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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q2 2023 Neste Corporation Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I'd now like to hand the conference over to your speaker today, Anssi Tammilehto. Please go ahead.

Anssi Tammilehto ***Neste Oyj - VP of IR***

Thank you. Good afternoon, and welcome, all, to this conference call to discuss Neste's Q2 results published this morning. I am Anssi Tammilehto, the Head of Neste, IR, and here with me on the call are President and CEO, Matti Lehmus; CFO, Martti Ala-Harkonen; and the Business Unit heads, Carl Nyberg of Renewables Platform; Markku Korvenranta of Oil Products; and Panu Kopra of Marketing and Services.

We will be referring to the presentation that can be found on our website. And as always, 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 President and CEO, Matti Lehmus, to start with the presentation. Matti, please go ahead.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, and a good afternoon also on my behalf. It's great to have you all participating in this call. I'm pleased that we were able to reach a solid quarterly comparable EBITDA in the second quarter, and [also] I would like to thank the Neste personnel for making this happen. As mentioned in our half year financial report, our focus is on the ramp up of our growth projects, and especially Singapore. The ramp up progressed in the second quarter, although it was slowed down by a shutdown in June. Let me now move on to Page 4.

In the second quarter, we were able to deliver a group comparable EBITDA of EUR 784 million compared to EUR 1.085 billion euros last year. In Renewable Products we were able to reach a record high sales volume of 957 kilotons with a clear 17% increase versus last year. Also, we were able to reach a sales margin of $800 per ton.

This was supported by a continued favorable trend in feedstock markets. However, the margin also reflects the impact from costs related to the ramp up of Singapore and a diluted margin impact from higher sales from our Martinez joint operation, which together with some other factors explained that the Q2 day margin was at the low end of our guided margin range.

I also want to note that during the second quarter, our focus was on ramping up our growth projects and especially Singapore. The ramp up progress during the quarter was slowed down by the need for a shutdown for equipment repairs during June.

All products had a solid comparable EBITDA of EUR 239 million and this was driven by the normalizing product margins. Marketing & Services generated a comparable EBITDA of EUR 29 million in the second quarter following normal seasonality.

Let me briefly then move to safety. Safety performance continues to be a key focus area in Neste. Safety performance in the first half of 2023 continued on an improving trend compared to previous year for both occupational and process safety. We continue our focused efforts to drive a continuous improvement in our safety performance.

Then moving toward financial targets. Our financial position remains solid, building on the strong profitability in both Renewable and Oil Products businesses, [to] reach a comparable after tax ROACE of 27.4% on a rolling 12 month basis, clearly above the target level of minimum 15%. At the end of June, our leverage ratio was 24.3%, also well within the target area of below 40%.

Then a couple of comments on the business environment highlights. Firstly, as mentioned, the demand for Renewable Products remained robust, and we were able to reach a new sales record in the quarter. In parallel, waste and residue prices on average decreased versus the previous quarter.

Turning then at the general Oil Products market, the main product margins were normalizing, although still at an elevated level versus the pre-pandemic period, supported seasonally by gasoline.

With these remarks I'll hand over to Martti to discuss the financials in more detail. Please, Martti.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Thank you, Matti. So let's now take a more detailed view on the financials in the second quarter and also for the first half of this year.

Like Matti already mentioned, Neste posted a comparable EBITDA of EUR 784 million in the second quarter. The result is lower than the corresponding period last year at EUR 1.085 billion. But this is almost fully explained by the more normalizing margins in Oil Products. 1 year ago the effects of last year's energy crisis you could say culminated in the second quarter for Neste. If we look at this year, second quarter results in a historical perspective, I would describe the result as a good and solid result.

Our Renewable Products continue a solid performance with comparable EBITDA of EUR 513 million versus EUR 538 million 1 year earlier. I would also like to say that our Oil Products continued to perform in a solid manner, contributing EUR 239 million of comparable EBITDA even when comparing to the very high number at EUR 529 million a year earlier.

Finally, our Marketing & Services continues its good performance with comparable EBITDA EUR 29 million, although impacted by inventory losses in line with falling product prices compared to significant inventory gains in the second quarter last year.

It is of note that our IFRS EBITDA totaled EUR 523 million the quarter. There is [say] difference of EUR 260 million to the comparable EBITDA at EUR 784 million. The main reason is that the result was impacted by inventory losses in line with decreasing commodity prices totaling EUR 305 million.

On the other hand, the changes in the fair value of open commodity and currency derivatives were in the second quarter positive, totaling EUR 38 million. And additionally, there were other positive adjustments totaling EUR 7 million. But like said, the comparable EBITDA is the comparable figure for you to compare our performance against previous periods.

I am personally very satisfied that our cash flow before financing activities improved clearly for the first half of the year compared to last year. Despite our substantial continuing growth investments and the business ramp up in Renewables supported by effective working capital management, our networking capital in days outstanding was 38.7 days on a rolling 12 month basis at the end of the second quarter compared to 56.4 days 1 year ago. This is a clear improvement.

In the second quarter the change in net working capital was EUR 3 million positive compared to EUR 997 million negative 1 year ago. Finally, our comparable earnings per share were one point EUR 1.35 for the first half of the year versus EUR 1.41 1 year earlier.

Then on the next slide, look at the second quarter comparison bridge by business. We can see the comparable EBITDA decrease year-on-year. Like said, it's largely explained by Oil Products which had a negative impact of EUR 291 million year-over-year. As a single item, you could also say Oil Products explains 97% of the year-on-year difference. This was a result like I said of the normalizing oil refining market.

In Renewable Products, internal comparable EBITDA was supported by record high sales volumes, but in this quarter was affected by a slightly lower sales margin at USD 800 per ton compared to 1 year ago.

As described earlier also by Matti, RP or Renewable Products result was affected by costs related to the ramp up of a new line in Singapore and a high amount of sales from the Martinez joint operation which has a lower margin in the absence of pretreatment facilities, which are expected to be available by the end of this year.

In addition, the sales margin was also impacted by sales mix and certain timing differences in the revenue recognitions of [biotickets]. However, it's good to highlight here that our Singapore ramp up costs are one-off by nature.

When we on the next page look at the first half of 2023 comparison bridge by profit driver, we know that the sales volume improvement both of Oil Products and Renewable Products improved our result year-over-year by EUR 42 million. Margin increase, particularly in Renewable Products had a positive impact of EUR 81 million, year-on-year.

As we continue to grow our global platform and capabilities, our fixed costs were still rising and had a EUR 178 million negative impact year-over-year if you look at the first half year. Going forward, we do not expect our fixed costs to increase in the same pace. And it's good to know that the main volume increases from our new production lines are only forthcoming.

