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KEMIRA.HE - Q3 2022 Kemira Oyj Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2022 / 7:30AM GMT

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PRESENTATION

Mikko Pohjala - *Kemira Oyj - VP of IR*

Good morning, everyone, and welcome to Kemira's Q3 2022 Results Webcast. My name is Mikko Pohjala, from Kemira's investor relations. And with me here today, I have our President and CEO, Jari Rosendal; as well as our CFO, Petri Castren.

As you've surely noted, we have earlier today published and announced our Q3 report with record high revenue and operative EBITDA.

In terms of the webcast today, we will start with a brief update from Jari and Petri, and then we'll go over to your questions, which you can present either from teleconference line or then via the webcast tool.

With this brief update, I'll hand it over to Jari.

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

Okay. Thank you, Mikko, and good morning on my behalf. And as announced, we had a really strong quarter. Our demand stayed good. But we started to see some curtailments from European customers and even supply wise. But from the volume point of view, I'm not that worried as there are clear explanations from the exit of exports to Russia and the COVID actions by China, explaining a lot of that.

Energy, especially natural gas in Europe, starting to be very visible to our customers, not so much impacting ourselves, so more our customers and our supply.

Inflation pressures continue. We have been very successful in mitigating the situation. In some areas, the raw material prices started to level out and even come down, but we expect that the strength due to the energy in the inflation still continues going forward. Not so strong, but still continues.

So highlights of the Q3, record high revenue and operative EBITDA. Seasonally Q3 is strongest quarter for us typically. We also had a change in management. So Antti Salminen was appointed to head the Pulp & Paper segment. He was previously I&W segment head. And Wido Waelput, who is the EMEA Head of I&W an APEC Head is interim and search for a permanent solution is ongoing. Both segments are in good hands.

We also signed the deal to divest our colorants business and we believe that finds a better home with the buyer ChromaScape who focus on colors and colorants, that's their main business.

The second installment of our dividend this year EUR 0.29 per share will be paid to the shareholders on 3rd of November.

Then looking at the main figures for Q3 revenue, a big number, EUR 972 million, up organically 31% year-on-year. Operative EBITDA, EUR 152.5 million, which is 15.7% operative EBITDA margin. Both segments improved their profitability and performance, which is good to see.

Revenue growth is driven by higher prices, particularly in energy intensive pulp and bleaching chemistries. Sales volumes declined slightly, but as I said, I'm not that worried over that because it's Russia and China related. Especially in the pulp, it's the market prices that are high for 3 main products: Sodium chloride bleaching chemical, caustic soda, which we bring into the country and resell, but we are the only producer of caustic soda also in Finland, and hydrochloric acid is a side product from caustic manufacturing, that price is really high in the market also.

Year-to-date earnings per share EUR 0.93, so a good result.

Then looking at the segments, starting with pulp and paper, a really strong quarter. Revenue of EUR 537 million and organic growth 29%, really a good volume drive. And as I said, market prices for our big production of volume items are high, and that's driving the market and we're very competitive in that.

We started to see some curtailments because of high energy prices in Europe, but that hasn't been so material because Russia and China represents the biggest amount. And operative EBITDA for Pulp & Paper was EUR 92 million and the margin improved to 17.2%.

Industry & Water also had a strong quarter. Municipal market is solid and industrial market is strong in water treatment chemistries. And oil and gas share market demand has recovered and volumes have grown. But we still need to improve the profitability of our oil and gas business. It's going to the right direction, but not yet there where we need it to be.

I&W revenue EUR 374 million and growth was organically 33%, so a strong growth. Operative EBITDA EUR 60 million and 13.9% of the revenue and that's entailing the drag from -- still from oil and gas. So we're working to catch up with the inflation and improve the oil and gas profitability.

Then couple of topics of new openings. We have signed a multi-year deal with the Spinnova's manufacturing company of Woodspin to supply our chemistries, knowhow to the wood space -- based, wood based -- wood fiber based textile production. They have a small unit here in Finland and have gone to the market with major brand names and are planning a bigger 50,000 tonne plant to be announced possibly next year.

So this is a really important milestone in our strategy of new fiber based technologies and where we can help the customer and partner in driving that business. Our no harm product portfolio is fit for this and we can tune our products in R&D to make it even better.

