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# Kemira Group
# Interim Report January – June 2005

Lasse Kurkilahti, President & CEO
28 July 2005

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# January - June
# Group Highlights

# A Strong First Half of the Year

- Revenue up 9%
- EBIT up 35%; all business areas improved
  - Higher raw material costs were passed along into selling prices
- EPS up 50% to EUR 0.30
- ROCE up to 9.4% (8.1%)

- Industrial dispute in the Finnish paper industry affected Q2

- Acquisitions of Finnish Chemicals and Verdugt
  - No 2 in pulp and paper chemicals
  - No 1 in organic acid derivatives in selected customer groups

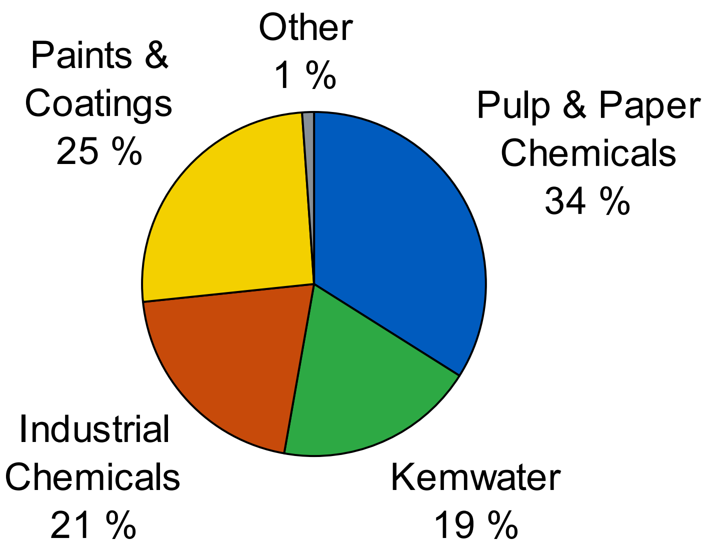
# Growth Boosted by Acquisitions

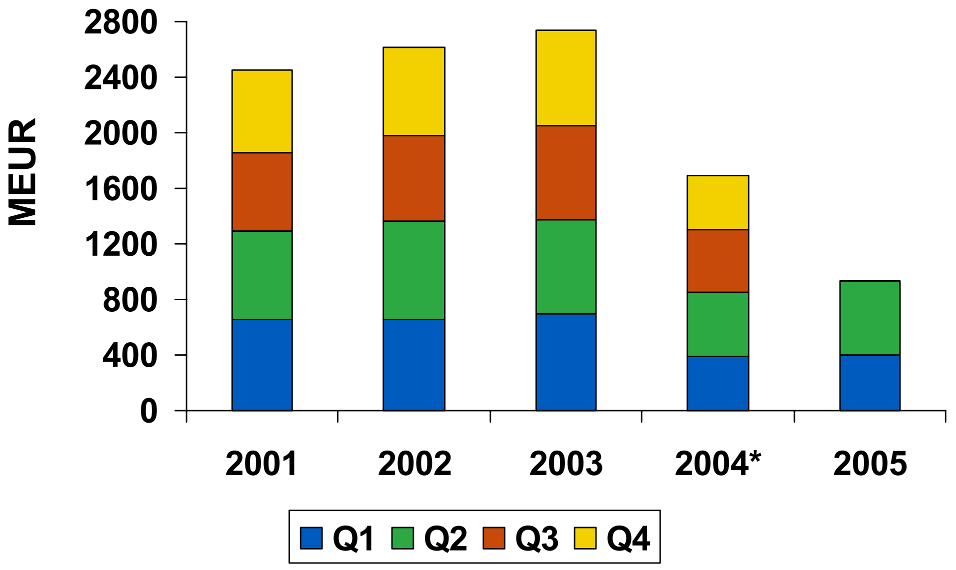
| MEUR | **H1/05** | H1/04 | **Change** | Change excl. acquisitions | 2004 |
|---|---|---|---|---|---|
| **Revenue** | **929.9** | 850.7 | **9%** | -2% | 1,695.1 |
| **EBIT** | **69.9** | 51.8 | **35%** | 25% | 111.6 |

- Organic growth compensated partly for the revenue decline caused by:
  - Industrial dispute in the paper industry in Finland (-30 MEUR)
  - Divestment of the industrial coatings business in the UK (-10.7 MEUR)
  - Scaling back of the operations of the water-soluble fertilizer business (-25.7 MEUR)