Going forward, deriving further efficiency and optimization benefits will be one of our key focus areas as well. As outlined at our CMD in June, we are for example continuing our Neste Excellence program with wholly new targets. The new improvement target for the Neste Excellence program is to create over EUR 350 million of EBITDA improvements by the end of 2026 compared to the year 2022 acting as the new baseline year.

The program focuses on the following four levers: digital and data driven Neste; end-to-end process excellence; production excellence; as well as business model optimization.

When we then look at our cash flow for the first half year, the first note is that the decrease in commodity prices have had a significant impact on IFRS EBITDA. Our first 6 months IFRS EBITDA was EUR 986 million, EUR 677 million lower compared to comparable EBITDA at EUR 1.66 million 1 year earlier.

The change in net working capital was EUR 205 million negative, but materially better compared to the EUR 2.3 billion negative change 1 year earlier. Net cash generated from operating activities was EUR 794 million for the first half year, clearly better than the negative EUR 385 million 1 year earlier.

Our capital expenditure including M&A was EUR 945 million in the first half year, EUR 517 million higher compared to the EUR 428 million 1 year earlier. Cash flow before financing activities was EUR 126 million negative, but clearly better than the EUR 968 million negative 1 year earlier.

So as a summary for cash flow, our cash flow improved clearly in the first half of the year, although being impacted by our substantial growth investments and the decrease in commodity prices, and the improvement was also supported by effective net working capital management.

I will close here for my part and hand it over to Carl to go through over Renewable Products business in more detail.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Thank you, Martti. This is Carl. Good morning. Good afternoon to everyone. So let me take you through the Renewables figures. In Renewables Products the solid business performance continued during the second quarter of the year and we reached a new all-time high sales volume in both RD and SAF.

Our comparable EBITDA was EUR 513 million, up almost EUR 100 million from our Q1 results, while slightly below the year back EBITDA of EUR 538 million. On the other hand, we also faced some delays in the Singapore expansion ramp up as we had some standard refinery equipment failure at the new line which forced us to shut down the unit to make repair works during the second quarter, as well as the beginning of the third quarter.

If you did start by looking at the comparable sales margin, the margin remained very strong and during the second quarter as we reached a margin of $800 per metric ton, while a slightly below the year back margin [was] $841.

If you look at the key drivers for the lower margin quarter-on-quarter, margins were partly impacted by certain timing differences in the revenue recognition of biotickets, lower diesel prices as well as some changes in the sales mix. In addition to these, the sales module was impacted by the margin diluted impact of the increasing Martinez volumes as well as Singapore expansion ramp up costs related to the equipment repairs.

On the other hand, waste and residue prices reduced quarter-on-quarter to support the margins as the share will remain high in the quarter at 96%.

Let's take a look at the volumes. So as mentioned, we reach an all-time record sales volume in the second quarter as RD sales volume grew by more than 40% from 638 kilotons in the first quarter to 905 kilotons in the second quarter, which also was 125 kilotons above the volume seen in Q2 last year.

The sales of SAF volumes also almost doubled quarter-on-quarter and reached 40 kilotons in the second quarter, upfront 23 kilotons in the first quarter. SAF volumes are expected to continue to further grow towards the end of the year as we continue to ramp up Singapore production and as SAF capabilities over the course of the quarter.

Also, sales volumes to the U.S. increased over the course of the quarter and reached 40% of the total renewable sales, up from the 31% 1 year back, underlying the fast growing demand seen in the region and the ramp up of Martinez.

The utilization rate of our refinery was high over the quarter reaching 107%, up from 104% 1 year back as the existing lines were operating with high availability. Investments dropped quarter-on-quarter reaching EUR 356 million in the second quarter, down from EUR 506 million in the first quarter, but up from EUR 203 million which was reported in the second quarter 1 year back.

We continue to execute our growth strategy and our 12 month rolling comparable RONA continues to remain strong and was 21% in the second quarter. Our CapEx expenditure will remain elevated over the year as we continue to invest in our production capabilities and product flexibilities at our production facilities in Rotterdam, Singapore and Martinez. We also continue to execute our feedstock strategy, including potential future M&A capital expenditure.

If you then move to the next slide, let me take you through the EBITDA bridge between Q2 in 2022 and Q2 2023. So as mentioned, sales volumes grew significantly from 1 year back boosting the EBITDA by EUR 75 million. On the other hand, sales margins decreased slightly year-on-year lowering the EBITDA for the quarter by EUR 12 million. Weaker dollar also had a negative impact on our EBITDA, lowering it by EUR 15 million year-on-year.

Finally, our fixed costs also continued to grow year-on-year and had a negative impact on the EBITDA by EUR 73 million. The increase in fixed cost year-on-year is on the back of our business growth as we continue to scale up our business ahead of the Singapore expansion of Martinez Renewables. So to summarize, year-on-year, our quarterly EBITDA ended up at EUR 538 million EBITDA, which is EUR 25 million below the Q2 EBITDA in '22.

If you then turn to the feedstock, let's look at how the market developed over the quarter. So if we start with the vegetable oils, we continue to see a decline in the values over the course of the second quarter across the complex.

Having said this, we have now seen over the past weeks a steep increase in soybean oil values based on healthy supply demand in the U.S. as well as some production-related concerns. Palm has, on the other hand, remained relatively weak, although a slight recovery from the low seen in Q2. There are also some concerns relating to Ukrainian exports through the Black Sea, which could potentially tighten [SND] in the [AGS] across the board.

Waste and residue values followed the general trend in the veg oil complex and declined in value to a broad extent as well. Waste and residue spreads continued to soften over the course of the quarter, although at a slower pace compared to what we saw during the first quarter. The strengthening soybean oil prices may, over the course of the coming quarter, again, strengthen the waste and residue, particularly in North American markets, as biofuel players like (inaudible) seek alternative feedstocks to increasingly expensive soybean oil. We therefore expect waste and residue markets to gain support at these levels as demand growth continues to be robust.

So let's then finally look at the U.S. credit prices on the following page. If you start by looking at the LCFS prices, prices continued to slowly trend up and reached $80 per metric ton in the middle of the quarter. Towards the end of the quarter, prices eased slightly and ended in the mid-70s where they are remained since.

On the other hand, RIN credit prices continued to slowly trend down over the course of the quarter, trading at an average of $1.51 per gallon, down from $1.60 per gallon during the previous quarter and $1.70 per gallon in the second quarter last year.

The market, however, seems to have bottomed out here, and as now during the start of the third quarter started trending upwards and is trading around $1.60 per gallon currently. With strengthening soybean oil prices, there seems to be good support and potential upside in the RIN values here. This concludes the Renewables part.

However, as will be elaborated by Martti later in this call, in the outlook section, we are expecting very strong margins also in the third quarter with a guided range of $800 to $900 per metric ton, while sales volumes are expected to somewhat decrease quarter-on-quarter on the back of the slower than planned ramp-up in Singapore.

