

**Press Release on Kemira's Financial Statements for 2006**  
**KEMIRA'S REVENUE UP 26% IN 2006**

- Revenue for 2006: EUR 2,522.5 million (2005: EUR 1,994.4 million), up 26%.
- Operating profit: EUR 201.7 million (EUR 165.5 million), up 22%.
- Earnings per share: EUR 0.96 (EUR 0.73), up 32%.
- Return on capital employed (ROCE): 10.6% (9.9%).
- Full-year revenue, operating profit and earnings per share for 2007 are expected to increase from 2006 levels.
- The proposed dividend is EUR 0.48 per share (0.36), up 33%.

**OCTOBER-DECEMBER AND FULL-YEAR KEY FIGURES IN 2006**

EUR million	10-12 2006	10-12 2005	Change, %	1-12 2006	1-12 2005	Change, %
REVENUE	669.5	521.5	28	2,522.5	1,994.4	26
EBITDA	63.2	67.2	-6	325.2	284.4	14
EBITDA, %	9.4%	12.9%		12.9%	14.3%	
OPERATING PROFIT	29.6	36.4	-19	201.7	165.5	22
Operating profit, %	4.4%	7.0%		8.0%	8.3%	
Financial income and expenses	-12.7	-8.2		-37.2	-30.5	
PROFIT BEFORE TAX	15.8	26.9	-41	162.2	133.5	21
Profit before tax, %	2.4%	5.2%		6.4%	6.7%	
NET PROFIT	15.7	18.9	-17	120.2	91.4	32
EPS, EUR	0.12	0.15	-20	0.96	0.73	32
Capital employed*	1,876.6	1,662.9	13	1,876.6	1,662.9	13
ROCE, %*	10.6%	9.9%		10.6%	9.9%	
Cash flow after investments, excluding acquisitions	79.5	106.8		155.0	170.8	

\* 12-month rolling average

*The new business area names used in the press release - Kemira Pulp&Paper, Kemira Water, Kemira Specialty and Kemira Coatings – equal the former Pulp & Paper Chemicals, Kemwater, Performance Chemicals and Paints & Coatings.*

**REVENUE AND OPERATING PROFIT FOR OCTOBER-DECEMBER**

In October-December 2006, **Kemira Group's revenue** rose by 28% year on year, to EUR 669.5 million (October-December 2005: EUR 521.5 million). In addition to organic growth of 3%, or EUR 17 million, acquisitions contributed around EUR 140 million to revenue growth. Divestments depressed revenue by approximately EUR 9 million.

**Kemira Group's operating profit** was EUR 29.6 million (36.4). Operating profit as a percentage of revenue is typically at its lowest during the fourth quarter of the year. In October-December 2006, it decreased from 7.0% to 4.4% due to the EUR 10.1 million higher non-recurring income a year ago, lower profitability than Kemira's average registered by the acquired businesses, and production losses at the Pori titanium dioxide plant in Finland in November caused by power failure. Acquisitions contributed approximately EUR 1 million to the operating profit for the period. Divestments weakened operating profit by less than EUR 1 million.

**Kemira Pulp&Paper** reported year-on-year growth of 27% in revenue for October-December, totaling EUR 264.0 million (EUR 209.0 million). With organic growth at 4%, high forest-industry capacity utilization rates contributed to revenue growth. The acquisition of the Lanxess paper chemicals business in April accounted for some EUR 53 million of revenue growth. **Kemira Water's** revenue climbed by 88%, to EUR 171.5 million (91.2), as a result of acquisitions. With organic growth at 6%, acquisitions contributed roughly EUR 75 million to revenue growth. **Kemira Specialty** reported a fall of 2% in revenue, to EUR 117.2 million (119.1), due to low demand for deicer chemicals caused by mild weather conditions in Europe. Other business operations recorded a slight increase in sales. **Kemira Coatings'** revenue for October-December rose by 21%, to EUR 109.3 million (90.3). With organic growth at 8%, the acquisition of Kraski Teks, a Russian paint company, closed in February, enhanced revenue in particular.

**Kemira Pulp&Paper** reported a 4% fall in operating profit, to EUR 20.1 million, including EUR 0.4 million in non-recurring income (EUR 20.9 million, including EUR 0.1 million in non-recurring income). Operating profit was depressed by integration costs from the Lanxess paper chemicals business and by the divestment of the South Korean hydrogen peroxide business. **Kemira Water's** operating profit increased by 49%, to EUR 10.3 million, including non-recurring expenses of EUR 0.5 million (EUR 6.9 million, including EUR 2.2 million in non-recurring income). Acquisitions and organic revenue growth enhanced the operating profit. **Kemira Specialty** reported an operating profit of EUR 11.1 million, including EUR 1.5 million in non-recurring income (EUR 16.2 million, including EUR 6.2 million in non-recurring income). The profit was eroded by weak demand for deicer chemicals and the production losses at the Pori titanium dioxide plant mentioned above. **Kemira Coatings** reported an operating loss of EUR 1.5 million (operating profit EUR 6.8 million, including non-recurring income of EUR 9.5 million). The fourth quarter is typically the weakest for Kemira Coatings.

Raw material prices increased slightly compared to October-December 2005 levels whereas energy prices declined. Other variable costs increased. On average, Kemira was successful in passing higher variable costs onto its prices during the reporting period.

As a result of continuous improvements in capital utilization, operating profit for October-December includes capital gains on the sale of assets and other non-recurring items, with their net effect on operating profit coming to EUR +1.0 million, compared with EUR +11.1 million reported a year ago.

Non-recurring items included in operating profit:

EUR million	10-12 2006	10-12 2005
Kemira Pulp&Paper	0.4	0.1
Kemira Water	-0.5	2.2
Kemira Specialty	1.5	6.2
Kemira Coatings	-	9.5
Other, including eliminations	-0.4	-7.0
Total	1.0	11.1

Net financial expenses grew to EUR 12.7 million (8.2), due to increases in loans raised for acquisitions and higher market interest rates.

Profit before tax came to EUR 15.8 million (26.9) and net profit totaled EUR 15.7 million (18.9). Earnings per share were EUR 0.12 (0.15).

