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KEMIRA.HE - Q1 2020 Kemira Oyj Earnings Call

EVENT DATE/TIME: APRIL 28, 2020 / 10:30AM GMT

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PRESENTATION

Mikko Pohjala *- Kemira Oyj - VP of IR*

Good afternoon, everyone, and welcome to Kemira's Q1 2020 Results Webcast. My name is Mikko Pohjala, and I'm from Kemira's Investor Relations.

Today, we have a bit of a different kind of a setup compared to the normal one, as we only have a virtual webcast instead of a physical meeting due to the ongoing situation. And with me here today in Helsinki, I have our President and CEO, Jari Rosendal; as well as our CFO, Petri Castrén.

Earlier today, we published our Q1 2020 results, and we had a good start to the year. And last evening, we withdrew our guidance due to the unprecedented situation. And during the presentation today, Jari and Petri will give you more color on recent developments. And after the webcast and the presentation, you will have the chance to ask questions via the audio line as well as the webcast tool.

But without much further ado, Jari, please go ahead.

Jari Rosendal *- Kemira Oyj - Chairman of Management Board, President & CEO*

Okay. Thanks, Mikko. As Mikko said, we are living extraordinary times due to the pandemic. But so far, our operations have been running well, and our people have done a great job. All of our plants have been running. We have taken extra measures since January already, starting from China, gradually expanding those to all territories and geographies. We have about half a dozen infected employees out of our 5,100, 2 of those have been already recovering and soon returning to work.

There naturally are challenges and even big challenges in raw material availability, logistics and so on. But our people, as I said, have been able to mitigate those. Working remotely for us is not an issue at all. Naturally, our manufacturing people, our laboratory people, field support and our truck drivers are working every day in their normal duties, but with special arrangements, so that they are staying safe.

As you have seen, our Q1 was good, despite the strikes in Finland in Pulp & Paper industry for 2 weeks and the shale demand change in North America. Obviously, the shock to the sales price has been dramatic, especially in March and April, and the impact for oil and gas demand will be affected in the future. But at the same time, it eases some of our oil-based raw materials.

Our water treatment chemical business is deemed as essential industry, and it has been resilient and going that way in all countries. Also Pulp & Paper industry has been deemed essential. And pulp, tissue and packaging demand has been pretty good with the exception, obviously, from printing and writing.

So let's go to look at the quarter. So I talked about the mitigating actions already. Demand in Pulp & Paper and water has been good. And we had a good start to the year with Q1, with 16.9% EBITDA, despite the situations and strikes. However, the pandemic and the uncertainty this has brought, as Mikko said, that we had to pull our outlook for the year just for prudency reasons, even if the year start was good.

Then some more details on the pandemic situation, but more I'd like to talk about the risk because I covered everything else already. Obviously, risk that there will be less demand and a drop of -- drop from customers due to lower consumption like we've seen in Oil & Gas shale. Potential disruptions in value chains, our own manufacturing disruptions or logistics or governmental actions can have an effect. So far, we obviously haven't had any. And possible disruptions in raw material supply, we have seen some tight situation already. And as some other industries are not running, they're not deemed that -- as essential. There are some side streams that we use as raw materials, and that is creating some headache at certain times.

Then a short summary on the Q1. Underlying organic growth was actually pretty good. If we count the strike and the shale demand out, revenue was EUR 642 million, and we didn't see any extra buying from the customers for sort of panic buying, maybe some little, but not significant at all.

The operative EBITDA grew by 13% to EUR 108.5 million and was 16.9% from our revenue, and that's a really good outcome for Q1, especially. Some help from raw materials, electricity pricing and then our new plants as planned in China and Netherlands has started contributing to volume, but also as lower cost points. Operative cash flow was good in Q1, which is really important in these uncertain times.

Then looking at Pulp & Paper. As I said, good demand in pulp, tissue and packaging, while printing and writing going down and will continue to go down as we are all doing remote working in lockdowns. Revenue, EUR 378 million. Organic growth came down slightly. But counting out the strike, it would have been a small positive.