Thanks on my behalf, and now over to Oil Products, and you, Markku.

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

Thanks, Carl, and good afternoon, all. Now a quick update from Oil Products. We had a solid quarter in a volatile refining market. The comparable EBITDA was EUR 239 million versus EUR 529 million the year before and EUR 393 million in Q1 this year. The performance reflects return to a more normal market conditions after quarters of tightness and high energy costs.

Sales volumes was 2.8 million tons, the same level as the year before and 0.2 million tons lower than in Q1 this year. The total refining margin was USD 16.7 per barrel, down from -- down USD 13.3 per barrel compared to Q2 '22 and down USD 5.1 per barrel from the previous quarter. Comparable return on net asset was 46.9% in Q2 for Oil Products.

Now over to the EBITDA bridge. The total refining margin drop of EUR 263 million was by far the largest driver of lower results compared to Q2 last year. The volume had a marginally positive impact while both FX and fixed costs had a negative impact. On the market, you'll see a development of the main market drivers. The volatility has come down from the extremes of last year as the market returns to more normal conditions.

Overall, the margins are still at a healthy level. The lower diesel margin in Q2 was driven by the weakening industrial demand outlook. However, the margin improved towards the end of the quarter. Gasoline margins stayed above diesel through Q2, supported by the driving season and earlier refinery outages in influencing storage levels. This completes the quarterly upgrade from Pil products.

Now handing over to Panu for Marketing & Services.

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

Thank you, Markku. Hello to all. Panu Kopra speaking. Solid financial performance continued in Marketing & Services. Q2 EBITDA was EUR 29 million, which is roughly EUR 5 million better than in Q1. During last year, fuel prices were peaking up, and we gained high stock profits. And that's the main reason why EBITDA is less than last year.

Our market share in Finland has been growing very well, and operations are running normally. Aviation, kerosene, and Neste MY volumes increased both more than 30% year-on-year. We have opened 3 new EV charging stations in Finland, and we continue to invest [2] new EV sites during the year. Feedback from our EV customers have been very positive. This was shortly about Q2 in Marketing & Services. Handing over back to Matti.

Matti Lehmus ***Neste Oyj - President & CEO***

Thank you, Panu. And let's now move on to the current topics. So let me continue with an update on our growth strategy. So first of all, our short-term focus is on the ramp-up of Singapore. Ramping up such complex refinery is not a straightforward process, and we are addressing all issues to ensure a safe and reliable operation, and we expect the ramp up of the capacity to be completed by year-end. We also remain confident in our unique business model and our ability to sell our production. A very important item in the ramp-up is the start-up of the SAF production in Singapore, and that is now scheduled to start in the third quarter.

In Martinez, we target to start up the next phases by year-end, including the pretreatment to enable better feedstock flexibility. Once all phases are completed, Martinez will be among the largest renewable diesel facilities in the world with a competitive operating cost profile and good logistics and feedstock flexibility.

Our Rotterdam SAF optionality project is targeted to start up in early 2024, and the Rotterdam Capacity Growth project is progressing according to plan for start-up by mid-2026. And of course, we also continue to focus on waste and residue feedstock growth as this is an important value driver also going forward.

If I look then at that -- at our global growth and value creation, as we outlined in the Capital Markets Day in June, we will continue to differentiate ourselves from competitors with our flexible global operating platform and focus on feedstock growth and expansion in most attractive markets. We remain confident that our flexible business model will deliver a source of sustainable competitive advantage both short term and in the future.

So as an outlook, we see the following. The visibility in the global economy continues to be low, and we expect volatility in Oil Products and Renewable feedstock markets to continue. The Renewable ProductR third quarter, renewable diesel and SAF sales volume is expected to be somewhat lower than in the second quarter of 2023. The sales volume is affected by two key factors: firstly, a planned 5-week maintenance shutdown in the Singapore existing line; and secondly, the continued equipment repair works in the new line in July. The overall sales volume impact of the repair works of the new production line is expected to be 230 kilotons during the second half of the year versus our original ambitious ramp-up plan.

We expect the ramp-up of the production of the Singapore expansion to be completed by the end of the year and Renewable sales volumes to grow after the third quarter. Based on the current outlook, Neste's third quarter comparable sales margin is expected to remain very strong and to be in the range of $800 to $900 per ton.

And the segment's third quarter fixed costs are expected to be approximately EUR 15 million higher than in the second quarter. And as we have communicated also earlier, we have plant maintenance shutdowns for the Singapore existing line in the third quarter with an estimated EBITDA comp impact of approximately EUR 85 million. And in the fourth quarter, we have a scheduled 4-week maintenance in the Rotterdam renewable refinery.

Turning to Oil Products. The market in Oil Products is expected to remain volatile. Based on the current forward market, the third quarter total refining margin is expected to be slightly higher than in the second quarter. The third quarter sales volumes are expected to remain high, supported by the summer driving season.

And in Marketing & Services, the sales volumes and unit margins are expected to follow the previous year's seasonality pattern in the third quarter. We continue to execute our strategy and invest in our business. Neste estimates the group's full year 2023 cash out capital expenditure, excluding M&A to be approximately EUR 1.6 billion to EUR 1.7 billion.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The question comes from the line of Erwan Kerouredan from RBC.

Erwan Kerouredan

I have 2, please. First on volume and the equipment failure in Singapore, and then second on the Renewable Energy Directive in Europe. So on the equipment failure, so can you provide some additional information? Does it relate to RD or SAF production or both? Can you give more clarity on like basically what happened and where it sits within the operations and what prompts you to ensure that it's indeed a one-off?

And then in terms of like volume expectations for 3Q, my understanding is that volumes will be down something like 10% quarter-on-quarter in 3Q as a result of this and other factors. Could you just confirm that, please?

And then the last question is on the revision of the Renewable Energy Directive, or RED3, which is expected for September. Could this represent upside to your own demand projections for renewable fuels in Europe? These are my questions.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

I'll answer your first question. So indeed, as mentioned here, this -- we're talking about what we would characterize the standard refinery equipment, that we had some quality failure, and we were forced to shut down and then make the repair works. And we assume that we will be able to start production again here in the beginning of August. So the ramp-up will continue as planned.

Matti Lehmus ***Neste Oyj - President & CEO***

I can add. It's, of course, an integrated production line. So that is why then when we do these kind of repairs, we take the line down during the repairs. [Perhaps] a quick comment.

You had a question, the outlook for the third quarter. We have said that for the renewable products, we expect the total renewable diesel sub sales volume to be somewhat lower. The order of magnitude, you mentioned around 10%, it sounds about right.

