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PRESENTATION

Olli Turunen *- Kemira Oyj - VP of IR*

All right. Very warm welcome to Kemira's Fourth Quarter and Full Year 2018 Results Presentation. My name is Olli Turunen, and I'm Head of Investor Relations at Kemira.

Today's presentation will be held by our President and CEO, Jari Rosendal; and financials and 2019 outlook in detail will be covered by our CFO, Petri Castrén. After both presentations, you have a chance to ask questions over the webcast, either by calling or by typing the question below the video, and also, of course, you can ask questions here in the room.

Let's begin. Jari, please go ahead

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

Thank you, Olli. Good morning, everyone. 2018 was a year of progress in our strategy execution, but in challenging operating environment. We had continuously creeping raw material prices and a very volatile FX in environment impacting our performance. Our organic growth was good, led by Industry & Water but also Pulp & Paper segment grew nicely. Sales price increases started during the year, catching up with increased raw material prices, but we still have work to do in that area because we're not progressing the same pace in all the areas.

As said, FX year-on-year had an exceptional impact on our numbers, especially during the first half of the year. We increased our operative EBITDA for the fourth year in a row and we are progressing well with our strategy execution.

Some highlights of 2018. Market demand was favorable and it was favorable in all areas of our business. Organic growth was 7%, which is good. Most of the organic growth came from sales price increases. We had systematic improvement of operations, operational excellence and that's also visible in our customer and employee satisfaction.

In H2, our performance started to improve after difficult first half of the year. And during Q4, we closed the Chinese joint venture for the AKD Wax manufacturing and started to complete that plant to start that up this year.

In January this year, we also closed a smaller minority joint venture in Korea for polymer making.

We made a long term decision to increase our emulsion polymer capacity in North America and we continue to construct our specialty polymer expansion in Rotterdam for CEOR applications.

So looking at the 2018 numbers, as said, 7% growth organically. Revenue ended up close to EUR 2.6 billion, especially Oil & Gas chemical business grew very strongly.

Operative EBITDA grew by 4% despite raw material environment and volatile currencies. We increased our operative EBITDA from EUR 311 million to EUR 323 million, keeping in mind that we had a negative year-on-year impact from FX of EUR 14 million, which is exceptional.

Earnings per share, EUR 0.58 per share and the Board is proposing a EUR 0.53 dividend per share.

Then looking at Pulp & Paper progress. Organic growth of 6% and operative EBITDA of 192% keeping in mind a minus 8% FX impact year-on-year.

In Pulp & Paper, we're slower to take increase raw materials into sales prices, so there's more work to do this year in that area. As said, we closed the AKD joint venture deal in China. The factory is under final completion to get it started up after the summer and then ramping it up during the second half of this year; will not have big impact on this year's numbers, but a full impact then in 2020 numbers.

Also the smaller joint venture, a minority share of a polymer plant in Korea, we make dry polymers in Europe in 2 sites and 1 site in North America and we are shipping to APAC. So strategically, this then adds capacity and locates capacity for us to APAC, and that way, it is a strategic one for us also.

Here's the big picture of Pulp & Paper: Annual revenue, roughly EUR 1.5 billion, so almost 60% of the group's revenue. Our portfolio remains the same. Pulp is 40% of our business; board and tissue, another 40%; and printing and writing, now close to 20% and that area is, obviously, dropping.

Pulp demand continues to be growing and it's a clear strategic area for us and we have been investing into that. As you know, we've been debottlenecking and freeing capacity from secondary markets to serve the pulp maker customers.

Packaging demand continues to grow and tissue paper continues to grow fast, especially in APAC, driving also pulp demand in the future.

Then looking at Industry & Water. Organic growth during 2018 was good, 9%, driven by Oil & Gas market quite a bit. But water treatment capacity and demand was also growing, but, obviously, for -- more modestly and growth came mainly from prices.

Operative EBITDA grew 15% to EUR 131 million, which is good when we take into account that there's a minus EUR 6 million year-on-year impact from FX.

We continue to complete the polymer plant in Rotterdam for CEOR market and we made a strategic decision to invest EUR 60 million to additional emulsion polymer capacity in United States to our existing site. We believe in the long-term demand for emulsion polymers and that's why this 2-year construction project and then we're up and running.

