

**kemira**

FINANCIAL STATEMENTS  
2006

financials

## Financial statements

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Since all figures in this Annual Report have been rounded, the sum of individual figures may deviate from the presented sums.

# Board of Directors' review for 2006

Kemira Group's revenue for 2006 rose by 26% year on year, to EUR 2,522.5 million (2005: EUR 1,994.4 million). Operating profit increased by 22%, to EUR 201.7 million (165.5), including EUR 31.2 million in non-recurring income (14.6). Earnings per share increased by 32%, from EUR 0.73 to EUR 0.96. Return on capital employed was 10.6% (9.9%). Full-year revenue, operating profit, and earnings per share for 2007 are expected to increase from 2006 levels.

The Board of Directors will propose a per-share dividend of EUR 0.48 for 2006, corresponding to a dividend payout ratio of 50% and an increase of 33% on a year earlier. For the financial year 2005, Kemira paid out a dividend of EUR 0.36 per share. Kemira's dividend policy comprises a payout of 30-50% of the Group's net operating profit.

## KEY FIGURES AND RATIOS

| EUR million   | 2006    | 2005    | Change, % |
|---|---------|---------|-----------|
| REVENUE   | 2,522.5 | 1,994.4 | 26        |
| EBITDA  | 325.2   | 284.4   | 14        |
| EBITDA, %   | 12.9    | 14.3    |           |
| OPERATING PROFIT                                    | 201.7   | 165.5   | 22        |
| Operating profit, %                                 | 8.0     | 8.3     |           |
| Financial income and expenses                       | -37.2   | -30.5   |           |
| PROFIT BEFORE TAX                                   | 162.2   | 133.5   | 21        |
| Profit before tax, %                                | 6.4     | 6.7     |           |
| NET PROFIT  | 120.2   | 91.4    | 32        |
| EPS, EUR  | 0.96    | 0.73    | 32        |
| Capital employed*                                   | 1,876.6 | 1,662.9 | 13        |
| ROCE, %*  | 10.6    | 9.9     |           |
| Cash flow after investments, excluding acquisitions | 155.0   | 170.8   | -9        |

\* 12-month rolling average

## REVENUE AND OPERATING PROFIT

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         |
| <b>Total</b>                  | <b>31.2</b> | <b>14.6</b> |

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.

## 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 integrat-

ing 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.

Notes 31-32 to the Financial Statements describe environmental, hazard and financial risks.

## 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 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 Mondí's holding in Kemira Swiecie Sp.zo.o shares. Kemira Swiecie was previously co-owned by Kemira (65%) and a South African paper producer, Mondí (35%). Kemira produces crude tall oil received from Mondí and processes it further at its Krems plant in Austria. This cooperation with Mondí 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 Junnila, 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        |
| Personnel at period-end                             | 1,846 | 1,570 | 18        |

\* 12-month rolling average

## Board of Directors' review for 2006

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        |
| 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.



## Board of Directors' review for 2006

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.

Shares and Shareholders in the Financial Statements provides more detailed information on Board authorizations given by the AGM.

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.

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 and the Notes to the Financial Statements provide more detailed information on changes in the Group's structure.

### 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.

# Group key figures

| PER SHARE FIGURES  | IFRS    |         |         |         |         | FAS     |
|--|---------|---------|---------|---------|---------|---------|
|  | 2006    | 2005    | 2004    | 2003    | 2002    | 2002    |
| <b>Per share figures</b>                                       |         |         |         |         |         |         |
| Earnings per share, EUR <sup>1) 4)</sup>                       | 0.96    | 0.73    | 0.65    | 0.64    |         | 0.07    |
| Earnings per share, diluted, EUR <sup>1) 4)</sup>              | 0.96    | 0.73    | 0.65    | 0.64    |         | 0.07    |
| Cash flow from operations per share, EUR <sup>1)</sup>         | 1.79    | 1.29    | 2.20    | 1.85    | 2.45    | 2.45    |
| Dividend per share, EUR <sup>1) 2) 3)</sup>                    | 0.48    | 0.36    | 0.34    | 1.67    | 0.30    | 0.30    |
| Dividend payout ratio, % <sup>1) 2) 3)</sup>                   | 49.7    | 49.1    | 53.1    | 51.5    |         | 428.6   |
| Dividend yield <sup>1)</sup>                                   | 2.8     | 2.7     | 3.4     | 18.0    |         | 4.6     |
| Equity per share, EUR <sup>1)</sup>                            | 8.92    | 8.33    | 7.69    | 8.77    | 8.47    | 8.94    |
| Price per earnings per share (P/E ratio) <sup>1)</sup>         | 17.65   | 18.40   | 15.63   | 14.38   |         | 94.14   |
| Price per equity per share <sup>1)</sup>                       | 1.91    | 1.62    | 1.32    | 1.09    | 0.78    | 0.74    |
| Price per cash flow per share <sup>1)</sup>                    | 9.50    | 10.45   | 4.62    | 4.97    | 2.69    | 2.69    |
| Dividend paid, EUR million <sup>2) 3)</sup>                    | 58.1    | 43.5    | 40.9    | 199.6   | 35.5    | 35.5    |
| <b>Share price and turnover</b>                                |         |         |         |         |         |         |
| Share price, year high, EUR                                    | 17.17   | 14.02   | 11.69   | 9.30    | 8.50    | 8.50    |
| Share price, year low, EUR                                     | 11.07   | 9.86    | 9.20    | 5.75    | 5.75    | 5.75    |
| Share price, year average, EUR                                 | 14.19   | 11.59   | 10.45   | 7.39    | 7.22    | 7.22    |
| Share price, end of year, EUR                                  | 17.03   | 13.48   | 10.16   | 9.20    | 6.55    | 6.55    |
| Number of shares traded (1,000), Helsinki                      | 76,252  | 65,578  | 41,991  | 23,011  | 24,606  | 24,606  |
| % of number of shares  | 63      | 54      | 34      | 19      | 21      | 21      |
| Market capitalisation, end of year, EUR million                | 2,060.4 | 1,627.2 | 1,222.3 | 1,087.2 | 774.0   | 774.0   |
| <b>Increase in share capital</b>                               |         |         |         |         |         |         |
| Average number of shares (1,000) <sup>1)</sup>                 | 120,877 | 120,628 | 119,187 | 118,170 | 118,170 | 118,170 |
| Average number of shares, diluted (1,000) <sup>1)</sup>        | 121,051 | 121,024 | 120,202 | 119,270 | 118,257 | 118,257 |
| Number of shares at end of year (1,000) <sup>1)</sup>          | 120,988 | 120,714 | 120,306 | 118,170 | 118,170 | 118,170 |
| Number of shares at end of year, diluted (1,000) <sup>1)</sup> | 121,204 | 121,057 | 120,707 | 119,620 | 118,257 | 118,257 |
| Increase in number of shares (1,000)                           | 274     | 408     | 2,136   | -       | -       | -       |
| Share capital, EUR million                                     | 221.6   | 221.3   | 220.7   | 217.0   | 217.0   | 217.0   |
| Increase in share capital - share options, EUR million         | 0.3     | 0.6     | 3.7     | -       | -       | -       |

<sup>1)</sup> Number of shares outstanding, adjusted by the number of shares bought back.

<sup>2)</sup> The 2006 dividend is the Board of Directors' proposal to the Annual General Meeting.

<sup>3)</sup> The total cash dividend payout during 2004 for the 2003 financial year was EUR 39 million (EUR 0.33 per share), in addition to which GrowHow shares were distributed as a dividend to a total amount of EUR 161 million (EUR 1.34 per shares). The dividend payout was based on a dividend of EUR 0.33.

<sup>4)</sup> In 2004, earnings per share from continuing operations was EUR 0.13, excluding one-off impairment EUR 0.50 per share.

## FINANCIAL FIGURES

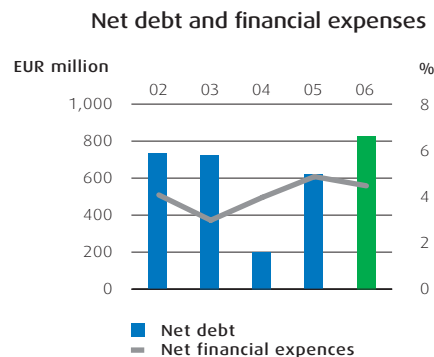
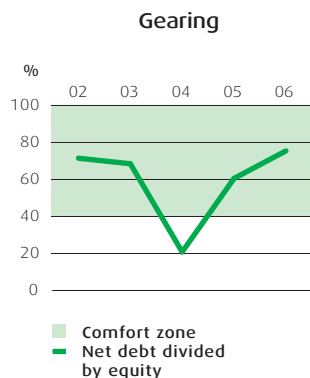
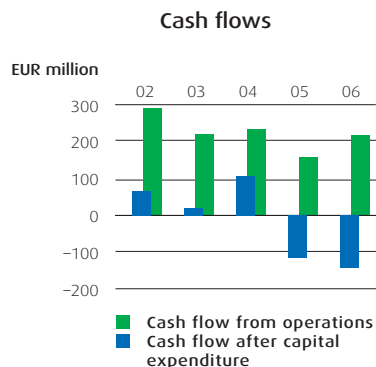
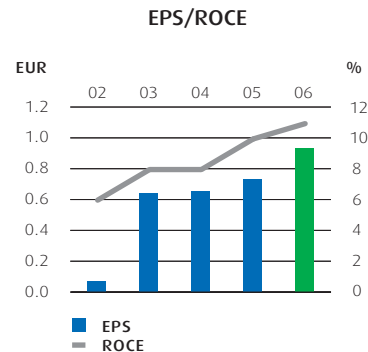
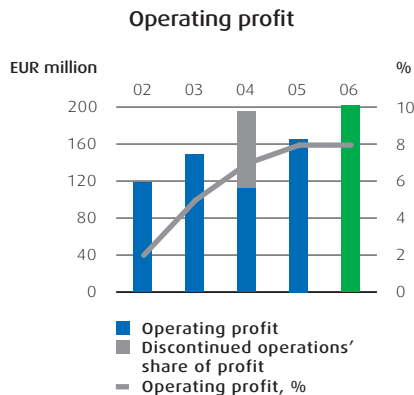
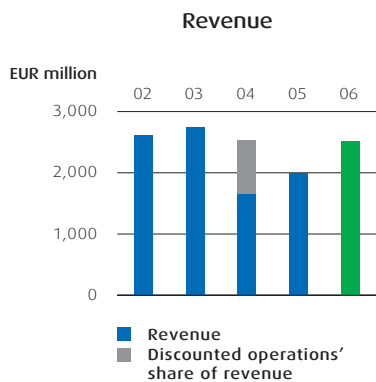
|  | IFRS  |            |       |                     |        |        | FAS    |
|--|-------|------------|-------|---------------------|--------|--------|--------|
|  | 2006  | 2005       | 2004  | 2004                | 2003   | 2002   | 2002   |
| <b>Income statement and profitability</b>  |       |            |       |                     |        |        |        |
|  |       | Continuing |       |                     |        |        |        |
| Revenue, EUR million   | 2,523 | 1,994      | 1,695 | 2,533               | 2,738  | 2,612  | 2,612  |
| Foreign operations, EUR million  | 2,159 | 1,642      | 1,453 | 2,124               | 2,282  | 2,155  | 2,155  |
| Sales in Finland, %  | 17    | 18         | 14    | 16                  | 17     | 18     | 18     |
| Exports from Finland, %  | 16    | 21         | 27    | 24                  | 25     | 23     | 23     |
| Sales generated outside Finland, %   | 67    | 61         | 59    | 60                  | 58     | 59     | 59     |
| Operating profit, EUR million <sup>1) 4)</sup>   | 202   | 166        | 112   | 196 <sup>3)</sup>   | 149    |        | 40     |
| % of revenue   | 8     | 8          | 7     | 8                   | 5      |        | 2      |
| Share of associates' results, EUR million <sup>1)</sup>  | -2    | -2         | -4    | -3                  | -6     |        | 5      |
| Financial income and expenses (net), EUR million <sup>2)</sup>                                 | 37    | 30         | 57    | 68 <sup>2)</sup>    | 22     |        | 30     |
| % of revenue   | 1     | 2          | 3     | 3                   | 1      |        | 1      |
| Interest cover <sup>1) 4)</sup>  | 9     | 9          | 4     | 5 <sup>2)</sup>     | 12     |        | 9      |
| Gains and losses on discontinued operations, EUR million                                       | -     | -          | -     | 40 <sup>2),3)</sup> | -      |        | -      |
| Profit before tax, EUR million <sup>4)</sup>   | 162   | 134        | 51    | 125                 | 121    |        | 16     |
| % of revenue   | 6     | 7          | 3     | 5                   | 4      |        | 1      |
| Net profit for the period (attributable to equity holders of the parent), EUR million          | 117   | 88         | 15    | 78                  | 76     |        | 8      |
| Return on investment, (ROI) %  | 12    | 11         | 6     | 11                  | 8      |        | 3      |
| Return on equity, (ROE) %  | 11    | 9          | 2     | 8                   | 7      |        | 1      |
| Return on capital employed, (ROCE) %   | 11    | 10         | 8     | 11 <sup>3)</sup>    | 8      | -      | 6      |
| Research and development expenses, EUR million   | 51    | 43         | 39    | 45                  | 48     | 46     | 46     |
| % of revenue   | 2     | 2          | 2     | 2                   | 2      | 2      | 2      |
| <b>Cash flow</b>   |       |            |       |                     |        |        |        |
| Cash flow from operations, EUR million   | 217   | 156        | 231   | 262                 | 219    | 290    | 290    |
| Disposals of subsidiaries and property, plant and equipment, EUR million                       | 103   | 132        | 42    | 191                 | 36     | 21     | 21     |
| Capital expenditure, EUR million   | 462   | 402        | 165   | 215                 | 236    | 243    | 243    |
| % of revenue   | 18    | 20         | 10    | 9                   | 9      | 9      | 9      |
| Cash flow after capital expenditure, EUR million   | -142  | -115       | 108   | 238                 | 19     | 67     | 67     |
| Cash flow return on capital invested, %  | 12    | 10         | 13    | 13                  | 11     | 15     | 15     |
| <b>Balance sheet and solvency</b>  |       |            |       |                     |        |        |        |
| Non-current assets, EUR million  | 1,811 | 1,617      | 1,135 | 1,135               | 1,534  | 1,547  | 1,474  |
| Shareholders' equity (attributable to equity holders of the parent), EUR million <sup>4)</sup> | 1,078 | 1,005      | 928   | 928                 | 1,036  | 1,001  | 1,056  |
| Shareholders' equity including minority interest, EUR million                                  | 1,090 | 1,019      | 956   | 956                 | 1,068  | 1,017  | 1,073  |
| Liabilities, EUR million   | 1,679 | 1,312      | 1,087 | 1,087               | 1,518  | 1,546  | 1,418  |
| Total assets, EUR million  | 2,769 | 2,331      | 2,043 | 2,043               | 2,586  | 2,563  | 2,491  |
| Interest-bearing net liabilities, EUR million  | 827   | 620        | 201   | 201                 | 725    | 733    | 768    |
| Equity ratio, %  | 39    | 44         | 47    | 47                  | 41     | 40     | 43     |
| Gearing, %   | 76    | 61         | 21    | 210                 | 68     | 72     | 72     |
| Net debt/EBITDA, %   | 2.5   | 2.2        | 0.9   | 0.6                 | 2.3    |        | 3.6    |
| <b>Personnel</b>   |       |            |       |                     |        |        |        |
| Personnel (average)  | 9,186 | 7,717      | 7,110 | 9,714               | 10,536 | 10,377 | 10,377 |
| of which in Finland  | 3,150 | 3,146      | 2,957 | 3,986               | 4,596  | 4,681  | 4,681  |
| <b>Exchange rates</b>  |       |            |       |                     |        |        |        |
| Key exchange rates (31 December)   |       |            |       |                     |        |        |        |
| USD  | 1.317 | 1.180      | 1.362 | 1.362               | 1.263  | 1.049  | 1.049  |
| SEK  | 9.040 | 9.388      | 9.021 | 9.021               | 9.080  | 9.153  | 9.153  |
| PLN  | 3.831 | 3.860      | 4.085 | 4.085               | 4.702  | 4.021  | 4.021  |

<sup>1)</sup> The share of associates' results is presented after financial expenses. Operating profit for 2002 has been changed by the Group's share associates' results.

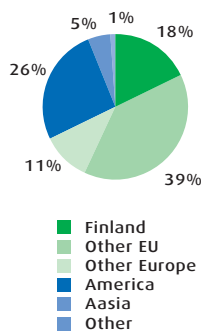
<sup>2)</sup> Financial income and expenses include impairment and guarantee losses on loan receivables from associated companies, totaling EUR 44.2 million in 2004.

<sup>3)</sup> The non-recurring-item in 2004 from discontinued operations is included in operating profit.

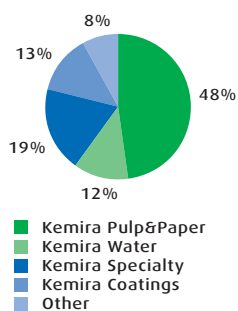
<sup>4)</sup> The operating profit was decreased by an impairment loss of EUR 78.2 in 2002.



### Revenue by region

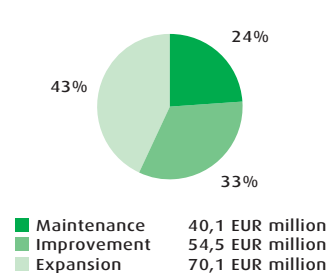


### Capital expenditures by business area \*



\* Excluding acquisitions

### Capital expenditures by character \*



\* Excluding acquisitions

# Definitions of key figures

## PER SHARE FIGURES

### Earnings per share (EPS)

Net profit attributable to equity holders of the parent  
Average number of shares

### Cash flow from operations

Cash flow from operations, after change in net working capital and before investing activities

### Cash flow from operations per share

Cash flow from operations  
Average number of shares

### Dividend per share

Dividends paid  
Number of shares at end of year

### Dividend payout ratio

Dividend per share x 100  
Earnings per share

### Dividend yield

Dividend per share x 100  
Share price at end of year

### Equity per share

Equity attributable to equity holders of the parent at end of year  
Number of shares at end of year

### Share price, year average

Shares traded (EUR)  
Shares traded (volume)

### Price per earnings per share (P/E)

Share price at end of year  
Earnings per share

### Price per equity per share

Share price at end of year  
Equity per share attributable to equity holders of the parent

### Price per cash flow per share

Share price at end of year  
Cash flow from operations per share

### Share turnover, %

Number of shares traded as a percentage of weighted average number of shares

## FINANCIAL FIGURES

### Interest-bearing net liabilities

Interest-bearing liabilities - money market investments  
- bank and cash

### Equity ratio, %

Equity x 100  
Total assets - prepayments received

### Gearing, %

Interest-bearing net liabilities x 100  
Shareholders' equity

### Interest cover

Operating profit + depreciation  
Net financial expenses

### Return on investment, (ROI) %

(Profit before tax + interest expenses + other financial expenses) x 100  
(Total assets - non-interest-bearing liabilities) <sup>\*)</sup>

### Return on equity, (ROE) %

Net profit attributable to equity holders of the parent x 100  
Equity <sup>\*)</sup>

### Cash flow return on investment (CFROI), %

Cash flow from operations x 100  
(Total assets - non-interest-bearing liabilities) <sup>\*)</sup>

### Return on capital employed (ROCE), %

Operating profit + share of associates' results x 100  
(Net working capital + property, plant and equipment available for use + intangible assets + investments in associates) <sup>\*)</sup>

### Net debt / EBITDA

Interest-bearing net liabilities  
Operating profit + depreciation

<sup>\*)</sup> Average

# Consolidated income statement (IFRS)

EUR million

|   | Note       | 1/1-31/12/2006 | 1/1-31/12/2005 |
|---|------------|----------------|----------------|
| <b>Revenue</b>                            | 2, 3       | <b>2,522.5</b> | 1,994.4        |
| Other operating income                    | 4          | 59.2           | 69.3           |
| Cost of sales                             | 5, 6, 7, 8 | -2,256.5       | -1,779.3       |
| Depreciation                              | 9          | -123.5         | -118.9         |
| <b>Operating profit</b>                   | 2          | <b>201.7</b>   | 165.5          |
| Financial income                          |            | 131.8          | 100.0          |
| Financial expenses                        |            | -169.0         | -130.5         |
| <b>Financial income and expenses, net</b> | 10         | <b>-37.2</b>   | -30.5          |
| Share of associates' results              | 2, 10      | -2.3           | -1.5           |
| <b>Profit before tax</b>                  |            | <b>162.2</b>   | 133.5          |
| Income tax                                | 11         | -42.0          | -42.1          |
| <b>Net profit</b>                         |            | <b>120.2</b>   | 91.4           |
| <b>Attributable to:</b>                   |            |                |                |
| Equity holders of the parent              |            | 116.6          | 88.5           |
| Minority interest                         |            | 3.6            | 2.9            |
| <b>Net profit</b>                         |            | <b>120.2</b>   | 91.4           |
| <b>Earnings per share, basic, EUR</b>     | 12         | <b>0.96</b>    | 0.73           |
| <b>Earnings per share, diluted, EUR</b>   | 12         | <b>0.96</b>    | 0.73           |