And then perhaps a short comment on the Renewable Energy Directive revision in Europe. We are also expecting based on the information we have that there would be a decision taken on this package in September. We are expecting then, of course, that to confirm the higher ambition for greenhouse gas reductions going forward.

This is at the same time something that we have also had in our long-term forecast. Of course, one interesting one is then to follow how different member states actually transpose the new legislation. And in a way, depending on how quickly they adopted, this could then present also some upside once we see then the actual member state road maps to reach that high ambition. I hope this answers your question. Martti?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

So like Carl said here, standard equipment, there were some questions earlier during today, whether this relates to pretreatment facilities. It does not, but just standard equipment that we are able to replace rather in a standard order.

Erwan Kerouredan

And just to confirm, so you confirm it affects both RD and SAF, right, not just one single product?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes, indeed. So this affects the full new line in Singapore. So the whole line was taken down in order to make these repair works.

Matti Lehmus ***Neste Oyj - President & CEO***

One short correction to my earlier comment on your RED question and our long-term forecast. We have not fully modeled the RED3. So there is actually some upside when we now get the confirmation ultimately. So correcting my earlier answer here.

Operator

The 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***

2 questions, please. The first one, I wanted to ask you, looking at the margin guidance for the third quarter, what you include in that in terms of both -- any remaining impact from the Singapore repairs? And you also mentioned for the second quarter that was this timing and recognition of biotickets. Is that a tailwind in the third quarter that you included in the guidance? Any details can you give on that would be helpful.

And then secondly, again a bit over to 2024. I was wondering if you can give us some more comments about your views on, margins are developing consciously to -- maybe a little bit too early, but any additional comments you'd like to make compared since the last month.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So first, answering your first question. So indeed, I mean, our guidance for the third quarter is taking into account that we had this kind of onetime one-off events during the second quarter here, mainly related exactly to what you referred to, to the recognition of the bioticket as well as the impact from the repair works at the Singapore refinery. So these are then expected to have a kind of positive impact quarter-on-quarter towards the third quarter.

Matti Lehmus ***Neste Oyj - President & CEO***

And I'll take the next question, Henry. This was on 2024. And I think perhaps reiterating first, the key messages we also gave at our CMD, we are, first of all, very confident in our flexible business model that it continues to create value. We see the value coming from our feedstock capabilities. We see the value coming from our market optionality and growing in the most attractive markets, also expecting to grow in the SAF market, andd of course, in general, having this very flexible business platform that it enables us to adapt to the market situation.

We also discussed during the CMD that we do expect to see more supply coming on stream. So this can, of course, create some pressure compared to the very high margins we have seen in 2023, but we are confident that we are able to sell our production and to reach attractive margins. And perhaps it's in a way a good starting point to not only look at 2023, but just to also look at some of the previous years if you make different scenarios for next year.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

I might add here that these problems or challenges that we have now in the Singapore ramp-up, at present, we don't see that they have any effect on our sales volumes next year. That's very important. And like we are stating that we still forecast to be growing our sales volumes again in the fourth quarter onwards.

Operator

Your next question comes from the line of Giacomo Romeo from Jefferies.

Giacomo Romeo ***Jefferies LLC, Research Division - Equity Analyst***

Just a couple of questions. First, with regards to what you flagged about the one-offs that impacted your results in the first quarter? And are you able to provide a little bit -- quantify the impact from these biotickets, and perhaps also what was the impact of the dilution of margin from Martinez? It would be good if you put some numbers on that?

And then with regards to SAF, just trying to understand, as the new capacity come on, how quickly will you be able to ramp up your sales volumes? And how good is your visibility on your sale or your sub sales into the first part of 2024? I mean, whether -- to what extent you have already sold these on term volumes? If we can get a little bit more color on that would be helpful as well.

Matti Lehmus ***Neste Oyj - President & CEO***

So perhaps first answering on the first one. Obviously, like Carl explained earlier, there were some items in the second quarter, both related to the costs related to the repairs we had to make, but also then some of these timing issues related to the tickets. If I look at these kind of type of costs, without them, we would probably have been very comfortably in our guidance range, let's say, more towards the middle of that one.

Then, of course, commenting on Martinez, this is, of course, something we have also clearly stated earlier that in this first phase without the feed pretreatment, the margin level is lower. I think there's actually some quite interesting reference data you can actually see publicly. If you look, for example, in the U.S. at Argus that you can see the difference, for example, in the reference margin for soybean oil-based renewable diesel and then some waste and residue-based diesel. This is quite significant. And of course, we are looking forward to starting up the pretreatment unit and use that flexibility going forward. Sorry, there was a sub volume.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

There was a second question on SAF volumes

Matti Lehmus Yes. Exactly. Well, I mean, from our perspective, the key focus at the moment is now, as stated earlier, to ramp up the capacity in Singapore to reach the full capacity end of the year and to start up the SAF production in the third quarter. Obviously, then we will be increasing our sales volumes as production increases. And looking at next year, we don't have an exact volume, but we would expect, of course, the demand to clearly grow versus this year, so to be able to basically sell several multiples of this year's sales next year.

Operator

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

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

Firstly, I would like to come back to your commentary related to 2024 margins in Renewables, and we have commented about has always been attractive and making reference to previous years. What it basically means that you're talking about margin levels, which are -- should be roughly $700 to $800 per ton. Just an additional question on set. And then looking at Martinez pretreatment ramp-up, could you be more detailed on timing of it happening? Should we see some benefits already in Q3 of this year? Because I guess it will have quite meaningful impact on the unit profitability.

And the last one is actually to Martti when it comes to renewables depreciation. So it increased quite significantly in Q2. I think it was something like EUR 30 million quarter-on-quarter. Could you comment what should be the run rate for upcoming quarters?

Matti Lehmus ***Neste Oyj - President & CEO***

So mainly what I meant with my comment on 2024 is that if making scenarios for next year, then just making that observation, not only look at 2023, but look at actual sales margins that we have had in the last few years before 2023. And you will find those numbers. We have had the range of margins in that region. But obviously, we are confident that we will do everything to maximize the margin with our business model.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So thanks for the question on the Martinez [BTU]. So as also communicated during the CMD, we have been starting off that units at the end of Q2, and we are currently ramping it up and testing it. We do not see that it will have a significant impact on our margins still here in the third quarter as we still are now learning how to operate that unit and optimize it.

But it will definitely be a very important value driver for the Martinez refinery going forward to enable a much more wider feedstock base. But I think we will see that the impact of this will be strongly -- more strongly visible, let's say, towards the end of the year or early next year.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

This is Martti on the depreciation. Now in the early part of this year, we have taken the Singapore new production line into a property plant and equipment and of course, the first phase of the Martinez and they were reflected -- I'm looking now at the total group level depreciation at EUR 212 million versus year-on-year EUR 158million and a clear growth also from the first quarter. This is quite reflective estimate for the third and fourth quarter.