Operative EBITDA, EUR 60 million and 15.9% from revenue, which I feel is quite good, taking into account that we estimated that EUR 4 million to EUR 5 million was lost in the strike situation. The AKD plant in China is ramping up well, and we had no effect from the pandemic to the ramp-up. And we see it -- started to see some contribution from the plant already into our numbers in Q1.

So as I said, Pulp & Paper is essential, and we need to keep that alive. That's mainly due to the sanitation things and food and medicine packaging and other packaging for essential supplies but, at the same time, other industries in a lockdown slow operation. Take, for instance, car industries that are in lock down, so they are not getting their components in packaging, and that's starting to now see how that will affect us and how long that lockdown will last, and that we need to follow carefully.

Industry & Water did well, even if the shale demand clearly was down in Q1 and especially in March. Revenue, flat practically, EUR 264 million. And as water treatment is essential, as I said many times already, there's perhaps even bit more water flowing through as people are washing their hands bit more often than they have used to in the past. You can see that our water treatment business is strong, and it was able to compensate for the loss of the shale and oil and gas. So it's really now good for us that we have been, in the last couple of years, getting that business into a strong situation. And it acts as a platform to our business because water needs to be treated at all times. Operative EBITDA, EUR 48 million and 18.3% from revenue, which is an excellent outcome in this -- especially in this type of situation. Some help from raw materials, especially for polymers, as they are oil-related raw materials. And as I said, the new line in Netherlands for CEOR is now up and running and contributing a better price point and ability to deliver more volumes, which happened in Q1.

Then a deep dive to Oil & Gas. If you look at the graph, the year-on-year drop on the revenue is not that big, but we still have some volumes in January and February. And then we saw a clear drop in March when the price war on oil started. We expect that Q2 in shale will be really low as oil trades below $20. And actually, this morning, I looked at WTI traded at $11 a barrel. However, we have a countering component coming in, in Q2. The Oil Sands in Canada will start again their campaign and compensating some of the shale loss in Q2 -- or Q3, but not at all at those volumes. Our CEOR demand in Q1 progressed well and is contributing nicely.

Oil price really low, as we know, and that's mainly now both sides, demand and high supply. Some customers might have hedges in place. We don't know in detail who does and who don't. But now, the issue can become, so that the physical inventory storage is going to run out, and let's see how that might start to impact some of our customers. So needless to say, visibility in Oil & Gas is challenging.

To quantify how this goes is that, last year, in 2019, our total revenue from Oil & Gas customers was close to EUR 300 million, half of that roughly came from shale customers. So that gives you some indication on the exposure on Oil & Gas and shale, and I'm sure Petri will give more color on that.

Then our AGM. We were have -- supposed to have an AGM already here in April. But for obvious reasons, we postponed that for safety reasons. Now we're going to have it on 5th of May, provided that we can have it safely. The proposals to the AGM are unchanged, except that the Board is asking for authority to decide on 2 installments of dividend payout. And Board expects that had -- when they get the authority, they will decide on paying the first EUR 0.28 installment immediately after the AGM. The second installment would be paid as planned in November, unless there is a material change in the financial situation of the company.

At the moment, financial situation and liquidity is good. Petri will talk more about that in his presentation and give you more details to give you more comfort on that.

And lastly, focus areas for the year going forward. Obviously, continue to mitigate the pandemic effects, oil price drop and safely operate our plants, keep our people safe and our stakeholders safe. As said, chemical industry, meaning us, our suppliers, Pulp & Paper, Industry & Water treatment are essential industries to keep the society running. And we have a responsibility also to focus our support, so that we can keep them running and keep the essential industry ongoing.

We continue to work on our operational excellence. We have gotten better, but we have more opportunities, and now that improvement is more needed than ever. We need to capture the benefits of our new site in China, new line in Netherlands and new line in East over U.S. for chlorate. And we continue the long-term investment for the polymers in U.S. and in South Korea and then, obviously, watch how the world goes and have a good prudent cost control.

I conclude here and ask Petri to come and give more light on the financials.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Very good. Thank you, Jari. Okay. So after a major profitability and cash flow improvement in 2019, we started 2020 with a very strong Q1. But obviously, the game changed sometime in February, March time frame when the pandemic and its impact became really apparent for the whole global economy. Every company is now dealing with this uncertainty in its -- in their own ways and trying to estimate when we start to the normal, when we get back to the normal or -- and what the new normal then is. I'm actually very happy that Kemira enters this period of uncertainty with good profitability, ample liquidity and relatively stable customer demand for vast majority of our business.

