it is, of course, only a proxy hedging approach. We also only hedge part of our sales volume. So I would state that it helped mitigate a little bit the impact of feedstock prices going up. While at the same time, oil products, diesel went clearly down, but it is only partially mitigating that impact. On the margin outlook, I would say that we are not giving any margin guidance, of course, what I would state that it's clear, it would be very surprising if the COVID-19, very significant market impacts would not have an impact on our margin going forward. And there the simple logic is like that, that our prices are to a significant part linked to oil products such as diesel, for example. And at the same time, the feedstocks, while they are starting to also react and come down, they have not reacted as quickly and as much as all products. So that is the underlying logic.

I mean, what it can add to that is, Joshua, you remember that last year in Q2 we talked about the fact that we were moving our business model, building up more optionality that originally, I mean, we were mainly focused on the northern part of Europe as well as California. And then we had started with the additional volumes that we were able to produce to prepare other geographic markets. On one hand side and the other hand side, also selling over 100% our Neste MY in pump stations, not just in Finland, but also in the Baltics, in California, in the Netherlands and so on and so on. So it's now more than 200 tank stations where you can buy the product. So having built that optionality in our business model, in addition, also having signed more than usual term contracts for 2020. That gives us, of course, also more room to maneuver in how we are conducting our sales in renewable diesel. So I think that's also an important factor, I mean, to look at.

Operator

Your next question comes from the line of Antti Koskivuori at Danske Bank.

Antti Koskivuori ***Danske Bank A/S, Research Division - Analyst***

All right. So this is Antti Koskivuori from Danske. 2 questions from me. First, on Oil Products and the reference margin guidance that you give for Q2 saying that it will be likely lower than in Q1. Yet in April, according to the website calculator from your own website. The reference margin as realized more or less doubled the level that was in average -- on average in Q1. So is your view on Q2 as a whole based on forward curve, or what is the, what's behind this assumption? And then secondly, on the changed dividend proposed so now in to be paid in 2 parts. I understand this is a Board decision, but if you could give some light to the reasons behind this decision as by looking at your balance sheet, one doesn't easily see why this is necessary at this point? Those would be my questions.

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

Okay. Let's take your first question. And of course, I mean, let me allude again to Q2. Yes, it's -- everything is very volatile at this point in time. So Marko, do you want to add something, I mean, to the OP reference margin?

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

Yes. I can. I can, yes. Thank you, Peter, and then thank you for the good question. And of course, now for the Q1 and then what we can see already based on the calculation, we had a good operational performance and supply performance. That's also including the timings that we have. And then also the wider Urals differential during that time. But now like Peter highlighted now when we see this very unprecedented situation, lot of volatility in the area and also uncertainty. So it's really difficult to forecast. And then there forwards are not our forecast in that sense.

Antti Koskivuori ***Danske Bank A/S, Research Division - Analyst***

But is it fact that the spot margins haven't come down yet? Is that like the right conclusion?

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

Well, I would say that that's very hard to forecast. And I would maybe here show or highlight that with an example that even during 1 day, the spot margins can change from $1 to even $9 per barrel. So when the variance is that much, so it is really hard to forecast and in the pandemic (inaudible) --

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

Yes. Yes. And we've seen -- I mean, these changes on a daily basis, spot margins, I mean, being at $2 a barrel and then a bit later, I mean, going even at the same day, I mean, going to $5 or $6 per barrel. So I think currently, they are at $2 per barrel. So I understand your question, Antti, but this market is very volatile. But I mean, the important thing here is how also in Q1, our people have been able to maneuver through that situation with, I would say, in Q1, a very good result. So that will be the same models as any of that we have in Q2. Yes. As you can imagine, I mean, this is a another way of working than usual, which means that many touch points on a daily basis between our operational teams and how to steer through that volatile period. Now coming to your second question. At the end, I mean, regarding, I mean, the dividend proposal. I mean, first of all, one can say the dividend proposal has not really changed, I mean, to the previous proposal that has been made, I mean, by the Board, I mean, to the AGM. The only thing that has changed is that on the second tranche and the extraordinary dividend, the Board is asking the AGM to delegate the responsibility to the Board to decide on its discretion then, and we guided towards October because that is when we have the Q3 results then also available, and we communicate them. To then take the final decision. This is, I would say, just in this very volatile environment, like you have seen from many other companies, just being very prudent in how to look at the future.