In 2017, we combined 2 legacy segments of Oil & Mining and Municipal & Industrial to today's Industry & Water. And today, we can see the benefit of this combination, so it proved to be the right decision to be made.

Industry & Water relevant chemical market estimated to grow 3% to 4%. Highest growth from the Oil & Gas customer base. Water treatment demand growing also through regulation, recycling needs of sludges and more challenging intake water and recycling needs of industrial water.

Shale and gas production, especially in United States, continues to grow. During the last 2 years or 3 years, also the oil majors have entered that area and are investing heavily into that area.

Oil sand producers in Canada are more regulated and they need to treat their tailings waters and tailings more diligently. They also have a lot of legacy tailings ponds to be treated and we have entered last year into that market and continue to develop that business.

End of 2014, before the oil price dip came, United States was producing 9.5 million barrels of oil per day. In middle of 2016, at the bottom, it was producing 8.5 million barrels per day. Last week, EIA reported 11.9 million-barrel production. So a 35% increase in just 2.5 years. So that growth has all practically come from shale and goes to show how dynamic the shale market is.

Looking at our focus areas, where we continue to play. Succeeding with our customers, but also making sure that Kemira can capture required amount of value from our customers continues to be in our focus. Our capacity utilization is high, so we need to put it to best use, best products and best customers.

Our product and service excellence is at focus to rightsize the service that we have and gain value for it, but also focus on our product portfolio and optimizing it in production and managing inventories.

We have 4 large product groups in our portfolio: bleaching chemicals, polymers, sizing products and coagulant chemistries. These form close to EUR 2 billion of revenue out of our EUR 2.6 billion revenue and if you have looked at where we are investing and will be investing, it's been bleaching, it's been polymers, as discussed already, and the AKD is a sizing product, so that's where -- an area of investment.

Our business is inherently complex, so we need to reduce complexity and work on our operational excellence. We, in this business, rarely talk about tonnages, but we did deliver 5.3 million tons of chemistries to our customers last year. That's more than some of the steel mills that there are in the world.

Margin excellence, obviously, continues to be in our focus with the demanding raw material situation, especially last year and continuing into this year.

This we haven't talked very much, but now we've been getting some data over the last 3 years and measuring our customer satisfaction using Net Promoter Score. As you can see, customers are saying that our promotion score is increasing steadily. Our relationship company to company is good and especially, our key persons, contact is appreciated by the customers, indicating the know-how level where we are. So going forward, the foundation is pretty good to develop our business.

Second area we haven't talked about that much is our employee engagement and we measure that step-by-step. And here, you can see, compared to global reference data, we are also in good shape. Employee engagement, performance enablement and integrity are in good level. So we are fit for fight going forward.

And just as a perspective, here are our sort of 5-year development in revenue. Growth of 3% on average on revenue and 5% on operative EBITDA. So steady development and we have to remember that 2015 and '16 were challenging years from the oil price dip and how it impacted the world and then the raw material cycle. Still, we've been able to develop steadily.

Kemira dividend policy is to pay a stable and competitive dividend. You can see that we definitely have been stable the last years and we've also invested quite a bit back into the business, but still wanted to keep a steady dividend going forward. We have been paying a dividend every year since 1994 when we were listed to the stock exchange.

Board of Directors proposes to the AGM a EUR 0.53 dividend, equaling to EUR 81 million.

So some key focus areas going into 2019. We continue to work on the sales prices. We have not progressed the same pace in every area. So we still have work to do. We continue to optimize the capacity allocation to the best-yielding products and good paying customers. We also continue to shape our product portfolio and our service portfolio, improving our operations. We will, second half of this year, ramp up the specialty polymer site for CEOR in Rotterdam. We will ramp up second half the AKD JV site in China. We start constructing the new site that we decided on in EPAM for U.S.A. And we continue to monitor the world and keep prudent with our cost base.

There are economic uncertainties out there, but at the moment, the markets for us are looking rather positive. So I'm quite optimistic entering into 2019.

I'll conclude here, and ask Petri now to look at Q4 and 2018 figures.