A second deal that was made in Q3 in the Canadian oil sands, a major player there and there's tailings ponds treatment and multi-year deal again here and goes to over those years to a 3 digit million number. So again, a good opening and a nice deal for our oil and gas team. And this will stabilize the typically cyclical oil and gas business as it is, oil sands, long-term deal, which is steady business.

So shortly, the focus areas going forward not only for '22, but going into next year, goal, continue obviously to mitigate the impacts from the strong inflammatory pressures and the energy situation in Europe. As said, we're quite okay with the energy situation more it's -- how it impacts our suppliers mainly and then our customers.

Ensure delivery reliability in the volatile market situation, so far we have managed very well this and I believe we can manage very well. But there are availability disruptions that can come in and then we need to mitigate those.

We continue to derive profitable growth and continue to progress our buyer base strategy, which is progressing well. And we have a number of investments ongoing too, the bigger ones is the ASA sizing line expansion in China that are existing plant and then the Uruguay bleaching expansion for increasing and supporting the new plant for UPM.

I conclude my short comments for Q3 here and ask Petri to come and give us some figures for you to look. Petri, please.

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

Thank you, Jari, and good morning from me as well. So obviously very happy to report these types of earnings today. And I'll focus on 3 points. I typically focus on 3 points or few points that behind -- are important behind the numbers.

And obviously one is our ability to pass on cost increases to our customers. Second, I will focus on the competitive advantage that we have with our energy sourcing in Finland. And third, a few comments about our cash flow, which improved both on a quarter from last year as well as year-to-date over '21.

So impressive 40% increase in revenues, FX mainly, stronger U.S. dollar helped put the organic growth at 31%. As already mentioned, growth was driven largely by price -- sales price increases. And as you can see, we are clearly more than offsetting the cost increases of variable costs.

Market prices, particularly for energy intensive pulp and bleaching chemicals, sodium chloride, peroxide as well as caustic soda are high because of the high energy cost. And this is actually where our cost advantage in -- for our production in Finland plays a role, and I have a separate slide on that topic because I think that's not perhaps quite fully appreciated.

Volumes declined 6%. Jari already mentioned the key drivers. But in I&W, Industry & Water, segment, thanks to the oil and gas volume growth, we saw volume growth. Whereas in Pulp & Paper segment, the Russia exit impacted volumes negatively as well as the China COVID related lockdowns. And then we did have some energy related or saw some energy related curtailments in EMEA for our -- particularly for our Pulp & Paper customers.

In the other section or a part here, category, there is a EUR 5 million indirect tax credit, which we received in Brazil, mainly impacting Pulp & Paper segment. And this is now just to make sure that this is a onetime event and will not carry over into future periods. And we expect to receive the cash benefit in the next couple of years, 2, 3 years, as the credit will be utilized against the other taxes. Inflation pressures continued. Some of it is energy driven, but also lack of supply as Jari had already mentioned.

But on this topic of electricity sourcing or electricity backward-integration in Finland, which is we feel it's a very strong competitive advantage. So we own shares in Teollisuuden Voima and Pohjolan Voima, 2 electricity producing Mankala companies here in Finland and those entitle us to energy at production cost.

I take some numbers from our balance sheet to illustrate the value of these assets and perhaps the competitive advantage that we have. First of all, we value our ownership in these assets on -- basically on market basis using DCF calculation to see what the value of these assets is -- are. And these market prices we either take from trading of futures from the Nasdaq market or then best long-term estimates for long-term electricity costs. These assets, we have now increased during Q2, but mainly during the year by EUR 140 million. Now they are about EUR 400 million in our balance sheet.

Olkiluoto 3 which is the newest of these assets, which is still in trial production, is still valued at production cost, which is something like EUR 21 million. And so not fully reflected on our balance sheet because obviously we feel that once that asset is fully operational in commercial use, it will be clearly more valuable. And we would expect that we move to the DCF valuation for Olkiluoto 3 asset as well once the production starts -- once it start its commercial production.

And also just sort of to illustrate the value of this asset, our 4% ownership gives us sort of a 60 megawatt of constant power. But if you translate that into megawatt hours and using a theoretical 24 hours, 365 days basis, that's more than 500,000 megawatt hours. Obviously in practice we will never see the 100% utilization, but that should sort of help give the math of what the value of this asset is, particularly at today's and sort of near forecasted electricity prices.

