

Kemira Group Interim Report January-June 2005

KEMIRA REPORTS STRONG FIRST-HALF EARNINGS; OPERATING PROFIT UP 35%

- Revenue: EUR 929.9 million (850.7 million in January-June 2004), up 9%.
- Operating profit: EUR 69.9 million (51.8 million), up 35%.
- Earnings/share: EUR 0.30 (2004 pro forma: 0.20), up 50%.
- Return on capital employed: 9.4% (2004 pro forma: 8.1%).
- Free cash flow was EUR 293.6 million negative (2004 pro forma: 12.8 million) due to the acquisitions made.
- Full-year revenue, operating profit and earnings per share are estimated to increase on the pro forma figures for 2004.

KEY FIGURES

The pro forma figures for 2004 appearing in the text sections of this Interim Report cover continuing operations, excluding GrowHow, Fine Chemicals, the calcium chloride business and Ecocat. The figures furthermore exclude non-recurring items arising from disposals of these units. To improve comparability, the non-recurring charge of EUR 44.2 million for the water-soluble fertilizer business is not included in pro forma financial expenses for 2004.

EUR millions	4-6		Change	1-6		Change	1-12
	2005	2004*		2005	2004*		
REVENUE	526.2	456.3	15	929.9	850.7	9	1,695.1
EBITDA	70.2	60.6	16	127.2	111.3	14	232.0
EBITDA, %	13.3%	13.3%		13.7%	13.1%		13.7%
OPERATING PROFIT	39.6	30.6	29	69.9	51.8	35	111.6
Operating profit, %	7.5%	6.7%		7.5%	6.1%		6.6%
Financial income and expenses	-12.3	-0.3		-15.7	-7.5		-12.6
PROFIT BEFORE TAX	28.1	29.5	-5	54.8	41.5	32	95.3
PROFIT FROM CONTINUING OPERATIONS	19.2	20.4	-6	38.4	26.0	48	63.8
EPS, EUR	0.15	0.16		0.30	0.20		0.50
Capital employed	1,377.0	1,279.7		1,377.0	1,279.7		1,252.5
ROCE, %	9.4%	8.1%		9.4%	8.1%		8.6%
Free cash flow	-250.1	33.1		-293.6	12.8		107.6

* Continuing operations, pro forma

In April-June the Kemira Group's revenue rose by 15% compared with the same period a year earlier and was EUR 526.2 million (April-June 2004: 456.3 million). The main factors driving growth were the acquisition of Finnish Chemicals by the Pulp & Paper Chemicals business and the Verdugt acquisition within Industrial Chemicals, both completed at the beginning of April. The higher business volume also stemmed from the acquisitions made in the latter part of 2004 by the Pulp & Paper Chemicals business as well as within water treatment chemicals. Organic growth compensated for approximately half of the combined effect of the revenue decline caused by the industrial dispute in the paper industry in Finland (a decrease of approximately EUR 30 million), the divestment of the industrial coatings business in the UK (a decrease of EUR 5.6 million) and the scaling back of the operations of the non-core water-soluble specialty fertilizers unit (a decrease of EUR 11.9 million).

Operating profit increased by 29% to EUR 39.6 million in April-June (30.6 million). The acquisitions made in 2004 and 2005 added EUR 3.5 million to operating profit. The industrial dispute in the Finnish paper industry cut into Pulp & Paper Chemicals' operating profit by about EUR 12 million. The result includes capital gains of EUR 3.0 million (6.7 million). In May, Kemira sold all 8,344,999 Kemira GrowHow Oyj shares which it held at a price of EUR 6.00 per share, receiving proceeds on the sale of about EUR 50.1 million before sales commissions and expenses.

Kari Savolainen

28 July 2005

(8)

The rise in raw material prices evened out in April-June compared with the first quarter, but the price of energy remained high. Kemira succeeded in passing on raw material price increases into selling prices.