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

All right. Thank you, Jari, and good morning from my part as well. So as Jari's focus was more on the full year and the market, I will, again, focus a bit more in the quarter, also some of the numbers behind the full year and at the end of the presentation, I will give a bit more guidance going forward, specifically as it applies to the IFRS 16 new accounting standard.

Clearly, the story in the quarter was that the organic growth continues and it's really driven by pricing. And again, it's important that we see the continuation of this good pricing momentum as we are really catching up 2 years' worth of raw material cost increases.

Organic growth of 3%, driven by price. Sales volumes growth of 3%, but here, you have to remember please that in the comparison period, within Oil & Gas, we had a significant onetime equipment delivery. So if one was to exclude that equipment delivery from the comparison period, the volume decline would have been roughly 1% or the organic growth, about 5%.

Currency, it was a big story in the first half of the year, but during the second half of the year and now in the fourth quarter, it was a small positive on the top line, and as you see, also contributed positively to the profitability, again, after the very difficult first half of the year.

Operative EBITDA, EUR 84 million, 12.8% ratio, and in fact, during 2018, we improved our operative EBITDA each quarter compared to the year-on-year comparison. The quarter included EUR 3 million of items impacting comparability. There were some offsetting items. The biggest item was really related to the investment that Jari was talking about in the U.S. as we are closing one small site in conjunction with the investment in U.S.

Also a comment about depreciation. So in December, we started depreciation and amortization of the Chinese joint venture. And with that increase, depreciation expense as well as some asset cleanup that we often do at the end of the year increased depreciation expense somewhat.

Then let's look at the raw material picture and let's really focus on the chart on the right. So during Q4, we continued to recapture the margin that we have lost in the couple of years preceding. Sales price increased of EUR 37 million versus the cost increase of EUR 20 million -- EUR 29 million comparing to the situation a year ago.

It's now important that we see a third quarter of net positive. I already made some comment on -- after the Q2 results that from quarter-to-quarter, we see some fluctuation on this, depending on the mix, but it really is important that the positive momentum that we see is continuing.

People are, obviously, asking what our views on raw material trends going forward. 2018, as Jari was explaining, was a very difficult year. So very high inflationary pressure on raw materials. For 2019, our current outlook is that we continue to see somewhat inflationary pressures, but clearly, at a more modest level than in 2018.

And in some areas, actually, in the last couple of months, we have seen that the cost of raw materials has come down, particularly those ones that are oil-based and going into -- largely to a polymer manufacturing, but at the same time, I do want to remind that we see continuing raw material price pressure on many of the other areas. So the general basket is still on an inflationary side, if one will.

Pulp & Paper, 4% growth, really driven by pricing and again, supported by high demand in bleaching chemicals.

Jari was already talking about that the price increases have varied from pocket to pocket. And clearly, in Pulp & Paper, the price increases had been slower to be implemented, particularly, in the process and functional chemicals. And again, obviously, this is now the primary focus for the segment.

When one looks at year-on-year comparison, I want to remind you that the Q4 of 2017 included, really, some one-off or onetime positives that were probably increasing the quarter profitability by about 1 point -- 1 percentage points. So it's a tough comparison Q4 of '17.

Moving to IW. Organic growth of 2%, would have been about 6% if one would excluded -- or one would exclude the onetime equipment delivery from the comparison period.

Growth is driven by price, as in fact some of the volumes declined and the volume decline came primarily from coagulants, where the focus has really been on focusing on profitability and quite successfully, I must say -- I can say.

In Oil & Gas, growth continued at a very strong pace. The reported growth in Oil & Gas was 15%, but again, eliminating the Oil & Gas equipment delivery a year ago, this growth would have been over 30%. So it's worth sort of noting that the Oil & Gas business in 3 years has about doubled. So roughly from 5% of revenue on group-wide, it's now getting close to 10% of revenue.

And like Jari said, we have a strong view that this demand will continue and demand in shale, in particular, will continue and these beliefs are evidenced by the new investment that we are doing into the polymer manufacturing capacity in the U.S.

Looking at some of the key figures. Cash flow from operations was modestly up from last year, in line with our seasonality. We did have a high cash flow during Q4 from EUR 70 million (sic) [EUR 71.4 million] in Q4 '17 to about EUR 86 million -- EUR 88 million, correct, in Q4 of '18.