Okay. Let's look at the quarter a bit more detail, and then I will end by summarizing key uncertainties and our key strengths that impact our outlook for the year. Growth in Q1, like Jari said, was slightly negative 2% in organic growth. But without the Finnish paper industry strike in February, it would have been flat or slightly positive. And then the decline in shale represented roughly another 2 to -- a couple of percentage points of growth. So the rest of the business was actually growing quite nicely also in volumes, as Jari was saying. And the impact of the whole coronavirus was relatively small during the quarter, excluding, of course, the impact to shale.

Obviously, the big number here is in the profitability bridge, is the almost EUR 25 million reduction of variable costs on -- year-on-year. There are actually a number of contributions to this number, so it's not simple, and I'll spend a bit of time to explain what's behind this. First of all, there are self-help items, like the cost reduction benefits that we are getting from the 2 new plants. If you remember, part of the logic why we are investing into this AKD plant is that we are getting the backward integration benefits. So we are starting to see that, and that benefit is actually visible on the variable cost line. Same thing for our polymer plants in Netherlands. So some of that benefit is there as well is obviously the improved quality of productions, meaning less inventory write-offs. And all of that is roughly 20% of this EUR 25 million, so it's starting to be meaningful.

Another thing, which is sort of not windfall, as one of the analysts was writing, is caustic soda, which is another 20% roughly of this EUR 25 million because it's a pure pass-through item for us, so that will reduce both on the sales prices as well as on the cost side.

Electricity price reduction contributed to this number as well. And of course, raw material costs, and again, what Jari saying, particularly impacting our polymer business. They came down, but then, as I said, the impact of the raw material cost was roughly half or even possibly slightly below half of the variable cost improvement.

Fixed cost is perhaps another number that you noticed here, and there is -- actually, we had higher incentive accruals this quarter than the comparison period. Also the fixed costs include the Chinese AKD plant and then obviously some inflationary growth that we see.

The plant start-up costs, which was an item in Q4, those are pretty much behind us, and they did not contribute negatively to this page. So good position there.

Moving on. I think the key point here is on the right-hand chart. It's a EUR 25 million net impact. Again, staying at roughly the same level as in the preceding 4 quarters, that's supporting our profitability improvement. And I went through the reasons behind that already with the previous picture.

Clearly, if you sort of try to forecast getting price improvements are getting more difficult as now the comparison periods are also a bit more challenging and, obviously, now to the economic environment because of the coronavirus.

Raw material environment generally is still towards modestly declining prices. But as Jari was saying, that issue is becoming more -- some -- in some areas, a concern of availability, some -- especially as some of the supply chains are being disrupted. We use byproducts, like spent pickling liquor, SPL, from steel mills; and hydrochloric acid from plastic manufacturers, which are supplying the automobile industry. Even propylene availability may become scarce or if crackers shut down their operations due to the lower demand for other products or fares.

Just a reminder of our variable cost. In the beginning of the pandemic, we were quite worried about the logistics cost increase. But actually, the impact throughout the quarter ended up being much more than we first feared at the beginning of the quarter. Electricity and energy costs are down. We get some benefit of that. But most of the electricity that we use, in particular, we use a fair amount of electricity in the chlorate manufacturing process. We either purchase under fixed price contracts or we source at the production cost here in Finland. And in North America, the cost and benefit of this is largely passed on to our customer base.

Moving on to cash flow. Jari mentioned that good strong cash flow is important. And indeed, Q1 cash flow was good, considering that this is seasonally our weakest quarter from cash generation viewpoint. Basically, the cash flow in Q1 was at the same level as last year if you ignore the EUR 15 million capital return that we had last year. Also we're trying to show how our cash flow is typically seasonally second half weighted, and the colors depict the quarters of the cash generation from years 2017 to 2019.