Operator

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

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

Can you hear me?

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

Yes.

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

Sorry. A few questions for me, please, as well. Just going to the Renewable Business. I think last quarter, or at the strategy update, you talked about term contracts being 70% or more than that. Can you give us an update where we are on that? Is that still around that level? And are you willing to offer some flexibilities of customers asking for less volumes given the current environment? Secondly, just on the sales margin in the first quarter. Perhaps if we can deconstruct it more directionally. Did March -- did the March sales margin look weaker than the first quarter average? And what are you seeing so far in April compared to March? And then finally, just on the additional margin in Oil Products. I wondered if you can be a little bit more specific. You talked about the better operational performance and also about supply management. Is it purely or largely a function of the more attractive feedstock pricing there? And perhaps linked to that also, if you can say, what the current utilization rates are at the refineries in April?

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

Yes. So let's, first of all, take your questions in the Renewable area. And I would ask Matti to take those questions.

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

Yes. Thank you, Thomas. So on the term contract, indeed, what we have been over the last year also communicating, we typically tend to have something like 60% to 75% range of term contract and exactly like you commented, for 2020, we have been at the higher end of that range. And that is still the situation. It has not changed. So the share of term contract is somewhat higher this year than it was last year, around the 70%. And in a way, you asked also whether we have had needs to reallocate the volumes. We haven't had lot of need to touch the volume. So the demand in the Q1 was solid. And then to the flexibility, I mean, the flexibility offered, of course, in these term contracts, there is a little bit of flexibility also always in, yes. But then on the other hand side, we have then the optionality in covering more customers direct business as well as in the geographies.

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

Okay. If there is not much flexibility, I wonder why you're being so cautious about that second installment of the dividend. And essentially, you have a very strong balance sheet. Your gearing is in a negative territory. And you have these term contracts in place. There's some flexibility. You have some margin hedges in place. If there's one company that can pay that dividend with ease, that would be you. So I'm just kind of a little bit puzzled by having that flexibility on the second installment there.

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

Yes. But Thomas, I mean nobody has said that at this point at the second tranche and the extraordinary will not be paid. It is just a matter of prudency. I answered that question already before that the Board has decided to be prudent, yes, and take the decision then finally later in the year.

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

And there was another question on the sales margin more specifically month by month, let's say, we are obviously not opening that month by month. But I think in a way, if you look at just the description that when we went through the markets earlier in the presentation and you look at the curves, so of course, it's clear that in the beginning of the year was different in terms of where crude price was, and if you look at what has happened since then, so we have seen decreasing trends clearly on crude prices. That has come from the beginning of the year of $60 more towards $20. And at the same time, as our feedstock markets have remained tight, we haven't seen big, big movements. I mean, we have started seeing downward movement recently on animal fats also and used cooking oils. But it's clear that these movements have been much slower and much less pronounced than in crude oil. And like mentioned by our CEO, we, of course, continue at the same time to continuously optimize and use the optionality we have to optimize our sales and feedstock mix.

And then we had the additional margin question on OP. Marko, if you can take that question also with relation to utilization rate.

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

Yes, I can take it. And then, yes, and I'll try to open it, when we say that good operational performance, that means that we've 1 refinery set up now, and we are in both including Naantali and then in Poorvo. We were able -- the running rates and utilization rates, they were on a good level. In addition, with the rapid changes what we could see on the products, with the existing setup what we have, we were able to change the operations in the refinery. So that I would a little bit more open, to open what the good operational performance means then on the supply performance, like Peter already said earlier, I think, we've been -- we have a very good knowledge and skills inside in the house. So we were able to benefit now on the changes in the market, what we produce, but then also on the other side, it's also like as it's about the pricing when the deals were done and the purchases. And then the big impact there is, of course, that the wider Urals, which especially now that during towards through the end of the Q1, where we're on the widest. And then on the utilization rates, we are still operating with a slightly reduced utilization rates in both in Poorvo and other.