  → Total -66.4 MEUR

# Revenue in H1

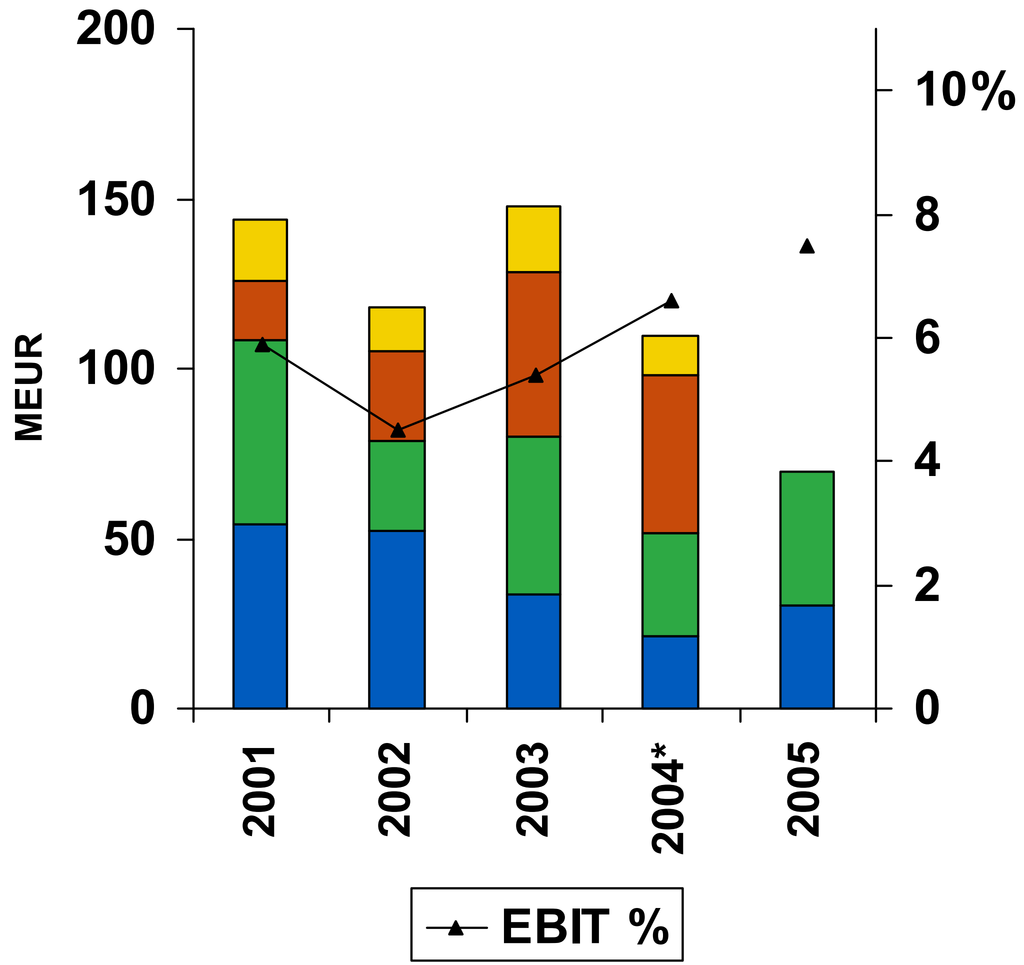



Total: 929.9 MEUR

*Continuing operations

# EBIT




Excluding a write-down of 78 MEUR in Q4/02

*Continuing operations

# Q2 Profitability Up

| | **Q2/05** | Q2/04* | **Change** | 2004* |
|---|---|---|---|---|
| Revenue (MEUR) | **526.2** | 456.3 | **15%** | 1,695.1 |
| EBIT (MEUR) | **39.6** | 30.6 | **29%** | 111.6 |
| EPS (EUR) | **0.15** | 0.16 | **-6%** | 0.50 |
| ROCE, % | **9.4** | 8.1 | | 8.6 |
| Free cash flow (MEUR) | **-250.1** | 33.1 | | 107.6 |

*Continuing operations, pro forma

# Q2 Revenue up by 15%, EBIT up by 29%

**Revenue**

- \+ Price increases
- \+ Volumes
- \+ Acquisitions (Finnish Chemicals, Verdugt, Eaglebrook, E.QU.I.P., etc.)
- − Industrial dispute in the Finnish paper industry
- − UK coatings disposal
- − Water-soluble fertilizer restructuring

**EBIT**

- \+ Price increases
- \+ Volumes
- \+ Acquisitions
- \+ Depreciation
- − Industrial dispute in the Finnish paper industry
- − Raw material prices, logistics



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# Balance Sheet

| | **30 June 05** | 31 Dec 04 |
|---|---|---|
| Equity ratio, % | **40** | 47 |
| Gearing, % | **85** | 21 |
| Capital employed (MEUR) | **1,858.7** | 1,205.9 |
| Personnel | **8,285** | 7,137 |