However, there might come some more depending on how -- when we are starting with the Phase 3 in Martinez, depending on that, we will start depreciating from the first month of next year or early part of next year or very late this year, but you could assume that most likely from the beginning of next year.

Operator

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

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

I just wanted to make sure I fully understood the phasing of the Martinez volumes. So my understanding is that the first phase is 0.5 million tons growth. And that is, I think, now operating fully. But if you could confirm that, that would be great. You then, I think, have the nameplate expansion, which you call Phase 3 that would take total gross capacity to 2.1 million tons. You're saying that, that will be available by year-end. Will there be a ramp-up period? Or will that kind of be able to be fully utilized once it starts up at the end of this year?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So indeed -- the plan is indeed in the Phase 3 to take this full capacity on stream and the start-up is planned to be towards the end of the third -- fourth quarter this year. However, we will clearly also see a ramp-up, and we expect the capacity to be on stream in the beginning of the next year. So there will be a ramp-up period, and we will see then the capacity coming on stream in the first part of the year.

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

Can you clarify it will be ramping up towards the end of this year rather than in the first part of next?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

The start-up is planned for the end of this year and then the ramp-up we expect it to happen in the start of next year.

Operator

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

Sasikanth Chilukuru ***Morgan Stanley, Research Division - Equity Analyst***

First, I just wanted to understand more on the repair work on the new production line. I just wanted to confirm whether it's correct to assume that there is no production from this production line in July?

Also, any clarity on what the impact of sales volumes was in the second quarter, specifically related to that, would be helpful.

And finally, related to this, I was just wondering if there was any insurance associated with the loss of sales volumes due to the equipment?

The second question I had was on the extraordinary dividend. Just wondering when that would be confirmed and paid as well, the $0.25 per share?

Matti Lehmus ***Neste Oyj - President & CEO***

So perhaps I can briefly comment. So like we said in our outlook, we expected the repair works in the new line to continue in July. We are now quite at the end of July, so it is in these coming days that we expect to be starting up. That is where we are on that one. We haven't actually quantified the exact volumes. I mean, we mentioned in our report that in June we had that maintenance and now it continued in July. So you see the overall impact of these 2 versus our ambitious plan, that was the 230,000 tons that was mentioned.

On the insurance, I would just say it's obviously a routine thing that we will be looking at the possibility whether we can make any claims, but that is still something that is pending.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

And perhaps if I add still to your question around Q2 volumes, so this didn't have any impact on our Q2 sales volumes. Actually, the impact is seen in the second half.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Maybe on the extraordinary dividend. So it is for the sole discretion for the Board to decide on that. But maybe if we look from the management point of view, we don't see currently such developments in our external environment that could not be paid. But like I said, it's for the board to decide.

Operator

The question comes from the line of Iiris Theman from Carnegie.

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

I have 3 questions, please. So firstly, can you comment anything about your SAF sales margin expectation? Do you expect somewhat higher margin than in renewable diesel, perhaps from $200 per ton?

And secondly, looking at Q4 fixed cost expectation, should we assume basically a flat growth -- or flat costs in Q4 compared to Q3 or should we assume already some cost decrease in Q4?

And thirdly, how do you see the current demand outlook for renewable diesel and SAF? And besides RED3, are there going to be any other regulation changes in the next 6 to 12 months?

Matti Lehmus ***Neste Oyj - President & CEO***

Perhaps I can take the first question. This is Matti on the soft sales margin. Obviously, we see this as a very important market and good demand for sub solutions. So we do expect the margin level to be competitive also versus renewable diesel. We haven't quantified it, but of course, what you can see, we, for example, have made quite a big investment in sub-optionality.

I take the example of the Rotterdam project, the decision we took. And as you know, we have our return targets, the minimum of the 15% ROACE target also for our entire portfolio. So it also shows that -- of course, we expect that value to be there so that we can make a good investment out of this. But obviously, something when the sales have actually been going up that we can come back.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

This is Martti on the fixed cost. So we've been in the first half of this year on the high side in the fixed cost increase. If I look for the group, EUR 90 million year-on-year in the second quarter, EUR 178 million for the first half of the year and 80% roughly of that has come from the RP side, 79% to be precise for the full year first half and 81% for the second quarter. However, the guidance for RP is now only about EUR 15 million higher for the third quarter versus the second. So really raining down the growth rate. It's only about 20% of the growth in the second quarter compared to that, and that quite well reflects where we are heading towards.

Slightly early to say precisely on the fourth quarter. We maybe see some minor increase, but really our fixed cost growth we expect to be coming down year-on-year. And we will be starting to look really towards those efficiencies and optimization, like I mentioned earlier, going forward, and particularly then, of course, next year then, of course, waiting to get the ramp up, our -- all the sales volumes that we are now ramping up to get those benefits out.

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So on the demand side, we have seen that the market has remained with healthy demand. As you saw in the second quarter, we had a record sales volumes in RD and SAF. And we see that, that still continues during the year here.

Going forward, we see that there will also be a growth into '24. So we estimate it to be around 2 million tons of demand growth year-on-year. So at the same time, we are also seeing a number of new markets being developed. So there is also potential upside for further RD demand as well as voluntary sub demand in that on top of this.

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

And besides the RED3, are there going to be any other regulation changes?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Well, I would say that, as Matti commented earlier, so I think that the main focus in Europe will be after the RED is -- negotiations are completed and we will see how to transposition into the different member states then goes. And I think that this will be, of course, a very interesting part of how this market develops, particularly in Europe.

Then as alluded to, I mean, we do see movement in other parts of the world as well. In Asia Pacific, we're seeing some further talks in Japan, for instance, we believe that the markets might also further grow in the U.S. over the course of the coming year. So there is definitely upside potential there than in addition to the voluntary demand.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

I had here a small anecdote, but at present, of course, during the hot summer months, we are seeing several of the islands and several parts in Southern Europe seemingly on fire. And these types of weather conditions and changes, We expect them to bring the decarbonization agenda strongly back to the table.

Operator

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

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

Circling back to the SAF uplift question. We're seeing some data that shows European SAF premiums in the $500 to $600 per ton range. Is that what you're seeing as well? And as we try to calculate this SAF uplift, is there anything else that we need to consider? For example, is there a worse yield when you produce SAF relative to RD?

Second question is, is there any update on the new dividend approach? And in particular, have you developed your list of competitors that you'll come to when thinking about the new dividend strategy?

And then third, could you talk about the impact to your business in 2025 in the U.S. when the BTC converts to the PTC? Does that limit the ability of Singapore to send RD into the California market? And does that also reduce the margin outlook for Martinez?