CapEx is going as planned, with now Q1 a little higher than last year due to the finalization of the investments in Netherlands and China and obviously the ongoing investment in the U.S. Full year CapEx for 2020 likely to be pretty close to the last year's level, the EUR 200 million, as we have indicated and communicated earlier.

Another slide to show that we are entering this period of uncertainty with an improved capital efficiency, as is our balance sheet as well. And through the last years, we have been able to reduce our net debt. And now, at the end of Q1, on a comparable basis, our leverage ratio is roughly about half turn lower than it was at the end of 2018.

Then looking at the liabilities. First of all, we have a quite nicely diversified funding sources using bonds, bilateral loans from banks and financial institutions and other short-term borrowings to complement the picture. We have only EUR 50 million of long-term maturities coming up this year and actually practically nothing next year. The short-term loans that we have in this picture, those are loans that we typically continuously roll over. Some of them are funding our operations like in China where we use short-term funding for that purpose. And we do have the $400 million revolving credit facility as our backup. And regarding that, now in April, we extended the maturity of that from 2024 to 2025. And so in summary, I'm very comfortable also with the liquidity picture that we have. If we wanted, we could draw the EUR 400 million revolving credit facility tomorrow. But obviously, we see it primarily as a backup facility.

Then I promised to close and summarize the outlook for 2020, which we withdrew yesterday. And as you can see from the result, really, the outlook withdrawal was not prompted by the Q1 results, but rather that it was prompted by the uncertainty also, the shale and Oil & Gas industry situation, but, really, the ongoing uncertainty regarding the future.

We have summarized items on this slide, which caused the uncertainty, and then on the other hand, which are supporting our profitability. First, regarding the uncertainties. First of all, obviously, the length of the pandemic and the speed of recovery impacts everyone, including us. Most of the biggest -- most of the big customers in the Pulp & Paper industry, for example, they have also recently withdrawn guidance, as they also have difficulties estimating their customers' demand. Shale demand is currently at standstill, and the economy will need to pick up before oil demand will start to drive prices up to drive the new drilling and fracking activity, and nobody knows when this will happen. Finally, disruptions to operations, whether if there are all to our suppliers, to our customers, are still possible during this pandemic. Let's hope that we will not waste them. And so far, like Jari said, it's been quite good and good operations.

Then the supporting side of our business and profit generation. First of all, demand for our water treatment chemicals is expected to be stable and also relatively stable for our pulp, tissue and board customers. We know that the printing and writing is on the decline -- has been on the decline. And this year, we'll likely see an acceleration of that decline. We have a big part of our customers under long-term contracts, typically annual contracts, sometimes even longer, and many of them with fixed pricing. Linked to that is that the variable cost environment is actually not putting pressure on us with -- like I said, with a generally modestly declining raw material picture as we see it.

So those were the -- my summary for our outlook decision, which we communicated yesterday. And with that, I think we're ready to move on to the Q&A session.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Thank you very much. We can turn to the audio line for questions, and then there is also the opportunity to ask questions via the webcast, too, and I will read them aloud. But if we turn to the operator first.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question we have is from Anssi Kiviniemi from SEB.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