# Net Working Capital Increased Seasonally

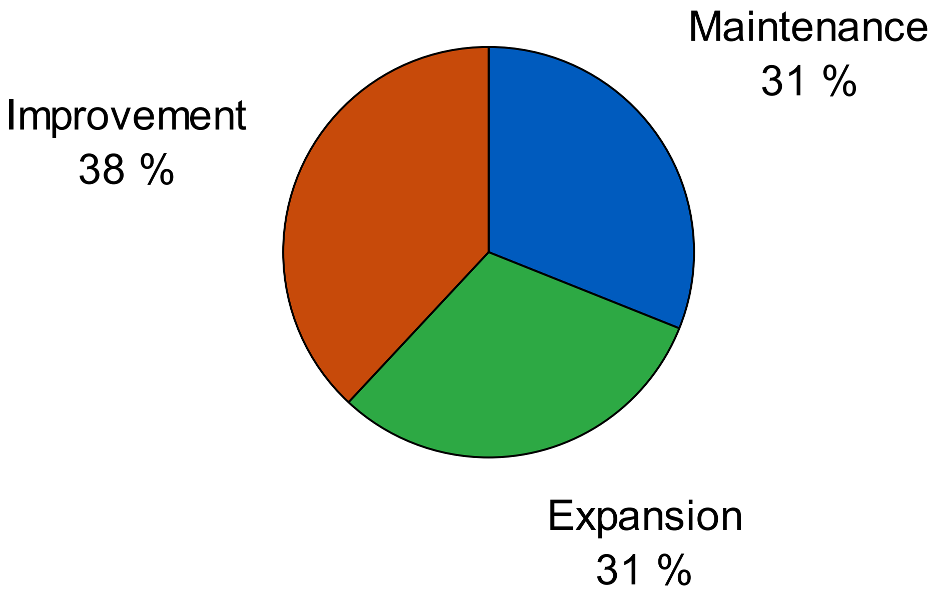
| MEUR | **H1/05** | H1/04* | 2004* |
|---|---|---|---|
| Cash flows from operations | **-9.4** | 51.6 | 231.0 |
| Acquisitions | **-285.4** | -3.4 | -57.9 |
| CapEx excl. acquisitions | **-51.6** | -51.1 | -107.2 |
| Sale of fixed assets | **52.8** | 15.7 | 41.7 |
| Cash flows from investing activities | **-284.2** | -38.8 | -123.4 |
| Free cash flow | **-293.6** | 12.8 | 107.6 |

*Continuing operations, pro forma

# CapEx Excluding Acquisitions

Total in January - June 2005 (H1/2004):

-51.6 MEUR (-51.1)