#### REVENUE AND OPERATING PROFIT FOR 2006

Kemira Group's revenue for 2006 rose by 26% over the previous year, to EUR 2,522.5 million (1,994.4). With organic growth at 5%, or roughly EUR 105 million, acquisitions accounted for around EUR 416 million of revenue growth. Divestments eroded revenue by approximately EUR 18 million.

Revenue by market area was as follows: Europe 68%, Americas 26%, Asia 5% and Others 1%. Sales in Europe, Americas and Asia increased by 23%, 38% and 18%, respectively.

Operating profit grew by 22%, to EUR 201.7 million (165.5), with the acquisitions carried out enhancing operating profit by around EUR 20 million. Divestments lowered operating profit by roughly EUR 2 million. Operating profit as a percentage of revenue fell from 8.3% to 8.0%. Non-recurring income contributed favorably to this ratio, whereas it was depressed by profitability lower than Kemira's average registered by the Lanxess paper chemicals business, acquired in April, and by the Cytec water treatment chemicals business, acquired in October. In addition, acquisition-related integration costs lowered the ratio.

Operating profit includes capital gains on the sale of assets and other non-recurring items, with their net effect on operating profit coming to EUR +31.2 million, compared with EUR +14.6 million reported a year ago.

Non-recurring items included in operating profit:

EUR million	1-12 2006	1-12 2005
Kemira Pulp&Paper	11.0	-3.4
Kemira Water	-0.2	2.2
Kemira Specialty	3.6	6.1
Kemira Coatings	16.4	9.5
Other, including eliminations	0.4	0.2
Total	31.2	14.6

Raw material and energy prices were considerably higher than in 2005 although energy prices edged down towards the end of 2006. On average, Kemira was successful in passing higher raw material and energy costs onto its prices. The business areas differed in raw material and customer price developments.

Profit before tax amounted to EUR 162.2 million (133.5) and net profit totaled EUR 120.2 million (91.4). Earnings per share were EUR 0.96 (EUR 0.73).

Current tax came to EUR 42.0 million (42.1), representing an effective tax rate of around 25.9%. The fall in the tax rate was due to the utilization of tax losses against gains on assets sold.

Revenue, operating profit and earnings per share for 2006 are in line with those projected by Kemira's Board of Directors in Kemira's 2005 Financial Statements and interim reports for 2006. In 2006, the Group met its annual financial targets: a minimum of 5% organic growth in revenue, a minimum of 10% growth in earnings per share and continuous improvement in return on capital employed.

Päivi Antola

## CAPITAL EXPENDITURE

Gross capital expenditure, excluding acquisitions, amounted to EUR 164.7 million (116.4). The largest ongoing investment involves a chemical plant under construction at the site of a pulp mill in Uruguay, with its 2006 capital expenditure totaling EUR 41.2 million. Maintenance investments represented some 24% of capital expenditure.

The Group recorded EUR 123.5 million (118.9) in depreciation.

Gross capital expenditure, including acquisitions worth EUR 297.3 million (285.5), totaled EUR 462.0 million (401.9). Proceeds from assets sold were EUR 102.8 million (131.5). The largest divestments included the sale of the South Korean hydrogen peroxide business and the Kemira Coatings business area's factory site in Stockholm. The Group's net capital expenditure totaled EUR 359.1 million (270.4).

## FINANCIAL POSITION AND CASH FLOWS

The Group maintained a good financial position and liquidity throughout the financial year.

In 2006, the Group reported cash flows of EUR 216.8 million (155.6) from operating activities. Working capital management remained effective and the working capital's share of revenue fell to 15% (16%). Kemira showed a negative free cash flow of EUR 142.3 million (negative EUR 114.8 million). Kemira Oyj paid out EUR 43.6 million (41.1) in dividends to its shareholders.

On December 31, 2006, the Group's net debt stood at EUR 827.4 million (December 31, 2005: EUR 619.7 million). This increase was due to acquisitions.

On the same date, interest-bearing debt was EUR 903.6 million, with fixed-interest loans accounting for about 29% of total interest-bearing loans. Pension loans are classified as fixed-interest loans. The duration of the Group's interest-bearing loan portfolio at the year-end was 16 months.

On December 31, 2006, equity ratio stood at 39% (December 31, 2005: 44%), while gearing was 76% (December 31, 2005: 61%).

Net financial expenses grew to EUR 37.2 million (30.5), due to increases in loans raised for acquisitions and higher market interest rates. Reported foreign exchange gains amounted to EUR 0.9 million (-6.2).

Cash and cash equivalents on December 31, 2006 totaled EUR 76.1 million. The unused amount of the revolving credit facility, falling due in 2011, came to EUR 566.8 million.

In April, Kemira and the European Investment Bank (EIB) signed a 12-year research and development loan agreement worth EUR 100 million.

In October, Kemira signed a credit facility worth EUR 80 million, enabling six Group companies to sell certain account receivables to the finance company. The related credit risk transfers to the finance company and the receivables are derecognized from the Group companies' balance sheet. The amount of outstanding sold receivables on December 31, 2006 was EUR 15.7 million.

The revolving credit facility and a few other bilateral loan agreements include a clause enabling lenders to call in the loan and oblige the company to prepay outstanding loans if control over Kemira Oyj changes.

## STRATEGY

In September, Kemira announced its re-focused strategy of stressing profitability improvements.

Kemira is seeking to be a global group of leading chemical businesses with a unique competitive position and a high degree of mutual synergy. Kemira aims at:

- Great profitability and continuous profitability improvement;
- Continuous growth both organically and through mergers and acquisitions: the Group will focus on the expansion of business into emerging markets and the development of customer-driven services and applications;
- Participative, entrepreneurial corporate culture; and
- Continuous increase in shareholder value.

## RISK MANAGEMENT

Kemira's risk management, based on the principle of Enterprise Risk Management (ERM), refers to the systematic and proactive identification, assessment and management of various risk categories, such as strategic, operational, hazard and financial risks.