# Consolidated balance sheet (IFRS)

EUR million

| ASSETS  | Note       | 31/12/2006     | 31/12/2005     |
|---|------------|----------------|----------------|
| <b>Non-current assets</b>   |            |                |                |
| Goodwill  | 13         | 581.0          | 558.1          |
| Other intangible assets   | 13         | 108.9          | 70.9           |
| Property, plant and equipment   | 14         | 987.1          | 864.9          |
| Investments   |            |                |                |
| Holdings in associates  | 15, 33     | 8.1            | 9.2            |
| Available-for-sale financial assets                                   | 15         | 84.3           | 83.7           |
| Deferred tax assets   | 21         | 7.7            | 6.8            |
| Defined benefit pension receivables                                   |            | 24.6           | 15.3           |
| Other investments   |            | 9.5            | 7.7            |
| <b>Total investments</b>  |            | <b>134.2</b>   | <b>122.7</b>   |
| <b>Total non-current assets</b>                                       |            | <b>1,811.2</b> | <b>1,616.6</b> |
| <b>Current assets</b>   |            |                |                |
| Inventories   | 17         | 293.2          | 219.2          |
| Receivables   | 18         |                |                |
| Interest-bearing receivables  |            | 9.1            | 7.0            |
| Interest-free receivables   |            | 551.8          | 423.2          |
| Current tax assets  |            | 13.6           | 8.6            |
| <b>Total receivables</b>  |            | <b>574.5</b>   | <b>438.8</b>   |
| Money market investments – cash equivalents                           | 32         | 35.0           | 28.3           |
| Bank and cash   | 32         | 41.1           | 28.0           |
| <b>Total current assets</b>   |            | <b>943.8</b>   | <b>714.3</b>   |
| Non-current assets held for sale                                      | 36         | 14.4           | -              |
| <b>Total assets</b>   |            | <b>2,769.4</b> | <b>2,330.9</b> |
| <b>EQUITY AND LIABILITIES</b>   |            |                |                |
| <b>Equity</b>   |            |                |                |
| Share capital   |            | 221.6          | 221.3          |
| Capital paid-in in excess of par value                                |            | 257.9          | 257.8          |
| Treasury shares   |            | -26.8          | -27.5          |
| Fair value reserve  |            | 59.6           | 64.3           |
| Reserve fund  |            | 3.1            | 2.8            |
| Retained earnings   |            | 562.5          | 486.8          |
| <b>Equity attributable to equity holders of the parent</b>            |            | <b>1,077.9</b> | <b>1,005.5</b> |
| Minority interest   |            | 12.6           | 13.7           |
| <b>Total equity</b>   |            | <b>1,090.5</b> | <b>1,019.2</b> |
| <b>Non-current liabilities</b>  |            |                |                |
| Interest-bearing non-current liabilities                              | 20, 24, 25 | 395.1          | 404.0          |
| Deferred tax liabilities  | 21         | 105.9          | 100.5          |
| Pension liabilities   | 26         | 66.8           | 55.4           |
| Provisions  | 22         | 55.3           | 94.6           |
| <b>Total non-current liabilities</b>                                  |            | <b>623.1</b>   | <b>654.5</b>   |
| <b>Current liabilities</b>  |            |                |                |
| Interest-bearing current liabilities                                  | 23, 24, 25 | 508.5          | 272.0          |
| Non-interest-bearing current liabilities                              |            | 508.2          | 342.4          |
| Current tax liabilities   |            | 14.7           | 14.3           |
| Provisions  | 22         | 15.5           | 28.5           |
| <b>Total current liabilities</b>                                      |            | <b>1,046.9</b> | <b>657.2</b>   |
| Liabilities directly associated with non-current assets held for sale | 36         | 8.9            | -              |
| <b>Total liabilities</b>  |            | <b>1,678.9</b> | <b>1,311.7</b> |
| <b>Total equity and liabilities</b>                                   |            | <b>2,769.4</b> | <b>2,330.9</b> |



# Consolidated cash flow statement (IFRS)

EUR million

|   | 2006          | 2005          |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |               |               |
| Operating profit  | 199.4         | 165.5         |
| Adjustments to operating profit <sup>1)</sup>                   | -91.0         | -26.1         |
| Depreciation  | 123.6         | 118.9         |
| Interest received   | 12.5          | 2.5           |
| Interest paid   | -42.9         | -33.7         |
| Dividend income   | 2.0           | 5.5           |
| Other financial items   | -1.3          | -24.5         |
| Income tax paid   | -45.1         | -45.5         |
| <b>Total funds from operations</b>                              | <b>157.2</b>  | <b>162.6</b>  |
| <b>Change in net working capital</b>                            |               |               |
| Change in inventories   | -8.1          | -10.0         |
| Change in current receivables                                   | -51.8         | -23.7         |
| Change in non-interest-bearing current liabilities              | 119.5         | 26.7          |
| <b>Change in net working capital, total</b>                     | <b>59.6</b>   | <b>-7.0</b>   |
| <b>Total cash flows from operations</b>                         | <b>216.8</b>  | <b>155.6</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |               |               |
| Acquisitions of subsidiary companies, net of cash acquired      | -297.3        | -285.5        |
| Acquisitions of associates                                      | -0.1          | -0.1          |
| Purchase of other shares  | -1.1          | -3.6          |
| Purchase of other property, plant and equipment                 | -163.5        | -112.7        |
| Disposal of Group companies                                     | 41.8          | 8.7           |
| Disposal of associates  | -             | 4.6           |
| Proceeds from sale of other shares                              | 1.4           | 51.9          |
| Proceeds from sale of other property, plant and equipment       | 59.6          | 66.3          |
| <b>Net cash used in investing activities</b>                    | <b>-359.1</b> | <b>-270.4</b> |
| <b>Cash flow before financing</b>                               | <b>-142.3</b> | <b>-114.8</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |               |               |
| Change in non-current loans (increase +, decrease -)            | 173.4         | -370.8        |
| Change in non-current loan receivables (increase -, decrease +) | 1.5           | 5.8           |
| Short-term financing, net (increase +, decrease -)              | 33.8          | 191.1         |
| Dividends paid  | -46.3         | -43.2         |
| Share issue   | 0.3           | 0.6           |
| Other   | -0.4          | 2.7           |
| <b>Net cash used in financing activities</b>                    | <b>162.2</b>  | <b>-213.8</b> |
| <b>Net change in cash and cash equivalents</b>                  | <b>19.9</b>   | <b>-328.6</b> |
| Cash and cash equivalents at end of year                        | 76.2          | 56.3          |
| Cash and cash equivalents at beginning of year                  | 56.3          | 384.9         |
| <b>Net change in cash and cash equivalents</b>                  | <b>19.9</b>   | <b>-328.6</b> |

<sup>1)</sup> Non-cash flow items included in operating income (e.g. one-time impairments) and gains / losses on the sale of property, plant and equipment.

The above figures cannot be directly derived from the balance sheet. The cash flows of the business areas are shown in connection with the segment data.

In the cash flow statements (2005 and 2006), income from insurance payments related to the property damage part of the Helsingborg sulphuric acid tank accident is reported as part of the cash flows from investing activities. The business interruption compensation is included in cash flows from operation.

# Consolidated statement of changes in equity

EUR million

|  | Equity attributable to equity holders of the parent |             |  |              |                    |                      |                 |                   |                   | Total   |
|--|---|-------------|--|--------------|--------------------|----------------------|-----------------|-------------------|-------------------|---------|
|  | Share capital                                       | Share issue | Capital paid-in in excess of par value | Reserve fund | Fair value reserve | Exchange differences | Treasury shares | Retained earnings | Minority interest |         |
| <b>Shareholders' equity at January 1, 2005</b>               | 220.7   | 0.1         | 257.5                                  | 2.8          | 49.0               | -47.4                | -28.2           | 473.3             | 28.2              | 956.0   |
| Net profit   | -   | -           | -                                      | -            | -                  | -                    | -               | 88.5              | 2.9               | 91.4    |
| Dividends paid   | -   | -           | -                                      | -            | -                  | -                    | -               | -41.1             | -2.1              | -43.2   |
| Available-for-sale financial assets – fair value             | -   | -           | -                                      | -            | 4.1                | -                    | -               | -                 | -                 | 4.1     |
| Treasury shares issued to key employees                      | -   | -           | -                                      | -            | -                  | -                    | 0.7             | -0.7              | -                 | -       |
| Sharesubscriptions based on stock options                    | 0.6   | -0.1        | 0.3                                    | -            | -                  | -                    | -               | -                 | -                 | 0.8     |
| Exchange differences   | -   | -           | -                                      | -0.1         | -                  | 21.8                 | -               | -                 | 4.1               | 25.8    |
| Hedge of net investment in foreign entities                  | -   | -           | -                                      | -            | -                  | -8.3                 | -               | -                 | -                 | -8.3    |
| Cash flow hedging: amount recognised in shareholders' equity | -   | -           | -                                      | -            | 11.2               | -                    | -               | -                 | -                 | 11.2    |
| Acquired minority interest                                   | -   | -           | -                                      | -            | -                  | -                    | -               | -                 | -19.6             | -19.6   |
| Share-based compensation                                     | -   | -           | -                                      | -            | -                  | -                    | -               | 0.7               | -                 | 0.7     |
| Other changes  | -   | -           | -                                      | 0.1          | -                  | -                    | -               | -                 | 0.2               | 0.3     |
| <b>Equity at December 31, 2005</b>                           | 221.3   | -           | 257.8                                  | 2.8          | 64.3               | -33.9                | -27.5           | 520.7             | 13.7              | 1,019.2 |
| <b>Equity at January 1, 2006</b>                             | 221.3   | -           | 257.8                                  | 2.8          | 64.3               | -33.9                | -27.5           | 520.7             | 13.7              | 1,019.2 |
| Net profit for the financial period                          | -   | -           | -                                      | -            | -                  | -                    | -               | 116.6             | 3.6               | 120.2   |
| Dividends paid   | -   | -           | -                                      | -            | -                  | -                    | -               | -43.6             | -2.8              | -46.4   |
| Treasury shares issued to key employees                      | -   | -           | -                                      | -            | -                  | -                    | 0.7             | -0.7              | -                 | -       |
| Sharesubscriptions based on stock options                    | 0.3   | -           | 0.1                                    | -            | -                  | -                    | -               | -                 | -                 | 0.4     |
| Exchange differences   | -   | -           | -                                      | -            | -                  | -1.5                 | -               | -                 | 0.4               | -1.1    |
| Hedge of net investment in foreign entities                  | -   | -           | -                                      | -            | -                  | 4.5                  | -               | -                 | -                 | 4.5     |
| Cash flow hedging: amount recognised in shareholders' equity | -   | -           | -                                      | -            | -4.7               | -                    | -               | -                 | -                 | -4.7    |
| Acquired minority interest                                   | -   | -           | -                                      | -            | -                  | -                    | -               | -                 | -2.3              | -2.3    |
| Share-based compensation                                     | -   | -           | -                                      | -            | -                  | -                    | -               | 1.1               | -                 | 1.1     |
| Transfer between restricted and non-restricted equity        | -   | -           | -                                      | 0.3          | -                  | -                    | -               | -0.3              | -                 | -       |
| Other changes  | -   | -           | -                                      | -            | -                  | -                    | -               | -0.4              | -                 | -0.4    |
| <b>Equity at December 31, 2006</b>                           | 221.6   | -           | 257.9                                  | 3.1          | 59.6               | -30.9                | -26.8           | 593.4             | 12.6              | 1,090.5 |

# Consolidated statement of changes in equity

## CHANGES IN SHARE VOLUME

In (1,000)

|  | Shares outstanding | Treasury shares | Total          |
|--|--------------------|-----------------|----------------|
| Jan. 1, 2005                                       | 120,306            | 4,190           | 124,496        |
| Sharesubscriptions based on stock options          | 306                | -               | 306            |
| Treasury shares issued to key employees            | 108                | -108            | -              |
| Shares from the share-based arrangement given back | -6                 | 6               | -              |
| <b>Dec. 31, 2005</b>                               | <b>120,714</b>     | <b>4,088</b>    | <b>124,802</b> |
| <b>Jan. 1, 2006</b>                                | <b>120,714</b>     | <b>4,088</b>    | <b>124,802</b> |
| Options subscribed for shares                      | 166                | -               | 166            |
| Treasury shares issued to target group             | 117                | -117            | -              |
| Shares from the share-based arrangement given back | -9                 | 9               | -              |
| <b>Dec. 31, 2006</b>                               | <b>120,988</b>     | <b>3,980</b>    | <b>124,968</b> |

Kemira had in its possession 3,979,670 of its treasury shares at December 31, 2006. Their average share price was EUR 6.73 and they represented 3.2% of the share capital and the aggregate number of votes conferred by all shares.

The share premium account is a reserve accumulating through subscriptions entitled by the Management stock option program 2001 and is based on the Finnish Companies Act (734/1978). The Reserve fund is a reserve accumulating through local legislation of Group companies. According to IFRS, the Fair Value reserve is a reserve accumulating based on available-for-sale financial assets (shares) measured at fair value and hedge accounting.

# Notes to consolidated financial statements

## 1 GENERAL INFORMATION

Kemira is a chemical group comprising the following four strategic business units: Kemira Pulp&Paper, Kemira Water (water treatment chemicals), Kemira Specialty and Kemira Coatings.

The business area names changed on February 1, 2007. The new business area names used in the annual report – Kemira Pulp&Paper, Kemira Water, Kemira Specialty and Kemira Coatings – equal the former Pulp & Paper Chemicals, Kemwater, Performance Chemicals and Paints & Coatings.

Kemira is seeking to be a global group of leading chemical businesses with a unique competitive position and a high degree of mutual synergy. The company's business also includes the water-soluble fertilizer business as well as the energy units remaining with Kemira as a result of the spin-off of GrowHow.

The Group's parent company, Kemira Oyj, is domiciled in Helsinki, Finland, and its registered address is Porkkalankatu 3, FI-00101 Helsinki.

### CONSOLIDATED FINANCIAL STATEMENTS: ACCOUNTING POLICIES

#### Basis of preparation

Kemira prepares its consolidated financial statements in accordance with IAS and IFRS (International Financial Reporting Standards), issued by the IASB (International Accounting Standards Board), and the related SIC and IFRIC interpretations. In the Finnish Accounting Act and its provisions, the International Financial Reporting Standards refer to the approved standards and their interpretations under European Union Regulation No. 1606/2002, regarding the application of the International Financial Reporting Standards applicable within the Community. Kemira has applied IFRS since the financial year 2004 and applied IFRS 1 First-time Adoption of IFRS on January 1, 2003, the date of transition to IFRS. The Group has applied the standards effective as of December 31, 2006 to the financial year 2006, including comparatives for the financial year 2005.

The consolidated financial statements have been prepared based on historical cost unless otherwise stated in the accounting policies below. Among the items measured at fair value are available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and share-based payments on their grant date.

Since January 1, 2006, the Group has applied the following revised standard:

- The revised IAS 19 (Employee Benefits) allows the option of recognising all actuarial gains and losses directly under equity. The Group has not changed its recognition principles in this respect, but the revised standard has led to a larger number disclosure requirements.

Standards, interpretations and amendments effective in 2006 but not relevant to the Group:

IAS 21 Net Investment in a Foreign Operation

IAS 39 Cash Flow Hedge Accounting of Forecast Intra-group Transactions

IAS 39 The Fair Value Option

IAS 39 Financial Guarantee Contracts

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 8 Scope of Share-Based Payments (IFRS 2)

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 10 Interim Financial Reporting and Impairment

#### Subsidiaries

The consolidated financial statements include the parent company and its subsidiaries. In these companies, the parent company holds, on the basis of its shareholdings, more than half of the voting rights directly or through its subsidiaries or otherwise exercises control. Divested companies are included in the income statement until the date of sale or until the date on which control ceases, and companies acquired during the year are included from the date on which control transfers to the Group.

All intra-Group transactions are eliminated. The purchase method is used to eliminate intra-Group shareholdings. The excess of the acquisition cost over fair value of the net assets acquired is allocated partly to the identifiable assets and liabilities. Any resulting excess is recorded as goodwill.

Profit for the financial year attributable to the holders of parent company equity and minority shareholders is presented in the income statement. The portion of equity attributable to minority shareholders is stated as an individual item (minority interest) under equity in the balance sheet. Minority shareholders' share of accrued losses is recognized up to the maximum amount of their investment and any excess is allocated against the share of majority shareholders, except to the extent that minority shareholders have a binding obligation to cover losses.

#### Associates

Associated companies are companies over which the Group exercises significant influence (shareholding of 20–50 percent). Holdings in associated companies are presented in the consolidated financial statements using the equity method. The Group's share of the associated companies' results for the financial year is stated as a separate item in the consolidated income statement, in proportion to the Group's holdings.

If the Group's share of an associate's losses exceeds the Group's investment in the associate, this excess is provided for only to the extent that the Group has incurred legal or constructive obligations on behalf of the associate.

#### Joint ventures

Joint ventures are companies over which the Group shares control with other parties. They are included in the consolidated financial statements line by line using the proportionate consolidation method.

#### Foreign subsidiaries

In the consolidated financial statements, the income statements of foreign subsidiaries are translated into euros using the financial year's average exchange rates and their balance sheets using the exchange rates quoted on the balance sheet date. Any resulting translation difference is recognised as a separate item under equity. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity are accounted for as part of the assets and liabilities of the acquired entity and translated into euros at the rate quoted on the balance sheet date.

The section, "Hedge accounting", describes hedging of net investment in the Group's foreign units. In the consolidated financial statements, the exchange rate gains and losses of such loans and forward and currency swap contracts are credited or charged to equity, as required by hedge accounting, against the translation differences arising from the translation of the shareholders' equity amounts of the last confirmed balance sheets of the subsidiaries. Other translation differ-

# Notes to consolidated financial statements

ences affecting shareholders' equity are stated as an increase or decrease in equity.

## Items denominated in foreign currency

In their day-to-day accounting, Group companies translate foreign currency transactions into their functional currency at the exchange rates quoted on the transaction date. In the financial statements, foreign currency-denominated receivables and liabilities are measured at the exchange rates quoted on the balance sheet date, and non-monetary items using the rates quoted on the transaction date. Any foreign exchange gains and losses related to normal business operations are treated as adjustments to sales and purchases. Exchange rate differences associated with the hedging of financing transactions and the Group's overall foreign currency position are stated in foreign exchange gains or losses under financial income and expenses. Subsidiaries mainly hedge sales and purchases in foreign currencies, using forward contracts as hedging instruments primarily taken out with the Group Treasury. The effects of subsidiaries' hedging transactions are recognised as adjustments to business units' revenue and purchases.

## Revenue

Revenue includes the total invoicing value of products sold and services rendered less, as adjusting items, sales tax, discounts, rebates and foreign exchange differences in accounts receivable.

## Revenue recognition

The sale of goods is recognised as revenue in the income statement when major risks and rewards of ownership of the goods have been transferred to the buyer. Construction contracts account for a very insignificant share of consolidated sales. Revenue and costs associated with construction contracts are recognized as revenue and expenses, using the percentage-of-completion method.

## Pension obligations

The Group has various pension plans, in accordance with the local conditions and practices in the countries in which it operates, generally funded through contributions to separate pension funds or insurance companies. Contributions under defined contribution plans are recognised in the income statement for the period when an employee has rendered service.

The Group calculates obligations under defined benefit plans separately for each plan. The amount recognised as a defined benefit liability (or asset) equals the net total of the following amounts: the present value of the defined benefit obligation less the fair value of plan assets, plus any actuarial gains and less any actuarial losses. Defined benefit plans are calculated at Group level by using the Projected Unit Credit Method to make an estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. Actuarial techniques are used to make a reliable estimate and the resulting expenses are recognised accordingly. The rate used to discount the present value of post-employment benefit obligations is determined by reference to market yields on high quality corporate bonds or government bonds.

The Group recognises as income or expenses the excess of accumulated actuarial gains or losses that falls outside the higher of the following: 10% of the present value of the pension obligation or 10% of the fair value of plan assets.

The funded portion of the Finnish system under the Employees' Pensions Act (TEL) and the disability portion are accounted for as a defined benefit plan in respect of the pension plans managed by the Group's own pension funds. Pension fund assets are measured in accordance with IAS 19 (Employee Benefits). In respect of the TEL plans managed by insurance companies, the disability portion is likewise treated as a defined benefit plan.

## Share-based payments

Cash payments received from share subscriptions based on the exercise of stock options under the program determined in 2001 are recognised in share capital or the share premium fund. According to the transition provisions of IFRS 2, no expense is recognised in the income statement for options granted prior to November 7, 2002.

Stock options under the share-based incentive plan for key employees, as decided by the Board of Directors, are measured at fair value on their grant date and expensed over the instrument's vesting period. On each balance sheet date, the Group updates the assumed final number of shares and the amounts of the related cash payment. Note 8 to the Consolidated Financial Statements, Share-based payments, provide information on the arrangement and its measurement factors.

## Borrowing costs

Borrowing costs are expensed as incurred.

## Income taxes

The consolidated financial statements include income taxes based on the taxable profit of the Group companies for the financial period, calculated according to local tax rules, and changes in deferred tax assets and liabilities.

Deferred tax liability is calculated on all temporary differences arising between the carrying amount and the taxable value. Deferred tax assets, related e.g. to unused tax losses, are recognized to the extent that it is probable that taxable profit will be available against which the Group companies are able to utilize these deferred taxes arising from tax losses carried forward in future financial years. The tax bases in force on the date of preparing the financial statements or enacted by the balance sheet date for the following financial year are used in calculating tax assets and liabilities.

## Research and development expenditure

Research costs are expensed as incurred. Development costs, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete its development and use or sell the intangible asset. Since most of the Group's development costs do not meet the above-mentioned recognition criteria, they are expensed as incurred.

Capitalized development costs are included in "Other intangible assets" and amortized over the asset's useful life of a maximum of five years.

## Property, plant and equipment, and intangible assets

Property, plant and equipment (PPE) and intangible assets (with definite useful lives) are measured at cost less accumulated depreciation/amortization and any impairment losses.

Depreciation/amortization is calculated on a straight-line basis over the asset's useful life. The most commonly applied depreciation/amortization periods according to the Group's accounting policies are as follows:

|                             |            |
|-----------------------------|------------|
| Machinery and equipment     | 3–15 years |
| Buildings and constructions | 25 years   |
| Intangible assets           | 5–10 years |

Goodwill is measured at cost less any impairment losses. Gains and losses on the sale of non-current assets are included in operating income and expenses, respectively. Interest expenses are not recognised as part of the acquisition cost of non-current assets. The costs of major inspections or overhaul of PPE performed at regular intervals and identified as separate components are capitalized and depreciated over their useful lives. Depreciation on PPE discontinues when they are re-classified as available for sale assets.