Operator

Your next question comes from the line of Michael Alsford at Citigroup.

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

I've got a couple, please. I guess, firstly, on the production performance in Renewable Products, it was obviously particularly strong in the quarter. I guess when you annualize that, you get close to about 3.2 million tons of volumes, which was your target for capacity creep ahead of Singapore start-up. So I'm just wondering when you do the catalyst changes through this year. Should we therefore think that actually you could get more capacity creep than you previously indicated from the existing plants and capacity? That's my first question. And then secondly, more around the balance sheet. And clearly, there's huge dislocations in the market, but you are sitting with a very strong balance sheet. And so I'm wondering whether there is areas where you could perhaps accelerate your plans and your strategy on thinking capacity expansion? Is there value chain integration opportunities where you can use M&A or other areas to accelerate your growth plans?

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

Okay. First question, Matti.

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

Yes. Thank you. So a question on the production volume. And indeed, I think it's a great indication that with all the work we have done on the operational excellence, on reliability and safety, but also on finding ways to debottleneck the production, the pretreatment. I think the first quarter shows that in a quarter where things run really well, no plant maintenance, also no interruptions. That we can at the moment, be very close to that 800-kiloton per quarter in a way in that scenario. And of course, we continue to look for further opportunities, but let's say, I'm already very pleased that we were able to reach this level in the first quarter. And that will be a continuous effort going forward.

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

But we have not formally and officially announced now that we are increasing our nameplate capacity from 3 million to 3.2 million tons. We're not yet at that point. We have a very good practice, I mean, during the first quarter. We are very confident about it, but it's not yet that we say, okay, now we have achieved it. And therefore, the gap between -- remember the original 2.7 million tons and then the announced 4.5 million tons with the Singapore facility in 2022 has been completely closed. But it's also like Matti said, Neste Excellence is a very important element of our strategy. So every time, yes, you find a creative solution to avoid the bottleneck, and you just then start focusing on the next bottleneck. So rest assured, I mean that our excellent people will continue to do that. So on your second question, which is strategic in nature and with regards, I mean, to balance sheet expansions, M&A, we have talked about that also in the Capital Markets Day. With regards to the HVO expansions, we are currently doing the respective studies. We are proceeding with that. So we're not putting them on hold because of coronavirus situation. And actually, the locations, Rotterdam and Porvoo as 2 potential locations, this is now starting to move into environmental impacts and analysis studies. So you may see, especially with regards to Porvoo because this is, of course, then locally is public. So you may see that appearing also in the regional news eventually. So we continue -- I mean, with full speed ahead on that. Whilst we, of course, continue to focus on building up our sites in Singapore. One point that I -- and you probably read it out when I was giving my introductory comments, from today's point of view in Singapore, on the new plants, we continue to be within the time line that we have communicated, so start up middle of 2022. But currently, the construction sites have been closed because Singapore, the authorities, they have imposed a new lockdown. They have quite some imported cases now, you can say, a second wave of COVID-19. So they have tried and taken, rightfully, so very rigorous measures to contain that. And that locked down has just a couple of days ago, I mean, been expanded from the beginning of May now to the first of June. But as said, with -- if that continues to be, and we start-up again in June, then the current guidance continues to be that we will be on time in the middle of 2022 because we were running a bit ahead in terms of the construction work that we were doing there at the site. Now M&A, we continue, of course, to look at opportunities in M&A, like we said in the Capital Markets Day 2019 as well as in 2020. So that continues to be, of course, on our table. We have a focus on closing the acquisition in the United States. And of course, and we continue to look abroad where it fits, of course, to our strategy. And you've seen also in terms of equity investment with start up companies, what I talked about, that also there, we are active.

