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PRESENTATION

Olli Turunen - *Kemira Oyj - Head of IR*

All right. Good morning, ladies and gentlemen, and welcome to Kemira's 2016 full-year result presentation. My name is Olli Turunen and I am Head of Investor Relations at Kemira. Today's presentation will be held by our President and CEO Jari Rosendal and our CFO Petri Castren. After the presentation, you will have a chance to ask questions here in the studio and also via webcast.

Without further ado, Jari, please go ahead.

Jari Rosendal - *Kemira Oyj - President and CEO*

Thank you Olli. Good morning. 2016 is closed and announced. It was a exciting, eventful, but also very challenging year. First half of the year pulp and paper and M&I started out quite well and even gained some growth, but then during the summer and second half of the year, market environment, especially pricing, made it harder to grow into those segments.

We still grew 2% in the full-year on volume, so that's encouraging, and profitability improved clearly for those two segments. Markets continued extremely tough for oil & mining. If you remember, in February we even saw a $27 Brent price. And the market contracted during the first half of the year, especially in shale in the summer as reported earlier. We saw it leveling off and then in the late months of the year, it started to increase and this increase came from shale business.

Our strategic programs are progressing well. So looking at the areas that we continued to focus on, driving growth, focusing on customers, new offerings launched -- last year we actually launched 40 new offerings or products to the market and we applied for 48 new primary patents. Both are records for the Company.

We look at new customers in new territories and then expand to new geographies, but expansion is done carefully. And we've done capital investments to maintain our plants, to improve our plants, and to expand capacity to be able to grow in the future, and part of the capacities also going to the Akzo integration still.

Acquisitions, we didn't do any acquisitions last year, but we continued to integrate the Akzo acquisition. It's really going well and we were able to even increase the synergy savings from the Akzo integration last year.

Efficiency, we continued to look at efficiency and our network on efficiency. We closed down some units last year and announced also in Q4 also in 2015, the FX started to come in, in 2016. BOOST program continues on track. We are looking there for EUR20 million to EUR30 million in two to three years of benefits on track. Cost control needs to be high up on our list. And if you noticed, our fixed costs were down last quarter year on year, so that's encouraging that control is in place.

Looking at the number, Group revenue at previous year level due to mainly oil & mining tough markets. Pulp and paper developed well and M&I on profitability even better. It's good to note that oil & mining revenue came down EUR40 million last year and operative EBITDA EUR50 million last year. Despite that, we were able to increase the Group level operative EBITDA by 5% and reach EUR303 million and our margin was 12.8%, so on our way to the targets that we have set for ourselves.

EPS improved to EUR0.60 per share and our cash flow was good and covers the proposed dividend last year. Dividend proposal, EUR0.53 per share, which is on previous year level. As said, we have diligently followed our strategic programs and reacted to the macro changes like in oil & mining when need be. Therefore I again want to show this pics that shows the actions that are ongoing that step by step we are doing things, and some of them have immediate effect, some have much slower effect, and because of the timelines, I continue to bring this up, this picture from time to time to remind that actions are being taken.

Also looking at the bigger and longer perspective, since 2014 we have grown EUR230 million and our operative EBITDA has increased by EUR50 million. I think these are rather good numbers when we take into account that in those two years, 2015 and 2016, due to the adverse market development, oil & mining revenues have come down EUR70 million and operative EBITDA EUR30 million. So I'm quite satisfied of the longer term development what we have had in the last couple of years.

So pulp and paper and looking at the development, revenues grew due to the Akzo acquisition and some investments coming online. Volumes grew about 2%, but organic growth was minus 1% due to the price environment. Gaining growth during the last part of the year was tough, but profitability continued to improve, gaining synergies, starting up the Klabin coexistence site, the new bleaching chemical plant there in March in 2016. We were able to ramp that up in six months and now it's running well. We continuously look at our capacity utilization and we were having higher capacity utilization and cost discipline and better customer focus.

Operative EBITDA improved from 12.1% to 13.4%, which is a nice step and starts to be now close to our mid to long-term target of 14% to 16% window. I'm glad to see that.

So pulp and paper revenue split continues healthy, 40% to the pulp value chain, 40% to packaging board and tissue, 20% to printing and writing. Markets as total for pulp and paper, we estimate our markets to grow roughly 1% a year, and as said we grew in volumes 2%, so that's encouraging. We have a complete product portfolio. We continue to improve it through R&D, maybe even some bolt-ons if we find any, but that complete portfolio helps us compete in the markets against our competition.

I do realize markets are competitive, so we stay humble, but we also will fight smart and hard to maintain and improve our position in pulp and paper.

Oil & mining segment had a second difficult year in a row, and as I said earlier, we even bottomed in oil price at $27 in February. Revenue continued to drop by lower volumes, but mainly also by prices, and operative EBITDA declined.