If one looks at -- for the full year, the increase in volumes and higher raw material prices did have an impact on our inventory value. So the inventory value increased approximately EUR 60 million year-on-year and without this cash flow improvement, obviously, had been very, very -- much, much better or more significant. But at the same time, we cannot be happy about this capital that has been tied into the inventory. And reversing this trend is clearly one of the focus areas for 2019.

CapEx, capital expenditure came in at EUR 150 million, meaning about 5.8% of revenue. This was clearly lower than the EUR 160 million to EUR 200 million range that we gave for 2018 at the beginning of the year.

Some of the CapEx projects that we have, have progressed more slowly than we expected a year ago. At times, caused by some permitting delays and at times, caused by our own decision to take our time.

Net debt increased roughly EUR 47 million, roughly, approximates the amount of investment that we have put into the Chinese AKD joint venture.

So CapEx guidance in 2019, we expect that the CapEx will increase from the 2018 level. And as we are now progressing with our U.S. polymer investment, and we have the Netherlands polymer investments and we also need to invest to complete the AKD joint venture in China. These all will be -- these are the main reasons for the additional CapEx guidance for 2019 of EUR 180 million to EUR 220 million. And again, really, depending on the progress and timing of these projects where we were land within the range.

Then I'll talk a little bit about the new accounting standards. So every company needs to adopt IFRS 16 from beginning of '19. And really, it means that the operating leases, and these are leases from employee cars, trucks, office and land leases, railcars, et cetera, that need to be now including the balance sheet from -- so the cost of these moves from an operating cost to the depreciation expense. And the term is right-of-use assets and the depreciation of the right-of-use assets and related cost will now be expensed. So simply, it means that some operating costs will move to depreciation and small part to interest expense.

What it means for us, the net impact going forward that the -- on the opening balance sheet is roughly EUR 120 million of assets and the corresponding liability on our balance sheet. And these are now the existing leases. There is also a small amount of leases that we expect that will be coming on top of that as some of the existing leases are renewed and the short-term maturity leases are currently exempt from this IFRS 16 treatment.

So for P&L, we estimate that the EBITDA impact will be approximately EUR 30 million or approximately 1 percentage point of revenue.

On an EBIT line, the impact will be relatively small, roughly EUR 1 million per quarter.

So as the reported liabilities and net debt increased due to this standard change, we see roughly a 10% increase in our gearing ratio, perhaps slightly higher than that.

Kemira has chosen a modified retrospective adaptation of the standard. It means that we will not restate previous years' numbers. However, as we will report from Q1 '19 onwards, we will give enough bridge details so that you can see what the sort of apples-to-apples comparison would also be. But as I said, the key points are that on the P&L, we'll roughly see 1 point of operating expense moving to depreciation expense.

And those who want, the financial statement bulletin give us a bit more detail on the subject, and, obviously, we'll help anybody to rework their models offline, one by one.

Moving to the outlook. So outlook on operating EBITDA is that it will increase on a comparable basis and when we say comparable basis, it's a comparable referring to the accounting standard.

To make sure that everyone understands this right, assuming the IFRS impact on EBITDA is the EUR 30 million, which I used -- which we used as an estimate, then our new IFRS 16 operative EBITDA would need to be higher than EUR 353 million to comply with this outlook.

Similarly, on our mid- to long-term financial targets, we are making this sort of a technical change. So we are moving from 14% to 16% EBITDA target to 15% to 17% EBITDA target and gearing to -- and gearing target guidance from below 60% to below 75%. And it's worth repeating, again, that this is sort of a technical update to these mid- to long-term targets due to this accounting standard change.

With that, I'll conclude my part, and I think we're ready for Q&A. Thank you.

QUESTIONS AND ANSWERS

Olli Turunen - *Kemira Oyj - VP of IR*

Very good. Let's move on to the Q&A. And I kindly remind you that you can also ask questions via the webcast by typing your question, but let's first ask questions here in the room. Panu, please go ahead.