Operator

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

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

And the first 1, I'm afraid, is on diesel sensitivity. We've touched on this before, and you explained the link through the long-term contracts. Looking at where diesel is today $300 per ton. That was the level in 2016 when your margins were materially lower, but your business model obviously different. So the question is, are there any -- within your agreements, are there any dampening effects to mitigate this extreme move in diesel? Like -- or are we going to see a bigger potential impact quarter-on-quarter if you want on your sales margin? That will be the first. And secondly, looking at your country's split of sales for Renewable Products, I mean, clearly, a great increase in your volumes than other European countries. Could you just elaborate on where do these extra volumes go to? Which countries? And if the -- you are already at the pricing level, do you want to be there?

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

Matti, do you want to take Nick's questions?

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

Yes. Thank you. So perhaps on the term contract question without going in detail, I would perhaps highlight the fact that given that we are selling into a number of countries, with their very different regulatory schemes, very different customer segments. We also have a variety of different type of term contracts. And like I commented earlier, I mean, quite typical is that there is some link to an Oil Products, for example, a diesel type product growth, but we have different schemes. The other question on the sales side, I think it's actually -- if you have followed what we have been commenting over last year, I think, it's been a very systematic work that while we obviously have had for a number of years, important, a number of countries and regions that are important for us, both in North America and Europe. We have also systematically increased the number of customers and customer segments, markets that we operate in, for example, in the European market which is fragmented. And I think in this type of situation, that is, again, very valuable that we, of course, continue to keep all these customer segments and markets active. And we will also then be optimizing our sales in a way to find the best outlets going forward.

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

I'm sorry to push. I have a follow-up, but could you broadly give us a a rule of thumb in (inaudible) on the diesel sensitivity? Or is it 5% of the volumes impacted, 10%? Or anything you can give incrementally would be very much appreciated. .

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

You mean, Nick, impacted by what sense?

(inaudible)

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

By the diesel price, sorry, by the diesel.

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

By the diesel price.

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

Yes.

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

Well, I mean, pretty much so. I mean, everything, I mean, in California, where you're talking about LCFS. I mean the link, of course, is price build up, as you know. And we have not disclosed, I mean any numbers on the European, what is now linked, I mean, the diesel prices, what is not linked to diesel prices. As you know, I mean, everything that we are selling at the pump stations is pretty much, I mean -- or looking at diesel prices and then you have a premium on top of that and then depending, of course, on how the tax regulation is, if you have [high blend], I mean, tax situations, et cetera. But really, I mean, Nick, we have not disclosed, I mean, how much it is. But it does -- yes. The important thing is, I mean, it does have an influence. That's very clear, yes. So we are not immune. And I said that on the Capital Markets Day as well, we are not immune in such a situation where you have such a sudden reduction of oil products prices in the marketplace. We do everything that is possible. I mean, to dampen it and if, who knows, make a couple of comments also, I mean, on the waste and residues. I mean if you would just calculate, do a back of the [envelope type] calculation on what you assume, I mean, what waste and residue prices are today, and if you look then at the sales margins in Q1 that we were still able to make, even if you take, I mean, BTC out of the consideration, I think that shows you also a bit that this is not one-on-one. So if it would have been 100%, I mean, waste and residue price increases, plus 100%. I mean, diesel effects then, of course, our renewable diesel sales margins would have been substantially lower.

Operator

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

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

A couple of questions left, one on Renewable Products and one on Oil Products. On Renewable Products, Peter, you talked briefly about the situation in the airline industry. And you said that the discussions will continue. I was wondering if it's fair to expect that the increase in volumes of sustainable aviation fuel could be perhaps slower than previously expected, given the unknown financial situation of the airline. On the contrary, do you think that some of the financial support that the airlines receive could be perhaps linked to faster decarbonization and hence, perhaps could accelerate things around sustainable aviation fuel? I'm interested to hear your views around that. And then secondly, on Oil Products, I wanted to ask about contango, and whether you're playing the contango that we were seeing in the market at the moment. I remember there used to be quite a substantial contribution in the past. Is it likely to be the case again this year? Any guidance you could give would be very helpful.