And shale market, which was the biggest winner in this, mostly our other oil customers are gas customers, our mining and other verticals stayed on volumes the same, some price erosion. So shale was the main impacter here. Shale saw the bottom in the summer and now we're back on track.

One disappointing development in EOR is that we lost the continuation of a contract in Asia-Pacific. That's the current contractor we had all year last year. That's EUR25 million of revenue that we gained from that this last year and now we have to work that back. We are continuing work on EOR. I've said earlier that we have one major company whose name or location we cannot say out loud, but we are delivering to a full-field trial at the moment that will generate revenue this year, but will be dilutive because we are in a test phase.

This is a tailored vessel project -- product unlike the current India product, was more of a commodity. Also oil sands we've been able to deliver. We haven't been in the market before. We entered in 2015 with small volumes. We did really well last year and I hope to improve also this year. Obviously those volumes and revenues were not enough to offset the drop in shale.

Here you can see the split of oil & mining, 40% to oil & gas, 25% to mining, and through distributors polymers to other industries 35%. Shale plays in our oil & gas market the biggest role and last year for the full year was about EUR60 million in revenue. This is down about 65% from the peak in 2014.

Now the market has recovered. I'm cautiously optimistic, but it's still a few months into it. So we keep on following, but things are at least going to the right direction. So we continued to push oil sands. We continued to push EOR, mining, other areas, and now obviously shale once it's returning.

Municipal and industrial really had a really good year. Especially in EMEA market area, APAC still being rather small for us, but performing okay. Americas continued to recover. If you remember in late 2015, we had a supply disruption that was now recovering last year. Organic growth was flat due to -- but volumes grew 2% and that implies that we are keeping up with our plans.

M&I is well in the 14% to 16% window that we have set for the Group having had almost 15% meaning 14.9% EBITDA level and that's been great work from the team done. I'm really pleased of their performance.

The revenue split for M&I is shown here. Really, no major changes in that over the last year. We continue looking at efficiencies, how do we run this machine faster and smarter, part of the boostings also come in here and we continued to work on advanced water treatment offering, developing that and introducing it step by step to the market.

One event I would like to bring out for M&I, there was a fire last week here in Finland in Pori of Huntsman, and Huntsman is a key raw material supplier for us. So we've been out for a week and up and running. Now, our plant is fine, but Huntsman plant will be out for an unknown time at the moment; they have announced that they will fix it up.

We are now okay after mitigation plants for the next few months, so impacts are still quite minor, but it goes to show that overnight things can happen and affect us and then we would have to talk to our insurance companies. But so far looking promising, but good to know these type of developments.

If I look at focus areas of 2017, obviously executing our business per our financial plans, completing our ongoing investment projects on time, on budget, on quality, and safely. Many of our bigger projects are completing first part of this year, middle of next year, so ramping those up is imperative.

We have still one year to go to finalize the integration of the Akzo in-sourcing, so that needs to go well. We have 6 in-sourcing plants out of 10 still going, and then continue to capture the benefits from our BOOST program and there obviously of the EUR20 million to EUR30 million that we are after in efficiencies this year, the Odyssey transportation management deal that we made last year, now we need to ramp that up and start gaining those benefits.

Cost control and efficiency high on our map, and then obviously driving the turnaround of the oil & gas business, it continues to be in our focus. So all in all, I think in a challenging year we fared out quite nicely.

Lastly, the guidance for this year and Kemira expects its operative EBITDA to increase from the prior year during 2017.

That's my summary of the whole year. Now our CFO Petri Castren will focus more on Q4 and then some of the more detail numbers. Petri, please.

Petri Castren - *Kemira Oyj - CFO*

Thank you Jari. So as Jari said, I will focus more on the Q4 as Jari was sort of talking about the progress that we have done and generated through the year and actually through even a longer period of time.

Wait a second. Wait a second, this way. Okay. So the key takeaways in my mind for the quarter are continued profitability. We have in fact continued year-on-year profitability now for the 10th time, 10th quarter in a row, and I think 10th is already worth mentioning. Also I like to point out, as a CFO, good cash flow. So full-year cash flow now even as we're middle of our significant investment phase is covering fully the proposed dividend. And as Jari was saying, we're clearly seeing some early signs of recovery in the oil & mining and shale in particular.

But let's go and look at the numbers. So if you look at this bridge, obviously the 4% average decline in sales prices year on year is clearly something that has pulled or dragged down our top line development. And as Jari was saying, even in a quarter four, we had volume growth of 2%. This was much driven by the recovery in oil & mining. Currencies for the full-year were negative, but for the quarter four were positive primarily as the US dollar strengthened during the quarter, and operative EBITDA improved to EUR70 million as we were successful in managing our fixed costs.