### Government grants

Government grants related to the purchase of PPE are presented in the balance sheet by deducting the grant from the carrying amount of these assets. The grants are recognised in the income statement in the form of smaller depreciation during the asset's useful life. Government grants related to research and development are deducted from expenses.

### Leases

Leases, for which the Group acts as a lessee, are classified as finance leases if substantially all of the risks and rewards of ownership transfer to the Group.

At their inception, finance leases are recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Leased assets are presented as part of non-current assets and the related lease liability is shown in interest-bearing liabilities. In respect of finance leases, depreciation on the leased asset and interest expenses from the related liability are shown in the income statement.

In respect of operating leases, lease payments are accounted for as expenses.

When the Group is a lessor, it recognizes assets held under a finance lease as receivables in the balance sheet. Assets held under other operating leases are included in PPE.

In accordance with IFRIC 4 (Determining whether an Arrangement Contains a Lease), since January 1, 2006 the Group has also treated arrangements as leases that do not take the legal form of a lease but which convey rights to use assets in return for a payment or series of payments.

### Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first-in first-out (FIFO) basis or using a weighted average cost formula, depending on the nature of the inventory. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of sale. The cost of finished goods and work in process include an allocable proportion of production overheads.

### Financial assets, financial liabilities and derivative contracts

When financial assets or liabilities are initially accounted for on the trade date, they are measured at cost, which equals the fair value of the con-

sideration given or received for it. Following their initial measurement, financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale assets.

| Category  | Financial instrument   | Measurement                  |
|---|--|------------------------------|
| Financial assets at fair value through profit or loss | Forward contracts, currency options, currency swaps, forward rate agreements, interest rate futures, interest rate options, interest rate swaps, electricity forwards, propane futures, certificates of deposit, commercial papers, mutual funds | Fair value                   |
| Loans and other receivables                           | Long-term loan receivables, bank deposits, trade receivables and other receivables   | (Amortized) acquisition cost |
| Available-for-sale financial assets                   | Shares   | Fair value                   |

Financial assets at fair value through profit or loss are measured at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Derivative contracts not fulfilling the criteria set for hedge accounting under IAS 39 are classified as financial assets held for trading. These are classified as financial assets at fair value through profit or loss. In the balance sheet, these items are shown under prepaid expenses and accrued income and accrued expenses and prepaid income. Any gains or losses arising from changes in fair value are recognized through profit or loss on the transaction date.

Loans and receivables include long-term receivables carried at amortized cost using the effective interest rate method and accounting for any impairments.

Available-for-sale financial assets are measured at fair value if it is considered that the fair value can be determined reliably. Unrealized changes in the value of available-for-sale financial assets are recognised directly under equity up to the time of sale, at which point they are derecognised and transferred to the income statement. Available-for-sale financial assets include shares in listed and non-listed companies, shareholding in Teollisuuden Voima Oy representing the largest investment. Teollisuuden Voima Oy is a private, electricity-generating company owned by Finnish manufacturing and power companies, to which Teollisuuden Voima Oy (TVO) supplies electricity at cost. The company owns and operates two nuclear power plants in Olkiluoto in the municipality of Eurajoki. In addition to the Olkiluoto nuclear power plant, TVO is a shareholder of the Meri-Pori coal-fired power plant. Kemira Oyj's holding in TVO is measured at fair value, based on the discounted cash flow resulting from the difference between the market price of electricity and the cost price.

Financial liabilities are classified as financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit and loss include derivatives not fulfilling the criteria set for hedge accounting.

| Category   | Financial instrument  | Measurement                  |
|--|---|------------------------------|
| Financial liabilities at fair value through profit or loss | Forward contracts, currency options, currency swaps, forward rate agreements, interest rate futures, interest rate options, electricity forwards, interest rate swaps | Fair value                   |
| Other liabilities  | Short and long-term loans, pension loans  | (Amortized) acquisition cost |

The fair values of forward rate agreements and units in mutual funds as well as publicly traded shares are based on prices quoted in active markets on the balance sheet date. The value of other financial instruments measured at fair value is determined on the basis of valuation models using information available in the financial market. For value determination, Kemira uses values calculated on the basis of market data entered in the Twin treasury management system.

Changes in the value of forward contracts are calculated by measuring the contracts against the forward exchange rates on the balance sheet date and comparing these with the countervalues calculated through the forward exchange rates on the date of entry into the forward contracts. The fair value of currency options is calculated using the Black & Scholes valuation model for options as adapted to Kemira's currency environment. The input data required for valuation, such as the exchange rate of the destination country's currency, the contract exchange rate, volatility and the risk-free interest rate are obtained from the Reuters system. The fair value of interest rate derivatives is determined using the market value of similar instruments on the balance sheet date. Other derivatives are measured at the market price on the balance sheet date.

All of the derivatives open on the balance sheet date are measured at their fair value. As a rule, open derivative contracts at fair value are recognised through profit or loss under financial items in the consolidated financial statements. The number of embedded derivatives used by the Group is low.

The company assesses any impairment losses on its financial instruments on each balance sheet date. An impairment of a financial asset occurs when the company has identified an event with a negative effect on the future cash flows from the investment. For items measured at amortized cost, the amount of the impairment loss equals the difference between the asset's carrying amount and the present value of estimated future cash flows from the receivable. This is discounted at the financial asset's original effective interest rate. For items measured at fair value, the fair value determines the amount of impairment. Impairment charges are recognized under financial items in the income statement.

Consisting of cash in hand, demand deposits and other short-term, highly liquid investments, cash and cash equivalents have a maximum maturity of three months from the date of purchase. Binding credit facilities are included in current interest-bearing liabilities.

The Group sells certain trade receivables to finance companies within the framework of limits stipulated in the agreement. The credit risk associated with these sold receivables and contractual rights to the financial assets in question are transferred from the company on the selling date and the related expenses are charged to financial expenses.

## Hedge accounting

According to IAS 39, hedge accounting refers to a method of accounting aimed at allocating one or more hedging instruments in such a way that their fair value offsets, in full or in part, changes in the fair value of the hedged item or cash flows. Hedge accounting is used to hedge against the interest rate risk and the currency risk associated with a net investment in a foreign unit, as well as the commodity risk. The hedge accounting models used include cash flow hedge and hedge of a net investment in a foreign operation.

Cash flow hedge is used to hedge against cash flow changes attributable to a particular risk associated with a recognized asset or liability in the balance sheet or a highly probable future transaction. Interest rate instruments are used as instruments in hedging cash flows. The Group applies only selected hedging items to its cash-flow hedge accounting, as specified by IAS 39. Changes in the fair value of derivative instruments associated with cash flow hedge are recognised in equity, provided that they fulfill the criteria set for hedge accounting and are based on effective hedge. The ineffective portion of the gain or loss on the hedging instrument is recognised under financial items in the income statement. Derivatives not fulfilling the hedge accounting criteria are recorded in financial items through profit or loss.

A net investment made in a foreign operation is hedged against interest rate fluctuations by raising long-term loans in foreign currency and by entering into forward rate agreements and currency swaps. Changes in the value of the effective portion of the fair value of derivative contracts fulfilling the criteria for hedging a net investment in a foreign operation are recognised directly under equity. In forward exchange contracts, the interest rate difference to be left outside the change in value of the hedging relationship is recognised as financial income or expenses. Any gains or losses arising from hedging a net investment are recorded in the income statement when the net investment is sold. The ineffective portion of the hedging is recognized immediately under financial items in the income statement.

Hedge effectiveness is monitored as required by IAS 39. Effectiveness refers to the capacity of a hedging instrument to offset changes in the fair value of the hedged item or cash flows from a hedged transaction, which are due to the realisation of the risk being hedged. A hedging relationship is considered to be highly effective when the change in the fair value of the hedging instrument offsets changes in the cash flows attributable to the hedged risk in the range of 80–125 percent. Hedge effectiveness is assessed on an ongoing basis, prospectively and retrospectively. Testing for hedge effectiveness is repeated on each balance sheet date.

Hedge accounting discontinues when the criteria for hedge accounting are no longer fulfilled. Gains or losses recognised in equity are derecognised and transferred immediately under financial income or expenses in the income statement if the hedged item is sold or falls due. Gains or losses arising from changes in the fair value of those derivatives not fulfilling the hedge accounting criteria under IAS 39 are reported directly in the income statement.

At the inception of a hedge, the Group has documented the existence of the hedging relationship, and it includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the objectives of risk management and the strategy for undertaking hedging as well as a description of how hedge effectiveness is assessed.

## Treasury shares

Purchases of own shares (treasury shares), including the related costs, are deducted directly from equity in the consolidated financial statements.

## Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of this obligation can be made. A restructuring provision is recognised only if a detailed and appropriate plan has been prepared for it and the plan's implementation has begun or it has been notified to those whom the restructuring concerns. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation on the balance sheet date. If the time value of money is material, provisions will be discounted.

## Non-current assets held for sale and discontinued operations

Non-current assets held for sale and assets connected with discontinued operations are classified as held for sale, under IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). They are measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Depreciation on these assets discontinues at the time of classification. A discontinued operation must be recognised as a separate business unit or a unit representing a geographical area. The profit or loss of the discontinued operation is stated as a separate item in the consolidated income statement.

## Impairment of assets

On each balance sheet date, the Group's assets are assessed to determine whether there is any indication of an asset's impairment. If any indication of an impaired asset exists, the recoverable amount of the asset or the cash-generating unit must be calculated on the basis of the value in use or the net selling price. Annual impairment tests cover goodwill and intangible assets with indefinite useful lives, or intangible assets not yet ready for use.

Kemira has defined its strategic business unit as a cash-generating unit. The level of a strategic business unit is one notch down from a business area. Goodwill impairment is tested by comparing the strategic business unit's recoverable amount with its carrying amount. Kemira does not have material intangible assets with indefinite useful lives other than goodwill. All goodwill has been allocated to the strategic business units.

The recoverable amount of a strategic business unit is defined as its value in use, which consists of the discounted future cash flows to the unit. Estimates of future cash flows are based on continuing use of an asset and on the latest three-year forecasts by the business unit's management. The growth rate used to extrapolate cash flows subsequent to the forecast period was assumed to be zero. Cash flow estimates do not include the effects of improved asset performance, investments or future reorganisations. The Kemira Corporate Center's expenses are allocated to the strategic business units in proportion to revenue.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or a cash-generating unit exceeds its

recoverable amount. Note 16 to the Consolidated Financial Statements provides more detailed information on impairment.

If there has been a change in the estimates used to determine an asset's recoverable amount since the last impairment loss was recognized, an impairment loss should be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized. An impairment loss for goodwill is never reversed.

## Emissions trading

Kemira holds assigned emissions allowances, under the EU emissions trading system, only at its Helsingborg site in Sweden. Kemira calculates its carbon dioxide allowances and provisions for emissions according to the current IFRS. Carbon dioxide allowances are accounted for as intangible assets measured at cost. Carbon dioxide allowances received free of charge are measured at their nominal value (zero). Provisions for the fulfillment of the obligation to return allowances must be recognized if the free-of-charge allowances are not sufficient to cover actual emissions. Kemira's balance sheet shows no items related to emissions allowances since the volume of actual emissions is lower than that of the free-of-charge emissions allowances and the Group has not bought allowances in the market. Note 31 to the Consolidated Financial Statements, Environmental Risks and Liabilities, provides information on emissions allowances.

## Management judgment on key assumptions and policies

Preparing the financial statements requires the company's management to make certain future accounting estimates and assumptions, and actual results may differ from these estimates and assumptions.

The impairment tests of goodwill and other assets include determining future cash flows, which, in light of the most significant assumptions, are based on gross margin levels, discount rates and the projected period. Major adverse developments in cash flows and interest rates may necessitate the recognition of an impairment loss.

Kemira's investments include non-listed shares, holdings in Teollisuus Voima Oy representing the largest investment. Kemira's shareholding in the company is measured at fair value, based on the discounted cash flow resulting from the difference between the market price of electricity and the cost price. Developments in the actual fair value may differ from the estimated value, due e.g. to electricity prices, the forecast period or the discount rate.

Determining pension liabilities under defined benefit pension plans includes assumptions, and significant changes in these assumptions may affect the amounts of pension liabilities and expenses. Actuarial calculations include assumptions by the management, such as expected long-term return on assets in pension funds, the discount rate and assumptions of salary increases and the termination of employment contracts. Actual share price changes in the market, among other things, may differ from the management's assumptions.

Recognising provisions requires the management's estimates, since the exact euro amount of obligations related to provisions is not known when preparing the financial statements. For recognition of tax losses and other deferred tax asset, the management assesses the probability of a future taxable profit against which unused tax losses and unused tax credits can be utilized. Actual profits may differ from the forecasts and in this case the change will affect the taxes in future periods.



# Notes to consolidated financial statements

EUR million

## Changes to the accounting policies after December 31, 2006

The Group has not applied the following standards, whose use is not mandatory for the financial year starting on January 1, 2006, but which can be applied prior to their effective date:

IFRS 7 (Financial Instruments: Disclosures) will be adopted by the Group in 2007.

Revised IAS 1 (disclosures about capital) will be adopted by the Group in 2007.

IFRS 8 (Operating Segments), issued on November 30, 2006, will be adopted by the Group at a later date.

The Group assesses that the adoption of the revised standards will not have any material effect on its future financial statements. However, the resulting changes will add disclosures to the Financial Statements.

## 2 SEGMENT DATA

### Business segments

At the beginning of 2006, the Group was organized in the following main business areas: Pulp & Paper Chemicals, Kemwater, Performance Chemicals and Paints & Coatings. The new business area names used in the financial statements are Kemira Pulp&Paper, Kemira Water, Kemira Specialty and Kemira Coatings, corresponding to the former Pulp & Paper Chemicals, Kemwater, Performance Chemicals and Paints & Coatings. Intra-Group transfer prices are based primarily on market prices. In some cases, for example where marketing companies are involved, cost-based prices are used, thereby including the margin (cost plus method).

On January 1, 2006, Kemira adopted a revised business-area-specific accounting practice applying to companies with several business areas using products from the same production site. This change sim-

plified the treatment of joint products by shifting from intra-Group sale to shared product costs. In addition, some production and service units were transferred between business areas. These changes had an effect on segment information by business area but not on Group-level figures. Business-area comparatives for 2005 were adjusted to match this new accounting practice.

The assets and liabilities of businesses comprise assets and liabilities which can be allocated, directly or justifiably, to the businesses in question. The assets of the business segments include property, plant and equipment, intangible assets, holdings in associated companies, inventories and non-interest-bearing receivables. Current non-interest-bearing liabilities are included in the liabilities of the business segments.

2006

|  | Kemira<br>Pulp&Paper | Kemira<br>Water | Kemira<br>Specialty | Kemira<br>Coatings | Other        | Group          |
|--|----------------------|-----------------|---------------------|--------------------|--------------|----------------|
| <b>Income statement</b>                  |                      |                 |                     |                    |              |                |
| External revenue                         | 980.5                | 458.2           | 442.1               | 562.8              | 78.9         | <b>2,522.5</b> |
| Intra-Group revenue                      | 12.8                 | 9.4             | 14.1                | -                  | -36.3        | -              |
| <b>Total revenue</b>                     | <b>993.3</b>         | <b>467.6</b>    | <b>456.2</b>        | <b>562.8</b>       | <b>42.6</b>  | <b>2,522.5</b> |
| <b>Operating profit</b>                  | <b>90.8</b>          | <b>35.3</b>     | <b>45.8</b>         | <b>72.1</b>        | <b>-42.3</b> | <b>201.7</b>   |
| Share of associates' results             | -0.5                 | 0.6             | -                   | 1.4                | -3.9         | <b>-2.3</b>    |
| <b>Assets</b>                            |                      |                 |                     |                    |              |                |
| Assets of businesses                     | 1,031.8              | 532.1           | 531.0               | 398.8              | 27.2         | <b>2,520.9</b> |
| of which holdings in associates          | 0.4                  | 4.4             | -                   | 3.3                | -            | <b>8.1</b>     |
| Unallocated assets                       |                      |                 |                     |                    |              | <b>240.4</b>   |
| <b>Consolidated assets, total</b>        |                      |                 |                     |                    |              | <b>2,769.4</b> |
| <b>Liabilities</b>                       |                      |                 |                     |                    |              |                |
| Liabilities of businesses                | 243.1                | 288.1           | 93.2                | 98.4               | 48.1         | <b>770.9</b>   |
| Unallocated liabilities                  |                      |                 |                     |                    |              | <b>908.0</b>   |
| <b>Consolidated liabilities, total</b>   |                      |                 |                     |                    |              | <b>1,678.9</b> |
| Capital expenditure                      | -166.4               | -202.2          | -32.1               | -46.9              | -14.4        | <b>-462.0</b>  |
| Impairments and reversals of impairments | -2.1                 | -0.6            | -                   | -                  | -1.5         | <b>-4.2</b>    |
| Other non-cash items                     | -1.6                 | -0.9            | -                   | -                  | -4.7         | <b>-7.3</b>    |
| Non-current assets held for sale         | 3.5                  | -               | -                   | 0.3                | 10.6         | <b>14.4</b>    |
| <b>Cash flow</b>                         |                      |                 |                     |                    |              |                |
| Cash flow from operations                | 106.4                | 38.2            | 73.0                | 55.1               | -56.0        | <b>216.8</b>   |
| Net capital expenditure                  | -130.2               | -194.2          | -20.9               | -8.3               | -5.5         | <b>-359.1</b>  |

| 2005                                     | Kemira<br>Pulp&Paper | Kemira<br>Water | Kemira<br>Specialty | Kemira<br>Coatings | Other        | Group          |
|--|----------------------|-----------------|---------------------|--------------------|--------------|----------------|
| <b>Income statement</b>                  |                      |                 |                     |                    |              |                |
| External revenue                         | 708.0                | 345.9           | 396.0               | 457.5              | 87.0         | 1,994.4        |
| Intra-Group revenue                      | 7.3                  | 7.3             | 12.4                | -                  | -27.0        | -              |
| <b>Total revenue</b>                     | <b>715.3</b>         | <b>353.2</b>    | <b>408.4</b>        | <b>457.5</b>       | <b>60.0</b>  | <b>1,994.4</b> |
| <b>Operating profit</b>                  | <b>61.5</b>          | <b>28.2</b>     | <b>45.4</b>         | <b>55.9</b>        | <b>-25.5</b> | <b>165.5</b>   |
| Share of associates' results             | -0.7                 | 1.6             | -                   | 1.3                | -3.7         | -1.5           |
| <b>Other information</b>                 |                      |                 |                     |                    |              |                |
| Assets of businesses                     | 941.4                | 284.4           | 542.1               | 321.5              | 64.7         | 2,154.1        |
| of which holdings in associates          | 1.3                  | 4.8             | -                   | 3.0                | 0.1          | 9.2            |
| Unallocated assets                       |                      |                 |                     |                    |              | 176.8          |
| <b>Consolidated assets, total</b>        |                      |                 |                     |                    |              | <b>2,330.9</b> |
| Liabilities of businesses                | 120.3                | 58.8            | 70.1                | 64.4               | 43.1         | 356.7          |
| Unallocated liabilities                  |                      |                 |                     |                    |              | 955.0          |
| <b>Consolidated liabilities, total</b>   |                      |                 |                     |                    |              | <b>1,311.7</b> |
| Capital expenditure                      | 256.2                | 56.6            | 62.1                | 18.0               | 9.0          | 401.9          |
| Impairments and reversals of impairments | -2.9                 | -               | -                   | -                  | -            | -2.9           |
| Other non-cash expenses                  | 1.9                  | -               | -1.1                | 0.5                | -32.2        | -30.9          |
| <b>Cash flows</b>                        |                      |                 |                     |                    |              |                |
| Cash flow from operations                | 90.4                 | 36.9            | 53.6                | 57.4               | -82.7        | 155.6          |
| Net capital expenditure                  | -252.1               | -53.1           | -40.6               | -4.5               | 79.9         | -270.4         |

**GEOGRAPHICAL SEGMENTS**

|                            | 2006           | 2005           |
|----------------------------|----------------|----------------|
| <b>Revenue</b>             |                |                |
| Finland                    | 442.8          | 368.4          |
| Other EU countries         | 1,001.1        | 848.8          |
| Rest of Europe             | 270.1          | 174.0          |
| North and South America    | 663.5          | 479.2          |
| Asia                       | 121.9          | 103.1          |
| Other countries            | 23.1           | 20.9           |
| <b>Total</b>               | <b>2,522.5</b> | <b>1,994.4</b> |
| <b>Assets</b>              |                |                |
| Finland                    | 935.6          | 950.0          |
| Other EU countries         | 1,122.0        | 868.2          |
| Rest of Europe             | 104.4          | 44.1           |
| North and South America    | 548.1          | 412.6          |
| Asia                       | 57.1           | 53.6           |
| Other countries            | 2.2            | 2.4            |
| <b>Total</b>               | <b>2,769.4</b> | <b>2,330.9</b> |
| <b>Capital expenditure</b> |                |                |
| Finland                    | 62.8           | 236.0          |
| Other EU countries         | 193.4          | 63.9           |
| Rest of Europe             | 31.9           | 2.8            |
| North and South America    | 160.1          | 98.0           |
| Asia                       | 12.9           | 1.2            |
| Other countries            | 0.9            | -              |
| <b>Total</b>               | <b>462.0</b>   | <b>401.9</b>   |

The revenue of geographical segments is based on the location of customers and the total carrying amount of assets is based on the geographical location of assets.