Panu Laitinmäki - *Danske Bank Markets Equity Research - Senior Analyst*

It's Panu Laitinmäki from Danske Bank. I have 3 questions: 2 on Oil & Gas to begin with. What are your expectations for growth this year and how should we think about it? I mean, if it was -- the growth was almost fully priced and your capacity restrained, how much can you grow out before the kind of capacity investments are ready? And should we think about it as a sequentially continuation from Q4 level or how?

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

Well, there's been sort of 2 kinds of growth. 2017 was mostly recovery and adding volume to the market than recovering the volume, and 2018 was more price-weighted and less volume-weighted. And yes, we are at limit with capacity and we're allocating that to best products and even allocating to customers a bit differently. The growth will now moderate. I won't give you a number, but it won't be huge anymore. We still have something in the prices that will impact 2019 because some of the price increases happened second half of the year. And then we'll see how we allocate the capacity because the same polymers are used in other areas also of our business than Oil & Gas.

Panu Laitinmäki - *Danske Bank Markets Equity Research - Senior Analyst*

And the second question is on the margins in the Oil & Gas business. Can you give any indication how -- what level were the margins in Oil & Gas compared to the rest of the Industry & Water? And then continuing on the topic, kind of do you expect that level to be sustainable? And then when you have the new capacity up and running, is that kind of the level that you expect from that or any change going forward?

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

Yes, the yield from Oil & Gas is higher than the corporate average, and I&W average. And we still have room to improve that. Let's remember that we have those 2 sub-businesses of CEOR and just started Oil Sand business last year, which were differently diluting and we have work to do to improve those. So there's opportunity in those areas.

Panu Laitinmäki - *Danske Bank Markets Equity Research - Senior Analyst*

My final question is on Pulp & Paper where you mentioned that it is taking some time to increase the pricing. So can you give more details about that? How do you see that developing during the current year? And has something changed in the business? Does it take longer for you to increase pricing or is it -- has it been like this moderate?

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

Well, that phenomenon, we sort of knew when we went into it, that it's different. We've been really fast in Oil & Gas because it's a faster and dynamic business with no longer contracts. Water business tends to be longer contracts, but a simpler portfolio of products and lots of customers. And in Pulp & Paper, especially in the process and functional, then we're talking about packaging and board, papermaking and tissue customers. That's where it's slower and it's a broader product portfolio. Also, it's competitive sometimes, but it depends on how the contracts roll over. And we had sort of a negative pricing impact in the first half of the year on top of the FX. And second half of the year, Q3, we gained some ground -- more ground on Q4, but we still have work to do in that area.

Olli Turunen - *Kemira Oyj - VP of IR*

Okay. Next question from Harri.

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

Harri Taittonen, Nordea. Yes, just sort of drilling a bit on this short-term cyclicality and continuing from the previous question that it seems that there was quite heavy destocking in the global -- or at least, the Asian Pulp & Paper, particularly in the pulp side, industrial volumes, but at least temporary down quite a lot. But did you see it in your operation towards the end of the quarter which we made -- not so much before Christmas and at least then you still said that volumes are high.

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

Yes. The market is still speculating whether it's Chinese New Year or destocking and all of these, we'll learn more during Q1. We didn't see any demand change ourselves.

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

So basically, Q4 was full even if kind of the industry started to slow down?

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

Yes, absolutely.

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

Right. Yes, as a sort of fresh Kemira analyst, could you remind that if you speak about improving EBITDA, but do you have some sort of a threshold for having the courage to say that or in terms of percentages here?

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

Obviously, we need to have a certain margin that we don't go cut it too close and that we can stick to it, but we don't give a quantity, do not define it.

Olli Turunen - *Kemira Oyj - VP of IR*

Then Markku Järvinen next.

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

Markku Järvinen, Handelsbanken Capital Markets. Maybe still on the pulp chemicals business, it's well known that there's no new capacity coming on stream in pulp until 2021. What does that mean for your sort of demand outlook?

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

Well, I think even if pulp prices have now come some down, they're still in an historically really good level. And demand seems to be going up when I listen and look at the announcements from our customers. So our utilization rates are also foreseen to be good and we're looking at any opportunities to do debottlenecking in that area.

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

So despite that there's no sort of additional capacity coming on the pulp market, you expect that your volumes will continue to grow in '19, '20 and '21 or…

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

Some modest growth because we are not also adding capacity at the moment. We are thinking of adding capacity, but let's see what the decisions we make here.