It's Anssi from SEB. Four questions from my side. I will take them one by one. So first of all, just want to get a feeling of what you are seeing in terms of Q2 orders activity, et cetera. And could you please specify Pulp & Paper and Industry & Water and perhaps especially Oil & Gas, so we get a feeling of -- is there stability element there? Or is there a clear drop in volumes and business?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, Anssi, as you know, we stopped guiding, so I'll talk about the environment. But as Petri said, we expect that the water business is rather stable. Hopefully, we don't have any disruptions in our own operations, so that would mean supply disruptions to the customers. So far, the pulp, tissue and packaging has looked pretty stable, but we are also in entering into a maintenance shutdown season for the customers. And now the question mark is how much do they need time for maintenance and how much do they need time for balancing the market. Printing and writing, clearly down. Oil Sands deliveries will start here in May and go until October, and we expect that to be pretty stable. Hopefully, no disruptions. And disruptions can be logistics, raw materials or the pandemic hitting our operators, and we can't run the plants anymore, especially the critical plants. But then -- and then North Sea, same thing, expecting it pretty stable. Disruptions, always possible. Shale, not good at all.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Then perhaps a question on your visibility. Basically, how much of the 2020 sales or volumes you have already locked down? And has there been postponements, customers withdrawing from contracts due to the situation? Or how is it playing out on that side?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, that's the visibility part because we have committed to some volume deliveries, but the customers don't have offtake liability. So it's a question of what -- how their demand develops and then how it turns into our demand, and that's the -- not so good visibility in that. So shale, don't count on it. Water, count on it. And then the others are halfway.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Okay. Then Oil & Gas declined 16% in Q1. Could you kind of indicate how much did shale business decline during the quarter? And in order to understand the operational leverage in Oil & Gas and in the shale business, could you give us some kind of indication how much did the profit drop from previous year? Is it more or less than EUR 5 million?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, I can't quantify the euros, but a bit more than the numbers indicated, year-on-year was the drop from shale. And as I said in my talk, we had a preorder from Oil Sands and some growth in CEOR North Sea. So maybe that gives you the picture.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Then the last question. On raw material benefits, you experienced big tailwinds in Q1. One could also assume, when you just look at the raw material charge, that will continue in Q2. Is this a fair assumption? And how big of a risk is -- well, you highlighted it yourself, raw material availability and, thus, the increase in raw material prices due to limited availability. So how should we kind of think about the raw material component and variable cost component going forward?

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

If I try to take that. So I think that -- I mentioned some of the raw materials, particularly which we use in our coagulant business, like spent pickling liquor and hydrochloric acid, we have workarounds for them. So even if we can't get those, we can produce coagulant with higher cost raw materials, meaning different sources of iron, for example. I would say that the benefit, because, obviously, we buy EUR 1.5 billion of -- or EUR 1.3 billion of raw materials and EUR 1.5 billion variable cost, I think the benefit is probably bigger than the risk. I hope that I don't come to regret this statement. But the benefit is, I think, it's bigger.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

And then on 15% is transportation. There, as Petri said, the scare on really high cost increases on transportation was just a scare. It hasn't proven to be so, and we're more stable now. But we start to see also lesser ships moving around, especially intercontinental and so on. So it's hard to book vessels to transport our products in those cases, where we take raw materials or full end products to our own local sales. So there might be disruptions there, not only cost, but delays.

Operator

The next question we have is from the line of Martin Roediger from Kepler Cheuvreux.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

My first question is on your financial communication. What was the purpose to abandon your guidance last night, although your Q1 results have been quite good? And you all mentioned the guidance abandoning is not because of Q1. So my question is, why couldn't you wait for abandoning the guidance until this morning?

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Well, I think, that's a interesting question. We try to -- first of all, we try to follow the rules and regulations that various authorities give us. And for example, in Finland, under the financial supervisor FIVA, their guidelines are clear that as soon as you are -- the guidance or any changes to guidance should be communicated as quickly as possible. And therefore, that's sort of a prevailing thinking that we have, and I think it's -- some other Finnish companies have sort of acted in the same way is that if the Board meeting ends in the afternoon or relatively soon after the close of trading, you then issue the release in the evening and not wait until the next morning. Had the Board meeting lasted until midnight, then we might have waited until morning.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Okay. Second question I have is on your U.S. shale oil business. Do you feel that some of your clients could go bankrupt? And what could that mean for your business in terms of collecting cash, I mean, your receivables?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Obviously, that risk is there. And we saw that also in 2015 and '16. And Petri, can you talk about the receivables?

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Yes. Fortunately, that's -- the loss of volume, loss of business, which we are now experiencing is clearly a bigger item than the credit risk per se. Fortunately, the practice is relatively short payment terms, whether it's 30 days or 45 days in the U.S., particularly. And therefore, the whole -- overall exposure from our -- through our shale customers is relatively modest. And about half of that exposure is actually some of the big names and distributors in the business that are really investment-grade rated or similar. And maybe about half of our shale business is towards a weaker grade. And we actually did make an extra credit loss or receivable loss accrual because of the expected credit losses maybe higher for the quarter. So the net exposure that we have in that business is relatively small in the context of our size.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

And if I follow, I mean, I indicated that roughly last year, our shale revenue was about EUR 140 million, EUR 150 million. And you can't divide that by 12 because winter time is always a bit slower than Q2 and Q3. So that gives you sort of the rotation of that revenue and receivables.