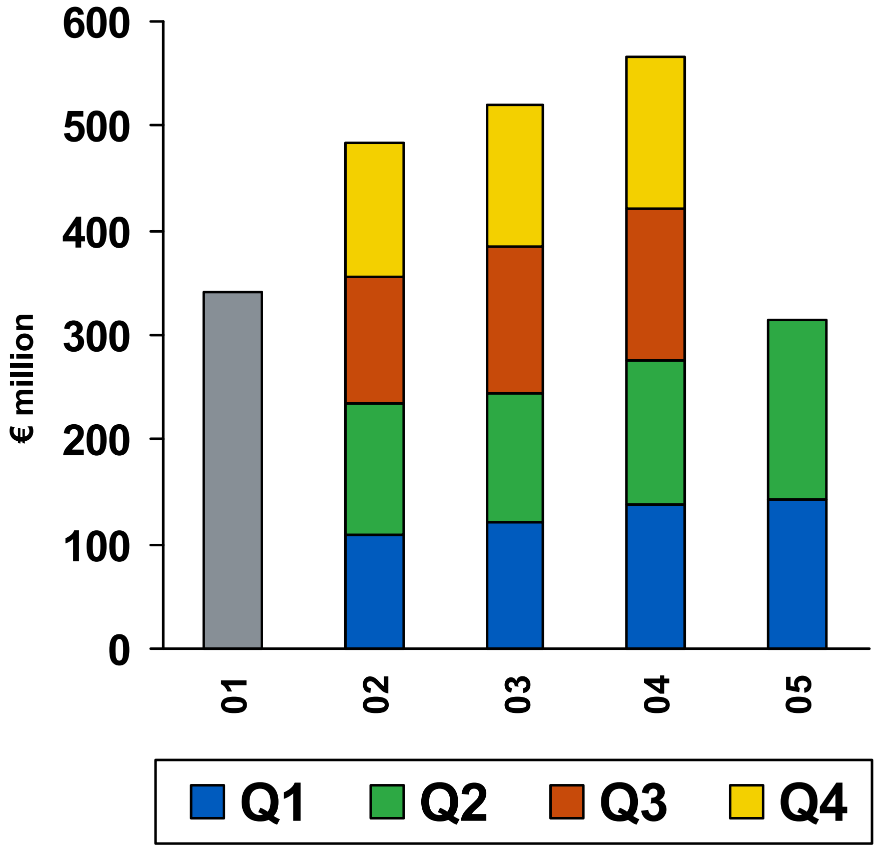
# Business Areas in January - June

# Pulp & Paper Chemicals in Q2

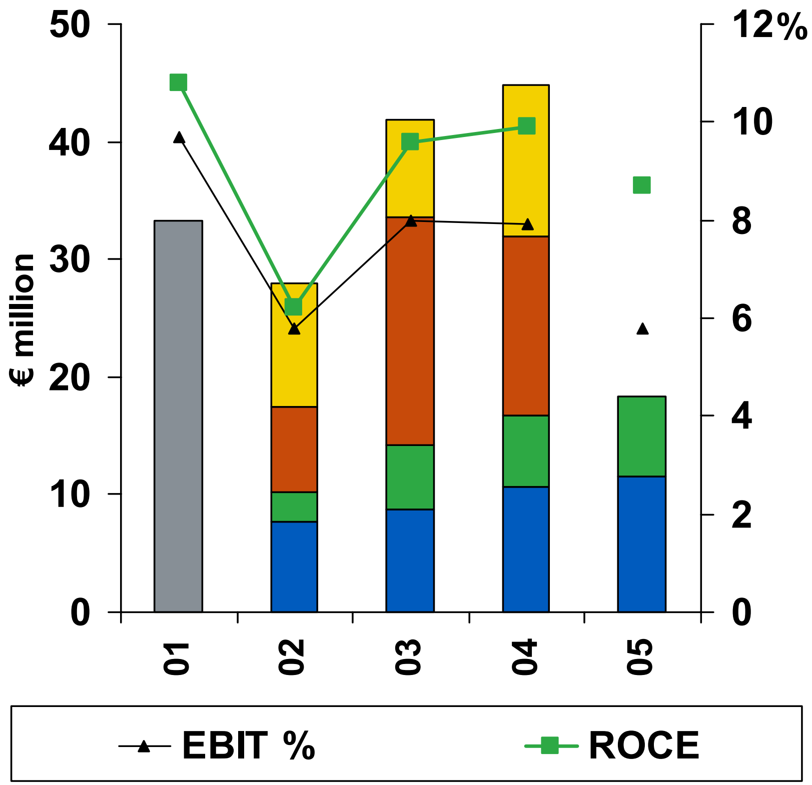
- Revenue up by 23% to EUR 171.8 million
  - Acquisitions of Finnish Chemicals and E.QU.I.P.
  - Change excluding acquisitions -8%
  - The industrial dispute in the Finnish paper industry cut revenue by ~ 30 MEUR
- EBIT up by 10% to EUR 6.7 million, ROCE 8.7% (9.7%)
  - Efficiency measures
  - The effect of the industrial dispute was ~12 MEUR negative
  - Higher raw material costs were passed along into selling prices
- Acquisition of Finnish Chemicals, part of Kemira as of Q2/05
  - Integration proceeding well

# Pulp & Paper Chemicals

Revenue




EBIT & ROCE




The figures are not fully comparable due to changes in the business structure.



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# Pulp & Paper Chemicals' Outlook

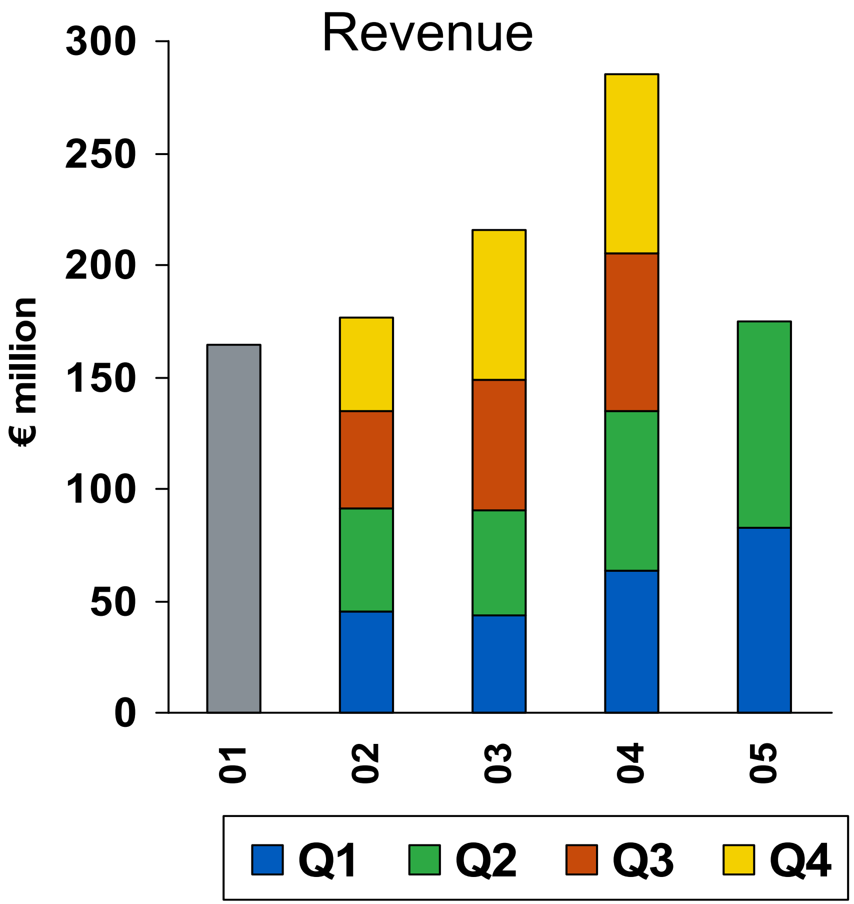
- Capacity utilization of the customer industry is estimated to be good during the latter part of the year
- Price rises in raw materials and especially in energy putting pressure on earnings
- Revenue and EBIT estimated to grow

# Kemwater in Q2

- Revenue up by 29% to EUR 92.0 million
  - Volumes and prices up, especially in Europe
  - Acquisition of Eaglebrook in November 2004
  - Smaller acquisitions in Poland and Slovenia in 2004
- EBIT up by 23% to EUR 9.0 million, ROCE 14.8%* (17.8%)
- Higher raw material costs compensated by:
  - Higher selling prices
  - Alternative raw materials
- Remaining 40% holding in Kemiron acquired in May