In January-June, Kemira's revenue rose by 9% compared with the same period a year ago and was EUR 929.9 million (January-June 2004: 850.7 million). Stripping out acquisitions, divestments, the industrial dispute in the paper industry as well as the restructuring of the water-soluble fertilizer business, underlying organic growth was 3%. Of the business areas, Kemwater showed the best organic revenue growth.

The Group's operating profit in January-June was up 35% to EUR 69.9 million (51.8 million), of which the acquisitions made in 2004 and 2005 accounted for EUR 5.0 million. Kemwater's operating profit increased by 27% on the back of higher sales volumes and prices, especially in Europe. In addition to the acquisition of Verdugt, the rise in selling prices of titanium dioxide improved Industrial Chemicals' operating profit.

Income before taxes in the January-June period was EUR 54.8 million (41.5 million). Earnings per share were EUR 0.30 (2004: EUR 0.52, of which continuing operations accounted for 0.20).

A total of EUR 20.4 million (18.6 million), or 2.2% of revenue, was spent on research and development.

CAPITAL EXPENDITURE

The Group's gross capital expenditures in January-June amounted to EUR 337.0 million (54.5 million). Gross capital expenditures excluding acquisitions amounted to EUR 51.6 million (51.1 million), of which the largest items were the increases in capacity at the hydrogen peroxide plants and the building of a ferrosulphate dryer facility in Pori. Proceeds on sales of assets were EUR 52.8 million (15.7 million). Full-year gross capital expenditures excluding acquisitions are estimated to be about EUR 120 million (107.2 million). The Group recorded depreciation in January-June of EUR 57.3 million (59.5 million).

FINANCIAL POSITION AND CASH FLOW

Kemira's financial position and liquidity remained strong.

Cash flows from operations in January-June were EUR 9.4 million negative (EUR 51.6 million positive). The main reason for the fall in cash flows was the increase in working capital from the low level at the turn of the year. Net cash flows from investments including acquisitions were EUR 284.2 million negative (38.8 million negative). Free cash flow was EUR 293.6 million negative (12.8 million). Dividends totalling EUR 41.0 million were paid to Kemira Oyj's shareholders in April.

The Group's net debt at the end of June stood at EUR 809.5 million (201.3 million at 31 Dec. 2004). The increase was due mainly to the acquisitions made in April.

Interest-bearing debt amounted to EUR 871.0 million. The proportion which fixed-interest loans represented within the total amount of the Group's interest-bearing loans was about 34% at the end of June. Pension loans are considered to be floating rate loans.

The equity ratio at the end of June was 40% (31 Dec. 2004: 47%). Gearing increased to 85% (31 Dec. 2004: 21%) due to the acquisitions made.

In the January-June period, the Group's net financing expenses, excluding the share of associates' net income, were EUR 15.7 million (7.5 million). The increase in financing expenses was attributable to the greater amount of borrowings to carry out the acquisitions as well as to changes in exchange rates. A loss on foreign exchange of EUR 5.8 million was booked (a loss of EUR 2.6 million).

In April, Kemira signed an agreement on an EUR 600 million domestic commercial paper programme that replaced the old EUR 150 million programme. Within the framework of the programme, Kemira can issue commercial paper with a maturity of less than one year in order to finance Kemira's working capital and other short-term financing needs.

Liquid assets at the close of the period amounted to EUR 61.5 million. The unused amount of the revolving credit facility was EUR 386.5 million at 30 June 2005. In July Kemira signed a new five-year EUR 750 million revolving credit facility agreement that replaced the previous EUR 506 million arrangement.

PERSONNEL

The number of the Group's employees at the end of the report period was 8,285 (31 December 2004: 7,137), of whom 3,588 worked in Finland (31 Dec. 2004: 2,764). The increased headcount was due to the acquisitions made at the beginning of April as well as to the seasonal increase in the number of employees over the summer.

PULP & PAPER CHEMICALS

The Pulp & Paper Chemicals business area offers solutions that are tailored to customers' needs. We are a reliable partner offering innovative applications and proactive service in close cooperation with the entire forest cluster.

