

Developing Kemira Procurement and Logistics

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Capital Markets Day
12 September 2006

Outline

Developing Kemira Procurement and Logistics (P&L)

- Why is P&L important
- What has happened in 18 months
- General trends in Kemira P&L
- Kemira spend 2005
- Key raw materials

Kemira Procurement & Logistics strategy summary

- Vision
- Strategic principles and objectives
 - Strategic goals
 - Target setting 2006

Why is P&L Important in Kemira?

- P&L is 65% of Kemira's revenue with major bottom line impact
- Maximizes purchasing power and synergies within Kemira
- High performing supply chain is core in a leading chemicals company

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What Has Happened in 18 Months in Kemira P&L

- Creation of functional Kemira wide P&L organization
 - Aligned target setting and follow-up
 - Resource optimization through recruitments
 - Strong emphasis on competence development
- One Kemira P&L strategy created
 - Defined one common sourcing and procurement process
 - Spend visibility tool developed
- Key impacts on financial performance
 - > 15 MEUR absolute savings in key spend areas
 - Payment term improvements, cash flow effect ~ 5 MEUR

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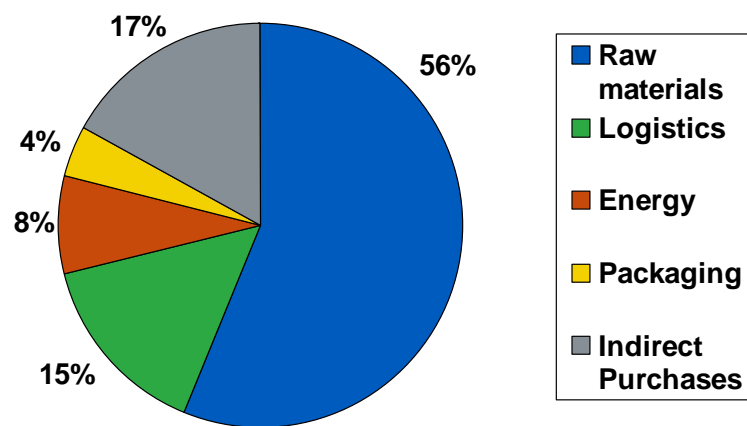
General Trends in Kemira P&L

- Managing Business Area growth
 - From regional to global sourcing
 - Increased complexity in supply chain
 - Integration of new businesses (resources and processes)
- Contributing businesses in achieving key financial targets
 - ROCE, EPS and cash flow
 - Supply chain performance
- Kemira is centralizing its P&L activities to increase its purchasing power and improve its supply chain
- Increasing raw material prices and logistics costs are putting pressure on financial performance

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Kemira Spend 2005



~ 1.350 MEUR, 65% of revenue

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Key Raw Materials

- Pulp & Paper Chemicals
 - Electricity
 - Sulphur based products
 - Acrylic monomers
- Performance Chemicals
 - Ilmenite
 - Propionic acid
 - Soda ash
- Kemwater
 - Chlorine
 - Aluminium hydrate
 - Scrap iron
- Paints & Coatings
 - Titanium dioxide
 - Solvents
 - Binders

> 4600 raw material items
> 1200 raw material suppliers

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Sourcing Synergies Across Kemira Business Areas

- In raw materials limited synergies cross businesses (15–20% of raw material spend)
- Clear cross business synergies for Logistics, Indirect, Energy and Packaging spend categories. Sourcing is mainly centralized and based on business requirements (synergies between 25%–95% of category spend)
- By implementing professional sourcing process and solutions, further synergies by improved supplier performance, internal efficiency and economies of scale

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Vision Statement Kemira P&L

Top level Professionals enabling Kemira to become a leading global chemicals company by continuously creating value for our businesses

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P&L Key Strategic Principles



- **Efficient competence development and optimized resourcing**



- **Development and harmonization of global sourcing, procurement and logistics processes** across and within business units in order to leverage the synergies within Kemira



- **Purchase power maximization.** Professional sourcing and supplier management to achieve quality, safety and cost efficiency that adds value to the customer and to Kemira

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Strategic Goals (2006-2008): Efficient Competence Development and Optimized Resourcing in P&L

- Strengthen resources in selected key sourcing areas
- Create a performance and result oriented culture
 - Ambitious and business aligned targets
 - Harmonized incentive systems
- Efficient competence and leadership training to:
 - Enhance skills in sourcing, procurement and logistics
 - Create attractive career path for people with multiple backgrounds



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Strategic Goals (2006-2008): Harmonization of Sourcing and Procurement Processes

- Performance management process implemented
 - Common sourcing and procurement strategy
 - Business aligned target setting, follow-up and reporting
 - Active communication to other areas of supply chain
- Development and implementation of one unified sourcing and procurement process enabling
 - Supplier management
 - Efficient business acquisition and integration actions
- Fact based process management
 - Enabled by common IT platform
 - Transparency of spend and process metrics across businesses and sites covering > 95% of spend



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Strategic Goals (2006-2008): Kemira Procurement Purchase Power Maximization

- Procurement is responsible for sourcing and procurement of all key materials and services
- Optimize supplier base by consolidation of purchases:
 - Significant reduction of suppliers by 2008 vs. 2005
 - Contract coverage min 90% in key spend areas
- Global low cost sourcing implemented in emerging markets



Kemira P&L 2006 Strategic Objectives

1. Cost efficiency targets

- Achieve minimum xx MEUR savings in raw materials, logistics, indirect, MRO, packaging and energy
- Distributor shape-up during 1H06(Nordic focus)
 - Consolidate and/or re-organize distributor base
 - Kemira frame contract implementation

2. Strategy development targets

- Logistics strategy implementation
- Kemira energy strategy creation and implementation
- Joint monomer/polymer sourcing strategy created with PPC and KW
- Low cost sourcing strategy creation and implementation

3. Process and competence development targets

- Professional sourcing focus
 - Sourcing and procurement process harmonization
 - Sourcing competence development
 - Optimized resourcing