Various Group guidelines and policies specify management objectives, the division of responsibilities and risk limits. Risk ownership remains with the business or function owner, which also assumes responsibility for its risk management. While the Group's Risk Management function has the role of developing and coordinating risk management and risk management networks within the Group, Kemira's Internal Audit is in charge of assessing the Risk Management function and its measures.

Kemira performs risk identification and assessment by business area, applying the jointly agreed risk self-assessment methodology. Risk reporting by business area is supplemented by identifying and assessing risks associated with, for example, various support functions, major manufacturing plants or investment projects. Risk management action plans based on risk assessments are integrated as part of business action plans by business area. Kemira primarily implements its risk identification and assessment as specific projects but is currently integrating the holistic risk assessment and management process more closely into its business areas' processes, especially with respect to strategic planning.

In order to reap cost benefits and ensure sufficient Group-level risk coverage, Kemira manages certain risk management activities on a centralized basis, including the purchase of insurance cover for certain risks, such as general third party and product liability, cargo, property and business interruption for major production sites, as well as the hedging of treasury risks. The Group also manages industrial and business environment, customer and technological intelligence processes on a centralized basis.

In addition to strategic risks and hazard and financial risks, Kemira's other major risks are associated, for example, with acquisitions, their integration, changes in the industry, human resources, product development, sourcing and competition.

## RESEARCH AND DEVELOPMENT

Research and development expenditure totaled EUR 51.3 million (43.1), accounting for 2.0% (2.2%) of revenue, and the year-end number of R&D personnel was 534 (415).

Knowledge of customer processes and cooperation with customers, external research groups and universities play a key role in Kemira's research and development. Kemira implements technical customer service and smaller-scale application development close to its customers and its research centers in Finland and Sweden are in charge of strategic research and long-term development. Kemira's globalizing operations and market leaderships have widened Group R&D's geographical

scope and, as the breeding ground of the Group's business and competitiveness, R&D has come to play a stronger role. Kemira aims to introduce new products onto the market on an ongoing basis. In 2006, the new products' share of revenue rose to 27% (16%) and the Group has the goal of increasing it further.

The business units provide the required capital for development projects connected directly with their business area, while the Corporate Center allocates Group financing to support the strategic projects of fields defined as growth areas and promotes the utilization of synergies across the Group.

## ENVIRONMENT AND SAFETY

The bulk of Kemira's business is in the chemical industry, whose products and operations are governed by numerous international agreements and regional and national legislation all over the world. The Group treats its environmental liabilities and risks in its financial statements in accordance with IFRS. The Kemira Code of Conduct contains up-to-date environmental and health and safety guidelines, compliance with law setting the minimum requirement. No significant non-compliance conditions with respect to environmental and safety permits have been brought to the management's attention.

In 2006, capital expenditure on environmental protection at company sites totaled EUR 12.2 million (7.4) and operating costs EUR 35.4 million (33.3). Capital expenditure of approximately EUR 26 million on the management of the Pori plant's by-products represented the largest, single environmental investment project launched in 2006. For the most part, Kemira will implement the investment during 2007.

Provisions for environmental remediation measures, EUR 16.8 million (22.9), are mainly related to landfill closures and remediation projects for contaminated soil. The decline in provisions was mainly due to the outsourcing of landfill operations and the progress of remediation measures. No environmental liability cases related to previous operations, which would have any significant effect on Kemira's financial position, have been brought to the management's attention.

Corporate acquisitions and divestments did not alter the Group's overall environmental liabilities significantly. The acquisitions of the Lanxess paper chemicals business and the Kraski Teks paint business did not involve any significant environmental liabilities. Kemira conducted detailed environmental assessments at the five sites of the water treatment chemicals business acquired from Cytec Inc., which will answer for any verifiable environmental liabilities that may arise from these assessments.

The European Council reached a political agreement on the proposed, new EU chemicals legislation (REACH). This regulatory framework, which is expected to come into force in 2007, will add to the costs of registration, testing and risk assessment of existing chemical substances sold in or imported to the EU. Kemira currently manufactures within, or imports to, the EU area approximately 200 substances affected by registration under REACH. About ten substances will be subject to authorization. Under the guidance of its REACH Competence Center in Finland, Kemira has made an inventory of the substances and is preparing for future registration. The implementation of REACH is not expected to have any major effects on the Group's competitiveness.

The EU Emissions Trading Scheme no longer has any major direct effect on the Group's business, owing to structural changes in the Group's energy production.

As a result of active safety management efforts, the frequency of occupational accidents fell to 6.0 (8.4) accidents per million working hours. The financial year saw no major industrial accidents accompanied by serious personal injuries or environmental damage. Kemira has set a zero target for accidents for each of its business areas and initiated the related action plans.

Kemira publishes an annual Environmental Report verified by a third party and prepared in accordance with IFRS and the guidelines issued by the European Chemical Industry Council (CEFIC). The report deals, for example, with emissions and effluents, waste, environmental costs, safety and product safety as well as the use of natural resources. The majority of the Group's sites have certified environmental and safety management systems in place. Integrating these with quality management and so-called Group certification is underway, with the aim of extending the systems on a global basis.

## HUMAN RESOURCES

The number of Group employees totaled 9,327 on December 31, 2006 (December 31, 2005: 7,670), while the average payroll numbered 9,186 employees (7,717) in 2006. This growth in staff numbers came from acquisitions carried out during the financial year.

The year-end number of employees in Finland, elsewhere in Europe, the Americas and Asia came to 3,020 (3,059), 4,506 (3,077), 1,514 (1,240) and 287 (294), respectively. Kemira Pulp&Paper had 2,304 employees (2,111) on its payroll, Kemira Water 1,846 (1,570), Kemira Specialty 1,011 (1,182), Kemira Coatings 3,494 (2,272) and Group functions 672 (535).

Salaries and wages for 2006 totaled EUR 326.2 million (278.9). Pay is determined by national collective and individual agreements, personal performance and job content. In the context of job evaluation, Kemira applies systems in global use, enabling the Group to ensure fair pay, which is competitive in the market, and provide a framework for employee performance appraisal. Basic pay is supplemented by performance-based bonus schemes, which cover a large share of Group employees.