# Notes to consolidated financial statements

EUR million

## 3 REVENUE

|  | 2006           | 2005           |
|--|----------------|----------------|
| <b>Revenue by business segment</b>                                     |                |                |
| Kemira Pulp&Paper  | 993.3          | 715.3          |
| Kemira Water   | 467.6          | 353.2          |
| Kemira Specialty   | 456.2          | 408.4          |
| Kemira Coatings  | 562.8          | 457.5          |
| Other and intra-Group sales  | 42.6           | 60.0           |
| <b>Continuing operations total</b>                                     | <b>2,522.5</b> | <b>1,994.4</b> |
| <b>Revenue by geographic segment, as a percentage of total revenue</b> |                |                |
| Finland  | 18             | 18             |
| Other EU countries   | 39             | 43             |
| Rest of Europe   | 11             | 9              |
| North and South America  | 26             | 24             |
| Asia   | 5              | 5              |
| Other countries  | 1              | 1              |
| <b>Total</b>   | <b>100</b>     | <b>100</b>     |

## 4 OTHER OPERATING INCOME

|  | 2006        | 2005        |
|--|-------------|-------------|
| Gains on sale of property, plant and equipment | 31.9        | 49.5        |
| Rental income                                  | 1.6         | 2.0         |
| Insurance compensation                         | 12.5        | 6.1         |
| Consulting                                     | 4.6         | 3.9         |
| Sale of scrap and waste                        | 0.1         | 0.2         |
| Income from royalties, knowhow and licences    | -0.1        | 0.6         |
| Other income from operations                   | 8.6         | 7.0         |
| <b>Total</b>                                   | <b>59.2</b> | <b>69.3</b> |

Gains on sale of property, plant and equipment in 2006, include the gains on sale of the manufacturing-facility in Stockholm (EUR 16.4 million) as well as the gains on sale of the Helsingborg facility and the South Korean hydrogen peroxide unit

Gains on sale of property, plant and equipment in 2005 includes gains on sale of the Kemira-house, the Oulu research center building, the Coil Coatings business, power plants and other shares.

The insurance payments for the Helsingborg accident are divided between a property damage portion and a business interruption

portion. The property damage compensation is based on the value of new investments, and has been accounted for by recording in income an amount equal to the capital expenditure by year-end (EUR 10.6 million). The profit is affected by the impairment of assets damaged (EUR 0.7 million) and the deductibles and other costs related to the accident (EUR 3.9 million).

In 2006, the amount of insurance compensation (EUR 7.6 million) equalling capital expenditure was recognised as other operating income, related to the Helsingborg accident.

**5 COST OF SALES**

|   | 2006           | 2005           |
|---|----------------|----------------|
| Change in inventories of finished goods         | -14.1          | -2.2           |
| Own work capitalised <sup>1)</sup>              | -5.1           | -6.0           |
| Materials and services                          |                |                |
| Materials and supplies                          |                |                |
| Purchases                                       | 1,251.7        | 888.9          |
| Change in inventories of materials and supplies | -8.3           | 2.5            |
| External services                               | 26.5           | 21.4           |
| <b>Total materials and services</b>             | <b>1,269.9</b> | <b>912.8</b>   |
| Personnel expenses                              | 420.4          | 366.5          |
| Rents   | 30.0           | 21.1           |
| Loss on sale of property, plant and equipment   | 0.4            | 1.6            |
| Other expenses                                  | 555.1          | 485.5          |
| <b>Total</b>                                    | <b>2,256.5</b> | <b>1,779.3</b> |

<sup>1)</sup> Own work capitalised comprises mainly wages, salaries and other personnel expenses and changes in inventories relating to self-constructed property, plant and equipment for own use.

In 2006, other expenses included a net decrease in non-current and current provisions amounting to EUR 52.4 million (net increase EUR 40.4 million).

In 2005, other expenses included write-offs due to the decision to reorganise the production at Kemira Chemicals Inc (EUR 6.7 million) and other impairment of assets at Kemira Kemi AB (EUR 2.2 million). 2004 impairments were reversed by EUR 1.4 million due to the revised Kemira Water strategy.

External services include audit fees of EUR 1.9 million (EUR 2.1 million) and fees for ancillary services of EUR 2.3 million (EUR 0.3 million) paid to the companies operated by the firm of authorised public accountants KPMG, in different countries.

Auditing fees and fees for ancillary services paid to auditing companies other than KPMG were EUR 2.1 million (EUR 1.7 million).

**6 RESEARCH AND DEVELOPMENT EXPENSES**

|   | 2006 | 2005 |
|---|------|------|
| Research and development expenses total | 51.3 | 43.1 |

**7 EMPLOYEE BENEFITS AND NUMBER OF PERSONNEL**

|   | 2006         | 2005         |
|---|--------------|--------------|
| Emoluments of the Supervisory Board   | 0.1          | 0.1          |
| Remuneration of the Board of Directors and managing directors <sup>1)</sup> | 17.1         | 9.5          |
| Other wages and salaries  | 309.0        | 269.3        |
| Pension expenses for defined benefit plans                                  | 8.9          | 12.1         |
| Pension expenses for defined contribution plans                             | 30.6         | 24.4         |
| Other personnel expenses  | 54.7         | 51.1         |
| <b>Total</b>  | <b>420.4</b> | <b>366.5</b> |

<sup>1)</sup> The remuneration of Kemira Oyj's managing director was EUR 1,349,319 (1,205,177) including bonuses EUR 651,111 (686,386). The managing director received as part of bonuses 13,800 (14,200) Kemira shares. The remuneration of Kemira Oyj's deputy managing director was EUR 614,548 (710,567), including bonuses and option salaries EUR 327,225 (452,601). The deputy managing director received as part of bonuses 6,900 (7,100) Kemira shares.

# Notes to consolidated financial statements

EUR million

| Personnel, average                 | 2006         | 2005         |
|------------------------------------|--------------|--------------|
| Kemira Pulp&Paper                  | 2,285        | 2,050        |
| Kemira Water                       | 1,596        | 1,479        |
| Kemira Specialty                   | 1,102        | 1,440        |
| Kemira Coatings                    | 3,541        | 2,375        |
| Other                              | 662          | 373          |
| <b>Total</b>                       | <b>9,186</b> | <b>7,717</b> |
| Personnel in Finland, average      | 3,150        | 3,146        |
| Personnel outside Finland, average | 6,036        | 4,571        |
| <b>Total</b>                       | <b>9,186</b> | <b>7,717</b> |

The personnel of joint ventures consolidated according to the proportionate method of accounting totaled an average of 46 (112 in 2005).

| Personnel at year end | 9,327 | 7,670 |
|-----------------------|-------|-------|
|-----------------------|-------|-------|

## 8 SHARE-BASED PAYMENTS

### Stock options under the share based incentive plan 2001

Kemira Oyj's Annual General Meeting in 2001 decided on a stock option program, entitling members of the Company's management to receive stock options conferring the right to subscribe for a maximum of 2,850,000 Kemira Oyj shares from May 2, 2004 to May 31, 2007. The commencement of the subscription period was conditional and tied to Kemira's consolidated earnings per share after financial items and before taxes and extraordinary items, as well

as Kemira Oyj's share price performance in relation to a benchmark index. The share subscription price (exercise price) on December 31, 2006, under the terms of the stock options, was EUR 2.11 (2.47) per share. The subscription price is reduced by the amount of paid dividends. A total of 77,389 (243,400) stock options remained outstanding on December 31, 2006. The stock options outstanding on the balance sheet date will lapse on May 31, 2007.

### Changes in the number of stock options

|   | 2006                             |                                       | 2005                             |                                       |
|---|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|
|   | Number of stock options<br>1000s | Average exercise price<br>EUR / share | Number of stock options<br>1000s | Average exercise price<br>EUR / share |
| Stock options outstanding at beginning of period                  | 243                              |                                       | 549                              |                                       |
| Options exercised   |                                  |                                       |                                  |                                       |
| March   | -36                              | 2.47                                  | -266                             | 2.81                                  |
| May-December  | -130                             | 2.11                                  | -40                              | 2.47                                  |
| <b>Stock options outstanding and exercisable at end of period</b> | <b>77</b>                        | <b>2.11</b>                           | <b>243</b>                       | <b>2.47</b>                           |

The stock option plan 2001 has not been expensed. In accordance with the transitional provisions of IFRS 2, only share-based plans decided after Nov. 7, 2002, are recorded in the income statement.

### Share-based incentive plan

In 2004, Kemira Oyj's Board of Directors decided on a new share-based incentive plan designed for key employees as part of the Group's incentive schemes. This scheme is divided into three performance periods of 2004, 2005 and 2006, and bonus payments are contingent on meeting set financial targets, in terms of earnings per share and return on capital employed. Any bonuses payable

comprise two components: Kemira shares and cash.

The value of these shares is determined by their closing price quoted on the grant date (at the price quoted on the date of agreeing on the share-based payment). If the requirement of holding the granted shares for two years following their transfer is not fulfilled, they must be returned to Kemira.

All of the granted shares and cash payments are accounted for over three years within the vesting period. Expected dividends are not taken into account in the fair value measurement. Cash bonus payments are measured at fair value on the basis of the share price on the balance sheet date, and the bonus is 1.5-fold the value of transferred shares. The actual amount of bonuses will reflect to what extent set targets were achieved. The incentive plan involved 78

employees on December 31, 2006 (72). Bonuses payable in shares are charged to personnel expenses and recognised as an addition to equity, while cash bonus payments are charged to personnel expenses and recognised as liabilities. In February 2006, Kemira Oyj's Board of Directors decided on a new share-based incentive plan for key employees. The scheme is divided into three performance periods of 2007, 2008 and 2009.

#### Annual share-based incentive plans / grant dates

|   | 2006                            |                               |
|---|---------------------------------|-------------------------------|
|   | Share price (EUR) at grant date | No. of shares for three years |
| Share-based plan in 2004: share transfer in 2005 / April 27, 2004 | 10.35                           | 107,920                       |
| Returned shares in 2005   | 10.35                           | -5,680                        |
| Share-based plan in 2005: share transfer in 2006 / March 22, 2005 | 11.66                           | 116,610                       |
| Returned shares in 2006   | 10.35                           | -8,520                        |
| Share-based plan in 2006: share transfer in 2007 / May 2, 2006    | 14.68                           | 148,071                       |
| <b>Total</b>  |                                 | <b>358,401</b>                |

#### Expenses arising from share-based payments

|                 | 2006       | 2005       |
|-----------------|------------|------------|
| Share component | 1.2        | 0.7        |
| Cash component  | 2.7        | 2.0        |
| <b>Total</b>    | <b>3.9</b> | <b>2.7</b> |

#### Liabilities arising from share-based payments, Dec. 31

|  | 2006 | 2005 |
|--|------|------|
|  | 0.4  | 0.3  |

## 9 DEPRECIATION AND IMPAIRMENTS

#### Depreciation according to plan

|                                      | 2006         | 2005         |
|--------------------------------------|--------------|--------------|
| <b>Intangible assets</b>             |              |              |
| Intangible rights                    | 7.8          | 6.1          |
| Other intangible assets              | 9.3          | 7.7          |
| <b>Property, plant and equipment</b> |              |              |
| Buildings and constructions          | 17.0         | 17.0         |
| Machinery and equipment              | 87.1         | 85.0         |
| Other tangible assets                | 2.3          | 3.1          |
| <b>Total</b>                         | <b>123.5</b> | <b>118.9</b> |

# Notes to consolidated financial statements

EUR million

## 10 FINANCIAL INCOME AND EXPENSES

|   | 2006          | 2005          |
|---|---------------|---------------|
| <b>Financial income</b>                           |               |               |
| Dividend income                                   | -             | 2.6           |
| Interest income from long-term investments        | 0.1           | 2.1           |
| Other interest income                             | 14.5          | 1.1           |
| Other financial income                            | 0.9           | 2.0           |
| Exchange gains                                    | 116.3         | 92.2          |
| <b>Total</b>                                      | <b>131.8</b>  | <b>100.0</b>  |
| <b>Financial expenses</b>                         |               |               |
| Interest expense                                  | -51.6         | -28.6         |
| Other financial expenses                          | -2.0          | -3.5          |
| Exchange losses                                   | -115.4        | -98.4         |
| <b>Total</b>                                      | <b>-169.0</b> | <b>-130.5</b> |
| <b>Total financial income and expenses</b>        | <b>-37.2</b>  | <b>-30.5</b>  |
| Net financial expenses as a percentage of revenue | 1.5           | 1.5           |
| Net interests as a percentage of revenue          | 1.5           | 1.3           |
| <b>Exchange gains and losses</b>                  |               |               |
| Realised  | 5.4           | -23.0         |
| Unrealised  | -4.5          | 16.8          |
| <b>Total</b>                                      | <b>0.9</b>    | <b>-6.2</b>   |
| <b>Share of associates' results</b>               |               |               |
| Share of associates' profits                      | 2.5           | 2.9           |
| Share of associates' losses                       | -4.9          | -4.4          |
| <b>Total</b>                                      | <b>-2.3</b>   | <b>-1.5</b>   |

The exchange rate differences on foreign currency loans and foreign currency derivatives have been credited or charged directly to shareholders' equity and hedged against the translation differences arising from the consolidation of foreign subsidiaries according to the hedge of net investments in foreign operations. In 2006, these foreign exchange net losses were EUR 4.5 million (in 2005, the net gain was EUR 8.3 million).

Interest income on non-current investments does not include income from associated companies. All other financial items constitute income and expenses from entities other than associates.

## 11 INCOME TAXES

|                              | 2006        | 2005        |
|------------------------------|-------------|-------------|
| Income taxes, current year   | 39.5        | 35.0        |
| Income taxes, previous years | -0.1        | 6.5         |
| Deferred taxes               | 1.4         | 0.3         |
| Other taxes                  | 1.2         | 0.3         |
| <b>Total</b>                 | <b>42.0</b> | <b>42.1</b> |

### Tax losses

Certain Group subsidiaries have tax losses totalling EUR 319.1 million (EUR 358.7 million), which can be applied against future taxable income. All tax losses have not been entered as deferred tax assets

because there is uncertainty regarding the extent to which they can be used. A limited right to make deductions applies to about 82%.

### Comparison of taxes calculated according to the current tax rate with taxes according to the income statement

|  |             |             |
|--|-------------|-------------|
| Tax at the current tax rates                 | 49.9        | 38.4        |
| Taxes from previous financial years          | -0.1        | 6.5         |
| Tax-free income / non-deductible expenditure | 7.9         | 3.4         |
| Unapplied losses during the financial year   | 3.3         | 1.5         |
| Used tax losses                              | -18.3       | -6.3        |
| Others                                       | -0.7        | -1.4        |
| <b>Income tax charge</b>                     | <b>42.0</b> | <b>42.1</b> |

## 12 EARNINGS PER SHARE

|  | 2006               | 2005               |
|--|--------------------|--------------------|
| <b>Earnings per share, basic</b>   |                    |                    |
| Profit before tax  | 162.2              | 133.5              |
| Income taxes for the financial year  | -42.0              | -42.1              |
| <b>Net profit</b>  | <b>120.2</b>       | <b>91.4</b>        |
| Attributable to minority interest  | -3.6               | -2.9               |
| <b>Attributable to equity holders of the parent</b>                                | <b>116.6</b>       | <b>88.5</b>        |
| Weighted average number of shares <sup>1)</sup>                                    | 120,877,281        | 120,628,237        |
| <b>Earnings per share, EUR</b>   | <b>0.96</b>        | <b>0.73</b>        |
| <b>Earnings per share, diluted</b>   |                    |                    |
| Average number of shares <sup>1)</sup>   | 120,877,281        | 120,628,237        |
| Effect of options outstanding (average)  | 141,535            | 254,615            |
| Potential treasury share transaction related to share-based payment plan (average) | 31,774             | 140,729            |
| <b>Average number of shares, diluted</b>   | <b>121,050,590</b> | <b>121,023,581</b> |
| <b>Earnings per share, diluted, EUR</b>  | <b>0.96</b>        | <b>0.73</b>        |

<sup>1)</sup> Weighted average number of shares outstanding, adjusted by the number of shares bought back.

## 13 INTANGIBLE ASSETS

|  | Intangible rights | Goodwill    | Goodwill on consolidation | Other intangible assets | Prepayments | 2006 total   |
|--|-------------------|-------------|---------------------------|-------------------------|-------------|--------------|
| Acquisition cost at beginning of year                        | 63.0              | 29.8        | 529.0                     | 74.2                    | 2.9         | 698.9        |
| Acquisition of subsidiaries                                  | 37.8              | 17.4        | 16.6                      | 0.1                     | -           | 71.8         |
| Increases  | 7.2               | 0.1         | -                         | 12.4                    | -1.6        | 18.1         |
| Decreases  | -                 | -           | -                         | -0.3                    | -           | -0.4         |
| Non-current assets held for sale                             | -0.1              | -           | -                         | -0.4                    | -           | -0.4         |
| Other changes  | -0.2              | -0.5        | -0.6                      | -0.2                    | -           | -1.4         |
| Exchange rate differences                                    | -0.5              | -1.1        | -10.8                     | 0.1                     | -           | -12.2        |
| <b>Acquisition cost at end of year</b>                       | <b>107.2</b>      | <b>45.8</b> | <b>534.2</b>              | <b>86.0</b>             | <b>1.3</b>  | <b>774.4</b> |
| Accumulated amortisation at beginning of year                | -28.2             | -           | -                         | -41.0                   | -           | -69.2        |
| Accumulated amortisation relating to decreases and transfers | -                 | -           | -                         | 0.3                     | -           | 0.3          |
| Amortisation during the financial year                       | -7.8              | -           | -                         | -9.3                    | -           | -17.1        |
| Impairment and charges                                       | -                 | -           | -0.1                      | -                       | -           | -0.1         |
| Non-current assets held for sale                             | -                 | -           | -                         | 0.3                     | -           | 0.3          |
| Other changes  | 0.1               | 0.5         | -0.1                      | 0.1                     | -           | 0.5          |
| Exchange differences   | -                 | 0.2         | 0.6                       | -0.1                    | -           | 0.7          |
| <b>Accumulated amortisation at end of year</b>               | <b>-35.9</b>      | <b>0.7</b>  | <b>0.3</b>                | <b>-49.7</b>            | <b>-</b>    | <b>-84.6</b> |
| <b>Net carrying amount at end of year</b>                    | <b>71.3</b>       | <b>46.5</b> | <b>534.5</b>              | <b>36.3</b>             | <b>1.3</b>  | <b>689.9</b> |

There was no goodwill on consolidation related to associated companies in 2006 and 2005. Apart from goodwill, the Group did not have material intangible assets with indefinite useful lives.



# Notes to consolidated financial statements

EUR million

## 14 PROPERTY, PLANT AND EQUIPMENT

|  | Land and water areas | Buildings and constructions | Machinery and equipment | Other tangible assets | Prepayments and non-current assets under construction | 2006 total      |
|--|----------------------|-----------------------------|-------------------------|-----------------------|---|-----------------|
| Acquisition cost at beginning of year                        | 51.9                 | 457.8                       | 1,392.9                 | 38.3                  | 50.9  | <b>1,991.8</b>  |
| Acquisition of subsidiaries                                  | 4.8                  | 19.8                        | 68.1                    | 2.4                   | 56.8  | <b>151.9</b>    |
| Increases  | 0.2                  | 11.5                        | 75.7                    | 1.8                   | 65.2  | <b>154.4</b>    |
| Disposals of subsidiaries                                    | -0.1                 | -0.1                        | -0.5                    | -                     | -   | <b>-0.6</b>     |
| Decreases  | -4.2                 | -9.2                        | -27.0                   | -0.8                  | -0.1  | <b>-41.4</b>    |
| Non-current assets held for sale                             | -9.9                 | -19.8                       | -29.3                   | -2.3                  | -   | <b>-61.3</b>    |
| Other changes  | 0.3                  | -1.6                        | -19.0                   | -6.5                  | -1.5  | <b>-28.2</b>    |
| Exchange rate differences                                    | 1.4                  | 1.2                         | -7.7                    | -1.0                  | -3.1  | <b>-9.3</b>     |
| <b>Acquisition cost at end of year</b>                       | <b>44.5</b>          | <b>459.6</b>                | <b>1,453.3</b>          | <b>31.9</b>           | <b>168.0</b>  | <b>2,157.3</b>  |
| Accumulated depreciation at beginning of year                | -                    | -219.0                      | -886.0                  | -21.9                 | -   | <b>-1,126.8</b> |
| Accumulated depreciation relating to decreases and transfers | -                    | 5.5                         | 19.3                    | 0.4                   | -   | <b>25.1</b>     |
| Depreciation during the financial year                       | -                    | -16.9                       | -87.1                   | -2.3                  | -   | <b>-106.3</b>   |
| Impairment and charges                                       | -                    | -0.4                        | -0.1                    | -                     | -   | <b>-0.4</b>     |
| Non-current assets held for sale                             | -                    | 1.1                         | 4.6                     | 1.4                   | -   | <b>7.1</b>      |
| Other changes  | -                    | 5.2                         | 28.1                    | 4.0                   | -   | <b>37.3</b>     |
| Exchange rate differences                                    | -                    | -6.6                        | 0.3                     | 0.2                   | -   | <b>-6.1</b>     |
| <b>Accumulated depreciation at end of year</b>               | <b>-</b>             | <b>-231.1</b>               | <b>-920.9</b>           | <b>-18.1</b>          | <b>-</b>  | <b>-1,170.1</b> |
| <b>Net carrying amount at end of year</b>                    | <b>44.5</b>          | <b>228.5</b>                | <b>532.4</b>            | <b>13.7</b>           | <b>168.0</b>  | <b>987.1</b>    |

## 15 INVESTMENTS

|                                      | 2006                   | 2005                   | 2006                      | 2005                      |
|--------------------------------------|------------------------|------------------------|---------------------------|---------------------------|
|                                      | Holdings in associates | Holdings in associates | Available-for-sale assets | Available-for-sale assets |
| Carrying amount at beginning of year | <b>9.2</b>             | 7.8                    | <b>83.7</b>               | 124.3                     |
| Share of associates' results         | <b>-0.5</b>            | -0.8                   | -                         | -                         |
| Increases                            | <b>0.1</b>             | 0.1                    | <b>1.1</b>                | 3.6                       |
| Increases, acquired subsidiaries     | -                      | 1.9                    | -                         | -                         |
| Decreases                            | -                      | -0.2                   | <b>-0.6</b>               | -45.3                     |
| Change in fair value                 | -                      | -                      | <b>0.1</b>                | 1.1                       |
| Exchange rate differences            | <b>-0.6</b>            | 0.4                    | <b>-0.1</b>               | -                         |
| Net carrying amount at end of year   | <b>8.1</b>             | 9.2                    | <b>84.3</b>               | 83.7                      |

|                                    | 2006         | 2005  |
|------------------------------------|--------------|-------|
| Receivables from associates        | -            | 0.3   |
| Other receivables                  | <b>7.1</b>   | 3.5   |
| Deferred tax assets                | <b>7.7</b>   | 6.8   |
| Non-current loan receivable        | <b>2.4</b>   | 3.9   |
| Defined benefit pension receivable | <b>24.6</b>  | 15.4  |
| Total investments                  | <b>134.2</b> | 122.7 |

Associated companies are specified in Note 33.