EUR millions	4-6 2005	4-6 2004	Change %	1-6 2005	1-6 2004	Change %	1-12 2004
REVENUE	171.8	140.1	23	314.9	276.8	14	565.5
EBITDA	18.6	17.5	6	39.8	39.7	0	90.5
EBITDA, %	10.8%	12.5%		12.6%	14.3%		16.0%
OPERATING PROFIT	6.7	6.1	10	18.3	16.7	10	44.8
Operating profit, %	3.9%	4.4%		5.8%	6.0%		7.9%
Capital employed	535.1	459.0		535.1	459.0		452.3
ROCE, %	8.7%	9.7%		8.7%	9.7%		9.9%
Capital expenditure	231.0	7.9		235.1	12.5		33.6
Free cash flow	-203.9	7.7		-208.1	21.8		50.7
Personnel at end of period	2,265	1,782		2,265	1,782		1,728

In April-June the Pulp & Paper Chemicals business area's revenue grew by 23% to EUR 171.8 million (140.1 million), notably thanks to the acquisition of Finnish Chemicals in April. Sales of specialty chemicals were lifted by E.QU.I.P. International, the Canadian paper chemicals company that was acquired in September 2004 and has annual revenue of about EUR 8 million. Stripping out the acquisitions and the industrial dispute in the paper industry in Finland, the underlying revenue was at last year's level. The dispute cut Pulp & Paper Chemicals' revenue by about EUR 30 million.

Operating profit in April-June rose 10% to EUR 6.7 million (6.1 million). Operating profit was lifted by the acquisitions carried out as well as by the efficiency-boosting measures in Europe and North America. The industrial dispute in the Finnish paper industry cut about EUR 12 million off of operating profit. The rise in raw material prices evened out and supply problems did not arise. Pulp & Paper Chemicals succeeded in passing on raw material price increases into selling prices.

In January-June, Pulp & Paper Chemicals generated an increase in revenue of 14% to EUR 314.9 million (276.8 million). Stripping out the acquisitions and the industrial dispute in the paper industry, growth was 2%. Operating profit was EUR 18.3 million (16.7 million), of which the acquisitions made in 2004 and 2005 accounted for EUR 1.9 million. The first-half result includes a EUR 1.8 million provision for the tank accident that occurred at the Helsingborg plant in February.

The purchase of Finnish Chemicals Oy from Erikem Luxembourg S.A. was seen to completion on 1 April 2005. Finnish Chemicals' main product is sodium chlorate,

which is used in pulp bleaching. The deal made Kemira the world's second-largest supplier of pulp and paper chemicals. The company has a market share in sodium chlorate of about 40% in Europe and about 20% in the United States. Finnish Chemicals had revenue in 2004 of EUR 196.1 million and EBITDA of EUR 34.4 million (FAS). The debt- and cash-free purchase price was EUR 345 million. The acquisition was financed with the Group's own cash assets and existing financing agreements. Finnish Chemicals has been included in Kemira's consolidated figures as from 1 April 2005 as part of the Pulp & Paper Chemicals business area. Integration of the business as part of Kemira is progressing smoothly. The acquisition is estimated to have a positive effect on Kemira's earnings per share in 2005.

KEMWATER

Kemwater offers water treatment chemicals and solutions as well as sludge treatment for municipal and private water treatment plants and industry.

EUR millions	4-6		Change	1-6		Change	1-12
	2005	2004		2005	2004		
REVENUE	92.0	71.1	29	174.8	134.4	30	285.3
EBITDA	13.3	11.6	15	23.7	20.7	14	41.7
EBITDA, %	14.5%	16.3%		13.6%	15.4%		14.6%
OPERATING PROFIT	9.0	7.3	23	15.4	12.1	27	14.4*
Operating profit, %	9.8%	10.3%		8.8%	9.0%		5.0%*
Capital employed	194.5	161.9		194.5	161.9		167.3
ROCE, %	9.2%*	17.8%		9.2%*	17.8%		9.6%*
Capital expenditure	42.6	10.7		46.1	16.5		66.9
Free cash flow	-33.4	-3.1		-28.2	-6.2		-26.0
Personnel at end of period	1,484	1,203		1,484	1,203		1,461

* Includes depreciation and a non-recurring expense charge to a total amount of EUR 11 million. Excluding these items, the return on capital employed in April-June 2005 was 14.8%.