Kemira conducts a Group-wide employee opinion survey every year, with a view to evaluating developments in leadership work and the climate at workplaces. The survey assesses job satisfaction and satisfaction with working conditions, leadership, communication, supervisory/managerial performance and performance on unit and Group level. Its results are compared with those of previous surveys and the corresponding surveys conducted in the industry, and are used as the basis of various development projects. With the response rate at 80% in 2006, the survey's results exceeded the global comparison index and showed a year-on-year improvement in job satisfaction. In particular, communication, employee reward systems and leadership scored better than a year ago. However, the level of satisfaction with working conditions was somewhat lower than a year earlier. Kemira stresses the importance of survey results handled on a local basis and the entire staff's involvement in analyzing results and planning and implementing any remedies.

The Kemira Code of Conduct specifies Group principles governing equality. Accordingly, Kemira treats all people equally in recruitment and working conditions, irrespective of race, gender, religious beliefs, political opinions and national and social origin. Kemira aims to achieve equal numbers of applications for vacancies by women and men, equal opportunities for competence development and career progression, equal placement on various organizational levels, equal pay for equal work and equality in other employment terms and conditions. On December 31, 2006, women accounted for 29% (28%) of Group employees and men 71% (72%).

The human resources strategy aims to promote a participative and entrepreneurial culture. The culture module of the Group-wide development program, *Kemira – from Good to Great*, defines the following action areas for strategy implementation: leadership skills and other skill development, employee involvement, rewarding, resources, safety, wellbeing programs and development tools. HR development tools — employee opinion surveys, performance reviews and the 360-degree feedback method — form the basis for HR action planning, with particular attention being paid to the reward system's competitive and motivational aspects. Leadership and personal development also represent an important area. Greater employee empowerment, resource plans based on business strategies

and the qualitative elements of employment — such as the diversity of duties, opportunities for employees to have their say in the workplace, others' support and employee wellbeing issues — are among the key areas in HR development. Supervisors/managers monitor and measure these success factors in cooperation with HR professionals.

#### KEMIRA PULP&PAPER

*Kemira Pulp&Paper is the world's leading supplier of pulp and paper chemicals, its extensive solutions spanning throughout the pulp and paper industry's value chain from pulp to paper coating.*

EUR million	2006	2005	Change, %
REVENUE	993.3	715.3	39
EBITDA	137.1	105.5	30
EBITDA, %	13.8%	14.7%	
OPERATING PROFIT	90.8	61.5	48
Operating profit, %	9.1%	8.6%	
Capital employed*	819.5	702.5	17
ROCE, %*	11.0%	8.7%	
Capital expenditure, excluding acquisitions	77.6	36.7	111
Cash flow after investments, excluding acquisitions	65.1	57.8	13
Personnel at period-end	2,304	2,111	9

\* 12-month rolling average

Kemira Pulp&Paper reported year-on-year growth of 39% in revenue, totaling EUR 993.3 million (715.3), due largely to the acquisition of the Lanxess paper chemicals business in April. Finnish Chemicals, acquired in April 2005, was for the first time included in Kemira's accounts throughout the financial year. Acquirees accounted for roughly EUR 226 million of revenue. Divestments weakened revenue by approximately EUR 6 million. Excluding acquisitions and divestments, growth was 8%. In 2005, revenue was depressed by an industrial dispute in the Finnish pulp and paper industry (a decrease of approximately EUR 30 million). Excluding the industrial dispute, organic growth was 4%.

Operating profit grew by 48%, to EUR 90.8 million, including non-recurring income of EUR 11.0 million (EUR 61.5 million, including EUR 3.4 million in non-recurring expenses). Acquirees represented around EUR 9 million of operating profit. Divestments sapped operating profit by less than EUR 1 million. Operating profit as a percentage of revenue rose from 8.6% to 9.1%, due to streamlining measures and reported non-recurring income. This figure was eroded by the Lanxess paper chemicals business, which was less profitable than other businesses within Kemira Pulp&Paper. Operating profit was also depressed by around EUR 4 million in integration costs related to the acquisition of the Lanxess paper chemicals business. Raw material prices were higher than a year ago. In 2005, operating profit was affected by the 5-week industrial dispute in the Finnish pulp and paper industry.

In early April, Kemira closed the acquisition of the Lanxess paper chemicals business, making Kemira the world's leading supplier of pulp and paper chemicals. The acquiree's main range of products consists of colorants and fluorescent whitening agents. In addition, toll-manufactured products traded for the paper industry generate a large share of its revenue, which totaled around EUR 166 million in 2006. At a debt-free purchase price of roughly EUR 88 million, this acquisition is projected to raise Kemira's earnings per share as from 2007. Synergy and cost benefits resulting gradually from the combined businesses should annually total approximately EUR 20 million in two years' time. The

acquired business has been included in Kemira Group's consolidated accounts since April 1, 2006 as part of Kemira Pulp&Paper. Integration of the operations is progressing well.

In October, Kemira announced that it had acquired a paper chemicals agency business from Bayer AG, as part of the integration of the Lanxess paper chemicals business with Kemira. The Bayer agencies have been responsible for the sales and marketing of Lanxess paper chemicals in some 20 countries, mainly in Eastern Europe, the Far East and South America, where Lanxess did not operate. The agency business has annual revenue of approximately EUR 35 million.

In May, Kemira announced that it would start producing hydrogen peroxide in Uruguay by building a production plant adjacent to Metsä-Botnia's future pulp plant, supplementing the chemicals production facility already under construction. The plant's products comprise sodium chlorate, chlorine dioxide, hydrogen peroxide and oxygen. Capital spending totals some EUR 80 million and the plants will begin production during 2007.

In September, Kemira completed the divestment of its South Korean hydrogen peroxide business to DegussaHeadwaters Korea. The primary objective of Kemira Pulp&Paper is to serve customers in the pulp and paper industry, whereas the Korean unit mainly catered for the needs of customers outside this industry. The unit's annual revenue has been around EUR 20 million. The final selling price amounted to EUR 27.5 million.

In November, Kemira announced that it would build a chlorine dioxide unit adjacent to Cellulosa Argentina's pulp mills in Argentina. The contracting parties also signed a long-term agreement for the supply of chemicals used in pulp bleaching. With approximately EUR 10 million in capital spending on the unit, its production is scheduled to begin in early 2008.