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

Okay. Let me take the first question, and then Marko will take the second question with regards to contango. As I said, in the airline industry, of course, I mean, it's a very, very difficult situation, I mean, for the entire airline industry. That's very clear. But nevertheless, and as we are still in a situation of market making, we continue to see good commitment and good traction by our customers, the ones that we have signed up. We get new customers that joined the party, I would say. There may be a little bit of shifting of volumes, I mean, from the beginning of the year towards the end of the year. But generally spoken, I mean, that I'm very pleased, I mean, the commitment continues to be very high from the airline industry despite, I mean, the devastating situation that they are in. Now, of course, there is quite a lot of discussion ongoing right now. For example, in Brussels around the Green Deal. We have also signed a petition that was supported by, if I remember, well above 180 members of parliament, whereby the main drive, and it came from one member of parliament that took that initiative, was let's make sure that we make the connection between recovery COVID-19 and then the Green Deal. So if we are giving incentives, that we also make sure that it brings something in terms of greenhouse gas emission reduction. So I see that as a very positive development in Brussels, and that will definitely also be followed up, I mean, during the next months, quarters, it's good that, that topic is at such, I mean, in the middle of the table of the policymakers. And of course, as usual, I mean, we stay very close to that, and we are supporting it. Marko, can you take the OP contango question?

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

Yes. I think that the question was, and thank you for the good question, we have, of course, now when there is a lot of volatility in the market. We are, of course, following it. We have done some contangos. Coming back to the question on whether it will have a substantial impact coming back on the history figures, I think you are not able to compare it to back to history, and then all in all, as the big changes now with the COVID pandemic, I think, the contangos will not solve the issue as such on their own.

Operator

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

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

Just another question on Renewable Diesel pricing. Conceptually, why is it correlated to diesel? As we're seeing at the moment, the 2 markets can have very different supply-demand dynamics. Given that RD demand appear to remain robust. Should that not give you a degree of pricing power over and above what regular diesel prices are doing? And then just secondly, you talked in the release about the divergence in animal fat and UCO prices. How much flexibility do you have to switch between the 2? And is that something you can try and take advantage of?

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

Yes. Thank you for the question, Peter. This is Matti. I'll start with the animal fat/used cooking oil question. So I think in a way, what we have, again, systematically worked on over, over a long period is that technically, we have a lot of flexibility, and the production units can handle different type of feedstock mixes. At the same time, I would highlight that, of course, it is also a question of customer preferences and feedstock availability, logistics, everything. But let's say, technically, there we have quite good flexibility. On the other question related to, let's say, pricing power and versus fossil diesel, I would highlight that, like I commented earlier, that we have definitely markets, where it's 2 different market segments. In some markets, there is a direct link in terms of having a mandated volume of renewable. In others, like California, I mentioned as an example, it's also a customer choice, what they want to use. But I think, ultimately, what we have seen is that the demand for renewable diesel has remained stable in this situation.

Operator

Your next question comes from the line of Iiris Theman at Carnegie Bank.

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

I have 3 questions. Firstly, there have been discussions that the U.S. EPA could halt biofuels or bio ethanol blending, given the decrease in oil price. What is your view on this? Do you expect EPA to do this? And could this impact the renewable diesel blending? If yes, what this would mean to your U.S. volume?

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

Okay. Matti, if you can (inaudible)...

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

Yes. A brief comment on this one. So it is accurate. There have been, to my understanding, a couple of states, which have proposed these type of waivers or changes to the system, there is also a number of states who have clearly opposed it. I think, as a general comment, I would say that so far in the past, these type of waivers have not been made. And the system itself that is part of the renewable fuel standard is also such that the system adopts the volumes when changes happen to the underlying demand. So from our perspective, we don't see a need to change the system.

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

Okay. And then regarding the flat Renewable volume outlook, which already has been discussed, but just wondering that are your customers blending relatively more renewable diesel than previously because you are now guiding flat volumes for Q2, even though the diesel demand is coming down?