Then again, when you look at the two-year horizon, I still like to point out the seasonality pattern that we have. Typically Q1 and Q4 are the weaker two quarters and we typically have a better higher profitability in quarters 2 and 3.

So looking at the segments, so one thing I'd like to point out in Q4 on pulp and paper is the long maintenance break that we experienced with one of our key customers. And the key customer has already talked about it, so that should not be a surprise to who I am referring to it. And the impact for us was not so much on top line. So we were able to sell chlorate, but it had a big impact on profitability. And this maintenance break was long, it actually even dragged a little bit into the January, but now we're back fully online and back on the sort of normalized level of profitability from that chlorate plant. And that's fairly significant on a quarterly basis for us.

Volume growth accelerated somewhat from Q4, and as Jari was talking about the synergy capture, that is going on well. We're now around 70% capture rate, and we have two larger CMA, Contract Manufacturing Arrangements, that are now scheduled to end in Q2 and by end of Q2 -- during Q2 and end of Q2. So the -- we sort of expect to see a step-up in that capture rate in the second half of the year.

Then moving to oil & mining, so clearly the much anticipated and I think last couple of quarters, everybody had been asking us whether the shale recoveries is getting visible, now it is getting visible. Volumes grew more than 10% year on year, still on average at the lower sales prices. So that's why the organic growth rate is only 5%. But for the segment, the volumes were already at 10% or double-digit growth rate which is obviously positive.

Jari already mentioned that the CEO market is competitive and we lost a key customer which will have an impact on 2017. But at the same time we are making good progress with this unnamed major oil company generating revenue. This revenue is dilutive to our margins during the trial phase, but obviously it's something that is -- for the long term is a key area as we believe in the success in CEOR.

One more comment regarding the North American shale market, you may remember that during last year we closed one site -- one small site permanently and then we reduced operating shifts in some of our other plants. Now we're bringing back those plants to seven-day work week. So that sort of indicates that the market pick-up is starting to feel real and one needs to also be flexible when the downturn is flexible, down quickly, and when the upturn is to be able to ramp-up production relatively quickly.

Jari covered most of what happened in M&I. M&I there was nothing dramatic during the quarter. Improvement was supported by manufacturing efficiencies and for the segment relatively good raw material pricing environment. When one compares to Q4 of 2015, like to point out the -- that's when we had the supply disruption, the worst -- most of the cost from the supply disruption in North America in Q4 and then Q1 of last year 2016.

So that compares somewhat perhaps -- that's why it's so favorable in Q4. Perhaps anticipating some of the questions and comments, we have been all along saying that raw material pricing environment is relatively benign and we expect modest increases and nothing drama in it. And sort of Q4 in this segment is sort of proving that so that outside of some of the polymer product lines, the raw material price environment continues to be relatively stable.

Which sort of now brings us to this chart where we track the variable costs and the average sales prices on the right-hand chart, and now you see that -- again that this anticipated raw material price increase is starting to see here, so the lower line or turquoise line has now picked up again, in line with our expectations and we expect input cost to slowly continue to increase.

There's perhaps one exception that I'll point out. We have seen in the recent months or so a bit higher jump in the propylene and ethylene prices in North America and some of the derivatives like acrylic acid, acrylonitrile increased quite a bit in North America, and obviously this is something that we are reacting to. We already announced last month in January a across-the-board polymer increase in Americas of 5% to 15%, so this is again how the market reacts.

Typically again if you look at the correlation between those charts, you see that there is typically about two quarters, one to three quarter lag between when the trend reverses in the raw material prices before it goes to pricing. So we have made all in all some five price increase announcements in December and January, but it's too early yet to be sort of saying how these are being accepted and how they are going through. I think the coming quarters will give us more indication on that.

Moving on to CapEx, CapEx for the year 2013 we are clearly in a middle of a high investment phase. The biggest project obviously we -- at the early part of the year we finished the chlorate plant in Ortigueira serving Klabin pulp mill in Brazil. This was the big year for the in-sourcing or integration CapEx for the Akzo acquisition, and then I'll name the third one Joutseno where we add in chlorate capacity, and as Jari was sort of alluding to that, that CapEx program is going well. It's actually slightly ahead of schedule and that's why somewhat higher CapEx in 2016, particularly high CapEx in Q4. Number of CapEx acceptances sort of accelerated this sort of normal seasonal high quarter even higher in 2016.

But lot of that investment obviously is going into expansion. Almost half of the CapEx is now expansion investment. So this is how we are building for future growth. And as said, we expect about around EUR200 million of CapEx in 2017 as well.

CapEx was perhaps one reason why we had very favorable net working capital development in Q4. Obviously a lot of that CapEx was very much tail-ended in the year and tail-ended even in December. So helped our cash flow for the quarter and that's why -- and we have this seasonality in our cash flow. We tend to have stronger cash flow in the second half of the year and that's why cash flow is better judged on a full-year basis than on individual quarters. But even as we look at the full-year operating cash flow, some EUR23 million improvement, and obviously as mentioned the free cash flow now covers the dividend.