Kemwater's revenue in April-June rose by 29% to EUR 92.0 million (71.1 million). Sales volumes and prices rose, particularly in Europe. Revenue was also boosted by the acquisition in November 2004 of Eaglebrook, which operates in North America, as well as by the smaller acquisitions that were made in Poland and Slovenia earlier last year. Eaglebrook has annual revenue of about EUR 50 million.

Thanks to increased sales, Kemwater's operating profit was up 23% to EUR 9.0 million (7.3 million). Of the main raw materials, the prices of aluminium hydrate, chlorine and hydrochloric acid continued rising, whereas prices of recycled iron headed downward. In April-June, Kemwater managed to pass on raw material price increases into selling prices and, additionally, the effect of the price increases was reduced by using alternative sources of raw materials.

In January-June, Kemwater generated an increase in revenue of 30% to EUR 174.8 million (134.4 million). Organic growth, stripping out the acquisitions, was 8%. Operating profit rose by 27% to EUR 15.4 million (12.1 million), of which the acquired companies accounted for EUR 2.1 million.

At the beginning of May, Kemira acquired the remaining 40% holding in Kemiron Companies Inc.

INDUSTRIAL CHEMICALS

The main usage areas for Industrial Chemicals' products are in paints, printing inks, foods, pharmaceuticals, cosmetics, textiles and detergents.

EUR millions	4-6		Change	1-6		Change	1-12
	2005	2004*		2005	2004*		
REVENUE	112.9	85.3	32	191.9	155.6	23	315.2
EBITDA	15.9	16.7	-5	31.0	28.3	10	62.4

Kari Savolainen

28 July 2005

(8)

EBITDA, %	14.1%	19.6%		16.2%	18.2%		19.8%
OPERATING PROFIT	7.1	9.4	-24	14.8	13.5	10	33.0
Operating profit, %	6.3%	11.0%		7.7%	8.7%		10.4%
Capital employed	332.4	304.0		332.4	304.0		297.6
ROCE, %	10.3%	11.5%		10.3%	11.5%		11.1%
Capital expenditure	36.9	11.6		43.8	18.4		34.9
Free cash flow	-28.7	14.2		-27.8	11.1		40.3
Personnel at end of period	1,601	1,427		1,601	1,427		1,310

* Continuing operations, pro forma

Boosted by the Verdugt acquisition at the beginning of April as well as by the rise in titanium dioxide sales prices, Industrial Chemicals' revenue in April-June increased by 32% to EUR 112.9 million (85.3 million). Operating profit was EUR 7.1 million (April-June 2004: EUR 9.4 million, including EUR 4.8 million of capital gains).

The titanium dioxide business accounted for 53% of the business area's revenue in April-June. The average prices in euros of titanium dioxide were about 8% higher than a year earlier, which offset the higher costs of raw materials. Sales volumes of titanium dioxide in April-June were at the level of the same period a year ago. Bolstered by the Verdugt acquisition, sales volumes of formic acid products increased from the level in the same period of 2004. Prices of formic acid products rose somewhat in the second quarter. The sales volumes and prices of sodium percarbonate, which is used in detergents, were at last year's level.

In January-June, Industrial Chemicals' revenue grew by 23% to EUR 191.9 million (155.6 million). Excluding the Verdugt acquisition, organic growth was 7%. Operating profit grew by 10% and was EUR 14.8 million (13.5 million), of which Verdugt accounted for EUR 1.0 million. During the second quarter, Verdugt faced some challenges in production, depressing the profitability. Actions have been taken and production is estimated to be back to normal in the third quarter.