And once the asset is fully operational, about 80% of our electricity needs in Finland comes from these assets where we are backward-integrated or from long-term renewable power purchase agreements.

Also I think worth noting is that we do have a hedging program here in Nordics where we will look at our estimated energy needs, electricity needs for the next 5 years. And we have a staggered hedging program. Obviously first year more closely, higher hedging ratios, in the 50 or lower hedging ratios. Go back so that the value of these -- hedges on loan has increased more than 100 million in our balance sheet during the year.

And final point also, which is not on the balance sheet. As expensive as the electricity is in Finland, continental European energy prices tend to be much more high -- much more expensive or significantly more expensive. And I believe this is a benefit for us. It's also a benefit for the other electricity intensive industries in Finland. And as such, the combination of these factors gives us a good and significant competitive advantage over our continental European competitors.

Now to the sales price and curves, which we also look at periodically. I think I already covered most of the drivers behind these charts. And -- but the bottom line is that when you look at the chart on the right, as significant as the cost increases are, we are now more than covering the cost increase with our price increases. So we are starting to create significant net impact, EUR 59 million in Q3 versus the Q3 of the previous year.

This is not quite uniform. So still in some regions and some areas, we still need that. And in some product lines we have some work to do to pass on price increases to our customers, but in sort of in total in absolute terms. This impact has been clearly a positive and again helped by the competitive position in electricity in Finland I mentioned already.

Few comments about our balance sheet. Our balance sheet is strong and indeed getting stronger. Gearing is now reduced to 54% from 63% last year, which obviously is giving us more headroom regarding our target or guidance trying to be below 75%.

Also during the first half of the year, we did mention that net working capital was building up or we are building because of the higher -- very high raw material costs, also currency impacts and also higher volumes were impacting receivables. They were impacting inventory levels. In Q3 this started to level off, being stable.

And sort of forecast or reminder is that we typically see net working capital release in Q4. And regardless of this net working capital buildup which we have seen, particularly in the first half of the year, leverage ratio at 1.8 is now below 2.0 that we had at year-end.

Final comment on the back of the good profitability. The operative ROCE, return on capital employed, improved to 13% from 12% last year or year ago.

Cash flow, I did mention that it exceeded last quarter or last year's Q3 and year-to-date cash flow levels. And really the net working capital impact I talked about was the driver why it was a bit thinner on the first half. But now we are sort of catching up on the cash generation as well.

CapEx, capital expenditures, we expect that will continue to land -- will land around 6% of revenue depending on some of the projects that we have underway and Jari mentioned the 2 big projects, one in China and one in Uruguay.

Focus obviously for our planning is now starting to be in '23. But considering -- and considering the results that we had year-to-date, it's perhaps not surprising that there is no need for an update on the outlook for '22. Regarding the stated assumptions, we obviously have seen some slowdown in demand and Jari covered some of those earlier. And we expect the inflationary impacts to continue through Q4 of '22.

With that I think we are ready to move to our Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Anssi Raussi of SEB.

Anssi Raussi - *SEB, Research Division - Analyst*

Congratulations on great results. I have a few questions and I go one by one. And the first one is about the demand. As you mentioned that the demand started to slow down in Europe. So is this especially about energy intensive segments of Pulp & Paper business or more broadly? So basically, do you see that the market started to cool down because your customers have to implement products on halt or is it because your Pulp & Paper customers end user demand is slowing down as well?

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

Multiple questions. Mainly the energy-based curtailment. So the board and paper machines use natural gas in the drying end. So when prices were high, they curtailed. Then the second is that there is -- in some qualities, there is sort of the inventory pipeline type of adjustments. There's more inventory at the manufacturers and the ports, but at the consumer end that is more empty. So that has changed. But the inventory levels are not growing. So mainly in the Pulp & Paper side and really paper and board side, not pulp.

Anssi Raussi - *SEB, Research Division - Analyst*

And the second one is about energy prices again. And I guess, energy prices had a quite significant impact on higher selling prices. But do you think that selling prices in the chemical market in general could actually decline faster than usually after high inflation because there is such a special situation going on in the energy market? So basically thinking about really rapid increase and possible quick decline as well, or is the resilience the same as usually during declining costs? What do you think?

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

Very hard to -- so I don't expect huge wins. But there are some industry sectors, which are slowing down more than we are. So then the chemistries needed in those sectors will probably decline. So that might be that there's oversupply. But at the same time, they are suffering from the gas prices. So yet to be seen how things go forward.