In November, Kemira bought Mondi's holding in Kemira Swiecie Sp.zo.o shares. Kemira Swiecie was previously co-owned by Kemira (65%) and a South African paper producer, Mondi (35%). Kemira produces crude tall oil received from Mondi and processes it further at its Krems plant in Austria. This cooperation with Mondi has continued in the same way after the share transaction. In addition, Kemira Swiecie produces and sells a wide variety of other paper chemicals.

Harri Kerminen, formerly working as President, Kemira Specialty, took up his duties as President, Kemira Pulp&Paper, on November 1, 2006. Lauri Junnilla, former President for Kemira Pulp&Paper, took charge of Kemira Pulp&Paper's strategic expansion in Asia and South America.

## KEMIRA WATER

*Kemira Water is the world's leading supplier of inorganic coagulants and ranks third in water treatment polymers. Kemira Water offers customized water treatment and sludge treatment solutions to municipal and private water treatment plants and industry.*

EUR million	2006	2005	Change, %
REVENUE	467.6	353.2	32
EBITDA	53.4	43.4	23
EBITDA, %	11.4%	12.3 %	
OPERATING PROFIT	35.3	28.2	25
Operating profit, %	7.5%	8.0 %	
Capital employed*	269.2	214.8	25
ROCE, %*	13.4%	13.8 %	
Capital expenditure, excluding acquisitions	19.4	18.1	7
Cash flow after investments, excluding acquisitions	26.7	22.4	19

\* 12-month rolling average

Kemira Water's revenue increased by 32%, to EUR 467.6 million (353.2), with organic growth at 11%. All market areas reported higher sales, North America showing particularly strong growth. In addition, the acquisition of the Cytec water treatment chemicals business and other smaller acquisitions contributed to growth. Acquirees accounted for around EUR 75 million of revenue.

Due to the organic growth and acquisitions, Kemira Water's operating profit rose by 25%, to EUR 35.3 million, including EUR 0.2 million in non-recurring expenses (EUR 28.2 million, including non-recurring income of EUR 2.2 million). Acquirees represented around EUR 3 million of operating profit. Operating profit as a percentage of revenue fell from 8.0% to 7.5%, due the Cytec water treatment chemicals business' lower profitability compared to that of Kemira Water, as well as integration costs resulting from the acquisition. Year on year, raw material and transport costs rose significantly in North America.

In early October, Kemira completed the acquisition of the Cytec water treatment chemicals and acrylamide business. Cytec's water treatment chemicals business consists mainly of water treatment solutions for industry and municipal water treatment plants. This acquisition expanded Kemira's product range considerably and reinforced its geographical position. Cytec's water treatment chemicals business reported revenue of roughly EUR 250 million in 2006 and its profitability has been somewhat weaker than Kemira Water's. At a debt-free purchase price of approximately EUR 190 million, the acquisition is projected to raise Kemira's earnings per share from 2007. A deal for acquiring Cytec's Botlek production plant in the Netherlands was finalized in January 2007, until which the plant acted as Kemira's subcontractor. Assets in Latin America and Asia-Pacific are expected to transfer to Kemira during the second quarter of 2007.

In October, Kemira acquired four subsidiaries wholly owned by Parcon A/S, a Danish distribution company. The acquirees run a strong sales and distribution network in Denmark, their product offerings covering process chemicals and services for water treatment and surface cleaning applications. Their combined revenue for 2006 totaled about EUR 20 million.

In October, Kemira announced that it had acquired Oy Galvatek Ab in Lahti, Finland, in order to strengthen Kemira's wastewater treatment and the treatment, recycling and recovery of industrial side streams. Specializing in the planning of industrial wastewater treatment plants and project management services, Galvatek posted revenue of around EUR 10 million in 2006 and runs two subsidiaries, one in Sweden and one in Poland.

In April, the Käppala sewage treatment works in Stockholm adopted Kemira's sludge treatment solution. In June, Oulun Vesi opted for Kemira to process and dispose of sludge from the city's wastewater treatment processes. This agreement, worth approximately EUR 13 million, will cover 15 years and sludge processing should begin in summer 2007.

In August, Kemira and St. Petersburg Water Works signed an agreement, extending to 2015, for developing and producing new chemicals to be used in producing drinking water and purifying wastewater. Related to this agreement, Kemira is investing in refurbishing its St. Petersburg-based production line and branching out into wastewater by building a new production line for iron-based chemicals.

In November, Kemira agreed to supply Rautaruukki's Raahe mills with a regeneration plant (a recovery plant) for pickling acid used in pickling hot-rolled steel. The project is Kemira's first full-scale regeneration plant delivery to a metal-industry customer. The regeneration plant processes the iron-containing hydrochloric acid arising from the steel pickling process and Kemira is tasked with

removing the iron from the acid and using it to make water treatment chemicals. The purified hydrochloric acid is then led back into Ruukki's hot-rolled steel strip manufacturing process.

In November, Kemira announced that it had signed an agreement with the shareholders of Chongqing Lanjie Tap Water Chemicals Co., Ltd to buy 80 per cent of company shares in Central China. The new company, Kemira Water Solutions (Chongqing) Co., Ltd., produces inorganic coagulants and organic polymers for water treatment in the city of Chongqing in Central China. The company's annual revenue, currently around EUR 2 million, is expected to grow rapidly in the years to come. In addition to growing water treatment markets for potable water, the company will focus on the industrial wastewater and municipal sewage treatment sectors. The acquisition is expected to be closed during the first quarter of 2007.

In January 2007, Kemira announced that it would acquire two Dalquim Industria e Comercio Ltda companies manufacturing inorganic water-treatment coagulants in Southern Brazil. With combined revenue of around EUR 12 million, the acquirees' main customers include the paper industry and municipalities. Anti-trust approval and the fulfillment of other terms and conditions are required to close the deal.

In March 2006, Mats Jungar took up his duties as Kemira Water's President.