Matti Lehmus ***Neste Oyj - President & CEO***

If I start with the soft premium question. Well, I actually earlier commented on it in a way. We are not giving at the moment the exact pricing data or anything. But I refer to the earlier comment I made that, of course, we have made an investment. We have invested in this optionality, 500 kilotons in Rotterdam with a substantial CapEx, and we do see that the margin will be competitive. And of course, it's been a combination of the premium and all the costs related to the whole supply chain, how it exactly works in the production, but the overall, we expect that it's a good investment, bringing those returns. Matti, do you want to comment on the dividend question?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. So I'm honest there that during the summer here, we haven't -- and our Board hasn't dwelled into that. That will be on the agenda some time towards the end of the year. But like communicated at the CMD, we will look at benchmarks probably from a couple of industry. Of course, if there are any direct peers definitely on those, that will be high on the agenda. But then also at Specialty Chemicals Group was mentioned, not too much on the more traditional oil and gas, but perhaps also a little bit towards that. But of course, Neste, its transformation is very far. We think we are not a traditional oil and gas play anymore. So that was also mentioned at the CMD.

But I would like to, yes, continue that very clear target with the dividend policy is to continue paying a competitive and a growing dividend. So the change was merely made to give us a little bit more flexibility if the Board would so wish when it's thinking of the yearly payments or anything compared to our growth agenda and the opportunities on that side. But it's definitely in our target that -- to be also a good dividend payer going forward.

Matti Lehmus ***Neste Oyj - President & CEO***

Then there was the third question on 2025, and perhaps briefly commenting, I mean, what we have seen in this IRA proposal is indeed a switch of the blenders tax credit to a producers tax credit. We are also waiting still for the exact criteria. But our expectation is, of course, that we are very well positioned with our share in the market joint operation.

And in a way, while you are right that it's probably not exactly the same as the BTC, we see that from a relative competitiveness this is what matters. So I don't see an immediate impact for Martinez.

For Singapore or any other imports, it's, of course, still something to see what are the exact criteria. Is there any mechanisms that imports can also benefit from in terms of credits, but this is then something we need to analyze once the full guidelines are available.

Operator

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

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

2 if I could, please. First, I just wanted to come back to your operational outlook for the business in Renewables beyond the second half of this year, 2024 plus. Could you just reiterate the view there and the outlook from the beginning of next year and the extent to which from an operational performance and asset utilization perspective you believe and have confidence that the utilization rates and sales volumes of the business are intact relative to where you saw them, say, 3 to 6 months ago? And then the extent to which there's any deterioration in that view as a consequence of the outage you've experienced at Singapore for the last couple of months?

And then secondly, just to come back to the sort of the earlier point on insurance related to the outlook, given that it appears -- is related to standard refining case as opposed to something more specialized. I would assume that some form of insurance coverage would be industry standard. Is there any reason why that wouldn't be the case in this instance?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So I'll take your first question on our business outlook for '24. So as communicated, it is clear, these markets continue to grow at the fast pace, but we also see increasing competition over the course of the coming years.

Having said that, we do believe that we are very well positioned to be very competitive in this environment as well. We are serving more than 30 markets today, and we have been in this market for a very, very long time already, and we have very strong relationship with our key customers.

In addition to that, we, of course, have been building our feedstock capabilities, building upstream capabilities when it comes to also feedstock production and collection, and we believe that these will be important element as well in remaining competitive.

And then, of course, very importantly as well, the capabilities that we have within our refineries, our pretreatment capabilities, and with Singapore now as well, we are again enhancing these capabilities to have a much wider feedstock pool. And all of these elements together form a very important system or model how we will be able to remain very competitive in these markets. And we believe that we will be able to run at high utilization, and we will have market to sell the volumes that we are producing over the course of the coming years.

Matti Lehmus ***Neste Oyj - President & CEO***

And if I may add, I think you were specifically asking referring to the repairs we have now done. So I think to be very clear, we do expect to fix those issues now. It is our target then to continue to ramp up to reach full capacity at the end of the year. So this is not something that would affect next year. And also, like Carl also said, we remain very confident in our business model that we are able to sell our production.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

I also continue to say something which -- what we also said at the CMD that the overall market for renewable diesel and SAF, it's a fragmented market between different geographies. Europe is very different from the U.S. and when we go into polymers and chemicals, Asia, et cetera. So it's not a single homogenous commodity market by any sense. That's very, very good to remember.

But back to your insurance question, and sorry, we didn't answer that perhaps before. So we have at Neste, a very wide insurance coverage. And here, we are, of course, talking about business interruption insurance, which we also have. We are currently investigating into that, whether we can get compensated, and it will be dependent of course, on the -- of course, on the own liability that you pick and the length of that compared to that and some of the more detailed questions when it comes to the courses. So -- but we are currently looking at that. But at the outset, we have a very wide coverage.

Operator

The next question comes from the line of Naisheng Cui From Barclays.

Naisheng Cui ***Barclays Bank PLC, Research Division - Research Analyst***

I have 2, if that's okay. The first one is just trying to get some clarification on the equipment issue in Singapore. Should I assume that the volume impacted 230,000 tons to be front loaded to Q3 rather than Q4? Also assume sort of 230,000 tons being equally distributed for Q3 and Q4. And then I just wondered, were you aware of this situation during the CMD last month? If yes, what has changed?

My second question is, I think, Matti, you mentioned earlier during the Q&A that you are very confident that there's no volume impact despite the Swedish mandate cost for next year. Just wondered will you guys have any plan to give a detailed explanation on how you address the Swedish mandate [card] sometime this year?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

I'll try to answer your first question here. So the -- looking at the volume impact, so as communicated, we see it being in the second half. However, we can probably assume that there is a bigger share of that impacting the Q3 volumes actually. And of course, there's a long supply chain from Singapore to the markets, but this is roughly how it -- that's a correct assumption.

We were not aware of these problems during the CMD, and hence, we were not communicating about these either. So these have occurred following the CMD.

Matti Lehmus ***Neste Oyj - President & CEO***

I will add a comment on the third question on Sweden. I think what we have said is that we are indeed confident in our business model so that we can reallocate volumes. Of course, we are now in the period where we will be starting based on all the preparations we have done to work on our term contracts for next year. I think what we can say is that we have now analyzed the reallocation needs that we see coming from this regulatory change. We do expect that to be in the order of magnitude of 0.5 million ton. That is sort of what we are talking about. But as we are active in many markets, this is then, of course, what we are now working on to reallocate this.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Confirming what Matti was saying, so approximately 500 kilotons we have estimated the relocation need, but we expect to be able to sell that during next year and relocate to other markets, like many times highlighted.

Operator

Your next question comes from the line of Christopher Kuplent from Bank of America.