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

Okay. Then on the Alabama investment. Could you talk a bit more about that? Is that sort of a full capacity addition or it modernization or what does it sort of imply?

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

Well, it is mainly capacity increase. It's an existing emulsion polymer site. And we will be adding a new line there, but then, it has a modernization component to it. We have another small site that is making AMD, which is a product of -- or raw material for making emulsion polymer. We'll be closing that old site and building a new bio-based AMD unit to this same site that will serve all of our polymer sites in North America.

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

Okay, while it's sort of split between growth and replacement, I suppose what should we expect in terms of the...

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

The replacement part is 10% of the investment. So most goes into the expansion.

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

And what should we sort of expect the return and ramp-up and so forth?

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

Well, ramp-up is -- construction time is 2 years, ramp-up typically takes 3, 4 months to debug those type of sites, if all goes well. And returns on these type of things are well beyond now I can say, 15% to 17% EBITDA-type of returns.

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

And the turnover impact?

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

Turnover impact, well, I'd like to keep that as a trade secret at the moment.

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

Okay, good. Then just on the IFRS. The EUR 30 million improvement on EBITDA. How does that split between the segments?

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

It's roughly 50-50. So meaning that as I&W is 40% of the business and Pulp & Paper is 60% of the business, so this is more close to 50-50. So there are more leased assets within I&W with railcars and our trucking fleet in North America, so roughly, equally.

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

Okay, and just to be clear, your net debt goes up by EUR 120 million.

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

It goes about EUR 120 million, yes.

Olli Turunen - *Kemira Oyj - VP of IR*

Thank you. I actually have a few questions over the webcast here, written by Anssi Kiviniemi from SEB. So I'll ask those that haven't been covered yet. Anssi is asking about raw material outlook for 2019 and also logistic costs in 2019. How are they looking?

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

Logistic costs, we expect that there might be some inflation, but not as huge anymore as in 2018. And as Petri was saying, about 1/3 of our business is based on oil -- oil-based things. There's been some easing of that, but we're not optimistic that there might be a turn back. And 70% is non-oil. So there are some pressures there. So we are looking at still a full basket, expecting some inflationary pressure. So we need to work on prices.

Olli Turunen - *Kemira Oyj - VP of IR*

Correct. Very good. So the next question is about CapEx guidance, not only for 2019 but also for 2020, given the new investment.

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

Well, I think of the 3 major things that I mentioned as growth investments, the polymer plants in North America, that's the only one that is carrying until 2020 -- what's the year today -- 2020. So we haven't given a guidance for 2020, but 2 out of those 3 big growth investments, which are all impacting between EUR 20 million and EUR 30 million this year and equal -- are falling off. So unless we make newer, bigger investments, whether it's chlorates or something else, the CapEx should come down in 2020. But again, this is not a formal guidance on that one.

Olli Turunen - *Kemira Oyj - VP of IR*

Okay. And then follow up for CFO. Net financials in Q4 were minus EUR 5.8 million, a step down from previous quarters. Is this a good assumption going forward per quarter?

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

I think there were some positives impacting why the net finance cost was a bit lower in Q4 versus what our run rate is. So I would rather use EUR 6 million to EUR 7 million as our normalized quarterly run rate.

Olli Turunen - *Kemira Oyj - VP of IR*

Very good. A little bit to elaborate on Panu's question about Pulp & Paper. Anssi is asking what is the difficulty to increase Pulp & Paper chemical prices? Do you think you can do more on that side in 2019? Meaning that price increases in this division will support your profitability more than in 2018?

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

It's a more complex product mix going to those customers. So it's been slower and obviously, we have annual contracts there. So when they roll over, that's when it's there. So it's just slower. I don't see that it's so difficult, but we just need to push harder on that area.

Olli Turunen - *Kemira Oyj - VP of IR*

Very good. That's all from Anssi, and then follow-up questions, Petri?

Petri Gostowski - *Inderes Oy - Analyst*

Petri Gostowski, Inderes. Can you remind us how you expect the ramp up in the JV in China and the relevant investments to affect your margins in the latter half of 2019?