*Excluding the non-recurring expenses of 11 MEUR in Q4/04

# Kemwater

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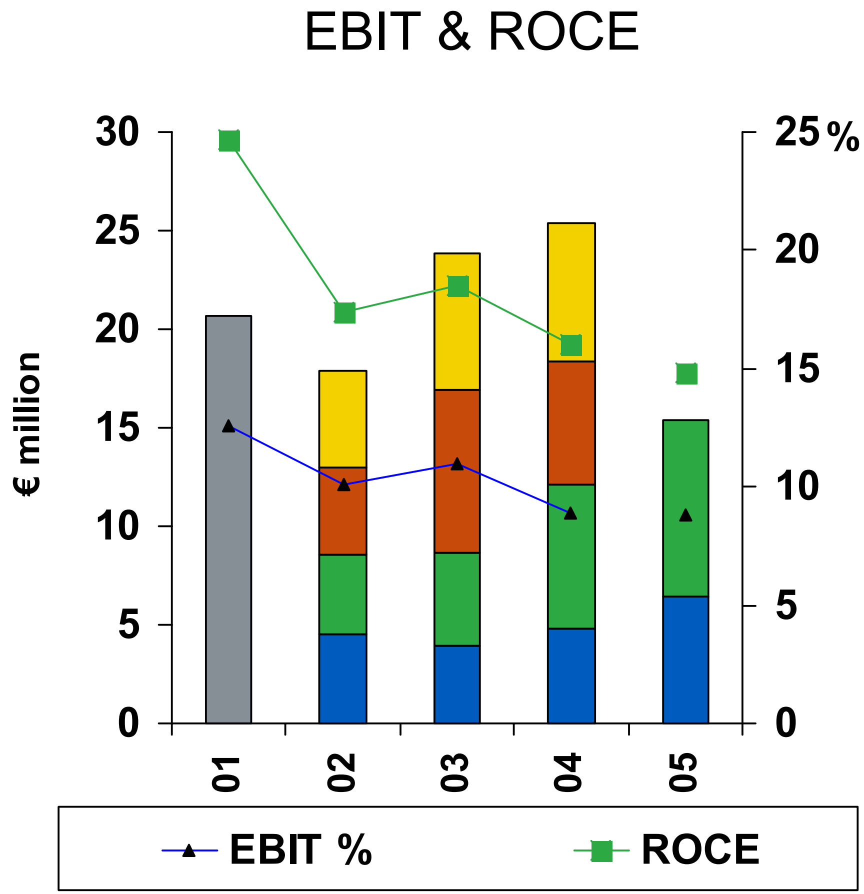


Q4/04 excluding extra write-downs and costs of 11 MEUR.



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# Kemwater’s Outlook

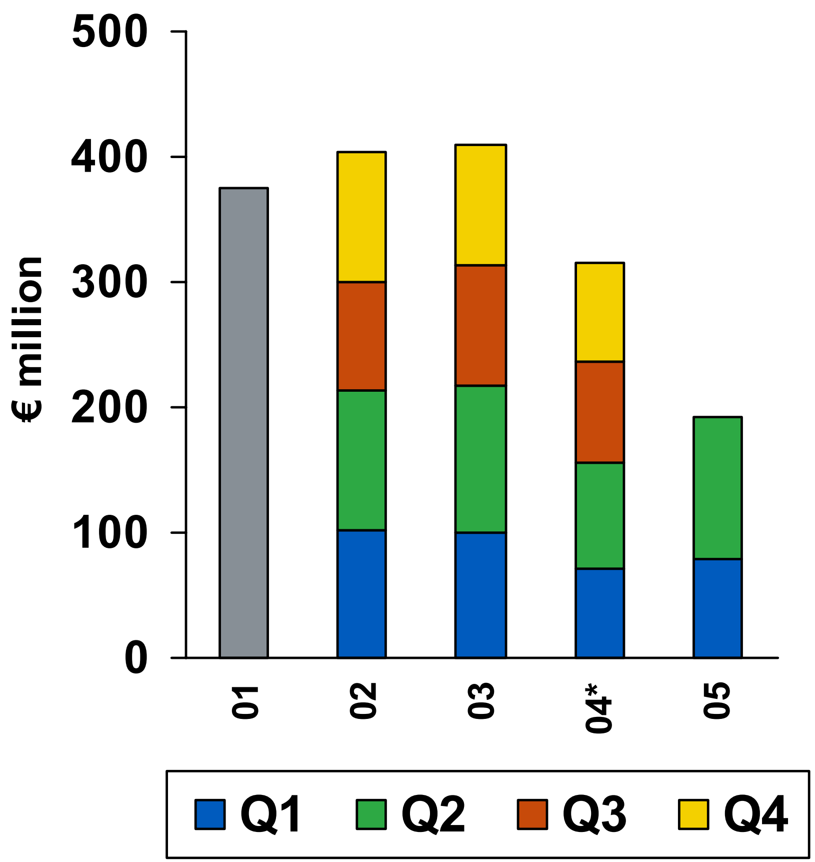
- Demand for water treatment chemicals expected to grow
- Price increases in raw materials putting earnings under pressure
- Revenue estimated to grow substantially
- EBIT estimated to increase

# Industrial Chemicals in Q2

- Revenue up by 32% to EUR 112.9 million
  - Acquisition of Verdugt
  - Average prices of TiO2 in euros up 8%, volumes on par with Q2/04
  - Volumes of formic acid products up, also prices slightly up
  - Sales volumes and prices of sodium percarbonate similar to Q2/04
- EBIT was EUR 7.1 million (EUR 4.6 million, excl. capital gains)
  - Price increases offset higher raw material costs
- ROCE 10.3% (11.5%)
- Acquisition of Verdugt, part of Kemira as of Q2/05
  - Production related availability problems of some products
  - Integration proceeding well