Martin Roediger - *Kepler Cheuvreux, Research Division - Equity Research Analyst*

And the final question from my side is on the AGM on the 5th of May. I understood correctly, maybe you can correct me, the first installment of your dividend is absolutely safe. And the second installment that could be changed or postponed. Is that the right understanding?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

The first one, the Board expects and has communicated, that should they get the authority, they will decide on the first installment immediately and giving this -- with this mechanism, then the right to postpone or make it smaller or not pay at all, the second installment, if something drastic should happen in the next 6 months in our financials.

Operator

The next question we have is from the line of Harri Taittonen from Nordea.

Harri Taittonen - *Nordea Markets, Research Division - Senior Director & Sector Coordinator*

Harri Taittonen, Nordea. Two questions maybe. One on the Oil & Gas, I mean, as was discussed already, that already declined, you already said, to EUR 52 million, which is about 8% of group sales. And still, you got the almost record margins for Industry & Water. But then -- and you have also -- you have given the sort of rough split between the Oil & Gas for last year. But I mean, if you just sort of give a similar feel for Q1, what was the split between shale and CEOR? Obviously, Sands was very small. Just to give a feel of a better kind of to -- for us to estimate what might happen in Q2 and Q3. That would be the first question.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Out of the EUR 52 million, more than half was non-shale business.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Yes, yes. Exactly, exactly. And obviously, yes, and is small.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

So a couple of single million reordering in March. But now, it starts more in May.

Harri Taittonen - *Nordea Markets, Research Division - Senior Director & Sector Coordinator*

Okay. Very good. The -- related to that, how long is the life -- how do you see the life of the North Sea fields, which are the outlet for the CEOR business because it seems like you were able to increase volumes there? But I mean, just sort of -- because, obviously, the critical time comes if the oil price remains low and then when -- how the new sort of wells are being introduced. So how do you see that time line and risk profile?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, can't go to the details of customers, but they are talking about decades, a couple of decades.

Harri Taittonen - *Nordea Markets, Research Division - Senior Director & Sector Coordinator*

Yes, yes, yes. Okay. Then the final question on the Pulp & Paper side. The last time we met, you talked about the China paper machines coming back to operations. You -- -- I think you talked about 100 machines, which we are serving and out of those 30 were down. And then there had been sort of -- they had ramped up again. But is there -- is that the situation still? And can you just sort of give an update on that?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Yes, that's the situation. But there is -- they're not running with full capacity, especially on the printing and writing side.

Operator

The next question we have is from the line of Panu Laitinmäki from Danske Bank.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Yes. I have 2 questions. First one is I'm coming back to the raw material and sales prices topic. Just clarifying the comments that Petri had on Slide 12. So did you mean that the kind of peak of this benefit of lower raw material costs or lower variable costs and the difference between prices was seen in Q1 and then it will be less going forward? Or how should you -- how should we think about that?

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

It's interesting how people was trying to read through some of my answers. No, I didn't mean anything like that. Honestly, I don't want to guess what the net number for Q2 will be. I only mentioned, and you can actually think -- visualize that from the chart also, that the year-on-year increase in sales prices is getting more difficult. I think that's pretty obvious, and especially as we see declining raw material prices. And the second thing is that we do see a decline in raw material prices, but I did not quantify, which would have been needed for me to imply something about the net number. It is difficult, but you see that the comparison is also getting a bit difficult last year. So that's all I said.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Yes. It's on 3-dimensional or 4-dimensional. So it's not only sales price versus raw material price, but it's also the demand and utilization rate of our plants and so on. So it has volume prices both sides and utilization rates in it. So it's a complex estimation. And then the -- with too short time into this to try to proxy it very carefully.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Okay. But if we just think about the other side of that variable cost, isn't it the safe to assume that you didn't get the full benefit yet in Q1 given that the oil price only weakened in early March? So I assume that there is some kind of lag when you see that in your P&L.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Sure. And also the benefit of our own actions is -- should be getting bigger. So obviously, we now have had one quarter of the China plant up and running. And if you remember, the logic of that investment is that it actually produces AKD wax that we sell locally in China and in Asia. And then it also acts as an intermediary product for our global AKD motion business. And so we are now starting to ship that wax for emulsion manufacturing to the -- to Europe and to North America. So we will be getting more of that backward integration benefit going forward, and that has been the whole logic of that investment. So that part by its design should continue.