Looking at the balance sheet metrics, we continue to have a very well diversified and quite nice maturity profile for our debt. Debt gearing actually remained or actually came down from -- I'm sorry, gearing remained at 54% where the leverage ratio actually came down from 2.2% to 2.1% and net debt even reduced, which is a good achievement as we are middle of this investment phase.

Jari mentioned this, again sort of highlighting the dividend and the thinking behind that. We have a policy, dividend policy that we pay a stable and a competitive dividend. Stability sort of now demonstrated that it has been EUR0.53 six years in a row. It's still very competitive at 4.4% yield particularly when one compares against -- whether one compares about euro stocks chemicals which are yielding 2.3% or Helsinki Stock Exchange which is somewhere at 3.5%. So we think that this is a well or sort of a good dividend proportion for the AGM and obviously up to the AGM to decide and we expect obviously to be approved.

So I'll stop there and now we're ready to take questions both for Jari and I. So thank you from my part.

QUESTIONS AND ANSWERS

Olli Turunen - *Kemira Oyj - Head of IR*

All right. Let's take questions here in the room first and please state your name and company. Anssi, and wait for the microphone.

Anssi Kiviniemi - *SEB - Analyst*

Anssi Kiviniemi from SEB. I have couple of questions. First let's start with oil & mining. Now that we have seen the pick-up in shale activity and double-digit volume growth, what is your visibility going forward and kind of do you expect growth to accelerate or remain at kind of decent double-digit level?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, volume growth in the last quarter was 10%, it was partially also filling up stock for the operators that are starting up. So that's one indicator. We are still cautious on how the trend will go. I don't expect it to explode really fast, but it's good to see that we are back on recovery and let's now then follow the political environment and pricing also. WTI is still $51 today. So should something then happen during the next months and years, that has an effect. But it's good to see now this change happen.

Anssi Kiviniemi - *SEB - Analyst*

Okay. Then on the environment currently in US and especially the pricing, what kind of actions you see that the customers are currently doing, are they price shopping? And another question, what is the competition, are now your competitors trying to kick in the volumes or what is the situation on that side?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, sensitive area always to talk about competition in detail, but as Petri said we have announced price increases 5% to 15%. We have had some pushback obviously from the buyers, but it seems to be going through. And the market can understand this propylene-ethylene situation and that the oil price has now stabled to the $50. So price increases, we are some of them getting through.

Anssi Kiviniemi - *SEB - Analyst*

Thanks. Then you highlighted that you have lost one contract in the CEOR. Could you elaborate a little bit more on the reason? Was it about the product or was it about the price or was it about logistics or what was it?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, that was the Indian deal that we had been delivering for a bit over a year and there was a competition or for the next contract and we weren't successful in that. Many components, many of which you mentioned, obviously were also far away, but that was a commodity product, [that's quality] in polymer. So it's not so easy to fight in that, but clearly a disappointment that we couldn't keep that contract.

Anssi Kiviniemi - *SEB - Analyst*

Okay, thanks. Then moving to pulp & paper, 17 quarters of positive EBITDA development on that division and now you bring us this. Kind of main component there was the maintenance break. So could you give us a little bit indication of the magnitude of the effect?

Petri Castren - *Kemira Oyj - CFO*

The magnitude is probably without the maintenance break the fourth quarter would have been at the full year's level in terms of profitability.

Anssi Kiviniemi - *SEB - Analyst*

Okay, thanks.

Petri Castren - *Kemira Oyj - CFO*

So from more than half a point of margin.

Anssi Kiviniemi - *SEB - Analyst*

Okay, that's pretty clear. Then perhaps last question, you highlighted that you have pretty good cost control and they have been supporting your profitability and there's BOOST program and other kind of interesting developments, strategic developments you are currently executing. What is the outlook for 2017? Should we expect the fixed cost to come down? I know there are FX and other things also that play into that game, but should we expect the boost from that side or is it stable or how should we look at it?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, there are many items out there that are moving like you mentioned, FX and volumes and customer stoppages and so on. But let me put it this way, our guidance is that we will increase our profitability.

Anssi Kiviniemi - *SEB - Analyst*

Okay, thanks.

Petri Castren - *Kemira Oyj - CFO*

If I may add to that, BOOST program, I don't know if you -- the word boost, I don't know if you've referred to our BOOST program or in general as a verb I mean in terms of boost, but the BOOST program savings which we are targeting, that comes mostly in variable costs. So there is very little fixed cost savings as such. That's just a clarification.

Jari Rosendal - *Kemira Oyj - President and CEO*

Okay, that's a good point.

Anssi Kiviniemi - *SEB - Analyst*

Yes, great, thanks.