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

If I understood, answer your question correctly, if you were -- were you sort of taking a scenario where we go to sort of a pre-war energy prices?

Anssi Raussi - *SEB, Research Division - Analyst*

Yes. Basically, if we assumed that the energy prices started to come down or like in general that the cost inflation could come down. So are your selling prices quicker to react in this kind of environment?

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

I think we have 2 issues and let's not -- let's be careful that we don't mix them because in energy prices, whether it's gas or electricity, we've seen, so gas is sort of 5x to 10x more expensive in Europe and electricity easily 2x to 5x more expensive than it used to be. So clearly there's sort of -- whatever you call it, it's a matter or something because of the high energy costs.

So if we see gas prices, natural gas prices for some reason to go down to 1/10 what they are today, I think that's a highly unlikely scenario in the short-term. But should that happen, then of course the others or formulas that have -- those will react to that energy price. And they will probably react a bit more quickly than our typical sales price resilience is because typically then -- but when we're talking about the general inflation, then sort of the resilience that is built up with our long-term contracts should help us. Does that help you?

Anssi Raussi - *SEB, Research Division - Analyst*

Yes, that was clear, yes, answer to my question. And that the last one from me is that -- sorry if you mentioned about this already and I missed it, but could you specify a bit your volume development in both segments during Q3?

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

Volumes in I&W, especially oil and gas went clearly up and then in Pulp & Paper due to the Russia exit and the China curtailment and then some European curtailment came down some.

Anssi Raussi - *SEB, Research Division - Analyst*

Are we talking about like 10% in Pulp & and Paper or?

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

Yes. So maybe another way of how to look at this is by our key product groups. So polymers, which go to both -- they go to water treatment, they go to oil and gas, they go to water. In polymers, we were seeing growth because it's driven by oil and gas. Water treatment chemicals, coagulants and polymers; almost flat, maybe a slight decline, but no, very resilient business. And we believe that it's a very resilient business model as we go forward.

Pulp chemicals, very strong and really continue to be strong, and we expect them to be strong. And you've seen some of the very strong results, particularly for our Nordic pulp customers.

There is some demand and weakness in the sort of process and functional chemicals that go and then, of course, the Russia and the China impact fall mainly -- fall in that category. So -- but your guesstimate of roughly 10% in Pulp & Paper volumes is pretty much -- is roughly right. And it is driven by Russia and China and then some curtailments and maybe some softness in the market at the end of the quarter.

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

Yes. So the Russian business last year with last year's pricing was just under EUR 100 million a full year. So you can take that volume out now close to EUR 25 million a quarter.

Operator

Our next question comes from Martin Roediger of Kepler Cheuvreux.

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

Congrats for the results. A few questions also one by one. Given the low production, have you been able to sell any purchased energy to someone else or have you had any hedges which we did not need anymore and you could release and that has then eventually a positive impact on earnings? That would be my first question.

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

We sell some of the peak hour energy electricity mostly, but that's not a big revenue for us. And hedging, Petri, you can mention?

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

Yes. So really the energy sale itself is not the way. I think it's more how we manage, source our energy, and obviously there was a benefit from Olkiluoto 3 high production volumes in Q3. So their test runs were producing significant amounts of energy, and that did help our cost basis during Q3. That was, by the way, a comment that UPM also made in its own released earlier today.

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

So mainly where we…

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

What was that effect?

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

Sorry?

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

What's this effect? How much?

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

No, we don't go to that position on that. So I'm just sort of pointing you to the direction. But no, we don't go into the bill of materials for our products.

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

And the main way of managing our production is that we have an hourly production plan based on the market price of energy. And when the hourly price is low on the market, then we run at full speed, and then we curtail when it's really, really high so that we don't have to buy the open hours of energy at a high cost.

Obviously it means that we have to have our tanks full and we need to be able to supply our customers. So that flexibility is the important strategy in using the energy.

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

The second question is on the valuation of your stakes in these energy companies. Of course, I guess, that has an impact on the balance sheet on the active side and also on the passive side, so mostly higher equity. Just is there any effect also on the P&L?

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

No. No. The increase or the change in the values of these shares goes to directly to the equities to this other comprehensive income in the equity line. So no P&L impact.