And similarly, the Botlek investment for the polymer investment in -- so we are getting more of that benefit as the -- really, the plant is just about now fully complete with all its step -- steps. You remember that we talked about it, some of the steps. The last step of that plant was delayed into Q1. And now we are starting to get full benefit of that as well. So the benefit of that is visible in that variable cost. So regardless of what happens to raw material prices, we should be getting that benefit in the coming quarters.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Okay. And then on the pricing, you said that it's more difficult to get the prices up. But can you comment on the Pulp & Paper business? How big part of the kind of prices of the total contracts, how much have you locked already for the rest of the year? And where do you still see kind of possibility to change up or down?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

We have clearly more than half in water business and in Pulp & Paper locked down the prices. This is not about prices. No, this is about volume demand.

Panu Laitinmäki - *Danske Bank A/S, Research Division - Senior Analyst*

Yes, I understand. And then finally, can I ask about the investments? You had polymers expansion in the U.S. aimed for the Oil & Gas industry. Is it possible to kind of reconsider that investment given what's happening with the Oil & Gas industry?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, it's quite far along. And obviously, we evaluate everything that we do, but it's a long-term investment. So it's still over 2 years in the making. So let's see how then we deal with it at the end. At this point, putting it on hold or something like that would actually cost more than less. And the South Korean is meant for local polymers for mainly paper and board making, which we are now transporting from Europe with extra transport costs. So that business case is still valid.

Mikko Pohjala - *Kemira Oyj - VP of IR*

We have one question from the webcast tool. It is from Petri Gostowski from Inderes. So could you comment a bit more in detail how big a difference was there in Oil & Gas revenue development between March and January and February?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, it already started in shale. And now I'm counting out Oil Sands and CEOR because that's a totally different basket, even if it's Oil & Gas, mainly shale. We said -- like you see from the numbers, you can say that all the difference comes between the quarters from the shale development and some from Oil Sands in Q1. Until October, the shale demand was really good. Then we started seeing the oil dynamics, not the pandemic, but the oil dynamics change. After Q4, we commented that shale was already softer in Q4. January, a bit of restocking maybe. And then February, it was clearly down. And after the Saudi announcement and oil price drop, we had a week of no orders. So maybe that gives you some kind of an answer.

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good. And are there any more questions on the audio line?

Operator

Yes. The next question we have is from Robin Santavirta from Carnegie.

Robin Santavirta - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

Yes. Robin from Carnegie here. So a few questions from my side. First of all, in terms of the shale business, could you shed some light on that business profitability compared to the group in 2019, better or worse? And then related still to the shale business. Clearly, volumes are down, as you have described. Well, what is the amount of fixed cost in that business? And what can you do -- what are you doing now to mitigate the declining volumes?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

It probably averaged the group level on EBITDA percentage. It was higher in Q3 and Q2. But then when the volume started to drop, and we look at the full year, it's probably a par for the rest of the group. And it's not a very man powered organization, so our technical commercial crew is between 30 and 40 people. So obviously, we are considering all kinds of things, but I can't go to more detail here.

Robin Santavirta - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

All right. That is clear. And then in terms of the Pulp & Paper division, clearly, you have quite good exposure there with board, pulp and tissue, and that's obviously the majority of the business. But the -- also for the paper -- for the graphic paper business, it's actually quite drastically weak and now recently, especially in Europe and in America. What is the geographical exposure of this business for you guys? And what is the capacity utilization and the fixed costs, just to get an idea of the potential operating leverage if volumes decline in that business?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

You can see some from -- or some of the segment in our package that between 15% and 20% in printing and writing from the revenue of the segments. So that gives you an idea.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

And if I may add to that, maybe, Robin. So the share of printing and writing in North America is higher than in Europe where, in Europe, conversely, can we have a higher share of bleaching products.