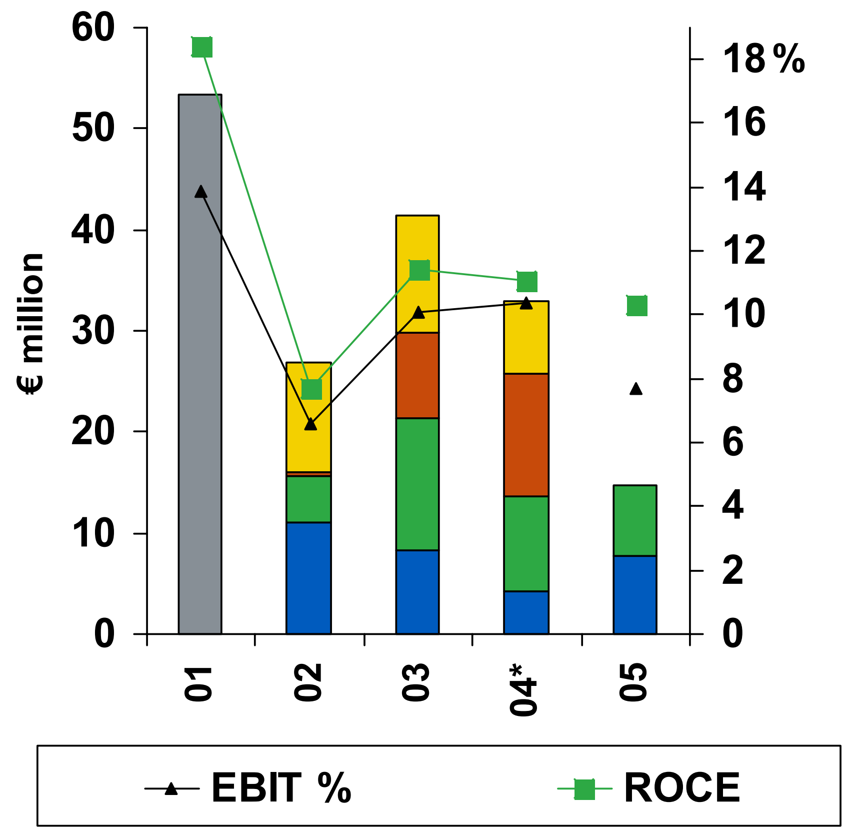
# Industrial Chemicals

Revenue




The figures are not fully comparable
due to changes in the business structure.

EBIT & ROCE




*Continuing operations



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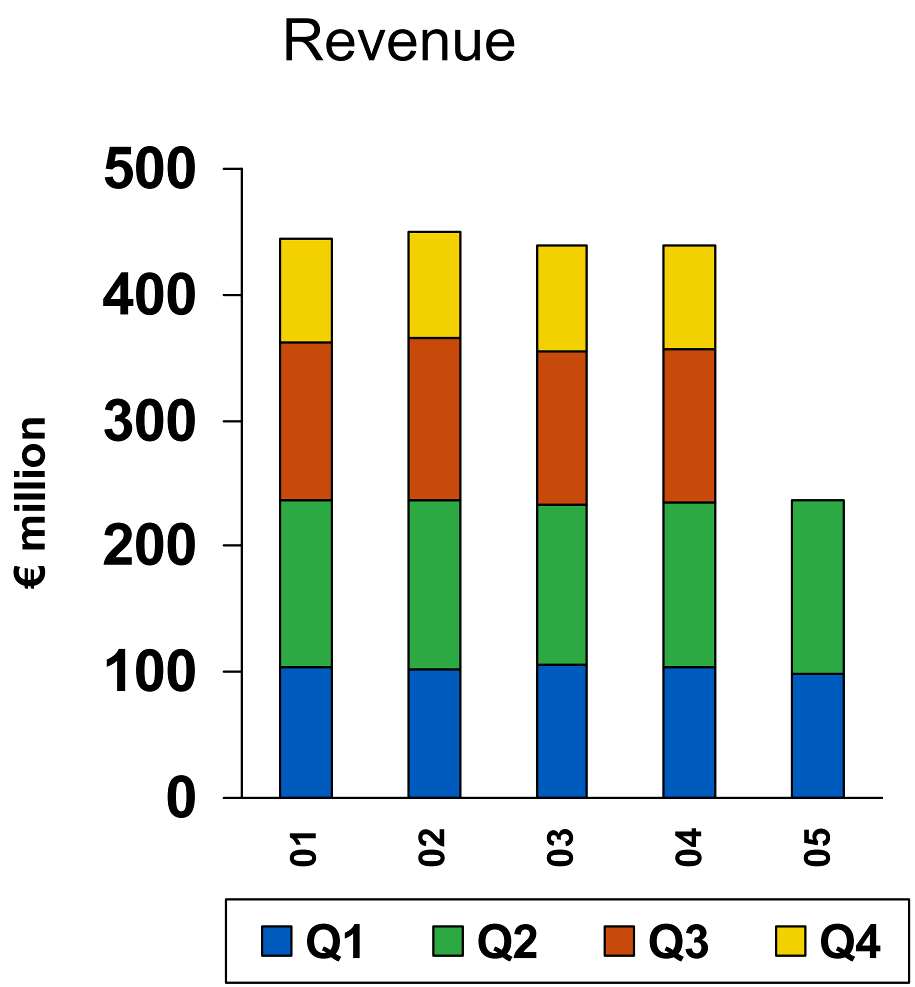
# Industrial Chemicals' Outlook