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

And the third question is on -- I see that your electricity cost has been EUR 114 million. But in another occasion, you mentioned that the energy costs are EUR 200 million. So the delta is EUR 60 million. This delta of EUR 60 million, is that the natural gas cost you had in 2021?

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

It's mainly then the other energies; fuels and natural gas. And so we also pay and buy electricity to our plants outside of Finland, obviously. And there also electricity costs and gas costs have been high. So we have had a positive impact of some pricing mechanism. But obviously we've had a hit from high electricity costs.

For instance, year-to-date in North America, we are still lagging behind. Now we started end of Q3 catching up in North America. But year-to-date we've been sort of trailing, increasing electricity prices.

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

And the final question is on China. Yes, everybody was hurt from the lockdown. Do you see any signs that the situation in China is now normalizing?

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

Hard to say, not really seeing signs. So various industries and cities and so on are randomly locked down. So the demand -- consumer demand is lower than in long time and that then impacts, for instance, packaging industry. So I haven't seen a trend change yet.

Operator

We now move on to Andres Castanos of Berenberg with our next question.

Andres Castanos-Mollor - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Congratulations. My question is about the level of gearing and leverage that you would be comfortable with as a lower bound. I believe you are within -- well within your targets and through a place in relative comfort. But I want to understand if you would be happy to take on more leverage at this stage?

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

Yes. So we've always said that we want to be below 2.5 cycles. So -- and if we go over, then we have a clear plan how to come down and that still is valid.

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

Yes. And maybe obviously in our Capital Markets Day, we talked about that we actually see M&A as a more important tool for us. And in that context, I actually talked about the potential headroom that we could have in terms of taking on more debt. So that's the good cash flow generation and good profitability, of course, is building that sort of ammunition or toolbox that we could have for M&A. Not that there's anything imminent right now, but clearly we want to see Kemira growing, not only being more profitable.

Andres Castanos-Mollor - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

A question on raw materials costs. I've seen some of the most commoditized inputs you use starting to come down in prices. I wanted to understand if you're seeing this already at all.

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

We're seeing some, especially in North America, and Asia. But this energy component in the raw material prices haven't really yet gone into the prices. So it's a mixed bag. Some are flattening out. Some are coming down a bit. But then there has been still increases, direct and indirect. For instance, we buy some raw materials that are made from natural gas or using natural gas. So that tenfold price is an effect.

We still saw inflation in Q3, and we expect some inflation to continue in raw materials in Q4 also, but not as strong as earlier.

Mikko Pohjala - *Kemira Oyj - VP of IR*

I propose we take a question now from the webcast tool. There were 2 questions. The other one was a raw material price development, that was just answered. But the next one is from Petri Gostowski from Inderes. Should we expect the high energy prices of Q3 to be fully reflected in Pulp & Paper Q3 figures? Or is there some kind of a lag due to contract pricing?

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

I think it starts to be in. But obviously we're entering winter time, so most likely then energy prices, electricity prices, and gas prices will be high. In North America, the energy prices for our bleaching units have started to come down. Let's see what happens during the winter.

Mikko Pohjala - *Kemira Oyj - VP of IR*

No more questions from the web -- from the tool, so hand it back to the operator.

Operator

We take our next question from Henri Parkkinen of OP Financial Group.

Henri Parkkinen - *OP Corporate Bank plc, Research Division - Senior Analyst*

I have 3 questions. And the first 2 are related to industry and what -- just remind us about your contracts, what comes to your municipal and industrial water treatment, treatment customers. How much you have, for example, annual contracts, which will be renewed during next couple of quarters? And second one is about the oil and gas business. You mentioned that the profitability has improved, but still lacking your targets. Could you please describe a little bit the earnings improvement tad in oil and gas business, for example, during last 12 months or something, just to give an idea that how strong the improvement has been? And well, I will ask the third one later. Yes.

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

Okay. I'll take the oil and gas, if you -- Petri can take the industry and water contract question. First, it's been utilization rates that we've gotten volumes up and utilization rates up. So therefore the unit cost has gone down and that has improved the profitability.

Second is that polymers have been one of the areas where there's been strong input cost increase over the several quarters and after COVID. So we've been trailing with the sales prices and catching up with those. So the other thing is that logistics costs have been also very high and trailing those. So that's been the path. And the idea is obviously having higher utilization rates, fill the plants that we have, and then still work on the prices, and then the operating cost side of increasing. But still not satisfied with that absolute performance, but trending to the right direction.