## 16 IMPAIRMENT TEST

The Group's Accounting Policies set out the principles and process of testing assets for impairment. On January 1, 2006 Kemira adopted revised business-area-specific accounting practice applying to companies with several business areas using products from same production site. This change simplified the treatment of joint products by shifting from intra-Group sale to shared product costs. In addition, some pro-

duction and service units were transferred between business areas. These changes had effect on segment information by business area but not on Group-level figure.

The carrying amounts of non-current assets and goodwill, by segment are the following:

| Segment           | Carrying amount         |                          | Of which goodwill |            |
|-------------------|-------------------------|--------------------------|-------------------|------------|
|                   | 30/9/2006 <sup>*)</sup> | 31/12/2005 <sup>*)</sup> | 30/9/2006         | 31/12/2005 |
| Kemira Pulp&Paper | 676                     | 725                      | 327               | 321        |
| Kemira Water      | 179                     | 200                      | 67                | 69         |
| Kemira Specialty  | 368                     | 374                      | 109               | 107        |
| Kemira Coatings   | 189                     | 174                      | 67                | 61         |
| <b>Total</b>      | <b>1,412</b>            | <b>1,473</b>             | <b>570</b>        | <b>558</b> |

<sup>\*)</sup>Excludes the assets of the Kemira Corporate Center and the former water-soluble fertilizers unit

Discount rates were determined for each CGU, based on the volatility of cash flows between 2001 and 2006, and varied from 6 percent to 12 percent. Forecasts for cash-flow growth reflect the management's perception of developments in sales and cost items during the fore-

cast period. Expected sales growth varies between 2 percent and 5 percent. The growth rate used to extrapolate cash flows subsequent to the three-year forecast period was assumed to be zero.

| Segment           | Range of discount rates |       |
|-------------------|-------------------------|-------|
|                   | 2006                    | 2005  |
| Kemira Pulp&Paper | 6-9%                    | 6-8%  |
| Kemira Water      | 7-8%                    | 6-8%  |
| Kemira Specialty  | 9-12%                   | 8-11% |
| Kemira Coatings   | 9-10%                   | 7-8%  |

The sensitivity analysis was made under the assumption that there would be a decline in the cash flows' growth rate, both during and after the forecasting period. A general increase in interest rates has also been taken into consideration as well as a change in the company's willingness to take risk. Only a drastic, simultaneous change in several

factors could involve the risk of impairment losses in some units.

The Group's recoverable amount is more than double the carrying amount.

Impairment tests did not reveal any need to recognize impairment losses.

## 17 INVENTORIES

|                        | 2006         | 2005         |
|------------------------|--------------|--------------|
| Materials and supplies | 97.5         | 82.1         |
| Work in process        | 3.9          | 4.4          |
| Finished goods         | 190.7        | 131.8        |
| Prepayments            | 1.1          | 0.9          |
| <b>Total</b>           | <b>293.2</b> | <b>219.2</b> |

# Notes to consolidated financial statements

EUR million

## 18 RECEIVABLES

|   | 2006         | 2005         |
|---|--------------|--------------|
| <b>Interest-bearing receivables</b>           |              |              |
| Loan receivables                              | -            | 0.2          |
| Other receivables                             | 9.1          | 6.8          |
| <b>Total interest-bearing receivables</b>     | <b>9.1</b>   | <b>7.0</b>   |
| <b>Non-interest-bearing receivables</b>       |              |              |
| Trade receivables                             | 436.0        | 346.2        |
| Trade receivables from associates             | -            | 0.3          |
| Prepayments                                   | 5.1          | 2.5          |
| Current tax assets                            | 13.6         | 8.6          |
| Accrued income                                | 86.9         | 58.9         |
| Other receivables                             | 23.8         | 15.3         |
| <b>Total non-interest-bearing receivables</b> | <b>565.4</b> | <b>431.8</b> |
| <b>Total receivables</b>                      | <b>574.5</b> | <b>438.8</b> |

Items due over one year include trade receivables EUR 1.9 million, prepaid expenses and accrued income EUR 0.2 million and other non-interest-bearing receivables EUR 0.3 million (EUR 0.6 million in 2005) as well as other interest-bearing receivables EUR 1.5 million (EUR 6.8 million in 2005).

### Due dates of finance lease receivables

|   |            |            |
|---|------------|------------|
| Within one year                                     | 0.8        | 1.0        |
| After one year but no more than five years          | 1.9        | 2.3        |
| <b>Gross investment in finance lease agreements</b> | <b>2.7</b> | <b>3.3</b> |
| <b>The present value of minimum lease payments</b>  |            |            |
| Within one year                                     | 0.8        | 1.0        |
| After one year but no more than five years          | 1.8        | 2.1        |
| <b>Total</b>  | <b>2.6</b> | <b>3.1</b> |
| Future finance income                               | 0.1        | 0.2        |
| <b>Gross investment in finance lease agreements</b> | <b>2.7</b> | <b>3.3</b> |

## 19 RELATED PARTIES DISCLOSURE

Parties are considered belonging to each other's related parties if one party is able to exercise control over the other or substantial influence in decision-making concerning its finances and business operations. The Group's related parties include the parent company, subsidiaries, associated companies and joint ventures. Related par-

ties also include the members of the Supervisory Board, Board of Directors and the Group's Management Boards, the CEO and his deputy and their near family members. Key management persons are the members of the Group Management Boards.

|   | 2006       | 2005       |
|---|------------|------------|
| <b>Employee benefits of key management personnel, EUR million</b> |            |            |
| Salaries and other short-term employee benefits                   | 4.1        | 3.9        |
| Post-employment benefits  | 3.2        | 2.3        |
| Share-based payment   | 1.6        | 2.4        |
| <b>Total</b>  | <b>8.9</b> | <b>8.6</b> |

No loans had been granted to management at Dec. 31, 2006, or Dec. 31, 2005, nor were there contingency items and contingent liabilities on behalf of key personnel. Persons belonging to the Company's key management, including parties closely associated with them, are not involved in substantial business relationships with the Company.

The management's share-based incentive plan is included in Note 8.

### Board of Directors and Supervisory Board emoluments, EUR

#### Members of the Board of Directors

|                                | 2006   | 2005   |
|--------------------------------|--------|--------|
| Anssi Soila, Chairman          | 67,740 | 63,080 |
| Eija Malmivirta, Vice Chairman | 52,200 | 50,150 |
| Elizabeth Armstrong            | 57,000 | 36,750 |
| Heikki Bergholm                | 41,400 | 40,150 |
| Ove Mattson                    | 45,600 | 38,250 |
| Kaija Pehu-Lehtonen            | 38,400 | 36,250 |
| Markku Tapio                   | 39,600 | 38,250 |

#### Members of the Supervisory Board

|                                   | 2006   | 2005   |
|-----------------------------------|--------|--------|
| Aulis Ranta-Muotio, Chairman      | 12,800 | 12,800 |
| Mikko Elo, I Vice Chairman        | 8,000  | 8,000  |
| Heikki A. Ollila II Vice Chairman | 8,000  | 8,000  |
| Susanna Rahkonen                  | 6,400  | 6,600  |
| Risto Ranki                       | 6,800  | 6,800  |
| Pekka Kainulainen                 | 6,800  | 6,800  |
| Mikko Långström                   | 6,600  | 6,800  |
| Katri Sarlund                     | 6,800  | 6,400  |

### Management's pension commitments and termination benefits

The managing director of Kemira Oyj is entitled to retire at the age of 60. The managing director's benefit is based on an agreement according to which the maximum remuneration for the managing director is 60% of the pensionable earnings. The related defined-benefit pension commitment of Kemira Oyj at December 31, 2006 was EUR 5.3 million (2.2 million).

The deputy managing director of Kemira is entitled to retire at the age of 60. The maximum remuneration for the deputy managing director is 66% of the pensionable earnings. This possibility is based on the benefits of the supplementary pension foundation

that has been closed to new members since January 1, 1991. The supplementary pension foundation's benefits cover all personnel whose years of service and other conditions concerning the granting of a pension have been fulfilled. Similar arrangements have been made in other Group companies.

The period of notice of Kemira Oyj's managing director is 6 months. In case the company would give notice to the managing director, he will receive a remuneration equaling 12 months' salary. The respective periods for the deputy managing director are 6 months and 18 months.

# Notes to consolidated financial statements

EUR million

## Other related party disclosure

Sales and purchases of goods and services to and from associates as well as receivables from associates are included in Note 15 and 33. The amount of contingent liabilities on behalf of associates are presented in Note 29.

Kemira's Finnish pension foundations and funds are legal units of their own and manage part of the pension assets of the Group's personnel in Finland. The assets include Kemira shares representing 0.15% of the company's shares outstanding.

The pension foundations own 2.6% of Pohjolan Voima stock. Kemira Oyj buys electricity from Pohjolan Voima in proportion to its

shareholding for Group use and also for selling it to outside companies. Sales of electricity to subsidiaries in 2006 were EUR 28.3 million (EUR 9.8 million) and to outside companies EUR 1.9 million (EUR 6.5 million). The shareholders may buy electricity at a price that covers its production expenses. This price has been clearly below the average market prices.

Under the Finnish Companies Act over one percent holdings are included in related parties. These holdings are listed in "Shares and Shareholders" in table "Largest shareholders".

## 20 NON-CURRENT INTEREST-BEARING LIABILITIES

|   | 2006         | 2005         |
|---|--------------|--------------|
| Debentures and other bond loans                                   | -            | -            |
| Loans from financial institutions                                 | 330.2        | 321.3        |
| Loans from pension institutions                                   | 55.6         | 74.8         |
| Other non-current liabilities to others                           | 9.2          | 7.9          |
| <b>Total</b>  | <b>395.1</b> | <b>404.0</b> |
| <b>Non-current interest-bearing liabilities maturing in</b>       |              |              |
| 2008 (2007)   | 20.9         | 14.6         |
| 2009 (2008)   | 16.4         | 21.9         |
| 2010 (2009)   | 83.9         | 9.3          |
| 2011 (2010)   | 84.2         | 78.5         |
| 2012 (2011) or later  | 189.7        | 279.7        |
| <b>Total</b>  | <b>395.1</b> | <b>404.0</b> |
| <b>Interest-bearing liabilities maturing in 5 years or longer</b> |              |              |
| Loans from financial institutions                                 | 149.8        | 232.0        |
| Loans from pension institutions                                   | 37.2         | 44.5         |
| Other non-current interest-bearing liabilities                    | 2.8          | 3.2          |
| <b>Total</b>  | <b>189.7</b> | <b>279.7</b> |

The foreign currency breakdown of non-current loans is presented in management of financial risk, Note 32. The Group has no convertible bonds.

## Debentures and other bond loans

| Loan                    | Loan currency |          |             |
|-------------------------|---------------|----------|-------------|
| FI 0003008599 1998-2006 | EUR           | -        | 16.5        |
| <b>Total</b>            |               | <b>-</b> | <b>16.5</b> |

## 21 DEFERRED TAX LIABILITIES AND ASSETS

| 2006   | 1/1/2006     | Recognised<br>in the income<br>statement | Recognised<br>in equity | Acquired /<br>disposed<br>subsidiaries | 31/12/2006   |
|--|--------------|--|-------------------------|--|--------------|
| <b>Deferred tax liabilities</b>                            |              |  |                         |  |              |
| Cumulative depreciation in excess of / less than plan      | 80.8         | 0.5                                      | -1.0                    | -2.3                                   | 78.0         |
| Available-for-sale financial assets                        | 17.1         | -  | 1.1                     | -                                      | 18.2         |
| Pensions   | 5.3          | 1.0                                      | -                       | -                                      | 6.3          |
| Fair value of acquired subsidiaries <sup>1)</sup>          | 14.7         | -5.7                                     | -                       | 6.0                                    | 15.0         |
| Other  | 4.8          | 5.2                                      | -0.7                    | -0.3                                   | 9.0          |
| <b>Total</b>   | <b>122.7</b> | <b>1.0</b>                               | <b>-0.6</b>             | <b>3.4</b>                             | <b>126.5</b> |
| Tax assets deducted  | -22.2        |  |                         |  | -20.6        |
| <b>Total deferred tax liabilities in the balance sheet</b> | <b>100.5</b> |  |                         |  | <b>105.9</b> |
| <b>Deferred tax assets</b>                                 |              |  |                         |  |              |
| Internal stock margin                                      | 1.3          | 0.5                                      | -                       | -                                      | 1.8          |
| Provisions   | 7.2          | -0.5                                     | -                       | -                                      | 6.7          |
| Tax losses   | 15.5         | -3.1                                     | -                       | -                                      | 12.4         |
| Pensions   | 0.9          | 2.1                                      | -                       | -                                      | 3.0          |
| Other  | 4.1          | 0.6                                      | -                       | -0.3                                   | 4.4          |
| <b>Total</b>   | <b>29.0</b>  | <b>-0.4</b>                              | <b>-</b>                | <b>-0.3</b>                            | <b>28.3</b>  |
| Deferred tax liabilities deducted                          | -22.2        |  |                         |  | -20.6        |
| <b>Deferred tax assets in the balance sheet</b>            | <b>6.8</b>   |  |                         |  | <b>7.7</b>   |

| 2005   | 1/1/2005    | Recognised<br>in the income<br>statement | Recognised in<br>equity | Acquired /<br>disposed<br>subsidiaries | 31/12/2005   |
|--|-------------|--|-------------------------|--|--------------|
| <b>Deferred tax liabilities</b>                            |             |  |                         |  |              |
| Cumulative depreciation in excess of / less than plan      | 52.9        | 6.7                                      | -                       | 21.2                                   | 80.8         |
| Available-for-sale financial assets                        | 18.0        | -  | -0.9                    | -                                      | 17.1         |
| Pensions   | 4.1         | 1.2                                      | -                       | -                                      | 5.3          |
| Fair value of acquired subsidiaries <sup>1)</sup>          | 2.8         | -  | -                       | 11.9                                   | 14.7         |
| Other  | 1.0         | 3.8                                      | -                       | -                                      | 4.8          |
| <b>Total</b>   | <b>78.8</b> | <b>11.7</b>                              | <b>-0.9</b>             | <b>33.1</b>                            | <b>122.7</b> |
| Tax assets deducted  | -15.5       |  |                         |  | -22.2        |
| <b>Total deferred tax liabilities in the balance sheet</b> | <b>63.3</b> |  |                         |  | <b>100.5</b> |
| <b>Deferred tax assets</b>                                 |             |  |                         |  |              |
| Internal stock margin                                      | 1.4         | -0.1                                     | -                       | -                                      | 1.3          |
| Provisions   | 5.7         | 1.5                                      | -                       | -                                      | 7.2          |
| Tax losses   | 4.2         | 11.3                                     | -                       | -                                      | 15.5         |
| Pensions   | 1.0         | -0.1                                     | -                       | -                                      | 0.9          |
| Other  | 5.3         | -1.2                                     | -                       | -                                      | 4.1          |
| <b>Total</b>   | <b>17.6</b> | <b>11.4</b>                              | <b>-</b>                | <b>-</b>                               | <b>29.0</b>  |
| Deferred tax liabilities deducted                          | -15.5       |  |                         |  | -22.2        |
| <b>Deferred tax assets in the balance sheet</b>            | <b>2.1</b>  |  |                         |  | <b>6.8</b>   |

<sup>1)</sup> The increase in deferred tax assets relating to the fair value measurement of acquired subsidiaries was recognised under goodwill.

# Notes to consolidated financial statements

EUR million

## 22 PROVISIONS

|                                       | Restructuring provisions | Environmental and damage provisions | Other provisions | Total        |
|---------------------------------------|--------------------------|-------------------------------------|------------------|--------------|
| <b>Non-current provisions</b>         |                          |                                     |                  |              |
| Balance at beginning of year          | 0.7                      | 19.3                                | 74.5             | <b>94.5</b>  |
| Increase in provisions                | 0.1                      | 1.5                                 | 9.4              | <b>11.0</b>  |
| Provisions used during the period     | -                        | -4.5                                | -34.3            | <b>-38.8</b> |
| Provisions released during the period | -                        | -0.9                                | -10.5            | <b>-11.4</b> |
| <b>Balance at end of year</b>         | <b>0.8</b>               | <b>15.4</b>                         | <b>39.1</b>      | <b>55.3</b>  |
| <b>Current provisions</b>             |                          |                                     |                  |              |
| Balance at beginning of year          | 8.5                      | 3.6                                 | 16.4             | <b>28.5</b>  |
| Increase in provisions                | 2.2                      | 0.1                                 | 5.7              | <b>8.1</b>   |
| Provisions used during the period     | -4.4                     | -1.1                                | -9.1             | <b>-14.6</b> |
| Provisions released during the period | 0.0                      | -1.3                                | -5.2             | <b>-6.4</b>  |
| <b>Balance at end of year</b>         | <b>6.3</b>               | <b>1.4</b>                          | <b>7.8</b>       | <b>15.5</b>  |

## 23 CURRENT LIABILITIES

|   | 2006           | 2005  |
|---|----------------|-------|
| <b>Interest-bearing current liabilities</b>           |                |       |
| Loans from financial institutions                     | <b>187.8</b>   | 22.8  |
| Loans from pension institutions                       | <b>15.7</b>    | 15.7  |
| Current portion of other non-current loans            | <b>14.8</b>    | 11.9  |
| Finance lease liabilities                             | <b>3.0</b>     | 3.4   |
| Other interest-bearing current liabilities            | <b>287.2</b>   | 218.2 |
| <b>Total interest-bearing current liabilities</b>     | <b>508.5</b>   | 272.0 |
| <b>Non-interest-bearing current liabilities</b>       |                |       |
| Prepayments received                                  | <b>4.9</b>     | 2.2   |
| Trade payables  | <b>278.6</b>   | 201.0 |
| Current provisions                                    | <b>15.5</b>    | 28.5  |
| Current tax liabilities                               | <b>14.7</b>    | 14.3  |
| Accrued expenses                                      | <b>169.8</b>   | 121.8 |
| Other non-interest-bearing current liabilities        | <b>54.8</b>    | 17.4  |
| <b>Total non-interest-bearing current liabilities</b> | <b>538.4</b>   | 385.2 |
| <b>Total current liabilities</b>                      | <b>1,046.9</b> | 657.2 |
| <b>Accrued expenses</b>                               |                |       |
| Personnel expenses                                    | <b>54.3</b>    | 44.2  |
| Items related to revenues and purchases               | <b>27.3</b>    | 21.2  |
| Interest  | <b>20.8</b>    | 12.2  |
| Exchange rate differences                             | <b>2.0</b>     | 9.3   |
| Other   | <b>65.4</b>    | 34.9  |
| <b>Total</b>  | <b>169.8</b>   | 121.8 |

## 24 NET LIABILITIES

|  |              |       |
|--|--------------|-------|
| Interest-bearing non-current liabilities | <b>395.0</b> | 404.0 |
| Interest-bearing current liabilities     | <b>508.5</b> | 272.0 |
| Short-term investments                   | <b>-35.0</b> | -28.3 |
| Cash and cash equivalents                | <b>-41.1</b> | -28.0 |
| <b>Total</b>                             | <b>827.4</b> | 619.7 |

**25 FINANCE LEASE LIABILITIES – MATURITY**

|  | 2006       | 2005       |
|--|------------|------------|
| <b>Finance lease liabilities – minimum lease payments</b>                  |            |            |
| Within one year  | 0.5        | 0.7        |
| After one year but no more than five years                                 | 1.5        | 1.4        |
| Over five years  | 1.0        | 1.3        |
| <b>Total</b>   | <b>3.0</b> | <b>3.4</b> |
| <b>Finance lease liabilities – present value of minimum lease payments</b> |            |            |
| Within one year  | 0.4        | 0.5        |
| After one year but no more than five years                                 | 1.1        | 1.2        |
| Over five years  | 1.0        | 1.3        |
| <b>Total</b>   | <b>2.5</b> | <b>3.0</b> |
| Future finance charges   | 0.5        | 0.4        |
| <b>Total finance lease liabilities</b>                                     | <b>3.0</b> | <b>3.4</b> |



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EUR million

## 26 DEFINED BENEFIT PENSION ARRANGEMENTS

Under defined benefit plans, pension benefits are determined by salary, retirement age, disability, mortality or termination of employment.

The funded portion of the Finnish system under the Employees' Pensions Act (TEL) and the disability portion are treated as a defined benefit plan in respect of the pension plans managed by the Group's own pension funds, and the assets of Kemira's own pension funds are measured according to IAS 19 (Employee Benefits). The TEL

plans managed by insurance companies, are treated as a defined contribution plan. The "corridor" method is used to account for any actuarial gains and losses.