Christopher Kuplent ***BofA Securities, Research Division - Head of European Energy Equity Research***

I've got a few more questions, please, if I may. Just maybe on the last comment you gave us regarding the 500,000, that's interesting detail. Any view on the extra cost of rerouting? That would be great for us to get a feeling on your margin outlook on a sort of normal ongoing basis.

And as far as that margin is concerned, my next question is regarding still the second half of this year. I think if I understood you earlier, and please confirm that Q2 would have been somewhere closer to $850 per ton without those issues in Singapore. So I just wonder why your guidance for Q3 isn't $800 considering that those issues have persisted throughout July, i.e., another month, just like you've experienced in Q2 in June? So any additional detail around that would be helpful. Perhaps this has got a lot to do with how you've managed your inventories as well. So if you could shed light on that? That would be great.

And lastly, could you specify when you are going to take that 5-week planned shutdown in Singapore? I'm not sure whether I missed the timing how it's going to straddle Q3 and Q4 in the second half.

Matti Lehmus ***Neste Oyj - President & CEO***

I'll start with first with a follow-up question on Sweden. So obviously, like I mentioned, we are now in the period where we are with all the good preparations we have done starting our term negotiations. And we are, of course, looking at different opportunities to reallocate this. Obviously -- the question was asked earlier. We are working hard to grow our SAF capabilities and to grow that sales next year. And we have a number of other markets that we are working on. But of course, this is then the outcome of the term negotiations. So I don't have at the moment to comment on the exact margin impact.

In the second quarter -- that's the second question. I want to just correct the comment I made earlier, because what I said is that there were actually a number of one-off things in the second quarter. It was some costs related to the repairs but also, for example, the timing issues on these biotickets, and that was an overall comment that, without these type of things which were specific to the second quarter, we would have expected to be somewhere in that middle of the range.

And then perhaps on the timing of shutdown, Carl, do you want to take that?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Yes. So as communicated, so the Singapore planned 5-week shutdown is now occurring during the third quarter. And typically, I mean, it has an impact on that quarter obviously, but we are also typically balancing the volumes a bit further out. So it is impacting also certain volumes in Q4. But the actual shutdown takes place now in the third quarter.

Operator

Your next question comes from the line of Alastair Syme from Citigroup.

Alastair Roderick Syme ***Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research***

I just really had one question, it's back to your sort of forward guidance on renewable product sales margins. And I think you made -- in your comment you said, look at history, but I would sort of observe 2019 to '21, you were sort of averaging a bit of $700 a ton last 6 quarters, you've averaged over $800 a ton. So I guess the question to you is, is the elevation we've seen in the last few quarters and in your view around the elevation of diesel prices across global markets because of the war? Or is it something structural in the nature of the renewable fuel markets or the mix effect that you think is driving the shift higher?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

Perhaps a short comment. I mean, my comment earlier was looking at all the different things, we are very confident in our business model, but we also look, of course, at the changes in the market environment. My main comment was that it is working on scenarios. It's also good not only to look at the '23 with this very high margin level, but also to look at the previous few years. We don't have a margin guidance at this moment, but the main point was to show that volatility that we have seen in the past few years before that.

Alastair Roderick Syme ***Citigroup Inc., Research Division - MD & Global Head of Oil and Gas Research***

Do you think -- What do you think the driver has been in the last 6 quarters of sort of this elevated margin level? Do you think it's something to do with your business or is it external market condition?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So perhaps if I try to little bit bring some light. I mean, I think if you look at the current market environment, it has been very a rather tight supply demand balance and rather strong premiums for renewable diesel.

At the same time, we've also seen the feedstock market coming off over the course of the last, say, 12 months, also supporting margins. And going forward now, we see margins stabilizing again towards -- to what's kind of the levels seen perhaps in the previous.

Operator

Your next question comes from the line of Paul Redman from BNP Pariba.

Paul Redman ***BNP Paribas Exane, Research Division - Research Analyst***

And just kind of come back on to 2024. When you talk about looking back at the margins in history, if you say $700 to $800 as kind of looking backwards, does that -- when you talk about forward looking, are you including sustainable aviation fuel in that look back at previous history? Or are you saying that renewable diesel might be at those margins and we need to work out beyond that sustainable aviation fuel price and add that on top?

And when can we maybe get some comfort on maybe 2024? You're going up to term agreements, it sounded like earlier than in the past. Does that mean that by the time you do your maybe 3Q results in October we could start talking then about what you're seeing in terms of margins for 2024?

And then secondly, just a quick one. In terms of inventory write-downs, this quarter, I'm just trying to think of -- is that on the feedstock side or is that on the refined product side? And if it's on the renewable diesel side, how do you price those inventories?

Matti Lehmus ***Neste Oyj - President & CEO***

If I take the first question, I think we are following our normal term negotiation process. So it will happen during the second half of the year. That's sort of the timing. And of course, in general, when we look at the margin, we take our entire business model. So that includes our strengths on the feedstock, but it also takes into account our optionality on the project. These are exactly the drivers that we can create value from. So for us, it's the overall sales margin that we are always optimizing. This is the approach. That's on the inventories. [Martti]?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

And on the June production, so we basically have written in the second quarter figures of our total June production from the new production line in Singapore after we found out at the very end of the quarter or in the very end late that it was off spec, and then the repairs started and they have continued now in July.

Paul Redman ***BNP Paribas Exane, Research Division - Research Analyst***

And just quickly to confirm, you're saying that if I look back at history, that would include sustainable aviation fuel when we talk about margins on the past?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. We are reporting, one, total comparable sales margin, which includes also SAF, renewable diesel and some other products or renewable, bio-naphtha and biopropane, and all of those are in the single margin. For some time later, if we would have a very large chunk of -- to be considered where we would provide them separately, but it's not foreseeable at least in 2024.

Operator

Your next question comes from the line of Henry Tarr from Berenberg.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

The first one is probably just on the fixed costs which sort of continued to rise. And there seem -- It depends how far back I look, but they're almost sort of growing faster than capacity. Has there been any change to the sort of measurement of fixed costs versus your sort of sales margin here or is it constant? I know you have the new capacity coming in, but is there anything else sort of going on here with the fixed costs? I guess that's the first question.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

There is maybe some elements. One is that as we are doing our investment projects. We have this unit called Engineering Services, those people are very much involved at our investment projects. And now there have been a little bit of shift in some of the projects with a couple of months. And so we have activated a bit less than we thought because there we are also activating those works as if they are directly linked to the project work, and little bit shows in the overall rise of the fixed cost.

But then there are other major elements from the start of this year. We have Martinez renewables or joint operation, which has a big impact. There is also a big impact from the fact that those feedstock companies that we have acquired, we acquired SeQuential, which was closed in January. They are quite fixed cost heavy compared to traditional refining. And over the past years, we've been adding also smaller acquisitions, for instance, [Mahoney] backbone, that has a major impact.