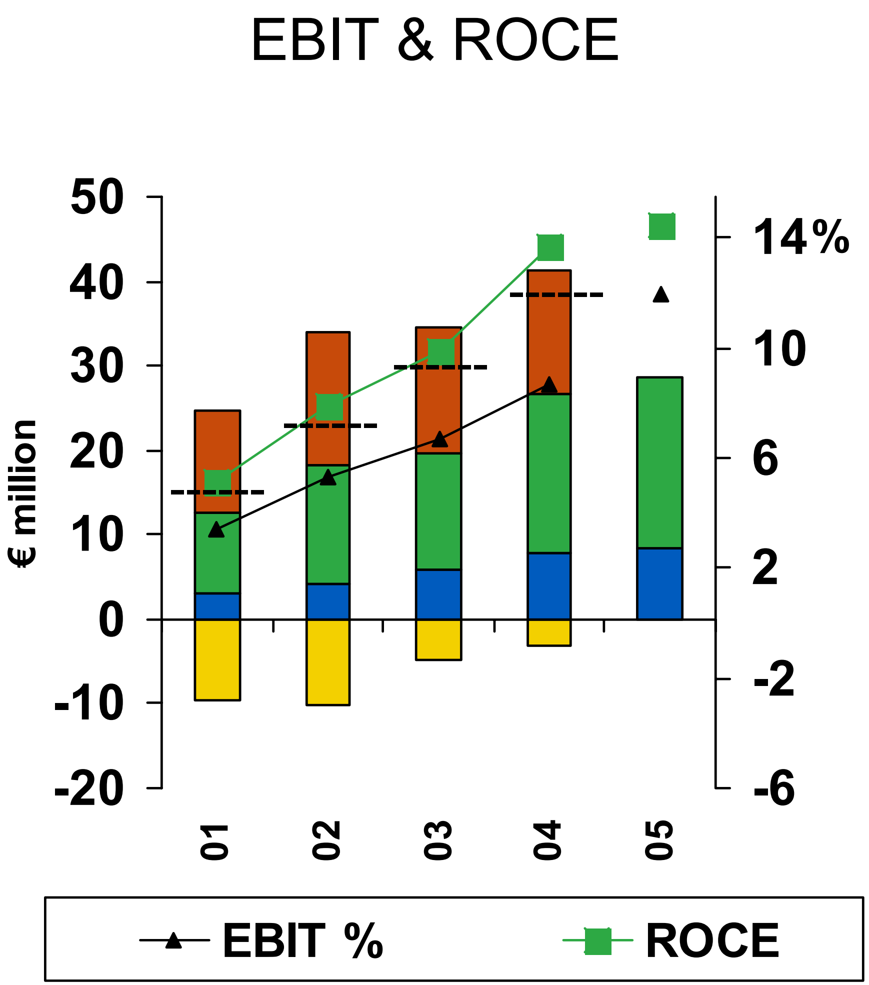
- The rise in titanium dioxide prices is estimated to even out
- Increases in the prices of raw materials and energy are squeezing earnings
- TiO2 volumes estimated to be higher than in 2004, thanks to the expansion investments made
- Sales of organic acids and organic acid derivatives as well as sodium percarbonate expected to grow
- Revenue and EBIT estimated to be higher than the figures for continuing operations in 2004

# Paints & Coatings in Q2

- Revenue up 6% to EUR 138.2 million
  - Favourable market conditions in most of the main markets
  - Growth in Russia continued
  - Impact of UK coatings disposal -5.6 MEUR (-4%)
- EBIT up by 6% to EUR 20.1 million, ROCE 14.5% (12.5%)
  - Prices up, offsetting higher raw material costs

# Paints & Coatings



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# Paints & Coatings' Outlook

- Demand expected to be good
- Due to the UK divestment, revenue estimated to be on the level of 2004
- EBIT estimated to increase