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

Yes, that's a very brief comment. I think we touched upon it earlier. We have different types of market segments. In some market segments, the blending mandates are such that they are directly linked to a percentage of the diesel, fossil diesel volume, but we have also different type of market segments where it's either linked to greenhouse gas reductions, or also like the California example, where it's actually a choice that the customers have. So I think it will depend, market by market. And like I commented, the overall short term, what we have seen is that the demand has been quite stable.

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

And again, expected for Q2, as we guided towards in Q2. Yes, sales volumes expected to be relatively stable. We didn't say that market demand is expected to be relatively stable. We said sales volumes.

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

Okay. Yes. And then finally, fixed cost in Renewable Products were around EUR 80 million in Q1. Is this kind of a good run rate going forward in the coming quarters?

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

Well, what I talked about, I mean, in my opening comments was that we have put in place business continuity plans. So of course, in such a situation, if you put in place business continuity plans, then you also look at what were your fixed costs. So that there would not be a runner up let's say, in fixed costs because of all the things like hiring people, et cetera, et cetera. So we are keeping -- we have a program that we have put in place that is focused on the fixed costs. So having said that, that means that you can, from my comments, understand that fixed cost is something that we are very, very intensively looking at whilst not jeopardizing the implementation of our strategy.

Operator

Your next question comes from the line of Matt Lofting at JP Morgan.

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

Two questions, if I could. I mean, firstly, just on feedstock markets, in addition to the comments you made earlier on used cooking oil, could you talk more generally about feedstock or raw material availability and how it compares in April to the Q1 environment. And then secondly, on the Singapore expansion and the comment that you made earlier. Could you just give us a sense of how material the construction commitment or assumptions are for the rest of 2020 in terms of delivering the asset in 2022?

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

Matti will take the first one. I will take then the second one.

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

Yes. So thank you, Matt, for the questions. I'm happy to talk a little bit more about the trends we see in feedstock market in terms of availability. So I think, and perhaps I'll make a couple of comments on each one of the different categories. So, I mean, Used Cooking Oil is probably a special one because here it's an obvious link between availability of used cooking oil and lockdowns having an impact on restaurants. And what I would say in general is that, yes, we have also seen clearly that the COVID situation has had an impact. We have seen impacts bigger than 25% in different regions. What is also interesting is that, we on the other hand also see that markets such as Asia, for example, are starting to recover also. So it is then also depending, of course, on whether restrictions are being lifted on restaurants. On animal fats, in general I would say, the supply has been relatively stable. I think the key to watch is then whether the situation has any impact on slaughtering activity. So, of course, that is something we are watching very closely whether we could see decreases in slaughtering activity going forward. And on the other hand, on vegetable oil, I'll take the example of farm oil. I think, it's good to state that we haven't actually seen supply disruptions really in this part and at the same time, what is important to watch there is whether and to what extent this situation has impacts, on the other hand, on the demand because, for example, this situation could lead to lower demand in -- if there are, for example, local mandates being adopted because of the big price movements.

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

And with regards, I mean, to the Singapore expansion, I mean, the authorities in Singapore have also in the first place that they have experienced. They have undertaken very rigid actions and very good actions, and they were able to, relatively fast, contain the situation. So they kept on monitoring that, and I would make the comparison a bit with South Korea, that same kind of measures that they have put in place. They then noticed that in certain dormitories where you have foreign workers living and sleeping. They found out there was an outbreak of COVID-19. And immediately, they put in very rigid actions again. In the first wave, we were able to continue with the Singapore expansion. So we have very good support, I mean, from the authorities on that. Now in the second wave, it's all -- they don't make any exemption. It's all the construction sites that are shut down because of the concern that they have that eventually this would spread around with regards, I mean to the foreign workers. So if I look at how successful Singapore has been with those kind of actions, and how fast they have been in putting rigorous actions in place, then I have more confidence than, for example, if they would have allowed everybody, I mean, to continue to work and then everything would have spread around and it would have been uncontrollable. So yes, I mean, they did the first lock down announcements, 13th of April to the 4th of May. And then a couple of days ago, as I said, I mean, now extended, I mean, to the first of June. If it stays till that and then we start up again in -- during the course of June, or even July, then we are confident that the middle of 2022 is still the start up date for our new refinery. Of course, if it would be extended and it would be a shutdown for, let's just say, 6 months, and it's clear that, that would have an influence, of course, also on the start up date of the Singapore expansion. But we're not there yet. So far, I would say, rather happy that they have taken, in that COVID-19 crisis situation, such rigid actions. And of course, we are -- and our teams are on the ground. We are completely committed, of course, on the Singapore expansion, that is without any doubt.