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

We will start ramping up some time after the summer, everything proceeding as planned and then ramping up during the second half of the year. The Chinese JV, really, doesn't impact the bottom line on EBITDA level this year much at all because we ship the product to Europe and North America. So while we ramp it up, it takes time on sea. Like Petri said, it's good to remind that it's EUR 5 million, EUR 6 million on the bottom -- on EBIT negative because we are depreciating the PPAs and so on. So this year is a year of getting it up and running and we'll get the full benefit next year. On the CEOR, we ramp it up also after the summer, Q3, Q4. As said, these type of plants take 3, 4 months to ramp up. Again, some CEOR benefit, but a full benefit next year.

Olli Turunen - *Kemira Oyj - VP of IR*

All right. Operator, we're ready to take questions over the phone.

Operator

(Operator Instructions) And our first question comes from Ben Gorman from UBS.

Ben Gorman - *UBS Investment Bank, Research Division - Associate Analyst*

Three quick questions from you. First one on competitive dynamic in Pulp & Paper. Sort of haven't spoken about that basically for a while now and just wonder whether that is also partly to blame for it being sort of slower to push through prices in that division. But sort of in that context, is there really a big difference? You said -- you talked about the more complex products in Pulp & Paper, but is it really the case that it's very different in the Municipal & Industrial business? Or is it really just Oil & Gas, which is making the difference in Industry & Water? That's the sort of first question. The second question is really on timing of these, sort of margin gains to 15% to 17% and any sort of update on when you expect that to be achieved? I know that, obviously, you've had a few sort of setbacks in terms of the cost inflation in distribution. You've talked about being less this year, et cetera. But any sort of closer guidance on when you expect to get that 15% level?

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

Yes. So Industry & Water is primarily delivering polymers and coagulants and then some small product groups. And the Oil & Gas is practically all is polymers. So it's simpler to play that game. And yes, the Industry & Water improvement came mainly from Oil & Gas, some from the water area. In Pulp & Paper, there are multiple products in the paper and packaging customers. There are polymers and process and functional chemicals, we can talk about tens of different products. So it's a more complex thing. Capacity, if I heard you right, it was breaking up a bit, capacity is not restricted in our process and functional chemicals except for some polymer area. And the second one when to -- when do we get to 15% to 17%. If you look at last year, yes, we were flat and I'm actually quite pleased that we're flat because it was a challenging year and -- but if you look at then first half and second half, we were already over 13% second half. So step-by-step, we want to get to the 15% to 17%, so then you put the IFRS 16 on the second half, so we were 14%. So that run rate, we now need to continue and then improve from that to get to the 15% to 17%.

Operator

Our next question comes from Robin Santavirta from Carnegie.

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

Now I was wondering, just if you could comment a little bit about customer behavior in both divisions, actually now during the end of Q4 and at the moment. You mentioned sort of -- Jari mentioned the destocking in the Pulp & Paper sector in Asia during the quarter and in Chinese New Year. So just a little bit about your view about Asian on the demand and also in Europe and North America at the moment, given a bit more uncertainty about economic growth. What are you seeing out there at the moment?

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

Well, obviously, we're monitoring the market and reading the news and reading the macroeconomics and we can see the same things as all of us can. But we haven't seen that type of softness yet. We had some customer stoppages in papermaking in Asia. Remember, we are not in pulp in that area in December, but very minor that didn't show up, really, in our numbers that much. So as I said, we see the market rather good and steady. We read the customers' comments. They still see growth next year. So I'm pretty optimistic going into 2019.

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

That is very clear. Then a second question regarding price increases. You've been working on those and we have seen that the prices are going up, especially now in H2 2018. How should we view this now going into 2019? As you said, some oil-based raw materials have stabilized, even coming down. Are you still sort of receiving price increases? Or should we just expect that those price increases that you have negotiated during H2 sort of will be fully visible for 2019? Are you still working on higher prices across the segments now early 2019 or further on for this year?

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

Well, obviously, those that we did in the latter part of the year will be now playing fully into 2019, but we still have customers and some products in some areas where the annual contracts renewals are coming up quarter 1 and quarter 2. If we did price increases quarter 2 last year, the raw material still went up after that. So we have some correction to do. So both components, done price increases rolling to this year. And in some pockets, we still need to do price increases.