The acquisition of Verdugt BV, a Dutch specialty chemicals company, was seen to completion at the beginning of April. The company was purchased from CVC Capital Partners, a private equity company, and Verdugt's line management. Verdugt's products are formic acid, propionic acid, acetic acid and lactic acid derivatives, which are used for anti-microbial purposes, notably, in the food processing and animal nutrition industries. The products also have special applications in the pharmaceutical and chemical industry. Verdugt had revenue in 2004 of EUR 121.8 million and EBITDA of EUR 16.6 million (GAAP, the Netherlands). The transaction was completed on 6 April 2005 for a debt- and cash-free purchase price of EUR 145 million. The acquisition was financed with the Group's own cash assets and through existing financing agreements. Verdugt has been included in Kemira's consolidated figures beginning in the second quarter as part of the Industrial Chemicals business area. Integration of the business as part of Kemira is progressing smoothly. The acquisition is estimated to have a positive effect on Kemira's earnings per share in 2005.

PAINTS & COATINGS

The brands of the Paints & Coatings business are well known in their home markets, northern and eastern Europe. The unit offers a wide range of branded decorative paint products for consumers and professionals. The Industrial Coatings unit serves customers in the metal and wood industry.

EUR millions	4-6 2005	4-6 2004	Change %	1-6 2005	1-6 2004	Change %	1-12 2004
REVENUE	138.2	130.5	6	237.3	233.9	1	439.9
EBITDA	24.1	23.9	1	35.8	36.9	-3	58.0
EBITDA, %	17.4%	18.3%		15.1%	15.8%		13.2%
OPERATING PROFIT	20.1	18.9	6	28.5	26.9	6	38.4
Operating profit, %	14.5%	14.5%		12.0%	11.5%		8.7%

Kari Savolainen

28 July 2005

(8)

Capital employed	289.4	308.2	289.4	308.2	295.4
ROCE, %	14.5%	12.5%	14.5%	12.5%	13.7%
Capital expenditure	5.7	4.2	9.7	7.5	13.8
Free cash flow	-9.0	4.6	-29.1	-12.5	47.4
Personnel at end of period	2,531	2,602	2,531	2,602	2,288

The Paints & Coatings business reported a rise in revenue in April-June of 6% to EUR 138.2 million (130.5 million). The industrial coatings unit in the UK was sold at the turn of the year, resulting in a decrease in revenue of EUR 5.6 million. Revenue was lifted by favourable market conditions in most of the main markets as well as by a rise in selling prices, enabling the unit partially to offset raw material costs, which rose strongly.

Operating profit in April-June rose by 6% on last year and was EUR 20.1 million (18.9 million). The disposal of the industrial coatings unit in the UK added EUR 1.9 million to operating profit in April-June. Last year's operating profit included non-recurring income of EUR 1.9 million.

Revenue reported by the decorative paints arm was up 11%. Sales of products manufactured locally in Russia continued their robust growth.

Because of the disposal of the industrial coatings business in the UK, Industrial Coatings' revenue was down 7%. Revenue reported by the continuing Industrial Coatings businesses grew by 10%. The increase was the strongest in Russia, Poland and the Baltic countries.

In January-June, Paints & Coatings' revenue was EUR 237.3 million (233.9 million). Operating profit grew by 6% and was EUR 28.5 million (26.9 million). Revenue reported by the continuing businesses grew by 6%.

OTHER OPERATIONS

The water-soluble specialty fertilizers unit had revenue in April-June of EUR 24.1 million (36.0 million) and reported an operating loss of EUR 0.5 million (a loss of 0.5 million). The results of the water-soluble fertilizer business's associated companies, which are stated below operating profit, were losses totalling EUR 0.2 million (a loss of 2.2 million). In January-June, revenue was EUR 38.1 million (63.9 million) and an operating loss of EUR 0.7 million was reported (a loss of 6.6 million). The results of the water-soluble fertilizer business's associated companies were losses of EUR 1.1 million (a loss of 5.2 million).

In July, Kemira and the other shareholders sold their shares in Kemira Emirates Fertilizers Company in which Kemira has had a 50% stake. The company has been part of Kemira's water-soluble fertilizer business unit. The new owner is SQM Nitratos SA of Chile.