Then they have higher IT costs. We are completing one very important part of our -- last piece of our ERP backbone implementation and investing to data driven. So we have sort of been also a little bit front-loaded with some of the investments where we expect the real benefits to come later. And then the main point is that our main volumes are not foreseeable, of course, in this quarter when we come towards the end of this year and the beginning of next year with our nameplate capacities that have been announced earlier, hopefully, at EUR 5.5 million. in the early part of next year.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

So some of the feedstock gathering and vertical integration is going to add to our fixed cost a little bit, but that will also potentially boost the margin?

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

Yes. And the margins that we are getting from the feedstock companies is also embedded into the overall sales margin. So the margin is there, but the cost structure is different compared to the refining business.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

And then I guess a second question, just hopefully, an easy one. The rise in -- So you've given an indication on Martinez volumes in the quarter. I guess I can back it out just by looking at the increase in sales to the U.S. Would that give me a sensible answer?

Carl Nyberg ***Neste Oyj - EVP of Renewables Platform***

So the volumes now from Martinez , they have been slightly growing month-on-month, and they will remain stable over the course towards the, let's say, fourth quarter when we then have the ramp up of the third phase of the refinery.

Henry Michael Tarr ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Then I guess the -- Sorry to keep coming back to the sort of comments on the '24 margin. But are some of those comments based on what you're seeing for early indications in the sales negotiations or is it just a feeling that higher competition, slightly lower diesel prices probably mean we're going to see a normalization? Or are you already sort of seeing evidence of that at this moment as you go through the early stages of the negotiations?

Matti Lehmus ***Neste Oyj - President & CEO***

We are only starting the term negotiations. So it's not yet based on that feedback. It was more a comment to more broadly looking at the volatility in previous years, and of course, at the same time, bringing all the strength from our business model into it.

Operator

The question comes from the line of Anish Kapadia from Palissy Advisors.

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

A couple of questions for me, please. Firstly, on the refining business. One thing of note is that heavy fuel oil margins have narrowed in. So the discount to Brent has reduced. And therefore, the spread between heavy fuel oil and diesel has narrowed in, which I think is a big component of your earnings and profitability. Can you just talk a bit -- We've seen kind of the challenge that diesel have had. Can you talk a bit about the -- that heavy fuel oil margin narrowing it and what the trends are you're seeing there?

And then going to the Renewable business. following on from the Martinez acquisition, it seems like you're able to acquire -- get into that asset at a low valuation relative to where you're trading. And are you seeing similar deals to that out there? There's a lot of companies building renewable diesel plants or have got them in the pipeline. Are you seeing many more opportunities out there in the market at attractive pricing?

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

Thanks for the question on heavy fuel oil. Indeed, as you can see from the graph that I was also showing, we now reached the level as high as it has been since 2021. And we believe that the big driver here is that the supply of heavy crudes and [sour] crude is down as a result of the OPEC Plus regulation of the market, and that has led into a supply shortage, while the demand has stayed on a high level. So that has drive the cracks up on that particular product.

Matti Lehmus ***Neste Oyj - President & CEO***

Perhaps on the second question. I think I would start with a comment. As you are aware, I'm sure, we have a number of growth projects in execution. We talked extensively about Singapore and Martinez here in this call. We have also ongoing our Rotterdam capacity growth expansion aiming at 2026. So we have a very clear growth path. And at the same time, we're continuously looking for opportunities in the feedstock space as we see this as an important part of our area.

Of course, we continue always looking at different type of opportunities. Also longer term, whether it is then around HVO or whether it's some of the new technologies. So this is part of the normal development work we are doing.

Martti Ala-Harkonen ***Neste Oyj - Executive VP, CFO, Strategy & IT***

I think the question was also on the valuation and have you seen similar of those ones in the market. So we can say from our part, we are very happy with the deal, and we still think it will be a world-class facility when it's up and running, the 2.1 million tons translate in the

U.S. about 730 million gallons per year. And there are several advantages with the site in the logistics, in the sort of capital intensity in favor of very large assets. So we are very interested looking forward. There have been some deals out in the market, but not in this scale, large-scale deals at least.

Operator

Your next question comes from the line of Pasi Vaisanen from Nordea.

Pasi Vaisanen

If I may check some numbers here. So if you truly lost some EUR 90 million due to these problems into Singapore in the second quarter, that is about $100 per sales done in the quarter. So used to saying that the effect was only $50 per ton in the second quarter, not $100. So which number is right?

And second, regarding the sales volumes in the third quarter. So were you saying that sales volumes could be roughly 10% under the second quarter and in the third quarter. Did I hear it right?

And maybe lastly, I would like to ask that why you are using a 2, 3, 4-year old margins to guide the volumes in the future? So what is the logic to use kind of old business model to forecast the new business models profitability here? So I didn't practically get it.

Matti Lehmus ***Neste Oyj - President & CEO***

I can perhaps take the question. So I'll first take the second one you had. There was the question earlier whether -- what we mean by somewhat lower, whether the order of magnitude of 10% is correct. And based on the current expectation, I commented, this is the correct order of magnitude at least.

On the first question, I repeat what I said earlier when we were commenting about the one-off impacts. It is some things which are related to the repairs we had to do in Singapore, but it's also these timing issues related to the biotickets, the combined impact of these type of events, which we would not expect to recur, would have taken us somewhere in the middle of that range. That's on the first question.

And then on the third one, like I said, we are early on the sub premiums. I mean, we are not giving at the moment any exact sub margin. It was more an example to give you, in a way, the confidence that these are competitive. That is why we have made those investments and why we continue to see there's a good investment. And you can from that get some feeling for the type of value we see in the SAF.

Pasi Vaisanen

But by assuming that the soft margins are actually rated than in the road traffic, then actually, that means that the decline in total traffic could be kind of a reasonable and notable even on the margins -- if the combination is still kind of between $700 and $800 in the future.

Matti Lehmus ***Neste Oyj - President & CEO***

It is for us the combined margin. We are always optimizing -- As you know, our flexible business model, this is the strength. It's the overall margin we are optimizing at, and we will then see next year what it exactly is. We will obviously do everything to maximize the margin.

Operator

Thank you. There seems to be no further questions. I would like to hand back for closing remarks.

Matti Lehmus ***Neste Oyj - President & CEO***

So thank you for your excellent questions. And I would like to complete by saying that, as we have discussed, Neste's growth project ramp-up has started. We are highly focused on the execution of the Singapore ramp-up to reach full capacity by the end of the year and the next phases of our Martinez growth project by year-end. And as also discussed, we are confident that our unique business model will continue to create sustainable competitive advantage, both short term and long term. Thank you very much, and stay safe.

Operator

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