#### KEMIRA SPECIALTY

*Kemira Specialty is the leading supplier of specialty chemicals in selected customer segments, serving customers in a wide array of industries, such as the cosmetics, printing ink, food, feed and detergent industries, through its customer-driven solutions.*

EUR million	2006	2005	Change, %
REVENUE	456.2	408.4	12
EBITDA	77.0	80.7	-5
EBITDA, %	16.9%	19.8 %	
OPERATING PROFIT	45.8	45.4	1
Operating profit, %	10.0%	11.1 %	
Capital employed*	451.6	420.2	7
ROCE, %*	10.1%	10.8 %	
Capital expenditure, excluding acquisitions	30.8	34.7	-11
Cash flow after investments, excluding acquisitions	53.6	40.5	32
Personnel at period-end	1,011	1,182	-14

\* 12-month rolling average

Kemira Specialty's revenue increased by 12%, to EUR 456.2 million (408.4), with organic growth at 3%, due in particular to favorable developments in sales of organic acids and acid derivatives as well as sodium percarbonate used in detergents. Remaining at the previous year's levels, titanium dioxide sales were affected by production losses at the Pori plant in Finland due to a one-day strike and the subsequent difficulty of re-starting production in April, planned maintenance downtime in September and power failure in November. Acquirees accounted for roughly EUR 35 million of revenue. Verdugt, acquired in April 2005, was for the first time included in Kemira's accounts throughout the financial year.

Operating profit was EUR 45.8 million, including non-recurring income of EUR 3.6 million (EUR 45.4 million, including EUR 6.1 million in non-recurring income). Operating profit as a percentage of

revenue fell from 11.1% to 10.0%, due to the above mentioned losses in titanium dioxide production, higher energy and raw material prices and the previous year's higher non-recurring income. The weaker US dollar also depressed the figure, since titanium dioxide is mostly traded in US dollars globally. Acquirees accounted for roughly EUR 3 million of operating profit.

The titanium dioxide business generated 50% of Kemira Specialty's revenue. Market demand for titanium dioxide was at a good level. Specialty products accounted for 53% (50) of sales. Average euro prices for titanium dioxide were only slightly higher than in 2005, despite an increase in dollar prices in the market.

Market demand for organic acids and acid derivatives was at a good level, with average selling prices showing an increase.

Sales volumes of sodium percarbonate, used in detergents, rose year on year. Prices fell slightly.

In March, Kemira decided to make a capital investment of approximately EUR 26 million in the Pori titanium dioxide plant, in order to meet future environmental permit requirements. The investment project is scheduled for completion by the end of 2007.

In April, Kemira agreed to buy the business of IFAC from IFAC GmbH & Co KG, a leading German development company creating applications for the cosmetics industry. This acquisition strengthened Kemira Specialty's expertise in customer solutions and technology for the food, pharmaceutical and cosmetics industries.

In July, Kemira announced that it had established a company with Metachem Industrial e Comercial Ltda., a Brazilian company, in São Paulo, Brazil. The new company in which Kemira has a 51% holding produces, markets and sells feed additives throughout the South American market. The region is the most rapidly growing market area for feeds and the organic acid derivatives used in their manufacture.

In July, Kemira announced its plan to invest EUR 10 million in the expansion of its formic acid facilities in Oulu, Finland. The expansion, which will cover existing production lines, entails technological improvements and energy-conservation measures. This investment will enable a capacity increase of 25,000 tons, to over 100,000 tons. The new capacity will be phased in by the end of 2007.

Pekka Ojanpää, formerly working as Executive Vice President, Procurement and Logistics, took up his duties as President, Kemira Specialty, on November 1, 2006.

## KEMIRA COATINGS

*Kemira Coatings is the leading supplier of paints in Northern and Eastern Europe, providing consumers and professionals with branded products. Its products consist of decorative paints and coatings for the woodworking and metal industries.*

EUR million	2006	2005	Change, %
REVENUE	562.8	457.5	23
EBITDA	88.9	70.0	27
EBITDA, %	15.8%	15.3%	
OPERATING PROFIT	72.1	55.9	29
Operating profit, %	12.8%	12.2%	
Capital employed*	310.5	282.7	10
ROCE, %*	23.7%	20.2%	
Capital expenditure, excluding acquisitions	22.5	18.0	25

# Stock Exchange Release

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Päivi Antola			
Cash flow after investments, excluding acquisitions	71.2	52.8	35
Personnel at period-end	3,494	2,272	54

\* 12-month rolling average

Kemira Coatings increased its revenue by 23%, to EUR 562.8 million (457.5), with organic growth at 6%. Growth in revenue was due primarily to the acquisition of Kraski Teks in Russia, finalized in early February. Acquirees accounted for around EUR 80 million of revenue. Divestments eroded revenue by approximately EUR 2 million.

Revenue reported by the Decorative Paints unit was up 28%. Demand for decorative paints remained at a good level in almost all of the main market areas. Meanwhile, sales of locally manufactured products in Russia continued their robust growth. The Industrial Coatings unit's sales increased in all of the main market areas and revenue rose by 4%.

Operating profit climbed by 29%, to EUR 72.1 million, including EUR 16.4 million in non-recurring income from the sale of a factory site in Stockholm (EUR 55.9 million, including non-recurring income of EUR 9.5 million). Operating profit as a percentage of revenue rose from 12.2% to 12.8%, due to reported non-recurring income and streamlining measures. Raw material prices increased from 2005 levels. Acquirees accounted for roughly EUR 5 million of operating profit.

In February, Kemira finalized the acquisition of Kraski Teks, a Russian paint company, making Kemira-owned Tikkurila Russia's leading decorative paint company, with Tikkurila and Kraski Teks holding a combined share of around 22% of Russia's decorative paints market. The integration of the acquiree with Kemira Coatings is making good progress.

In June, Tikkurila Oy and Sto AG of Germany agreed to establish a company, OOO Sto-Tikkurila, in Russia, co-owned on a 50-50 basis. Sto-Tikkurila's business idea covers the manufacture and project sales of various coating systems for facades in Russia. These products are based on Sto's technology and marketed under the Sto brand name making use of Tikkurila's existing infrastructure and local knowledge in Russia.