The table below shows the effect of the defined benefit pension plan on the Group's income statement and balance sheet, as required by IAS 19. Pension liabilities, plan assets and actuarial gains and losses of the businesses acquired and divested have changed obligations and assets.

|   | 2006         | 2005         |
|---|--------------|--------------|
| <b>Balance sheet</b>  |              |              |
| Liability for defined benefit plans                                 | 65.8         | 52.1         |
| Receivable for defined benefit plans                                | -24.6        | -15.3        |
| <b>Net liability</b>  | <b>41.2</b>  | <b>36.8</b>  |
| <b>Income statement</b>   |              |              |
| Defined benefit pension plans                                       | 8.9          | 12.1         |
| <b>Amounts recognized in the balance sheet</b>                      |              |              |
| Present value of funded obligations                                 | 484.9        | 481.1        |
| Present value of unfunded obligations                               | 51.9         | 45.8         |
| Fair value of plan assets   | -552.3       | -543.3       |
| <b>Present value of pension obligations</b>                         | <b>-15.5</b> | <b>-16.4</b> |
| Unrecognised past service costs                                     | 23.8         | -            |
| Unrecognized actuarial gains (+) and losses (-)                     | 56.7         | 53.2         |
| <b>Net liability</b>  | <b>65.0</b>  | <b>36.8</b>  |
| <b>Movements in the present value of defined benefit obligation</b> |              |              |
| Liability at beginning of year                                      | 526.9        | 484.2        |
| Current service costs   | 12.4         | 10.2         |
| Interest costs  | 24.0         | 24.5         |
| Actuarial gains (-) and losses                                      | -3.7         | 20.4         |
| Exchange rate differences on foreign plan                           | -1.4         | -0.3         |
| The effect of companies acquired and divested during the period     | -1.2         | -            |
| Benefits paid   | -25.3        | -24.2        |
| Curtailments  | -1.3         | -1.0         |
| Settlements   | 5.6          | 10.5         |
| Past service costs  | 0.8          | 2.6          |
| <b>Liability at end of year</b>                                     | <b>536.8</b> | <b>526.9</b> |
| <b>Movements in the fair value of plan assets</b>                   |              |              |
| Plan assets at beginning of year                                    | 543.3        | 492.8        |
| Expected return on plan assets                                      | 26.7         | 23.1         |
| Employer contributions  | 9.7          | 6.8          |
| Actuarial gains (-) and losses                                      | 1.4          | 34.8         |
| Exchange differences on foreign plan                                | -1.0         | 1.2          |
| Effect of companies acquired and divested during the period         | -9.1         | 8.3          |
| Benefits paid   | -24.2        | -24.1        |
| Settlements   | 5.5          | -0.3         |
| Transfer within the system  | -            | 0.7          |
| <b>Plan assets at end of year</b>                                   | <b>552.3</b> | <b>543.3</b> |

| Amounts recognized in the income statement              | 2006       | 2005        |
|---|------------|-------------|
| Current service cost                                    | 12.4       | 10.2        |
| Interest cost   | 24.0       | 24.5        |
| Expected return on plan assets                          | -26.7      | -23.1       |
| Past service costs                                      | 0.8        | 2.8         |
| Net actuarial gains (-) / losses for financial year (+) | -1.6       | -0.5        |
| Curtailments  | -          | -1.1        |
| Transfer within the system                              | -          | -0.7        |
| <b>Income statement total</b>                           | <b>8.9</b> | <b>12.1</b> |

The above amount, EUR 8.9 million (12.1), is included in employee benefits in the income statement.

#### Actual return on plan assets

|                              |      |      |
|------------------------------|------|------|
| Actual return on plan assets | 28.1 | 57.9 |
|------------------------------|------|------|

#### Principal actuarial assumptions

|                                |          |          |
|--------------------------------|----------|----------|
| Discount rate                  | 4.0–8.0% | 4.5–5.5% |
| Expected return on plan assets | 2.7–7.3% | 4.5–8.0% |
| Inflation                      | 2.0–3.5% | 2.0–3.0% |
| Future salary increases        | 2.0–4.0% | 2.6–4.5% |
| Future pension increases       | 1.5–3.1% | 1.3–3.0% |

#### Plan assets

|  |              |              |
|--|--------------|--------------|
| Equity instruments                                     | 315.2        | 263.8        |
| Bonds and other long-term interest-bearing investments | 136.7        | 226.9        |
| Short-term interest-bearing investments                | 13.6         | 8.2          |
| Assets in insurance companies <sup>*)</sup>            | 29.9         | 26.5         |
| Kemira Oyj treasury shares                             | 3.1          | 2.5          |
| Real estate in Group use                               | 13.0         | 8.0          |
| Other  | 40.8         | 7.4          |
| <b>Total</b>   | <b>552.3</b> | <b>543.3</b> |

<sup>\*)</sup> Funds managed by insurance companies, under the defined benefit pension plan, form part of the investment assets of the insurance companies, which bear the associated investment risk. For this reason, more detailed information on the individual plans' asset allocation is not available.

The total expected long-term rate of return on plan assets is 6.35%. This rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Expected contributions to post-employment benefit plans for 2007 total EUR 4.7 million.

| 31/12   | 2006        | 2005        | 2004        | 2003         |
|---|-------------|-------------|-------------|--------------|
| Present value of defined benefit obligation       | 536.8       | 526.9       | 484.3       | 1,109.7      |
| Fair value of plan assets                         | 552.9       | 543.3       | 492.9       | 1,004.1      |
| Actuarial gains (+) and losses (-)                | 56.7        | 53.2        | 39.7        | 43.3         |
| <b>Deficit / surplus (-)</b>                      | <b>41.2</b> | <b>36.8</b> | <b>31.1</b> | <b>148.9</b> |
| <b>Experience adjustments on plan liabilities</b> | <b>4.0</b>  | <b>-9.1</b> |             |              |
| <b>Experience adjustments on plan assets</b>      | <b>19.5</b> | <b>1.6</b>  |             |              |

# Notes to consolidated financial statements

EUR million

## 27 SUPPLEMENTARY CASH FLOW INFORMATION

### Acquisition and disposal of subsidiaries

|  | 2006         | 2005         |
|--|--------------|--------------|
| <b>Acquisition of subsidiaries</b>                               |              |              |
| Acquisition cost   | 301.5        | 318.6        |
| Cash and cash equivalents at acquisition date                    | -4.2         | -33.1        |
| <b>Cash flow on acquisition net of cash acquired</b>             | <b>297.3</b> | <b>285.5</b> |
| <b>Acquired assets and liabilities</b>                           |              |              |
| Net working capital  | 109.1        | 30.6         |
| Property, plant and equipment                                    | 176.4        | 157.8        |
| Shares and holdings  | -            | 1.9          |
| Interest-bearing receivables, cash and cash equivalents excluded | 3.0          | 1.1          |
| Other non-interest-bearing receivables                           | 1.7          | 9.1          |
| Interest-bearing liabilities                                     | -8.8         | -246.7       |
| Non-interest-bearing liabilities                                 | -20.8        | -51.2        |
| Minority interest  | 2.2          | 16.3         |
| Goodwill on acquisition  | 34.5         | 366.6        |
| <b>Total assets of acquired subsidiaries</b>                     | <b>297.3</b> | <b>285.5</b> |
| <b>Proceeds from the disposals of subsidiary shares</b>          |              |              |
| Proceeds from the disposal                                       | 42.7         | 9.0          |
| Cash and cash equivalent in disposed companies                   | -0.9         | -0.3         |
| <b>Total cash flow on disposals of subsidiaries</b>              | <b>41.8</b>  | <b>8.7</b>   |
| <b>Assets and liabilities disposed</b>                           |              |              |
| Net working capital  | 4.2          | 0.6          |
| Property, plant and equipment                                    | 20.8         | 0.5          |
| Other non-interest-bearing receivables                           | 0.5          | -            |
| Interest-bearing liabilities                                     | -1.4         | -1.4         |
| Non-interest-bearing liabilities                                 | -0.5         | -            |
| Gain/loss on disposal  | 18.2         | 9.0          |
| <b>Total assets and liabilities of disposed subsidiaries</b>     | <b>41.8</b>  | <b>8.7</b>   |

## 28 BUSINESS COMBINATIONS

### 000 Kraski Teks

Responsible for the paints business of the Kemira Group, Tikkurila acquired 100% of voting stock of 000 Kraski Teks, one of the largest players in the Russian decorative paints market, on February 3, 2006. Tikkurila and 000 Kraski Teks will together form a strong player in the rapidly expanding Russian decorative paints market. Through this acquisition, Tikkurila increased its market share to 20% and became the market leader. Tikkurila's product portfolio can now offer strong brands in all price segments.

At a debt-free price of EUR 33 million, the acquisition was paid in

cash and financed using the Group's existing financing agreements. Of the purchase price, EUR 19.8 million at fair value was allocated to trademarks under intangible assets, EUR 3.8 million to buildings under PPE and the related deferred tax liabilities of around EUR 5.6 million were recognized under goodwill. Using the Relief-from-Royalty method, the fair value of trademarks was determined by the present value of avoided royalty payments. The building's fair value is based on external expert opinions.

|  | Fair values<br>recorded<br>on business<br>combination | Carrying<br>amounts prior<br>to business<br>combination |
|--|---|---|
| Intangible assets, trademarks                    | 19.8  | 0.0   |
| Property, plant and equipment                    | 9.4   | 5.6   |
| Inventories                                      | 3.6   | 3.6   |
| Trade receivables and other receivables          | 3.1   | 3.1   |
| Cash and cash equivalents                        | 1.5   | 1.5   |
| <b>Total assets</b>                              | <b>37.4</b>   | <b>13.8</b>   |
| Interest-bearing current liabilities             | 11.1  | 11.1  |
| Other liabilities                                | 2.9   | 2.9   |
| Deferred tax liabilities                         | 5.6   |   |
| <b>Total liabilities</b>                         | <b>19.6</b>   | <b>14.0</b>   |
| Net assets                                       | 17.8  | -0.2  |
| Cost of business combination (net)               | 23.4  |   |
| <b>Goodwill</b>                                  | <b>5.6</b>  |   |
| Acquisition cost                                 | 23.4  |   |
| Cash and cash equivalents in subsidiary acquired | -1.5  |   |
| <b>Cash outflow on acquisition</b>               | <b>22.0</b>   |   |

In February-December 2006, Kraski Teks posted revenue of EUR 79.9 million and the effect of the acquisition on operating profit totaled EUR 5.2 million.

### The Paper Chemicals business of Lanxess

Kemira acquired the global assets of Lanxess Group's Paper Chemicals Business on April 1, 2006. The main products of this division are colorants, optical brighteners and sizing agents for paper industry.

Kemira has now a full-range of paper chemicals products to the global paper industry. The acquired division has two production units, one in Leverkusen Germany and one in Bushy Park,

South Carolina, USA and it also outsources a significant portion of its products to customers from a third party. This deal makes Kemira the largest supplier of pulp and paper chemicals to the global pulp and paper industry and also strengthens Kemira's position in emerging markets.

The acquisition price, around EUR 79 million, was paid in cash and through existing financing agreements.

# Notes to consolidated financial statements

EUR million

|  | <b>Fair values<br/>recorded<br/>on business<br/>combination</b> | Carrying<br>amounts prior<br>to business<br>combination |
|--|---|---|
| Intangible assets                                | 0.0   | 0.0   |
| Property, plant and equipment                    | 16.6  | 16.6  |
| Inventories                                      | 33.0  | 32.6  |
| Trade receivables and other receivables          | 34.8  | 34.8  |
| Cash and cash equivalents                        | 0.0   | 0.0   |
| <b>Total assets</b>                              | <b>84.4</b>   | <b>83.9</b>   |
| Deferred tax liabilities                         | 0.1   | 0.0   |
| Long-term liabilities                            | 10.8  | 10.8  |
| Other liabilities                                | 3.5   | 3.5   |
| <b>Total liabilities</b>                         | <b>14.3</b>   | <b>14.2</b>   |
| Net assets                                       | 70.0  | 69.7  |
| Cost of business combination (net)               | 81.2  |   |
| <b>Goodwill</b>                                  | <b>11.2</b>   |   |
| Acquisition cost                                 | 81.2  |   |
| Cash and cash equivalents in subsidiary acquired | 0.0   |   |
| <b>Cash outflow on acquisition</b>               | <b>81.2</b>   |   |

Goodwill of EUR 11.2 million arose on the acquisition. The acquisition resulted in EUR 11.2 million in goodwill, based on the acquired business's expected future earnings and attainable major synergies.

During Apr. 1 – Dec. 31, 2006, the acquired business had revenue of EUR 165.8 million and operating profit of EUR 0.5 million.

## The Cytec water treatment business

Kemira acquired the Cytec Industries, Inc.'s water treatment and acryl amide business on October 1, 2006. Cytec's water treatment chemicals product line consists of water treatment solutions for industrial and municipal water treatment plants. The acquisition includes three production plants located in the US (Mobile/Alabama, Longview/Washington and Fortier/Louisiana), and two in Europe (Bradford/UK and Botlek/the Netherlands).

The acquisition of Cytec's water treatment chemicals business is in line with Kemira's growth strategy. It also enables Kemira to significantly broaden its current product portfolio and gain greater geographical presence in key markets and within key customer segments. The acquired business' market regions include the US, South America, Asia and Europe.

The purchase price totaled EUR 189.2 million subjects to adjustment of net working capital. The acquisition was financed using the Kemira Group's cash and through existing financing agreements.

As part of the acquisitions, in addition to the purchase of the business (asset purchase agreement) which was closed 1 October, 2006, Kemira signed a share purchase agreement for all Cytec Manufacturing BV shares. The closing of this phase was 11 January

2007. Kemira also signed transition service agreements with nine Cytec companies, concerning certain transition services with respect to the products of the business (Overseas units). The assets related to these transition service agreements will be transferred to Kemira within six months from closing.

Control over the entire Cytec water treatment business transferred to Kemira on October 1, 2006. The assets and liabilities are included in the consolidated financial statement on December 31, 2006. The purchase price allocation of the Cytec water treatment business was made on a preliminary basis for the financial statements December 31, 2006.

The assets and liabilities of Manufacturing BV were measured in the 2006 financial statements value of the payments plus the remaining payment of EUR 15.8 million paid at the closing on January 11, 2007.

The final IFRS-compliant valuation of the business acquisition will be completed upon the closing of the acquisition's phases and the completion of net working capital adjustments.

The acquired unit's revenue for October 1 – December 31, 2006 totaled EUR 67.7 million and operating profit EUR 2.8 million.

### Aggregate of other business combinations

Kemira made the following acquisitions in 2006: Finncolor s.r.o. (100%), Gropa A/S (100%), Roma 8660 Skanderborg A/S (100%), Scandinavian Tanking System A/S (100%) and Storage and Production System A/S (100%), Oy Galvatek Ab (100%), Bayer Agencies Paper chemical business and the IFAC business.

Kemira increased its shareholdings in the following businesses

(percentage of voting stock acquired in 2006); Kemwater de México, S.A de C.V (49%), Kemwater Närke Ab (8.33%), Kemwater ProChemie s.r.o.(35%), TOB Tikkurila (49%), Holmbergs Färg i Skövde Ab (9%), Kemira-Swiecie Sp.z.o.o (35%).

These business combinations are individually immaterial.

|  | Fair values<br>recorded<br>on business<br>combination | Carrying<br>amounts prior<br>to business<br>combination |
|--|---|---|
| Trademarks and trade names                         | 1.5   | -   |
| Other intangible assets                            | 3.7   | 0.2   |
| Property, plant and equipment                      | 10.2  | 5.5   |
| Other investments                                  | 0.2   | 0.2   |
| Inventories  | 10.4  | 8.3   |
| Trade receivables and other receivables            | 11.6  | 11.6  |
| Cash and cash equivalents                          | 2.7   | 2.7   |
| <b>Total assets</b>                                | <b>40.3</b>   | <b>28.5</b>   |
| Deferred tax liabilities                           | 2.9   | 0.7   |
| Non-current liabilities                            | 2.6   | 3.4   |
| Other liabilities                                  | 16.6  | 16.6  |
| <b>Total liabilities</b>                           | <b>22.1</b>   | <b>20.8</b>   |
| Net assets   | 17.9  | 10.5  |
| Cost of business combinations (net)                | 32.6  |   |
| <b>Goodwill</b>                                    | <b>14.7</b>   |   |
| Acquisition costs                                  | 32.7  |   |
| Contingent purchase prices                         | -2.5  |   |
| Cash and cash equivalents in subsidiaries acquired | -2.7  |   |
| <b>Cash outflow on acquisition</b>                 | <b>27.4</b>   |   |

### The effect of the business combinations on revenue and profit

Kemira's revenue for Jan. 1–Dec. 31, 2006, would have been EUR 2,787 million and operating profit EUR 218 million if all the business combinations carried out during the period had been completed on January 1, 2006.

# Notes to consolidated financial statements

EUR million

## 29 COLLATERAL AND CONTINGENT LIABILITIES

|  | 2006 | 2005 |
|--|------|------|
| <b>Loans secured by mortgages in the balance sheet and for which mortgages given as collateral</b> |      |      |
| Loans from financial institutions  | 0.5  | 11.3 |
| Mortgages given  | 0.5  | 11.5 |
| Loans from pension institutions  | 59.9 | 57.2 |
| Mortgages given  | 63.1 | 62.2 |
| Other loans  | 1.1  | 1.0  |
| Mortgages given  | 1.2  | 1.2  |
| Total mortgage loans   | 61.5 | 69.5 |
| Total mortgages given  | 64.8 | 74.9 |
| <b>Contingent liabilities</b>  |      |      |
| <b>Assets pledged</b>  |      |      |
| On behalf of own commitments   | 19.5 | 17.5 |
| <b>Guarantees</b>  |      |      |
| On behalf of own commitments   | 6.4  |      |
| On behalf of associates  | 32.6 | 61.5 |
| On behalf of others  | 1.4  | 4.2  |
| <b>Operating leasing liabilities</b>   |      |      |
| Maturity within one year   | 14.9 | 12.3 |
| Maturity after one year but within five years  | 42.9 | 41.4 |
| Maturity after five years  | 75.2 | 70.5 |
| <b>Other obligations</b>   |      |      |
| On behalf of associates  | 2.3  | 2.5  |
| On behalf of own commitments   | 0.4  | -    |

There were no collateral or contingent liabilities related to managing directors, members or deputy members of the Board of Directors and the Supervisory Board during 2006 and 2005.

### Major off-balance sheet investment commitments

Major amounts of contractual commitments for the acquisition of property plant and equipment were EUR 16 million on December 31, 2006 for the construction of the chemical plant in Uruguay.

### Litigation

The Group has extensive international operations and is involved in a number of legal proceedings incidental to those operations. The Group does not expect the outcome of any legal proceedings currently pending to have a materially adverse effect upon its consolidated results, taking provisions into account.

Kemira Chemicals, Inc. has received a grand jury subpoena to produce documents in connection with an investigation by the

United States Department of Justice Antitrust Division, relating to the hydrogen peroxide business in the US. Kemira Oyj, Kemira Chemicals, Inc and Kemira Chemicals Canada, Inc. have recently received claims or were named in class action lawsuits filed in US federal and state courts and in Canada by direct and indirect purchasers of hydrogen peroxide and persalts.

In these civil actions it is alleged that the US plaintiffs suffered damages resulting from a cartel among hydrogen peroxide suppliers. The existence of the United States Department of Justice's Antitrust Division's investigations and the European Commission's ruling in a case of infringement of competition law in May 2006 are relied upon in support of the allegations.

### 30 DERIVATIVE INSTRUMENTS

#### Nominal values

|  | 2006    | 2005    |
|--|---------|---------|
| <b>Currency instruments</b>                              |         |         |
| Forward contracts  | 389.4   | 314.7   |
| of which hedges of net investment in a foreign operation | 19.6    | 24.7    |
| Currency options   |         |         |
| Bought   | 42.8    | 94.1    |
| Sold   | 45.3    | 111.2   |
| Currency swaps   | 115.9   | 121.9   |
| <b>Interest rate instruments</b>                         |         |         |
| Interest rate swaps                                      | 109.2   | 160.4   |
| of which cash flow hedge                                 | 83.8    | 69.6    |
| Interest rate options                                    |         |         |
| Bought   | -       | 10.0    |
| Sold   | -       | 15.0    |
| Bond futures   | 10.0    | 10.0    |
| of which open  | 10.0    | 10.0    |
| <b>Other instruments</b>                                 |         |         |
| Electricity forward contracts (Gwh)                      | 1,227.0 | 1,884.0 |
| of which cash flow hedge (Gwh)                           | 1,227.0 | 1,884.0 |
| Propane swap contracts (tons)                            | 1,000.0 | -       |
| of which cash flow hedge (tons)                          | 1,000.0 | -       |

Nominal values of the financial instruments do not necessarily correspond to the actual cash flows between the counterparties and do not therefore give a fair view of the Group's risk position.