Operator

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

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

Yes. This is Artem from SEB. A couple of questions from my side on Renewables. So you covered quite a lot as the topic relating to collapse in oil price and also fossil diesel, but maybe looking beyond, let's say, a longer term picture, do you think that there could be some implications on implementation of mandates as fossil diesel is now roughly 5x more cheaper compared to your product. Or do you think that, let's say, mandates and targets being set by 2030 and so on. So this will be the powerful mechanism ahead for when it comes the demand for renewable diesel. And the second question is relating to your sales for North America. So the portion was 25% in Q1. And you mentioned that, for example, low carbon fuel standard is not really linked to blending rates and so on. Do you expect that North American sales will be clearly more than 30% this year? Or what are your expectations on that front?

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

Thanks, Artem. And Matti, if you can take the questions.

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

So first, on the longer-term outlook. I think a bit like Peter commented earlier when talking about the renewable aviation outlook longer term. I think it's very clear, I think that the commitment to climate targets, to greenhouse gas reduction hasn't decreased. If anything, there may be also indeed opportunities to combine post COVID recovery with accelerating some of the transitions to a sustainable economy. So we do see clearly that the commitment to the longer-term target is there, and we have not seen any signs of that being questioned. In the shorter run, we have also seen no waivers. I think the only exception I'm aware of is Romania where some waivers have been put place.

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

Yes. But then on the other hand side, for example, and you know I'm originally coming from Belgium. So that plays always a bit of a special role for me that actually, Belgium has now, since April, further increased their biofuel mandate from 9.6% to 9.9%. So you see these little indications here and there that are pointing into the right direction. Is that a guarantee that there will not be waivers, of course, I mean, it's never a guarantee. But at least, I mean, from today's perspective, we see that rather positively and not as something threatening.

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

Exactly. And then just a brief comment on the split or, let's say, the share of North American sales going forward. Like you have observed, if you look at the past, this has changed or been a bit variable from quarter-to-quarter. And this is a natural outcome of the fact that we optimized our sales mix based on feedstocks, based on markets and margin outlooks. Also shutdowns that we have at individual sites may have this kind of quarterly impact. So I don't have a number. It's actually, we don't have a target against which we are steering. It's really something we're optimizing quarter after quarter.

Operator

There are no further questions, please continue.

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

Yes. And maybe a couple of comments to end. Thank you very much, I mean, very good questions from all of you as usual. Maybe let me point out, if you are looking at Q2 and Q2 is, of course, quite extraordinary because on one hand side, of course, we have a minus EUR 85 million effect because of that part of [TA 2020] that we are implementing starting next week. We have the Singapore catalyst change with an impact of EUR 50 million. We have a very volatile environment with very low visibility. And of course, as we explained today, a continuously reduced OP and its demands and that in combination with very high waste and residue costs for the Renewable Business. So it will be Q2 very clear for us, a very challenging quarter. But if I bring it back, I mean, to the big picture, we continue to work very intensively on the implementation of all the identified actions in our strategy, continue to make very good progress on that as well and definitely also continue to be very confident on the long-term outlook of our business. So that as my final comments.

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

Thank you, Peter, and this concludes the call. We thank you very much for your attention and active participation. And next is second quarter and half year results will be published on the 23rd of July. We wish you a very good weekend, stay safe and in good health. Thank you, and goodbye.

Operator

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