Olli Turunen - *Kemira Oyj - Head of IR*

Next question from Markku.

Markku Jarvinen - *Evli - Analyst*

Markku Jarvinen, Evli. You gave no revenue guidance for 2017. Is that sort of a -- should we read something into that or how do you sort of came to that decision?

Jari Rosendal - *Kemira Oyj - President and CEO*

Look, there are so many variables, as I said earlier. So we are simplifying the guidance and obviously one component is increased revenue to improve our profitability. But as we saw last year, we were improving our profitability by 5% with no revenue growth. So it's not an indication, it's a simplification of our guidance.

Markku Jarvinen - *Evli - Analyst*

Okay. Then working capital, you've been able to release cash from working capital now two years running. Do you see this sort of a progression continuing in this year?

Petri Castren - *Kemira Oyj - CFO*

We certainly aim to do that. If you remember when we announced the BOOST program, we said that over the couple of years, BOOST program itself is trying to release or targeting to release EUR50 million of inventory. So we are having some EUR240 million or thereabouts is the inventory level and we are only sort of starting to see the benefits from the inventory management. So clearly in the area of inventory management, we have opportunities still to be had.

When I'm looking at the -- and also when I'm looking at payables, clearly there is one of our strategic sourcing targets is to look at the payment terms of our contracts. So we -- there's an overall aim to stretch those somewhat, not dramatically, but continue to do that. In terms of our receivable turnover, that is -- generally is quite good. So -- and we're -- I think we were below 10% net working capital to revenue. That's a good ratio on its own right now, but still we are aiming to improve it, even that.

Markku Jarvinen - *Evli - Analyst*

Sure. Good. Thanks. Then maybe on the businesses, I guess you now say that you had EUR60 million of sales to the shale business this year -- sorry, last year, and you had double-digit volume growth in Q4. In any case, I guess we can all agree that the profitability of that oil & mining business remains unsatisfactory. Now the base that the shale is growing from is relatively small. Do you think it's sufficient to grow that base or how do you see the path for oil & mining to sort of come back to satisfactory profitability?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, certainly we can't be satisfied with the outcome of oil & mining, and that's the downside of very cyclical businesses which that is. So yes, as I said, I'm cautiously optimistic on the shale. You heard that one (inaudible) our deal EUR25 million is not there this year. I expect that we can make that up from oil sands and other areas, and start to get the pricing level more healthy. So I'm optimistic we've seen the bottom and we rather improve from here, but as I said it won't be a rocket that shoots up very fast.

Markku Jarvinen - *Evli - Analyst*

Okay. Just on the EOR deal, that sort of ends at end of 2016 and that's sort of completely gone 2017 --?

Jari Rosendal - *Kemira Oyj - President and CEO*

Yes, maybe some --

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Petri Castren - *Kemira Oyj - CFO*

Last deliveries have been delivered.

Jari Rosendal - *Kemira Oyj - President and CEO*

Last deliveries have been delivered, so. I'm not sure if we had any bookings for this year, but probably none.

Markku Jarvinen - *Evli - Analyst*

Okay. And lastly, pulp & paper, you had some competition issues in Asia and China. How is that developing now?

Jari Rosendal - *Kemira Oyj - President and CEO*

More stable, so it doesn't get any harsher. It hasn't gotten any easier, that's why I say we stay humble and fight smart and hard. But we've managed to make some counterattacks also. So battle is out there.

Markku Jarvinen - *Evli - Analyst*

Okay, good. Thank you.

Olli Turunen - *Kemira Oyj - Head of IR*

Thank you. And Operator, let's take questions over the phone.

Operator

Thank you. (Operator Instructions). Panu Laitinmaki, Danske Bank.

Panu Laitinmaki - *Danske Bank - Analyst*

I would have two questions. Firstly on paper and its growth outlook, a bit related to the previous question on APAC where you have reported falling sales for two quarters, minus 5 in Q4, could you talk a bit more what is happening there? And then on an overall level in the paper business, do you expect the pricing to re-improve so that you could actually achieve positive organic growth in 2017 and what have you seen in terms of pricing trends?

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, I think the pricing trend first, based on the big picture we are stabling out depending on how aggressive the competition continues to be this year. 1% roughly and not putting any decimals behind it is the global target market for us which we are looking to or which we see the market will grow. Obviously printing and writing is continuing globally to go down, but then packaging, board and tissue going up and in the front end of the value chain pulp is going up and you can see there are pulp plans announced left and right, right now. So that's positive to us. Obviously one question is what happens to the market then on a longer run. So I think our positioning on a global scale is the same.

Then the printing and writing, I'd like to point out that even if it's coming down 3% to 6% a year, you have seen that we are growing in revenue and it's been 20% of our portfolio the last three years. So that mathematically means that we are also there gaining market share. So that's going well.