#### Fair values

|  | 31/12/2006   |                   |           | 31/12/2005   |                   |           |
|--|--------------|-------------------|-----------|--------------|-------------------|-----------|
|  | Assets total | Liabilities total | Total net | Assets total | Liabilities total | Total net |
| <b>Currency instruments</b>                              |              |                   |           |              |                   |           |
| Forward contracts *)                                     | 6.6          | -1.1              | 5.5       | 1.3          | -6.7              | -5.4      |
| of which hedges of net investment in a foreign operation | 2.2          | 0.0               | 2.2       | 0.1          | -3.2              | -3.1      |
| Currency options *)                                      | 0.4          | -0.2              | 0.2       | 0.3          | -1.2              | -0.9      |
| Bought   | 0.1          | -0.1              | 0.0       | -            | -0.3              | -0.3      |
| Sold   | 0.2          | -0.1              | 0.2       | 0.3          | -0.9              | -0.6      |
| Currency swaps   | 8.4          | -                 | 8.4       | 0.8          | -0.9              | -0.1      |
| <b>Interest rate instruments</b>                         |              |                   |           |              |                   |           |
| Interest rate swaps                                      | 4.7          | -                 | 4.7       | 3.6          | -0.7              | 2.9       |
| of which cash flow hedge                                 | 4.2          | -                 | 4.2       | 3.4          | -0.1              | 3.3       |
| Interest rate options                                    | -            | -                 | -         | -            | -0.2              | -0.2      |
| Sold   | -            | -                 | -         | -            | -0.2              | -0.2      |
| Bond futures   | -            | -0.2              | -0.2      | -            | -0.1              | -0.1      |
| of which open  | -            | -0.2              | -0.2      | -            | -0.1              | -0.1      |
| <b>Other instruments</b>                                 |              |                   |           |              |                   |           |
| Electricity forward contracts (Gwh)                      | 10.4         | -                 | 10.4      | 17.3         | -                 | 17.3      |
| of which cash flow hedge                                 | 10.4         | -                 | 10.4      | 17.3         | -                 | 17.3      |
| Propane swap contracts (tons)                            | -            | -0.1              | -0.1      | -            | -                 | -         |
| of which cash flow hedge                                 | -            | -0.1              | -0.1      | -            | -                 | -         |

\*) Includes closed foreign exchange positions. The open position is shown in the hedging section of the currency risk table, Note 32.



# Notes to consolidated financial statements

EUR million

## 31 ENVIRONMENTAL RISKS AND LIABILITIES

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 financial statements in accordance with IFRS and observes established internal principles and procedures.

In the context of all of its major M&As in 2006, Kemira carried out due diligence analyses related to the pollution of soil and groundwater caused by the sites' previous operations.

Acquisitions and divestments did not alter the Group's environmental liabilities significantly. No significant environmental liabilities were connected to the purchase of the Lanxess Group's paper chemicals business, announced at the end of 2005, and that of the Kraski Teks paint business in Russia. Kemira conducted detailed assessments at

the five sites of the water chemicals business acquired from Cytec Inc., and liabilities related to their previous operations are stated in the bill of sale.

Provisions for environmental remediation totaled EUR 16.8 million in 2006, the largest pertaining to the future rehabilitation of the dumping areas connected to the Pori and Helsingborg sites, the isolation of the sold waste disposal area at the Kokkola site and the reconditioning of the sediment of a lake adjacent to the Vaasa plant.

### Emissions allowances

The Group holds assigned emissions allowances, under the EU Emission Trading System, at one site in Sweden. In net volumes, these allowances at Group level showed a surplus of 5,592 carbon dioxide tons in 2006.

## 32 MANAGEMENT OF FINANCIAL RISKS

The Group Treasury is tasked with managing financial risks in accordance with the treasury policy in force. Approved by the Board of Directors, the treasury policy defines treasury management principles. The Board of Directors approves the annual Treasury plan and the maximum permissible financial risk levels.

Financial risk management aims to protect the Company from unfavorable changes in financial markets, thus contributing to safeguarding the Company's profit performance and shareholders' equity. Kemira employs various financial instruments within the set limits. The Group uses only instruments whose market values and risks can be monitored continuously and reliably. It uses derivative instruments only for hedging purposes, not for speculative gain.

### Foreign exchange risk

Foreign currency cash flow risk arises from the net currency flows denominated in currencies other than the domestic currency within and outside the eurozone. The most important currency exposures are in the US dollar and the Swedish krona. Kemira mainly uses forwards and currency options in hedging against foreign exchange risks, which had less than a one year maturity at the end of 2006. At Group level, the subsidiaries' hedging entries are eliminated. The table below shows an estimate of the largest Group-level foreign currency cash flow risks.

| Currency<br>(EUR million) | USD       | SEK       | PLN       | NOK       | CAD       | Others    |
|---------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net flow                  | 51        | 21        | 14        | 13        | 9         | 6         |
| Hedging                   | 30        | 10        | 6         | 2         | 3         | 2         |
| Exposure after<br>hedging | 21        | 12        | 8         | 11        | 6         | 4         |
| <b>Hedge ratio, %</b>     | <b>59</b> | <b>46</b> | <b>41</b> | <b>16</b> | <b>35</b> | <b>38</b> |

At the turn of 2006/2007, the foreign currency operative cash flow forecast for 2007 was EUR 114 million, 46% of which was hedged (the hedge ratio in 2005 was 55%). The hedge ratio is monitored daily. In hedging the total cash flow risk, the neutral level is achieved when

50% of the forecast net foreign currency cash flow is hedged. A minimum of 30% and a maximum of 100% of the forecast flow must always be hedged. A 10% fall in foreign exchange rates against the euro, based on the exchange rates quoted on the balance sheet date, and without hedging would reduce earnings by about EUR 6.1 million. Foreign exchange risks also derives from the translation of into euros of income statement and balance sheet items into euros.

In hedging the net investment in its units abroad, Kemira monitors the equity ratio. In accordance with the Group's policy, Kemira must take equity hedging measures if a change of  $\pm 5.0\%$  in foreign exchange rates causes a change of more than 1.5 percentage points in the equity ratio.

The largest equity amounts of Group companies are denominated in Swedish krona, US dollars and Polish zlotys. The objective is to hedge the balance sheet risk by maintaining a balance between foreign currency-denominated liabilities and assets, currency by currency. Kemira hedges foreign currency equity items through either long-term loans or forward contracts.

On the balance sheet date, part of the equity denominated in the Swedish krona, the US dollar and the British pound were hedged with long term loans. The equity of the Group's company in Canada and Japan is hedged using forward contracts. At the end of 2006, the nominal amount of hedges of net investments in foreign operations totaled EUR 186.6 million (2005: EUR 143.5 million). All in all, these transactions correspond to a 27% hedge ratio.

### Interest rate risk

Interest rate risk is associated with the Group's loan portfolio management. In accordance with the treasury policy, the benchmark of the Group's interest rate risk is the duration of the loan portfolio, which must be in the range of 6–24 months. The Group may borrow by way of either fixed or floating rate instruments and use both interest rate swaps and interest rate options as well as forward rate agreements and interest rate futures, in order to meet the goal set under the related policy.

The duration of the Group's interest-bearing loan portfolio was 16 months at the end of 2006. Excluding interest rate derivatives, the duration is 10 months. At the end of 2006, 29% of the Group's entire loan portfolio, including derivatives and pension loans, consisted of fixed-interest borrowings (2005: 41%). Pension loans are classified as fixed rate loans.

The average interest rate of the Group's loan portfolio stands at around 4.9% (2005: 4.1%), excluding exchange rate differences and dividends. The most significant impact on the average interest rate arises from variation in the interest rate levels of the euro, the US dollar and the Swedish krona.

Fixed-interest financial assets and liabilities are exposed to price risks arising from changes in interest rates. Floating rate financial assets and liabilities, whose interest rate changes alongside market interest rates, are exposed to cash flow risks due to interest rates. Investments in equity instruments do not have interest rate exposure.

An increase of one percentage point in interest rates at the end of 2006 would have lowered the market value of the loan portfolio by EUR 9.7 million, including interest rate derivatives, and by EUR 5.6 million without derivatives. The proportion of fixed-interest loans in the loan portfolio has been increased by means of interest rate derivatives. As a consequence of this treasury policy, the Group's average interest rate is generally higher than the short-term market interest rates when low rates prevail and, on the other hand, lower than the market interest rates when high rates prevail. If interest rates rose by one percentage point on January 1, 2007, the resulting interest expenses incurred by the Group over the next 12 months would increase by about EUR 4.8 million. During 2007, Kemira will re-price 74% of the Group's net financing portfolio, including derivatives. The Group's average interest rate maturity is 17 months. Kemira will price floating rate instruments when the next interest rate review is conducted, and the interest rate maturity for fixed-interest instruments is the same as their remaining maturity.

On the balance sheet date, the Group had outstanding interest rate derivatives of a market value of EUR 4.7 million. Some of the interest rate swaps are used to hedge the Group's loan portfolio, and they are accounted for in accordance with the principles of hedge accounting set out in IAS 39. The Group's accounting policies section describes Group policy regarding hedge accounting.

The price of electricity varies greatly according to the market situation. Kemira Group takes hedging measures with respect to its electricity purchases in order to even out raw material costs. In line with its hedging policy, the Group hedges its existing sales agreements in such a way that the hedges cover the commitments made, primarily using electricity forwards on the power exchange as hedging instruments. Currency and regional price risks connected with hedges are fully hedged by making agreements in HELEUR amounts. Electricity derivatives are treated in accordance with cash flow hedge accounting, as discussed above. The forecast physical deliveries of the underlying asset, or purchases, are not recorded until the delivery period. If the price of electricity were not hedged and if changes occurred in production volumes or the cost structure, a change of one euro in the market price per megawatt hour would affect profit before tax by EUR 3 million in the Group.

The annual price trend of propane is highly cyclical and on average predictable. The long-term market trend has prompted the hedging of propane purchases in order to promote stability and predictability in

production costs. In hedging its propane purchases, Kemira uses propane swaps, which are treated in accordance with cash flow hedge accounting in a manner similar to that of the electricity cash flow hedges.

### Credit risk

The Group's treasury policy defines the credit rating requirements for counterparties to investment activities and derivative agreements as well as the related investment policy. The Group seeks to minimize its counterparty risk by dealing solely with counterparties which are financial institutions with a good credit rating as well as by spreading agreements among them.

Group Treasury approves the new banking relationships of subsidiaries. At present, there are 14 approved financial institution counterparties, all of which have a credit rating of at least A, based on Standard & Poor's credit rating information. A counterparty with a credit rating below A or an unrated counterparty requires a separate approval from the Board of Directors. The maximum risk assignable to the Group's financial institution counterparties on the balance sheet date amounted to EUR 40.2 million on the balance sheet date. Kemira monitors its counterparty risk on a monthly basis by defining the maximum risk associated with each counterparty, based on the market value of receivables. For each financial institution, Kemira has defined an approved limit. Credit risks associated with financing did not result in credit losses during the financial year.

Counterparty risk in treasury operations is due to the fact that a contractual party to a financing transaction is not necessarily able to fulfill its contractual obligations. Risks are mainly related to investment activities and the counterparty risks associated with derivative contracts. Group Treasury may invest a maximum of EUR 150 million in liquid assets in the commercial papers of Finnish companies. The maximum investment in a single company totals EUR 30 million for a period of up to six months. The Group's credit risk equals the amount of its financial receivables on December 31, 2006.

Kemira sells its products only to companies whose credit information does not indicate payment irregularities. The Group does not have any significant credit risk concentrations because of its extensive customer base spread across the world. Credit limits apply to most customers and are monitored systematically. Some customers are insured through credit insurance taken out by each business unit. In addition, documentary payments are in use, such as letters of credit.

### Liquidity risk

In order to safeguard its liquidity, the Group uses account overdrafts, money market investments and a revolving credit facility. The Group's cash and cash equivalents at the end of 2006 stood at EUR 76.2 million, of which short-term investments accounted for EUR 35 million and bank deposits EUR 41.1 million. The unused revolving credit facility was EUR 566.8 million.

The Group diversifies its refinancing risk by raising financing from various sources in different markets. The Group has bank loans, pension loans, insurance company loans as well as short-term domestic and foreign commercial paper programs, with the objective of balancing the maturity schedule of the loan portfolio and maintaining a sufficiently long maturity for long-term loans.

The Group has a EUR 600 million domestic commercial paper program enabling it to issue commercial papers with a maximum maturity of one year. In addition, it has concluded a five-year revolving credit

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EUR million

agreement of a nominal amount of EUR 750 million. At the turn of the year 2006/2007, EUR 183.2 million of this revolving credit facility was in use. The credit contains a covenant according to which the Company

represents and warrants that its financial standing will remain such that the consolidated shareholders' equity is always at least 25 per cent of consolidated total assets (equity ratio).

## Money market, investments, cash and other receivables

| EUR million                  | 2006            |             | 2005            |             |
|------------------------------|-----------------|-------------|-----------------|-------------|
|                              | Carrying amount | Fair value  | Carrying amount | Fair value  |
| Bank deposit                 | 41.1            | 41.1        | 28.0            | 28.0        |
| Short term placements        | 35.0            | 35.5        | 28.3            | 29.1        |
| Non-current loan receivables | 2.4             | 2.4         | 3.9             | 3.9         |
| <b>Total</b>                 | <b>78.6</b>     | <b>79.0</b> | <b>60.2</b>     | <b>61.0</b> |

The fair value of current receivables by discounting the carrying amount at an effective interest rate of 3.8%–4.0% (2.0%–2.2% in 2005). The fair value of non-current receivables is based on market prices, the effective rate varying between 0% and 4.2% (0–3.5% in 2005)

## Interest-bearing loans

EUR million

|              | 31/12/2006   |                 | Maturity     |             |             |             |             |              | 31/12/2005   |                 |
|--------------|--------------|-----------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|-----------------|
|              | Fair value   | Carrying amount | 2007         | 2008        | 2009        | 2010        | 2011        | 2012-        | Fair value   | Carrying amount |
| Currency     |              |                 |              |             |             |             |             |              |              |                 |
| EUR          | 279.9        | 279.0           | 143.7        | 18.1        | 5.8         | 4.3         | 19.3        | 87.8         | 207.3        | 203.5           |
| SEK          | 87.0         | 86.3            | 0.9          | 0.2         | -           | 44.4        | 40.9        | -            | 90.4         | 90.7            |
| USD          | 214.9        | 210.7           | 42.7         | 0.2         | 10.3        | 35.0        | 22.3        | 100.2        | 153.0        | 151.1           |
| Other        | 37.5         | 37.4            | 34.6         | 2.1         | 0.1         | 0.1         | 0.1         | 0.5          | 9.3          | 9.1             |
| <b>Total</b> | <b>619.3</b> | <b>613.4</b>    | <b>221.8</b> | <b>20.5</b> | <b>16.2</b> | <b>83.7</b> | <b>82.6</b> | <b>188.6</b> | <b>460.1</b> | <b>454.4</b>    |

Effective interest rate varied between 0 and 12% (0–12% in 2005). The figures include planned repayments of loans for 2007.

## Current and non-current term interest-bearing loans

EUR million

| Loan type                         | 31/12/2006   |              | Maturity     |             |             |             |             |              | 31/12/2005   |                |
|-----------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|----------------|
|                                   | Drawn        | Undrawn      | 2007         | 2008        | 2009        | 2010        | 2011        | 2012-        | Drawn        | Undrawn        |
| Bonds                             | -            | -            | -            | -           | -           | -           | -           | -            | 16.5         | -              |
| Loans from financial institutions | 430.2        | 0.0          | 38.6         | 20.5        | 16.2        | 83.7        | 82.6        | 188.6        | 366.8        | -              |
| Revolving credit facility         | 183.2        | 566.8        | 183.2        | -           | -           | -           | -           | -            | 71.2         | 678.8          |
| Commercial paper programme        | 272.0        | 328.0        | 272.0        | -           | -           | -           | -           | -            | 201.0        | 399.0          |
| Other short-term i-b loans        | 18.2         | 0.0          | 18.2         | -           | -           | -           | -           | -            | 20.5         | -              |
| <b>Total</b>                      | <b>903.6</b> | <b>894.8</b> | <b>512.0</b> | <b>20.5</b> | <b>16.2</b> | <b>83.7</b> | <b>82.6</b> | <b>188.6</b> | <b>676.0</b> | <b>1,077.8</b> |

## 33 ASSOCIATED COMPANIES

|  |           |               | Group Holding, % |
|--|-----------|---------------|------------------|
| Aluminium Sulphate Co. of Egypt S.A.E. | Cairo     | Egypt         | 26.0             |
| BNH Nya Hembutikerna AB                | Stockholm | Sweden        | 45.1             |
| Ekomuovi Oy                            | Lahti     | Finland       | 22.4             |
| FC Energia Oy                          | Ikaalinen | Finland       | 34.0             |
| FC Power Oy                            | Ikaalinen | Finland       | 34.0             |
| Galvatek Technology Oy                 | Lahti     | Finland       | 39.9             |
| Haapaveden Puhdistamo Oy               | Haapavesi | Finland       | 40.5             |
| Haapaveden Ymparistöpalvelut Oy        | Haapavesi | Finland       | 40.5             |
| HD Tech Inc                            | Ontario   | Canada        | 50.0             |
| Honkalahden Teollisuuslaituri Oy       | Joutseno  | Finland       | 50.0             |
| Huron Federal LLC                      | Delaware  | United States | 50.0             |
| Kemira Arab Potash Company             | Amman     | Jordan        | 49.0             |
| KemMaq JV                              | Rowley    | United States | 50.0             |
| Kemwater Phil., Corp.                  | Manila    | Philippines   | 40.0             |
| Scanspac & Co KB                       | Sala      | Sweden        | 50.0             |
| Scanspac AB                            | Sala      | Sweden        | 50.0             |
| Swedish Water Corporation AB           | Stockholm | Sweden        | 20.0             |

## Summarised financial information on associates (companies' total amounts)

|             | 2006  | 2005  |
|-------------|-------|-------|
| Assets      | 137.4 | 146.4 |
| Liabilities | 103.0 | 114.4 |
| Revenue     | 89.7  | 95.3  |
| Net profit  | -3.9  | -2.9  |

## Transactions with associated companies

|                      | 2006        | 2005        |
|----------------------|-------------|-------------|
| Sale of goods        | 32.4        | 8.2         |
| Sale of services     | -           | 2.0         |
| <b>Total revenue</b> | <b>32.4</b> | <b>10.2</b> |
| Sale of goods        | 28.4        | 6.0         |
| Sale of services     | -           | 0.9         |
| <b>Total revenue</b> | <b>28.4</b> | <b>6.9</b>  |

# Notes to consolidated financial statements

EUR million

## 34 JOINT VENTURES

The Group's joint ventures are Kemira-Ube Ltd, OOO Sto-Tikkurila and Alcro Parti AB. Biolchim S.p.A was sold in 2006. The Group has a 50% voting right in joint ventures. The consolidated financial state-

ments include shares of the joint ventures' assets, liabilities, income and expenses as follows:

|                               | 2006        | 2005        |
|-------------------------------|-------------|-------------|
| Non-current assets            | 4.4         | 7.1         |
| Current assets                | 6.1         | 15.3        |
| <b>Total assets</b>           | <b>10.5</b> | <b>22.4</b> |
| Non-current liabilities       | 0.7         | 3.2         |
| Current liabilities           | 4.3         | 8.8         |
| <b>Total liabilities</b>      | <b>5.0</b>  | <b>12.0</b> |
| Revenue                       | 19.9        | 29.4        |
| Costs                         | -17.5       | -25.6       |
| Depreciation                  | -1.4        | -1.6        |
| Financial income and expenses | -           | -0.1        |
| Income taxes                  | -0.4        | -0.8        |
| <b>Net profit</b>             | <b>0.6</b>  | <b>1.3</b>  |

## 35 CHANGES IN GROUP STRUCTURE IN 2006

### Acquired Group companies and founded subsidiaries

- Kemira Kemi AB acquires the remaining 49% shareholding in Kemwater de México, S.A. de C.V. in January.
- Tikkurila acquires OOO Kraski Teks, a Russian paint company in February.
- Kemira Kemi AB acquires the remaining 8.33% shareholding in Kemwater Närke AB in February.
- Kemira establishes a new company, Kemira Japan K.K., in Japan in February.
- Kemira establishes a new company, Kemira PPC Germany GmbH, in Germany in March.
- Tikkurila establishes a new company, TOO Tikkurila, in the Republic of Kazakhstan in March.
- Kemira acquires the Lanxess paper business unit in April. The Lanxess paper business unit is wholly owned by Kemira Group companies in different countries.
- Kemira Group's shareholding in Kemwater ProChemie s.r.o. rises to 95.10% in April when Kemira Kemi AB increases its holding in the company to 90%.
- Kemira Kemi AB's dormant company, Ahlbo Kemi AB, is renamed Kemira Service Partner AB and starts operating in April.
- Tikkurila increases its shareholding in TOB Kolorit Paints, an Ukrainian company, from 51% to 100% in July.
- Alcro-Beckers AB increases its shareholding in Holmbergs Färg i Skövde AB from 91% to 100% in July.
- Kemira establishes a new company, Kemira Korea Corporation, in South Korea in August.
- Tikkurila establishes a jointly owned company, OOO Sto-Tikkurila, in Russia in August.
- Tikkurila buys a new marketing company, Finncolor s.r.o., in the Czech Republic in September.
- Kemira establishes a new company, Kemira Taiwan Corporation, in

Taiwan in October.

- Kemira acquires four subsidiaries, wholly owned by Parcon A/S, in October: Gropa A/S, Roma 8660 Skanderborg A/S, Scandinavian Tanking Systems A/S and Storage and Production System A/S.
- Kemira acquires Oy Galvatek AB (including subsidiaries Galvatek Polska Sp.z.o.o. 100%, Galvatek Sweden AB 100% and associated companies Galvatek Technology Oy 40% and Ekomuovi Oy 21%) in October.
- In October Kemira acquires the water treatment and acrylamide business of Cytec Industries Inc., a US company.
- Kemira acquires the remaining 35% of the shares in Kemira-Swiecie Sp.z.o.o. Kemira's shareholding in Zao Kemira-Novo increases to 72% in November.
- Kemira establishes a new company, OOO KemiraHIM, in Russia in December.

### Divested and liquidated Group companies

- Sia Tikkurila Coatings merges with Sia Tikkurila-Vivacolor in January.
- Erikem Inc, a dormant company owned by Finnish Chemicals Oy, is liquidated in January.
- Tikkurila Group winds up its dormant companies, Rosma AB and Prodafa AB, in March.
- Tikkurila Group sells its dormant company, Nordisk Branschgaranti AB, in March.
- Tikkurila Group sells its dormant company, Färgmästaren JE Englund, in March.
- Kemira sells its shareholding (50%) in Biolchim Spa, including its holding in Biolchim Tunisie, in March.
- Alcro-Beckers AB sells AB Lövhölmgränd 12 in May.
- Kemira GrowHow S.A. is liquidated in June.
- Kemwater Services Oy merges with Kemira Oyj in September.
- Alcro-Beders AB sells Färgmästaren i Eskilstuna AB in December.