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

Yes.

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

I&W.

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

Yes. Maybe quickly, so oil and gas, obviously, revenue increased, but the -- and the profitability in margin also slightly improved, obviously gives us a bigger absolute improvement, but not yet delivering it's potential.

I&W municipal contracts typically are 1 year or sometimes even 2 years. So these water contracts with municipalities tend to be fixed contracts. And we have thousands of these contracts. They generally are not calendar year related, maybe a slightly higher share than 25% is which you would get to mathematically dividing by 4, maybe a slightly higher share maybe a calendar year, but it's relatively even split.

So the calendar year itself is not giving any sort of a meaningful difference to the sort of renewal rate or the pass-through rate how the cost increases are being passed.

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

And as we have thousands of them, we need to sort of spread them out throughout the year. Otherwise we would have to during the first quarter of the year, do 1,000 quotes and then nothing during the year. So that's why it's rotating as it is.

Henri Parkkinen - *OP Corporate Bank plc, Research Division - Senior Analyst*

And third question is related to Olkiluoto 3. You mentioned that the valuation of Olkiluoto 3 is based on the [DCA] modeling after the commercial production will start. Have you already made some calculations which you could maybe divide with us that what could be the value of Olkiluoto 3 in your balance sheet after this -- the start of the commercial production?

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

Yes. Well, obviously, we have a model that we can plug in numbers. But I think the key point is that we first need to see that the Olkiluoto 3 starts its commercial operations. Right now, it's not producing anything. And then (inaudible) obviously is the one who is talking about their news and their production levels. I mentioned it will be significantly more than the EUR 21 million that is on the balance sheet right now, but let's not anticipate numbers yet.

I gave you the sort of theoretical numbers, how many megawatt hours theoretical, more than 500,000. But even if you take a haircut on that one and look at the current forwards, you get a sense of its variable.

Operator

(Operator Instructions) We now move on to Harri Taittonen of Nordea with our next question.

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

My turn to congratulate on the good results. So a couple of questions remaining. On this Spinnova development, I mean, is there any -- can you give some color on the type of chemistry that can be used in the textile? And also now kind of high level, how much is going to be based on, say, your proprietary knowhow? And is that something that you could scale up somewhere else? Or is this something which is strictly related to the current cooperation with Spinnova?

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

Well, there are other players that are in the same industry in North America and in Central Europe and so on. So textiles is an area like we said in the CMD that where we are penetrating and -- but it's a starting up business also in the sense of volumes are still quite small. It's a similar type of products that you'd have in board making. So it's strengths and these type of things, which is our specialty.

And obviously, as a Finnish company, we've been supporting them here locally with our expertise on how they do it. I don't want to go too deeply into their recipes. But there are other players, and this is scaling up and how Woodspin is planning their -- what they've said publicly is now a small unit, which they are running and then engineering a 50,000 tonne unit, which is significant and eventually then huge units by the end of the decade. But let's see how this scales up.

But looking at other customers, then there's also in the textiles, the recycling of textiles. And there's more European Union regulation even coming to the recycling. So that's another area that is an opportunity.

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

If you go back and watch Antti Salminen’s Capital Markets Day presentation, he was talking about quite a bit about the textile opportunity. And it's not only Spinnova. So it's a segment opportunity.

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

Just on the news on the price gap for natural gas, and how would you see the implications for that sort of industry, if that sort of happens and prices are kept successfully?

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

Well, let's see how it's implemented. But basically, I would say that's a more positive than negative news to us because then the spikes for our customers and our suppliers are easier to handle.

I think this winter, European gas inventories are quite full. So what I'm hearing from the players is that it's not the availability unless there's an extremely cold winter in Europe, but it's a price issue. Then we see what happens going to the next winter and how these are -- how the inventories are filled.

Operator

At the moment there are no further audio questions.

Mikko Pohjala - *Kemira Oyj - VP of IR*

All right. And there are no further questions from the tool either. So this concludes our call. Thank you for your questions. And should there be any outstanding questions, do reach out to me, then I'll be happy to help.

And a reminder, we published our full year results on the 10th of February, so that's quite far away. So I'm sure we will be in touch still before that. But with this, thank you for participating, and we wish you all a very nice week. Thank you.

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

Thank you.

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

Thank you.