APAC has come down and it's still rather small volume, so single millions and timings of deals and so on have an impact, but there the pricing environment has been the most aggressive. So that's been the trend of APAC.

Now some TCMs are kicking off and so on. So I'm hoping that stables and then we continue to grow in APAC.

Petri Castren - *Kemira Oyj - CFO*

If I may sort of add up --

Panu Laitinmaki - *Danske Bank - Analyst*

Okay, thank you. And my second question -- yes, sorry.

Petri Castren - *Kemira Oyj - CFO*

No, I was supposed to -- I was sort of proposing maybe a little bit of addition to the price discussion because we have, like I mentioned in my opening remarks, that we have made five increase announcements to the market. One was the polymers in North America, that -- Americas that I talked about and there we see sort of a market clearly picking up and sort of alluding to that we are expanding production by bringing new shifts. So is our competition. So there's clearly a market demand.

In some of the other areas where the price increases have been given, the market is not growing as fast as we are seeing in North America for example. So clearly there, the -- it's perhaps a bit more difficult and takes perhaps a little longer to get those price increases through. And those apply to AKD wax and ASA-sizing products, which are part of the pulp & paper products.

Sorry, I was interrupting your next question.

Panu Laitinmaki - *Danske Bank - Analyst*

And my second --

Petri Castren - *Kemira Oyj - CFO*

Yes.

Panu Laitinmaki - *Danske Bank - Analyst*

-- yes, was related to the raw materials. So kind of could you help us understand about the overall trend that you are seeing? Clearly the -- you are saying that the input costs are coming up and pricings are still under pressure. If I look at kind of variance analysis that you give of the nine months, the raw material cost decline was still bigger than the price decrease, but then it evened out in the full year. So is there kind of a short-term lag when you kind of get a negative margin impact from this before you can raise prices? And then related to this, how do you see the sustainability of M&I's margin, which were at 15% EBITDA last year?

Petri Castren - *Kemira Oyj - CFO*

Yes. So if I start -- try and start on that one, so I was sort of trying to preempt that question with my raw material slide where I showed that, yes, we have now seen the increase. And if you look at the two curves, whatever slide that was, that's -- these are -- already raw material prices are increasing. And typically there is the couple of quarters of lag before those market reacts and sort of accepts the price increases, that typically are result of that.

Regarding oil and -- I'm sorry, regarding M&I, municipal industrial in particularly, I also made the comment that we have accepted -- expected that the raw material pricing environment is sort of benign, i.e., smallish increases, maybe 1% across the basket of our raw materials per quarter. That's sort of what we have expected to see and that we expect to be manageable.

Yes, that may put some pressure on M&I top margins. You see that there are some quarters when we had more than 16% EBITDA margin, but we're not sort of planning dramatic decrease in the profitability level. Clearly, oil & mining has its duty to drive the business, both top line and bottom line as well. And sort of the current situation raw material pricing environment does not sort of change that.

Where we need to do a bit more dramatic drastic situation is in the polymer product line where, as I said, some of the propylene prices in North America and the derivative prices have increased 10% to 20% in the last month or so, and that has clearly direct impact on our gross margin. So that's where we are reacting, but as said, that's where I'm -- just sort of market is, market is there, so I expect that the price increases will go through relatively smoothly in the big picture.

Jari Rosendal - *Kemira Oyj - President and CEO*

And in M&I where the question was about 70%, 75% of the raw material base is non-oil replace. So it's a small part that is there and don't be scared of the 20%, 30%, that's not directly to us, that's some early stages of our raw material input. So we buy semi-products in there. So the increase to us is much smaller.

We've known this situation, so in our polymers we're going sort of shorter contracts then rather than longer contracts, so we can roll them over with new prices earlier. So there's mitigation plans ongoing. And then the other thing is that we have, for instance, coagulants, polymers, and other specialty chemicals bundled in more and more. So none of our competitors can do all of those three. So it's a different game also in the negotiations, not only price per kilo type of an approach. So there are many components coming into this, but like we have been saying almost a year now that prices will start eventually come up. Now, we start seeing, but slowly.

Panu Laitinmaki - *Danske Bank - Analyst*

Okay. Thank you. I would still have one follow-up if I may. About the Huntsman plant shutdown in Finland, did I understand correctly that it has some impact to you, but it was temporary and relatively minor?

Jari Rosendal - *Kemira Oyj - President and CEO*

Yes, well, we were out for a week and that was an example of these type of disruptions which we have insurances for also, but the fire was fairly substantial. They haven't announced when they will be back online, and -- but they will fix it, that's what they have announced. We have now secured our raw material for next months to come and are mitigating then longer term and obviously talking to Huntsman of their plans to repair the plant.

Panu Laitinmaki - *Danske Bank - Analyst*

Okay. Thanks a lot.

Operator

Mikael Doepel, Handelsbanken.