In July, Kemira increased its holding in Kolorit Paints, based in Ukraine, to 100% by buying a 49% holding from the Ukrainian co-owner, LGU. With revenue for 2006 totaling EUR 4.8 million, Kolorit Paints manufactures waterborne paints under the Kolorit brand. The company will also market decorative paints under the Tikkurila and Teks brands and industrial coatings under the Tikkurila Coatings brand.

In September, Kemira announced that it had established a sales company in Kazakhstan responsible for marketing decorative paints under the Tikkurila and Teks brands. In the future, the sales company will also market Tikkurila's industrial coatings.

In September, Kemira further announced that it had acquired a 100% shareholding in Finncolor s.r.o., a sales company based in Prague, the Czech Republic, which has acted as one of Tikkurila's importers. In 2005, Kemira Coatings recorded revenue of EUR 3 million in the Czech paints and coatings market, of which Finncolor accounted for around EUR 1 million.

In December, Kemira agreed to buy a 70% shareholding in OOO Gamma and OOO Ohtinski zavod poroshkovyh krasok, two paint factories based in St. Petersburg. Gamma is a major producer of metal industry coatings in Russia while Ohtinski zavod poroshkovyh krasok manufactures and markets powder coatings under its OHTEK brand. Their combined annual revenue is approximately EUR 11 million. The acquisition will considerably strengthen Tikkurila's sales and market position in the

Russian metal-industry coatings market. The acquisition is expected to be closed during the first few months of 2007.

## OTHER OPERATIONS

The operating loss of EUR 42.3 million reported by other operations includes EUR 0.4 million in non-recurring income (a loss of EUR 25.5 million, including non-recurring income of EUR 0.2 million).

Other operations include corporate expenses not charged to the business areas, such as some research and development costs and the costs of the Kemira Corporate Center. They also include the water-soluble specialty fertilizers unit, which is not part of Kemira's core business operations.

The water-soluble specialty fertilizers unit's revenue for 2006 was EUR 52.8 million (65.6) and its operating loss came to EUR 9.3 million, including EUR 5.8 million in non-recurring expenses (operating profit of EUR 0.4 million, including EUR 4.4 million in non-recurring income). The results of the water-soluble specialty fertilizers business's associate companies, stated below operating profit, showed a loss of EUR 3.9 million (a loss of EUR 3.7 million). In March, Kemira sold its shareholding (50%) in Biolchim Spa, a co-owned company supplying water-soluble specialty fertilizers. In 2005, Biolchim reported revenue of EUR 27.2 million, of which Kemira accounted for EUR 13.6 million. In February 2007, Kemira announced that it had sold its 50% holding in its water-soluble specialty fertilizer associate in Jordan. Following this disposal, Kemira is not engaged in the water-soluble specialty fertilizers business, except for selling products of the sold co-owned company during the transition period until the end of 2007.

In May, the European Commission imposed a fine of EUR 33 million on Kemira Oyj for anti-competitive practice associated with the company's hydrogen peroxide business in 1994–2000. Provisions made by the company covered this fine, paid in August.

## KEMIRA OYJ'S SHARES AND SHAREHOLDERS

On December 31, 2006, Kemira had 16,280 registered shareholders. The Finnish State's shareholding and voting rights accounted for 48.6% (48.7%) and nominee-registered shares 21% (17%).

The volume of company shares traded on the Helsinki Stock Exchange during the 2006 calendar year totaled 76.3 million at a total trading price of EUR 1,084.1 million. Kemira Oyj shares registered a high of EUR 17.17 and a low of EUR 11.07, the share price averaging EUR 14.19. The share closed at EUR 17.03, showing a 26% price increase during the year. On December 31, 2006, the company's market capitalization, excluding treasury shares, totaled EUR 2,060 million (1,627).

During the financial year, a total of 166,011 new shares were registered following subscriptions using warrants under the 2001 stock option program. Following the corresponding increase of share capital, on the balance sheet date the company's share capital totaled EUR 221.6 million and the number of registered shares 124,967,611. The number of shares may increase by a maximum of 77,389, based on share subscriptions under the 2001 stock option program.

On December 31, 2006, Kemira held 3,979,670 treasury shares, representing 3.2% of all outstanding company shares. In March 2006, under the authorization by the Annual General Meeting in 2005, Kemira transferred 116,610 treasury shares to persons covered by the share-based management incentive plan. In 2006, 8,520 of the shares transferred as part of the incentive plan returned to the company due to terminations of employment, in accordance with the plan's terms and conditions.

## BOARD OF DIRECTORS AND AUDITORS

The Annual General Meeting on April 11, 2006 decided that the number of Board members be seven. The AGM elected the following Board members for 2006: Anssi Soila (Chairman), Eija Malmivirta (Vice Chairman), Elizabeth Armstrong, Heikki Bergholm, Ove Mattsson, Kaija Pehu-Lehtonen and Markku Tapio. The Board of Directors met 13 times during 2006.

The AGM elected Aulis Ranta-Muotio Supervisory Board Chairman, Mikko Elo as the first Vice Chairman and Heikki A. Ollila as the second Vice Chairman, and the following Supervisory Board members: Pekka Kainulainen, Mikko Långström, Susanna Rahkonen, Risto Ranki and Katri Sarlund.

The AGM elected KPMG Oy Ab, Authorized Public Accountants, the company's auditor, with Pekka Pajamo, Authorized Public Accountant, acting as chief auditor.

## AGM DECISIONS

The Annual General Meeting on April 11, 2006 authorized the Board of Directors to decide on buying back company shares using retained distributable profits in such a way that the number of shares to be bought back may not exceed 2,146,640. These shares, including treasury shares already held by Kemira, may account for a maximum of 5% of company share capital and voting rights. This authorization is valid until April, 11, 2007. In 2006, the company did not buy back shares.

The AGM authorized the Board to decide to dispose of a maximum of 6,240,080 treasury shares. The Board of Directors may dispose of shares, waiving shareholders' pre-emptive rights, provided that there is a cogent financial reason for said disposal, such as financing or implementing mergers, acquisitions and similar corporate transactions, as well as incentivizing personnel or management, including disposals under the 2004 share-based incentive plan. This authorization is valid until April, 11, 2007. In 2006, the Board did not exercise this authorization.