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

And finally, just a more detailed question just for Petri, I guess, about depreciation. I'm not sure if I missed that, but do you have on your top of your head, sort of your full year 2019 depreciation given now the China JV and Rotterdam as well? I think you mentioned something about PPA for China JV.

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

Yes, this is…

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

I'm not so sure if you have...

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

Sure, sure. This is one area, where I can help you and give you some guidance. So full year depreciation and amortization, I would say is between EUR 175 million to EUR 185 million and out of that -- so this number includes approximately EUR 20 million of PPA amortization, purchase price amortization related to acquisitions, and this part now goes up biggest of this Chinese joint venture, few million up. And this also includes this estimation of EUR 30 million of right-of-use depreciation due to the new accounting change. So EUR 175 million to EUR 185 million is my guidance on that one.

Olli Turunen - *Kemira Oyj - VP of IR*

Thank you. Are there further questions?

Operator

There appear to be no further questions.

Olli Turunen - *Kemira Oyj - VP of IR*

There's one question here in the room.

Panu Laitinmäki - *Danske Bank Markets Equity Research - Senior Analyst*

It's Panu Laitinmäki from Danske again. So just to follow up on the Industry & Water division, so question on the part that is not Oil & Gas. The revenue was down a bit in Q4 and you mentioned that there was more of a margin focus and that improved margins higher, I understood. So basically, did you change something? What have you done? And do expect this to continue that we will see negative growth in this year or how should we expect?

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

A couple of components. One is what Petri mentioned, hat last year, we had that onetime equipment delivery that had quite a bit of revenue to Q4 '17. So that comparison taking out, it's not so big. The other one is that as I said, we're allocating volumes in products like polymers to better paying customers. So we have to take out down some contracts and until it's sold out, there might be some variance. So inside a month or inside a quarter, small movement, but nothing to be worried about.

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

If I can add after that. So clearly, within our coagulant business, particularly in North America where we're seeing very high inflationary pressures on cost -- across raw material costs, so there, the focus really is on making sure that the price increases stick and there, we are -- we have even given volume up in lieu of getting the right type of pricing and we'll continue on that strategy. And this is now where we have thousands -- or well, actually, even in North America, thousands of municipal customers. So there's a continuing sort of a bidding process on this one and sometimes, we lose, but also that we win, we are aiming to win it with a clearly healthier margins. As we expect that the input costs in the coagulant business will continue to go up. So we need to be really vigilant on the pricing at this time. So even if it means that we give up some volume.

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

And in North America, coagulants, particularly, the price increases are severe. They're not small and that's what that industry is doing. So we're not talking single percentage points. We're talking tens of percent.

Olli Turunen - *Kemira Oyj - VP of IR*

Okay. One more?

Panu Laitinmäki - *Danske Bank Markets Equity Research - Senior Analyst*

Yes. Can I still just ask about working capital? You've said you aim to work in '19 to sort of bring that or turn that around. What's the sort of level that you'll target in net working capital to sales?

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

We are -- I think our net working capital to sales is now 10-point-something.

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

10.2.

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

10.2, which is -- generally is in pretty good health level. We have been even at around 9% at best. So I think that we would rather see a modest decline in this net working capital to sales ratio to below 10%. For example, some of the areas where we have to prepare for higher inventory levels are related to this Chinese joint venture. We know that we will be converting some of the businesses, that our [tollers] have been manufacturing to our own manufacturing. So it means that we have had to build up some safety buffers or buffer stocks for that transition period. And that's an example on the areas where we can actually work down absolute amount of inventories once the joint venture is up and running in the second half of the year.

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

Small impact also from FX to our inventory valuation, and then when we grow in APAC, the payment terms there are much longer payment times. So that will also have some impact on our accounts payable but -- sorry, accounts receivable. But these are the dynamics, but 10% is a good level. We are at times, 11%. And 9% starts to be a bit on the low side, but we can release some tens of millions from inventory during this year.

Olli Turunen - *Kemira Oyj - VP of IR*

Very good. Are there further questions? No? So this concludes the whole presentation. Thank you for your participation, and have a good day.

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

Thank you.

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

Thank you.