Mikael Doepel - *Handelsbanken - Analyst*

Just first of all, with regards to the price hikes that Petri alluded to or the five price hike announcements that you have made in December and January, how big part of Group sales does this product represent?

Petri Castren - *Kemira Oyj - CFO*

I should have anticipated that question, Mikael, but -- Mikael. But it's not -- clearly not a majority, but it's not insubstantial either. I would say 20% of our revenue roughly. (inaudible) is pointing out it's actually 30% of revenue, so thank you (inaudible) from the -- help from the field, thereabouts.

Mikael Doepel - *Handelsbanken - Analyst*

Okay. Good. Then moving on to the oil & mining business, first of all just to clarify how much were the volumes up in Q4 because I think Petri said that they were over 10%, then Jari said 10%, do you have a figure for that?

Petri Castren - *Kemira Oyj - CFO*

I do have a figure, but I don't think we've given it precisely. We have said double-digit. So let's put it this way, it's a small double-digit number.

Olli Turunen - *Kemira Oyj - Head of IR*

Yes. If I may add, so about 10% for the oil & mining segment, that's what we've said for the segment and the shale business then you would have to calculate with the figures that you have, but we haven't disclosed the precise figure.

Jari Rosendal - *Kemira Oyj - President and CEO*

And there is volatility in the other lines in mining and so on. So it's not steady deliveries day in day out. So there can be those components, but the biggest component came from the shale recovery. And like I said, the newcomers and when the rigs go up and then they go into completion of those new holes, there are new players coming in, so they have stock up. So this can be a bit higher, we don't know that yet, so.

Mikael Doepel - *Handelsbanken - Analyst*

Sure. Then in terms of the CEOR deal that you lost, and you said that it had an annual revenue of EUR25 million if I heard you correctly there, could you give any indication on what was the earnings impact? And also, you said that you expect to compensate this lost revenue through oil sand deals and other businesses as well as price increases in terms of revenue loss, but do you also expect to be able to recover the earnings loss on that deal, what was the earnings impact on that?

Jari Rosendal - *Kemira Oyj - President and CEO*

We don't give out that type of thing for obvious competitive reasons, but let's put it this way that the margin level was below our normal margin level because we're talking high volumes and a fairly commoditized product. So the earnings impact is not in line with the Group average but -- and obviously we have a fight to gain back that EUR25 million and then somewhat I'm optimistic we can do it this year.

Mikael Doepel - *Handelsbanken - Analyst*

Good. And then in terms of the oil & mining division and then the earnings there and when we take it down to the operating profit level which was still loss-making for about EUR2 million in the quarter, would it be fair to assume now given that the volumes are likely to recover, continue to recover quite a bit, would it be fair to assume that that could actually reach breakeven already in Q1 this year on the EBIT level for this whole division?

Petri Castren - *Kemira Oyj - CFO*

Yes, we -- that's not the sort of guidance we have been giving and not starting now, but I think we are just giving commentary on what's happening in the marketplace and what we are seeing. So that's -- I'd like to leave it at that. So I think we've given quite strong signals that we see recovery in the shale area now. And we sort of talked about several components in our oil & gas, which are less or more profitable. And clearly Jari said that the [KN] revenue was on average below average profitability, below average gross margin in the segment.

We have this new field trial, which is clearly dilutive to our gross margins, on average gross margins. So something must be above gross -- above average, otherwise the math doesn't work up. And typically the shale, the North American shale business has been quite good and I'm sort of referring to few years of horizon and even in the most difficult times last year, the gross margins in that business were healthy, not fantastic, but healthy. So that's why there might be a recovery.

Jari Rosendal - *Kemira Oyj - President and CEO*

And it's not a steady business, so it's like batch-buying from those players and then some of the middlemen, so there can be volatility from week to week, day to day, definitely quarter to quarter. So as I said in my talk that it's still a few months, so we can't draw a trend line yet. We can only look at what the history has been and still looking optimistically to it, but be careful about it.

Mikael Doepel - *Handelsbanken - Analyst*

Good. Fair enough. Thank you very much.

Operator

Johannes Grasberger, Nordea.

Johannes Grasberger - *Nordea - Analyst*

It's Johannes from Nordea. Most of the questions were actually asked already, but I still have a couple of things to come up with. And I'm just thinking here that have you kind of seen that perhaps some of the oversupply in other North American end segments is now reducing now that the demand from oil segments is coming up? So I suppose the competitors would direct some of their volumes to their, say, core segments and that would dry out oversupply from segments that you operate in. And I suppose that could have some positive additional impact on the oil & mining division. If I remember right that the plants that the -- in North America sell to (inaudible) or M&I are actually as a cost base in oil & mining or is that a correct ratio? That's the first question.