The AGM authorized the Board to decide to increase the company's share capital by issuing new shares, stock options or convertible bonds in one or several tranches. As a result of such a share issue, share subscriptions based on stock options and the conversion of convertible bonds into company shares, the company's share capital may increase by a maximum of EUR 22.1 million. The maximum number of new shares to be issued is 12,480,160 and the per-share stated value is around EUR 1.77. This accounts for a total of 10% of the registered share capital and votes conferred by the shares. This authorization is valid until April, 11, 2007. In 2006, the Board did not exercise this authorization.

The AGM decided that a Nomination Committee be set up for Kemira to prepare proposals for Board member candidates and Board emoluments to the next AGM. The AGM also decided that Kemira's three largest shareholders, registered in the book-entry securities system on November 1, 2006, be members of the Nomination Committee who agree to said membership. In November 2006, the following persons were elected to the Nomination Committee: Pekka Timonen, Chief Counselor, Ministry of Trade and Industry (Chairman); Risto Murto, Senior Vice President, Chief Investment Officer, Varma Mutual Pension Insurance Company; and Jussi Laitinen, Senior Vice President, Investments, Ilmarinen Mutual Pension Insurance Company. Anssi Soila, Kemira Oyj's Board Chairman, is acting as an expert member of the Nomination Committee.

## CHANGES IN GROUP STRUCTURE

During the financial year, Kemira carried out a number of corporate acquisitions and business divestments.

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Kemira finalized the acquisition of Kraski Teks, a Russian paint company, in early February and that of the Lanxess paper chemicals business in early April. In early October, Kemira completed the acquisition of the Cytec water treatment chemicals and acrylamide business. In addition, the financial year saw a number of smaller acquisitions and the closure and merger of several companies. Sections specific to each business area cover acquisitions in greater detail.

## PARENT COMPANY'S FINANCIAL PERFORMANCE

The parent company posted revenue of EUR 266.1 million (235.6) and an operating loss of EUR 53.1 million (operating profit of EUR 26.9 million). The parent company bears the cost of Group management and administration as well as a portion of research costs.

Parent company's net financial expenses came to EUR 3.8 million (13.3). Profit before tax was EUR 2.6 million (60.3 million) and capital expenditure totaled EUR 30.4 million (26.2), excluding investments in subsidiaries.

## DIVIDEND PROPOSAL

The Board of Directors will propose a per-share dividend of EUR 0.48 for 2006, corresponding to a dividend payout ratio of 50%. For the financial year 2005, Kemira paid out a dividend of EUR 0.36 per share. According to the Board's proposal, the dividend record date is April 19, 2007, and the payment date April 26, 2007.

## OUTLOOK FOR 2007

Kemira Group expects to continue its growth in 2007, as a result of both the previous acquisitions and organic growth. It is projected that demand for Kemira's products will remain at a healthy level and the largest production plants' capacity utilization rates will remain high. Raw material and energy prices as well as transportation costs are projected to behave more moderately than in 2006. Due to efficiency improvements in production and other operations, the introduction of new products and the Group-wide development program, *Kemira – from Good to Great*, full-year revenue, operating profit, and earnings per share for 2007 are expected to show an increase from 2006 levels.

It is projected that capacity utilization rates in the Kemira Pulp&Paper's customer industry will remain at good levels in 2007 and the business area is expected to increase its revenue and operating profit from 2006 levels (excluding EUR 11.0 million in non-recurring income included in operating profit for 2006). As the acquired Lanxess paper chemicals business's integration proceeds, the acquiree is expected to improve its profitability. This acquisition, entailing new customers and products, coupled with entry into new emerging markets in South America and Asia, will contribute to higher revenue and operating profit. A chemical plant under construction at the site of a pulp mill in Uruguay should be completed in the second half of 2007, but will not yet contribute markedly to Kemira's revenue or operating profit for 2007.

Kemira Water is expected to increase its revenue and operating profit from 2006 levels, due in particular to the previous acquisitions, and demand for its water treatment chemicals is anticipated to remain at a good level. During 2007, Kemira Water will focus on integrating the acquired companies. On the basis of experiences of the current customers, sludge treatment and outsourcing services for industry will see further development.

Kemira Specialty expects to increase its revenue and operating profit. It is projected that demand for titanium dioxide will be at the 2006 level. Specialty pigments are expected to increase their share of Kemira's total sales. The business area's sales of organic acids and acid derivatives are anticipated to continue to show favorable development. It is projected that formic acid product prices will rise further. The sales volume of sodium percarbonate, used in detergents, will remain at the 2006 level and prices are estimated to decrease slightly resulting from tough competition.

Kemira Coatings is expected to generate higher revenue due to demand remaining healthy in all market areas, with the strongest growth anticipated in Russia and other CIS countries. Operating profit for 2007 is expected to grow year on year (excluding EUR 16.4 million in non-recurring income included in operating profit for 2006), spurred by favorable developments in sales and recent years' restructuring.

Helsinki, February 5, 2007

*Board of Directors*

*All forward-looking statements in this review are based on the management's current expectations and beliefs about future events, and actual results may differ materially from the expectations and beliefs contained in the forward-looking statements.*

For further information, please contact:

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Kemira will hold a press conference on its October-December 2006 results for the media and analysts at its head office (Porkkalankatu 3) today, starting at 10:30 a.m. A conference call in English will be held at 1:00 p.m. We kindly request that participants call us around 10 minutes before the conference begins, on +44 (0) 20 7162 0025.

Kemira will publish its Annual Report for 2006 in week 10 and Interim Reports for 2007 on May 2, July 26, and October 31.

Kemira Oyj  
Group Communications

Susanna Aaltonen

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**Kemira** is a chemicals group made up of four business areas: Kemira Pulp&Paper, Kemira Water, Kemira Specialty and Kemira Coatings. Kemira is a global group of leading chemical businesses with a unique competitive position and a high degree of mutual synergy.

**In 2006**, Kemira recorded revenue of around EUR 2.5 billion and had a payroll of 9,000 employees. Kemira operates in 40 countries.