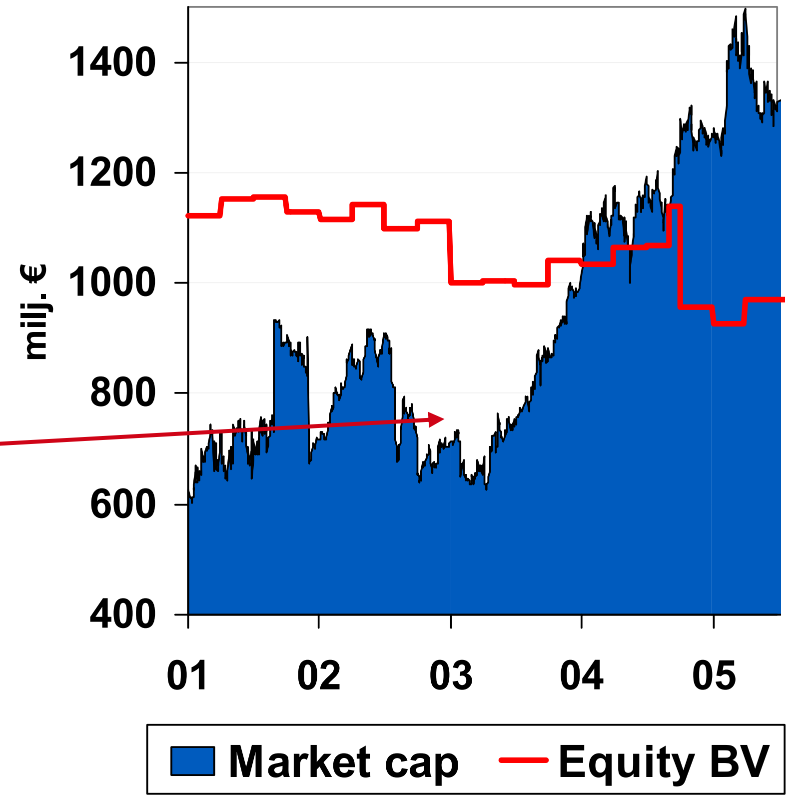
# Outlook for 2005 – Kemira Group

- Full-year revenue, operating profit and EPS are estimated to increase on the pro forma figures posted in 2004.

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.

# Development of the Kemira Share

# Shareholder Value Doubled




2 Jan 2003:
Market cap
713 MEUR,
P/B 0.7

30 June 2005:
Market cap
1,327 MEUR,
P/B 1.4



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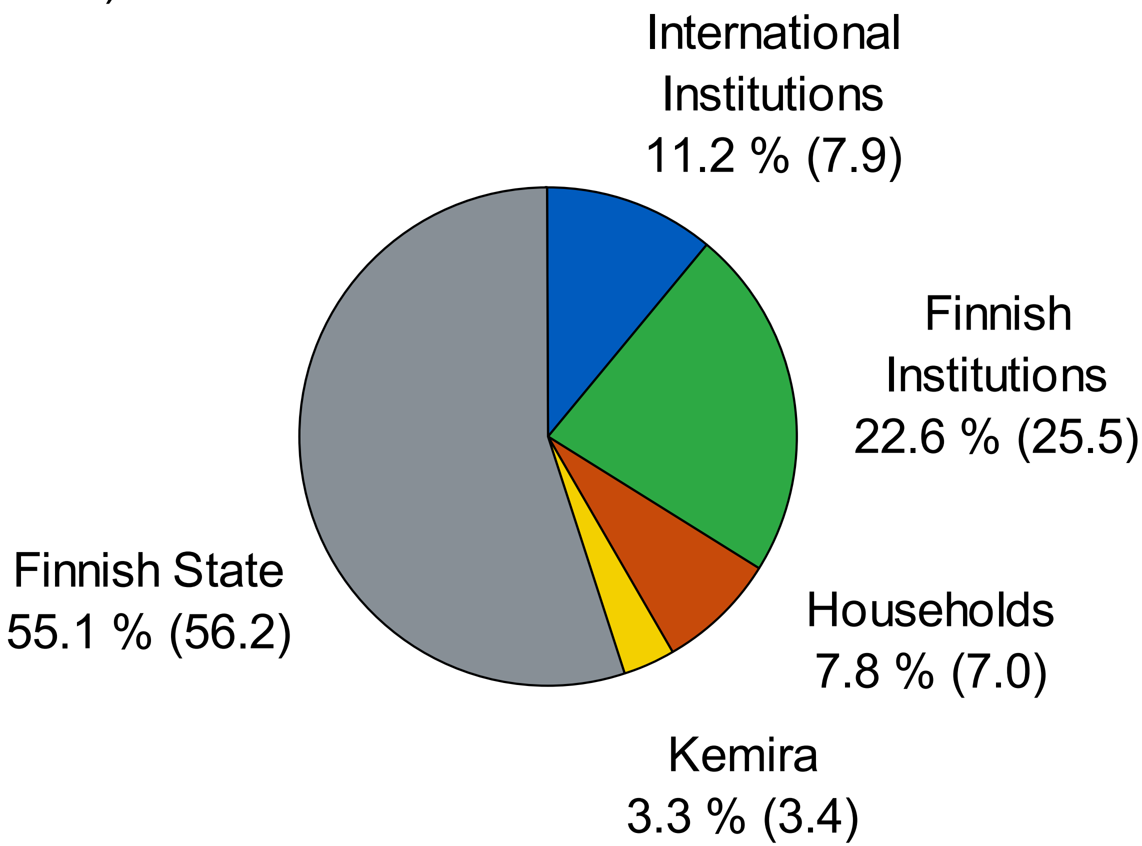
# Shareholders 30 June 2005

(30 June 2004)




Minimum state ownership 15%

# Looking Ahead

# Future Kemira

A global group of leading chemicals businesses with high mutual synergy

- Continuously improving **profitability**
- **Growth**: organic and through M&A
- Businesses with **unique positions**
- Participative **corporate culture**

# From Good to Great

Implementation:

| Strategy | Culture | Brand |
|---|---|---|
| Everyone at Kemira will know and understand what Kemira is and where it is heading to. | Kemira will have a strong, participative company culture which will be created through an open dialogue.<br><br>Overall speed of actions will be increased. | Everyone at Kemira will understand what Kemira brand means and their role in building it.<br><br>Brand Promises:<br>- Reliability<br>- Cooperation<br>- Responsibility<br>- Proactivity |

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