Jari Rosendal - *Kemira Oyj - President and CEO*

Well, the logic is correct, but it's too soon to say. So no, we haven't seen any indication the pick-up related to the available capacity has been still rather small. If you think that 65% of our business disappeared partly from price and partly from volume, so it's probably been the same for our competitors. So no indication of that yet.

Johannes Grasberger - *Nordea - Analyst*

And kind of a follow-up on that one, you talked about the price increases and I'm just curious because the rig -- the increase in rig count has been quite dramatic in a very short period of time. So wouldn't it be quite natural to assume that it's quite easy to raise prices in this kind of environment when basically the volumes are just around the corner to pick up because -- well, what we all need to see is actual production volumes to come up, but basically the production capacity is already ramped up. So in this kind of environment, to me it's quite natural to assume that prices will increase eventually.

Jari Rosendal - *Kemira Oyj - President and CEO*

I'm actually thinking here if I should hire you as a sales manager to come and raise the prices for us. It's never easy even in a situation when the market is tight and we are hardly talking about a tight market yet from a capacity utilization point of view. Our message is that the time of discounts has ended and flattened out and now we are ready to go back to the customers with a price increase. It's not because of the tight capacity in a sense, but more of the input prices coming back and taking sort of the overly high discounts out. So if you want a salesman job and come and raise our prices for 25%, let's talk.

Johannes Grasberger - *Nordea - Analyst*

Okay. Fair enough. Maybe one follow-up on that one. You mentioned some sort of restock might be happening kind of at the same time while the ramp-up is coming up. Do you have any visibility on any kind of inventory levels into market or is this just kind of a sort of cautious assumption that something in terms of restocking might be happening at the moment?

Jari Rosendal - *Kemira Oyj - President and CEO*

It's just a logical assumption that if the completion crews after the drilling rig have been dormant for a while, they are not sitting on inventory. So when they start to become active, then they start filling up their inventory because -- and so more going into action. So it's just a logical assumption, we don't have visibility there.

Johannes Grasberger - *Nordea - Analyst*

And maybe a difficult follow-up question again, but if you take the volumes that you saw for shale in the fourth quarter and compare those to a volume level that you saw back in when the oil prices were around $120 or so, would you say that the fourth quarter volumes, even though there might have been some restock, were still significantly below those levels?

Jari Rosendal - *Kemira Oyj - President and CEO*

Significantly below. If you look at that, we had 65% drop from the peak in shale in 2014. Then we are significantly starting from a lower base.

Johannes Grasberger - *Nordea - Analyst*

And my two final questions would be, one, addition -- additions on one for oil & mining, have you seen any pick-up in volumes towards the mining segment? That's the first one. And then the last one would be on the Chinese environmental investment, I think I perhaps asked this question also in the third quarter report, but I mean, in China there were quite recently very sizeable investment targets announced for environmental investments, and I'm just thinking whether you have seen any set in the minds -- kind of change in the mindset for the Chinese to take care of their water purification as well in addition to what they are doing with their clean air or dirty air today, but to make it clean in the future?

Jari Rosendal - *Kemira Oyj - President and CEO*

Let me take the last one first and if Petri takes then the first one. So in China, yes, they have announced investments, but those are plant investment and machinery investment mostly. And once then those ramp-up, it can create demand for us. I'd like to remember that in China and Asia-Pacific, we in M&I, in the municipal water treatment, we are only in specialty products, we are not in the commodity coagulant. So that part is there. And we have gained some cities or parts of cities in China and outside of China and the growth has been there ongoing, but from a really small base. So we want to accelerate that, but progress is there. Petri, the other one.

Petri Castren - *Kemira Oyj - CFO*

Then talking about the market in the other two sort of sub-segments within the oil and mining segment, I think Jari already sort of commented also for the full year that both WPA, which is our water and process additives, this is the polymers that we typically sell to industrial application, so that we don't touch directly, relatively stable in the Q4 and similarly mining. So we haven't seen any sort of big mining market pick-up that would have resulted in pick-up in revenues. So relatively stable.

Jari Rosendal - *Kemira Oyj - President and CEO*

And in mining, we are directly related to the production tons. So how much ore they feed into the mine, we are related to that same logic as in pulp bleaching; we are related to the tons, not necessarily to the market prices and so on. So if they mine, we deliver polymers.

Johannes Grasberger - *Nordea - Analyst*

Fair enough. Thank you. That's all from me.

Jari Rosendal - *Kemira Oyj - President and CEO*

Thank you.

Operator

There are no further questions on the telephone. I would now like to turn the call back to your host for any additional or closing remarks.

Olli Turunen - *Kemira Oyj - Head of IR*

Thank you. So we are ready to conclude the complete set. Thank you for your participation and have a good day.

Jari Rosendal - *Kemira Oyj - President and CEO*

Thank you.

Petri Castren - *Kemira Oyj - CFO*

Thank you.