Robin Santavirta - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

Okay. So a bit more in U.S. than that division split would imply that. Could you shed some light on the profitability you have had in that business, better or worse than division average?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Yes. Once in a while, I'm happy that I can tell, it's not good at also. So that disappearing doesn't go with the averages.

Robin Santavirta - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

All right. And then maybe a final question on the raw material availability thing that you brought up. I assume this is something that you have not experienced yet. It's something that you sort of want to highlight as a risk.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

We have experienced it, but we've been able to mitigate it. So our sourcing people have been really good in finding either alternative sources or than -- be faster than the competing buyers. But the risk is there all the time, so in certain areas of side streams.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

But no impact to Q1 results, really. No, nothing meaningful ones. No.

Operator

The final question on the audio currently is from Markku from Handelsbanken.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

Yes. It's Markku from Handelsbanken here. I had a few more questions here. Still continuing on the shale, as was you've seen a big volume drop there now, how is the pricing developing? Has that already come down? Or is it sort of a relevant discussion at this stage?

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

It's not really relevant because both sides, raw materials and sales are on the move. It's more spot. Obviously, there's pressure there, but it's all about volume now.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

Okay. And you said that you see stability in the CEOR and Oil Sands businesses. Could you sort of elaborate a bit on that why are those businesses not impacted by lower oil prices?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, they obviously can be if the company is getting an unstable situation, but the Oil Sands is not. Even if it's called Oil Sands, we are not there to produce oil with our chemicals. We are there to treat the tailings ponds -- legacy tailings ponds that take decades to treat. And they have to do it under the law of Canada. So even if they stop producing oil, they still have to treat the tailings ponds and -- or then the government will take that over. Nothing is ever certain, but that gives us some to lean on. And then the CEOR business in the North Sea, that's what we hear from the customer. But who knows what's happening. We see steady order stream coming in all the time. I think the physical inventory issue for the North Sea can be at some point of risk if this situation continues.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Markku, CEOR, simply the start-up costs for starting up a new hole and then possibly closing it -- then the closing costs are really high, so the -- that's what gives the stability to the operation.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

And we have some knowledge that the customer has some hedges in place. We don't know in detail, but that could be protecting them financially. Whether that helps them with storage base, that's different.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

Okay. Then still in Industry & Water, beyond the municipal and Oil & Gas business, could you just remind which industries are the most important there? And how are those faring?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Well, we have pure water treatment for the municipalities. They naturally need to, in all situations, treat the drinking water and purify the wastewater, so I don't see that changing at all. They also have legal obligations, and this is a health and safety issue for most. And then our industries, power industries and so on, food industries and so, there, we might see some industries that are slowing down, but I doubt that food and beverage and power goes much down. But there, we could see slight softness. I haven't seen that really yet.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

And did you have a mining business? Or is that not relevant?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Very small, and that's mostly also Canadian oils and tailings treatment type of water treatment, so should be okay. You could lose EUR 5 million or EUR 10 million of revenue there on a full year basis, but it's not that big of a business.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

Okay. And then on the -- just on the dividend, still the second installment. When should we at the latest see the decision on that if that's coming?

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

That schedule was mentioned in the notice. So I don't remember the dates, but the dates are given there for decision in, I believe, late October and the -- and payout in early November.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Basically, this is the Board meeting that approves the Q3 results. Whether it's October 27 or whatever the date was, I don't remember. But basically, it is that Board meeting that will handle that dividend discussion and decision at that time.

Markku Järvinen - *Handelsbanken Capital Markets AB, Research Division - Analyst*

So the Board will look at Q3 results and sort of decide where you are and then decide.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

It's Q2 and 3.

Operator

At this time, there's no audio questions. I'd like to hand back to the speakers for any closing comments or if there's any web questions.

Mikko Pohjala - *Kemira Oyj - VP of IR*

All right. No more questions on the webcast live, so this concludes our Q1 webcast. And we thank everyone for participating and also thank you for the good questions, and have a nice rest of the day and week. Thank you.

Jari Rosendal - *Kemira Oyj - Chairman of Management Board, President & CEO*

Thank you.

Petri Castrén - *Kemira Oyj - CFO & Member of Management Board*

Thank you.