Kemira generates electric power and owns participations in Finnish energy companies. With the acquisition of Finnish Chemicals, Kemira itself will use all its electric power in Finland.

Other operations also include Group-wide expenses which are not charged to the business areas, such as part of the research and development costs and the costs of the Kemira Corporate Centre.

KEMIRA OYJ'S SHARES AND SHAREHOLDERS

The company had a market capitalization, excluding treasury shares, at the end of June of EUR 1,284 million.

In January-June, 318,900 new shares were registered following subscriptions with the warrants for 2001. After the corresponding increase in the share capital, the company's share capital at the end of June stood at EUR 221.3 million and the registered total number of shares in issue was 124,762,200.

On 1 July 2005, a total of 2,500 new shares were registered following subscriptions with the warrants for 2001. After the corresponding increase in the share capital, the company's share capital is EUR 221.3 million and a total of 124,764,700 shares have been issued. After the increase, the number of shares can rise by a maximum of 280,300 through subscriptions made under the 2001 stock option programme.

On 4 April 2005, Kemira Oyj transferred 107,920 treasury shares to persons who are covered by the 2004 share-based incentive system for management. Following the transfer, Kemira had 4,082,080 treasury shares, corresponding to 3.3 per cent of the company's shares outstanding and voting rights.

FULL-YEAR OUTLOOK

Kemira is strengthening its operations within pulp and paper chemicals, water treatment chemicals, industrial chemicals and paints and coatings through both organic growth and acquisitions. All operations aim at improving profitability, achieving growth, building a strong competitive position and boosting synergy across the Group.

In the second quarter, the customer industry of the Pulp & Paper Chemicals' units was hit by the industrial dispute in the paper industry in Finland, but capacity utilization is estimated to be good during the latter part of the year. The price rises in raw materials and especially in energy are putting pressure on earnings. The business area's revenue and operating profit in 2005 are set to increase on 2004.

Demand for water treatment chemicals is expected to improve further. The high prices of hydrochloric acid, chlorine and aluminium hydrate are exerting pressure on earnings. Kemwater's full-year revenue is expected to grow substantially compared with 2004. Operating profit is likewise estimated to be higher than that reported in 2004.

Within Industrial Chemicals, it is estimated that the rise in titanium dioxide prices will even out during the latter part of the year. Increases in the prices of raw materials and energy are squeezing earnings. Thanks to the expansion investments made, full-year sales volumes in titanium dioxide are estimated to be higher than they were in 2004. The business area's sales of organic acids and organic acid derivatives as well as sodium percarbonate, which is used in detergents, are anticipated to develop favourably in the latter part of the year. Full-year revenue and operating profit are estimated to show an increase on the figures Industrial Chemicals reported for continuing operations in 2004.

Good demand is expected in the paints business in the latter part of the year. Because some units were sold during 2004, full-year revenue for the Paints & Coatings business area is expected to be at the level of 2004, but operating profit is expected to show a rise.

Full-year revenue generated by the water-soluble fertilizer business that remained a part of Kemira following the spin-off of GrowHow is expected to fall substantially. The operating loss is expected to diminish markedly.

The Kemira Group's full-year revenue, operating profit and earnings per share in 2005 are estimated to increase on the pro forma figures posted in 2004.

Helsinki, 28 July 2005

The Board of Directors

All forecasts and estimates mentioned in this report are based on the current judgement of the economic environment and the actual results may be significantly different.

For further information, please contact:

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A press conference on Kemira's January-June results will be arranged for the media and analysts at Kemira's head office (Porkkalankatu 3) today at 10.30 a.m. An English-language conference call will be held at 1.00 p.m. We request participants to make their calls 10 minutes before the start of the conference by telephoning +44 20 7162 0084.

Kemira's Interim Report for the period 1 January - 30 September will be published on 2 November 2005.

KEMIRA

Kemira (www.kemira.com) is a chemicals Group with four business areas: pulp and paper chemicals, water treatment chemicals, industrial chemicals and paints. Kemira's goal is to be the leading company in its areas of operations worldwide, with businesses that have wide-ranging synergy and a unique competitive position.