- Kemiron Inc., Kemiron Pacific, Inc., Kemiron North America Corporation, Kemiron Atlantic, Inc., Kemiron NorthWest, Inc., Kemiron Gulf, Inc., Midland Resources Inc., Kemiron Great Lakes, LLC, Eaglebrook International Group, Ltd and Eaglebrook Inc. merge with Kemira Water Solutions, Inc. in December.
- Kemiron Equipment , LLC merges with Kemira Logistics, Inc. in December.
- Kemiron Aqua Mansa, LLC is liquidated in December.

### Changes in intra-Group holdings

- Kemira Oyj buys Kemwater Christal S.A. from Kemira Kemi AB in February.
- Kemira Oyj buys Kemira Chimica S.p.A. from Kemira Ibérica S.A in September.
- Kemira Oyj acquires Kemira Mexico S.A. de C.V, except one share, from Kemira Kemi AB in December.

### Corporate name changes

| Previous name                          | Current Name                            |
|--|---|
| Ahlbo Kemi AB                          | Kemira Service Partner AB               |
| Kemwater de México, S.A. de C.V.       | Kemira de México, S.A. de C.V.          |
| Kemira GrowHow España S.A.             | Kemira Speciality Crop Care España S.A. |
| TOB Kolorit Paints                     | TOB Tikkurila                           |
| Kemira Services Holland B.V.           | Kemira Water Solutions B.V.             |
| Kemiron Companies, Inc.                | Kemira Water Solutions, Inc.            |
| Eaglebrook Inc. of Canada              | Kemira Water Solutions Canada Inc.      |
| Kemira Pigments Asia Pacific Pte. Ltd. | Kemira Asia Pacific Pte. Ltd.           |
| Finncolor s.r.o                        | Tikkurila s.r.o                         |
| Kemiron -Trans, Inc                    | Kemira logistics, Inc.                  |

## 36 NON-CURRENT ASSETS HELD FOR SALE AND DIRECTLY ASSOCIATED LIABILITIES

Non-current assets held for sale include the Kemira Pulp&Paper segment's assets of US and Canada-based sites and the assets of OnePoint Oy which is located in Kokkola, Finland. OnePoint Oy is not included in any reportable segment. The total liabilities of OnePoint Oy are included in liabilities directly associated with non-current assets classified as held for sale. The assets and liabilities of Gamol, a small Swedish company integrated with the Kemira Coating segment, were included in these items as well.

In December 2006, a letter of intent was signed for the sale of the Finnish service company Onepoint Oy. In reference to this, the company was classified as held for sale. The assets of the company were measured at fair value and an impairment loss of EUR 1.5 million was recognised in the income statement as well as a decrease in property, plant and equipment and intangible assets.

The US-based production companies (Midway, West Oak, Shreveport, Fortville and Montreal) were classified as held for sale in January

2006. In 2005, the sites were closed down and a write-down of EUR 8.2 was recognized and a provision was made. Negotiations with buyers for the sale of the sites are continuing.

The Montreal site (E.Q.U.I.P) in Canada was classified as a non-current asset held for sale in December 2006. Negotiations with buyers for the sale of the site are continuing.

Other disposal groups' values are recognized at carrying amount, except for OnePoint's which is recognized at fair value. The non-current asset held for sale includes the company's property, plant and equipment and intangible assets of EUR 2.5 million, inventories EUR 1.8 million, receivables EUR 4.1 million and cash and equivalents EUR 2.0 million. The liabilities of the disposal group classified as held for sale include OnePoint Oy's non-interest-bearing liabilities of EUR 6.8 million and interest-bearing liabilities of EUR 2.0 million. The assets of other disposal groups totaled EUR 4.0 million and liabilities EUR 0.1 million.

## 37 EVENTS AFTER THE BALANCE SHEET DATE

Kemira has sold its 50% shareholding in Kemira Arab Potash Company Ltd (Kemapco) to Arab Potash Company Ltd (APC).

# Kemira Oyj Financial statements (FAS)

EUR million

| INCOME STATEMENT (FAS)  | 1/1-31/12    |              |
|---|--------------|--------------|
|   | 2006         | 2005         |
| <b>Revenue</b>  | 266.1        | 235.6        |
| Change in inventories of finished goods                               | -2.0         | 4.6          |
| Own work capitalised  | 1.5          | 2.1          |
| Other operating income  | 15.5         | 44.9         |
| Materials and services  | -125.6       | -109.6       |
| Personnel expenses  | -74.0        | -64.1        |
| Depreciation  | -19.2        | -21.3        |
| Other operating expense   | -115.4       | -65.3        |
| <b>Operating loss/profit</b>  | <b>-53.1</b> | <b>26.9</b>  |
| Financial income and expenses   | 3.8          | -13.3        |
| <b>Loss/profit before extraordinary items, appropriations and tax</b> | <b>-49.3</b> | <b>-13.6</b> |
| Extraordinary items   | 52.0         | 46.7         |
| <b>Profit before appropriations and taxes</b>                         | <b>2.7</b>   | <b>60.3</b>  |
| Appropriations  | 1.3          | 3.3          |
| Income tax  | -8.9         | -21.3        |
| <b>Net loss/profit</b>  | <b>-4.9</b>  | <b>42.3</b>  |

The Annual Report contains the Parent Company's financial statements in summary. Kemira has sent a copy of the full, official financial statements to the Trade Register and the Finnish Financial Supervision Authority.

**BALANCE SHEET (FAS)**

|   | 31/12   |         |
|---|---------|---------|
|   | 2006    | 2005    |
| <b>ASSETS</b>                               |         |         |
| <b>Non-current assets</b>                   |         |         |
| Intangible assets                           | 23.8    | 16.1    |
| Property, plant and equipment               | 106.9   | 105.3   |
| Investments                                 |         |         |
| Holdings in subsidiaries                    | 928.0   | 874.6   |
| Holdings in associates                      | 3.9     | 10.4    |
| Other shares and holdings                   | 12.9    | 11.9    |
| <b>Total investments</b>                    | 944.8   | 896.9   |
| <b>Total non-current assets</b>             | 1,075.5 | 1,018.3 |
| <b>Current assets</b>                       |         |         |
| Inventories                                 | 15.1    | 17.7    |
| Non-current receivables                     | 452.8   | 471.0   |
| Current receivables                         | 499.7   | 252.2   |
| Money market investments - cash equivalents | 18.2    | 6.5     |
| Cash and bank                               | 40.8    | 3.9     |
| <b>Total current assets</b>                 | 1,026.6 | 751.3   |
| <b>Total assets</b>                         | 2,102.1 | 1,769.6 |
| <br>  |         |         |
| <b>EQUITY AND LIABILITIES</b>               |         |         |
| <b>Equity</b>                               |         |         |
| Share capital                               | 221.6   | 221.3   |
| Capital paid-in excess of par value         | 257.9   | 257.8   |
| Retained earnings                           | 266.8   | 267.3   |
| Net profit                                  | -4.9    | 42.3    |
| <b>Total equity</b>                         | 741.4   | 788.7   |
| <br>  |         |         |
| Appropriations                              | 43.3    | 44.6    |
| <br>  |         |         |
| Obligatory provisions                       | 54.2    | 54.2    |
| <br>  |         |         |
| <b>Liabilities</b>                          |         |         |
| Non-current liabilities                     | 424.3   | 412.5   |
| Current liabilities                         | 838.9   | 469.6   |
| <b>Total liabilities</b>                    | 1,263.2 | 882.1   |
| <b>Total equity and liabilities</b>         | 2,102.1 | 1,769.6 |



# Kemira Oyj Financial statements (FAS)

EUR million

| CASH FLOW STATEMENT (FAS)                                       | 1/1–31/12    |               |
|---|--------------|---------------|
|   | 2006         | 2005          |
| <b>Cash flows from operating activities</b>                     |              |               |
| Operating loss/profit   | -53.1        | 27.4          |
| Adjustments to operating loss profit                            | -4.9         | -32.8         |
| Depreciation  | 19.2         | 21.3          |
| Interest received   | 42.0         | 20.6          |
| Interest paid   | -44.1        | -25.3         |
| Dividend received   | 5.4          | 3.3           |
| Other financing items   | 5.5          | -28.5         |
| Income taxes paid   | -15.9        | -28.1         |
| <b>Total funds from operations</b>                              | <b>-45.9</b> | <b>-42.1</b>  |
| <b>Change in net working capital</b>                            |              |               |
| Change in inventories   | 2.6          | -4.5          |
| Change in current receivables                                   | -0.5         | -10.0         |
| Change in non-interest-bearing current liabilities              | 23.5         | 3.6           |
| <b>Change in net working capital, total</b>                     | <b>25.6</b>  | <b>-10.9</b>  |
| <b>Total cash flows from operations</b>                         | <b>-20.3</b> | <b>-53.0</b>  |
| <b>Cash flows from investing activities</b>                     |              |               |
| Acquisitions of subsidiaries                                    | -69.9        | -381.8        |
| Purchase of other shares  | -1.0         | -3.6          |
| Purchase of other plant, property and equipment                 | -29.4        | -22.6         |
| Proceeds from sale of subsidiaries                              | 26.0         | -             |
| Proceeds from sale of other shares                              | -            | 53.6          |
| Proceeds from sale of other plant, property and equipment       | 3.0          | 52.4          |
| Total capital expenditure                                       | -71.3        | -302.0        |
| <b>Cash flow before financing</b>                               | <b>-91.6</b> | <b>-355.0</b> |
| <b>Cash flows from financing activities</b>                     |              |               |
| Change in non-current loans (increase +, decrease -)            | 181.1        | 554.8         |
| Change in non-current loan receivables (decrease +, increase -) | -7.5         | -208.4        |
| Current financing, net (increase +, decrease -)                 | -40.5        | -310.6        |
| Increase in shareholders' equity                                | 0.4          | 0.5           |
| Increase in share premium                                       | -            | 0.3           |
| Group contribution  | 46.7         | 24.1          |
| Dividends paid  | -43.6        | -44.7         |
| Other   | 3.5          | -0.8          |
| <b>Net cash used in financing activities</b>                    | <b>140.1</b> | <b>15.2</b>   |
| <b>Net change in cash and cash equivalents</b>                  | <b>48.5</b>  | <b>-339.8</b> |
| Cash and cash equivalents at end of year                        | 59.0         | 10.5          |
| Cash and cash equivalents at beginning of year                  | 10.5         | 350.3         |
| <b>Net change in cash and cash equivalents</b>                  | <b>48.5</b>  | <b>-339.8</b> |

| <b>EQUITY</b>   | <b>2006</b>  | <b>2005</b>  |
|---|--------------|--------------|
| Share capital at Jan. 1   | 221.3        | 220.7        |
| Increase (options)  | 0.3          | 0.6          |
| <b>Share capital at Dec. 31</b>                                 | <b>221.6</b> | <b>221.3</b> |
| Share issue Jan. 1  | -            | 0.1          |
| Transfer to share capital                                       | -            | -0.1         |
| <b>Share issue Dec. 31</b>                                      | <b>-</b>     | <b>-</b>     |
| Share premium account at Jan. 1                                 | 257.8        | 257.5        |
| Increase (options)  | 0.1          | 0.3          |
| <b>Share premium account at Dec. 31</b>                         | <b>257.9</b> | <b>257.8</b> |
| Retained earnings at Jan. 1                                     | 309.7        | 312.0        |
| Net profit for the year   | -4.9         | 42.3         |
| Dividends paid  | -43.6        | -41.0        |
| Revaluation cancelled   | -            | -4.3         |
| Share-based incentive plan; shares given                        | 0.7          | 0.7          |
| <b>Retained earnings and net profit for the year at Dec. 31</b> | <b>261.8</b> | <b>309.7</b> |
| <b>Total equity at Dec. 31</b>                                  | <b>741.4</b> | <b>788.8</b> |

<sup>1)</sup> Because of the change of the Companies Act the presentation of treasury shares changed in 2005. Treasury shares are no longer presented under assets. Treasury shares are included in retained earnings

Company owns 3,979,670 treasury shares, whose nominal value totals EUR 7,1 million and acquisition cost totals EUR 26.8 million.

|   | EUR million | Number           |
|---|-------------|------------------|
| <b>Changes in treasury shares</b>         |             |                  |
| Acquisition cost/number 1/1/2006          | 27.5        | 4,087,760        |
| Change                                    | -0.7        | -108,090         |
| <b>Acquisition cost/number 31/12/2006</b> | <b>26.8</b> | <b>3,979,670</b> |

# Shares and Shareholders

## Shares and share capital

In accordance with Kemira Oyj's Articles of Association, the Company's share capital may vary between EUR 217 and 850 million, within which limits the Company may increase or reduce the share capital without amending the Articles of Association. On December 31, 2006, the share capital totaled EUR 221.6 million and the number of outstanding shares 124,967,611, with each share entitling its holder to one vote at the shareholders' meeting.

In 2006, the Company increased its share capital 4 times, based on subscriptions for 2001 stock options, with the result that the number of outstanding shares increased by 166,011 new shares and the share capital by EUR 0.3 million. Kemira Oyj shares are registered within the book-entry system.

## Shareholders

On December 31, 2006, Kemira Oyj had 16,280 registered shareholders, of which nominee-registered shareholders accounted for 21% (17%). On the same date, the Finnish State held 48.6% (48.7%) of the Company's shares and voting rights. On the basis of a resolution passed by Parliament in 2001, the State's holding in the Company may decrease to 15%. A new resolution by Parliament is required for shareholdings below this level.

## Purchase obligation of shares

A shareholder whose holding in the Company's total outstanding shares, either alone or together with other shareholders as defined in the Articles of Association, reaches 33 1/3 per cent or exceeds 50 per cent shall, upon other shareholders' demand, purchase their shares and the securities which, under the Companies Act, give title to said shares in the manner specified in the Articles of Association.

## Listing and share trading

Listed on the Helsinki Stock Exchange, Kemira Oyj share closed at EUR 17.03, up by 26% year on year. The highest quotation was EUR 17.17 and the lowest EUR 11.07, while the share price averaged EUR 14.19.

During the 2006 calendar year, Kemira Oyj's share trading volume on the Helsinki Stock Exchange totaled 76.3 million, valued at EUR 1,084.1 million. The Company's market capitalization, excluding treasury shares, was EUR 2,060,4 million on December 31, 2006.

## Dividend policy

Kemira aims to distribute a dividend that accounts for 30–50% of its net operating income. The Company's Board of Directors will propose to the Annual General Meeting that a per-share dividend of EUR 0.48 be paid for the 2006 financial year, accounting for a dividend payout of 50% of net operating income.

## Board authorizations

The Annual General Meeting on April 11, 2006 authorized the Board to decide on buying back Company shares (treasury shares) using distributable earnings in such a way that the number of shares to be bought back may total a maximum of 2,146,640. This number, together with treasury shares already owned by the Company, accounts for 5% of the Company's share capital and voting rights. The Company may buy back shares in order to finance acquisitions of assets within the scope of the Company's business operations, develop the Company's capital structure, incentivize its personnel (as part of the 2004 share-based incentive plan) or dispose of the shares in other ways or cancel them. This authorization is valid until April 11, 2007. The Company didn't buy back any shares during 2006.

In addition, the Annual General Meeting authorized the Board of Directors to decide on transferring a maximum of 6,240,080 treasury shares. The Annual General Meeting authorized the Board to waive the shareholders' pre-emptive subscription right provided that, from the Company's perspective, there are significant financial reasons for doing so, such as financing or implementing mergers, acquisitions or similar corporate transactions, or incentivizing certain employees. This authorization is valid until April 11, 2007. On December 31, 2006, the Company had 3,979,670 treasury shares.

In addition, the Annual General Meeting authorized the Board of Directors to decide on increasing the Company's share capital by issuing new shares, stock options or convertible bonds in one or several tranches. As a result of the share issue, share subscriptions based on the stock options and the convertible bonds converted into company shares, the increase of the Company's share capital may be maximum EUR 22,1 million and the Company may issue a maximum total of 12,480,160 new shares, whose stated value is around EUR 1.77, accounting for a total of 10% of the Company's registered share capital and votes conferred by the shares. The Annual General Meeting authorized the Board to decide on a subscription price, bases for its determination and other terms and aspects related to the share issue, stock options or convertible bonds. In addition, the Annual General Meeting authorized the Board to waive the shareholders' pre-emptive subscription right provided that, from the Company's perspective, there are significant financial reasons for doing so, such as financing or implementing mergers, acquisitions or similar corporate transactions, or incentivizing certain employees. The Board of Directors may decide on those entitled to subscriptions, but said decision may not be made in favor of people as referred to in Paragraph 1, Section 4, Chapter 1 of the Companies Act. The Board may not decide to grant stock options to Company employees or management. The Annual General Meeting also authorized the Board to decide that the share subscription be implemented in kind

or otherwise on certain terms and conditions as prescribed by the Companies Act. This authorization is valid until April 11, 2007. The Board did not exercise the authorization in 2006.

#### **Management stock options and share-based incentive plan**

Kemira currently has a stock option program launched in 2001 and share-based incentive plans established in 2004 and 2006.

#### **Stock option program 2001**

The Annual General Meeting on April 3, 2001 decided on a stock option program whereby members of the Company's management were entitled to receive stock options conferring the right to subscribe for a maximum of 2,850,000 Kemira Oyj shares between May 2, 2004 and May 31, 2007. The commencement of the subscription period was conditional and tied to Kemira's consolidated earnings per share after financial items and before taxes and extraordinary items, as well as to Kemira Oyj's share price performance in relation to a comparison index. On the basis of the subscriptions under the stock option program, a total of 2,607,611 new Kemira shares were entered in the Trade Register by the end of 2006. On December 31, 2006, the share subscription price was EUR 2.11 per share, in accordance with the conditions of the stock option program. The subscription price will be reduced by the amount of dividends distributed. On the basis of the subscriptions under the 2001 stock option program, the number of shares may increase by a maximum of 77,389.

#### **Share-based incentive plan**

In the spring of 2004, the Board of Directors decided on a new share-based incentive plan designed for key employees as part of the Group's incentive schemes. This share-based incentive plan aims at aligning with the goals of the Group's shareholders and key executives in order to increase the Company's value, motivate key executives and provide them with competitive, shareholding-based incentives.

This incentive plan is divided into the following three, year-long performance periods: 2004, 2005 and 2006. Any bonuses earned are to be paid out during the year following the performance period, depending on the achievement of the set financial targets gauged on the basis of earnings per share and the return on capital employed. Bonus payments take the form of both Kemira shares and cash.

Any shares earned through the plan must be held for a minimum of two years following the date of each payment. The key employee must return the shares to the Company without payment if his/her employment or service with the Company is terminated of his/her own accord or by the Company within two years of the payment. In addition, the President and CEO and Management Boards' members

must retain shares obtained through the scheme at least to the value of their gross annual salary for as long as they remain in the Company's employ. On December 31, 2006, a total of 78 key employees were involved in the share-based incentive plan. The maximum number of Kemira Oyj shares transferable under the incentive plan during three years comes to around 510,000.

In February 2006, the Board of Directors decided on a new share-based incentive plan designed for key employees, which is similar to the 2004 share-based incentive plan in terms of its basic structure and extent. This incentive plan is divided into the following three, year-long performance periods: 2007, 2008 and 2009. The maximum number of Kemira Oyj shares transferable under the incentive plan during three years may total around 774,000.

The shares transferable under the plan comprise treasury shares or Kemira Oyj shares available in public trading.

#### **Management shareholding**

The members of the Board of Directors and the Supervisory Board as well as the President and CEO and his Deputy held 119,485 Kemira Oyj shares on December 31, 2006, or 0.10% (0.08%) of all outstanding shares and voting rights (including treasury shares and shares held by related parties and controlled corporations). Board members are not covered by the stock option program or the share-based incentive plan.

#### **Insider rules**

Kemira Oyj complies with the insider guidelines issued by the Helsinki Stock Exchange. Kemira Oyj's insiders in the Company's public register and Kemira's permanent company-specific insiders may not trade in Company shares during the 30 days prior to the release of the Company's interim report or financial statements bulletin.

Information on Kemira Oyj shares held by insiders subject to disclosure requirements is available for inspection within Finnish Central Securities Depository Ltd's SIRE system (address: Finnish Central Securities Depository Ltd, Urho Kekkosen katu 5 C, Helsinki) and NetSire service.

# Shares and Shareholders

## Largest shareholders December 31, 2006

| Shareholder                                  | Number of shares   | % of shares and votes |
|--|--------------------|-----------------------|
| 1 Finnish State                              | 607,753,920        | 48.62                 |
| 2 Ilmarinen Mutual Pension Insurance Company | 2,318,900          | 1.86                  |
| 3 Varma Mutual Pension Insurance Company     | 2,141,262          | 1.71                  |
| 4 Tapiola Mutual Pension Insurance Company   | 1,208,000          | 0.97                  |
| 5 The State Pension Fund                     | 900,000            | 0.72                  |
| 6 Kaleva Mutual Insurance Company            | 769,627            | 0.62                  |
| 7 Equity Fund Nordea Small Cap               | 752,900            | 0.60                  |
| 8 Nordea Bank Finland                        | 740,864            | 0.59                  |
| 9 Odin Förvaltnings AS                       | 718,561            | 0.57                  |
| 10 OP-Suomi Arvo Investment Fund             | 685,000            | 0.55                  |
| 11 Etera Mutual Pension Insurance Company    | 641,300            | 0.51                  |
| 12 Evli Bank                                 | 635,970            | 0.51                  |
| 13 OP Delta Investment Fund                  | 564,794            | 0.45                  |
| 14 Mutual Insurance Company Pension Fennia   | 422,000            | 0.34                  |
| 15 Tapiola Mutual Insurance Company          | 407,800            | 0.33                  |
| 16 OP-Suomi Pienyhtiöt Fund                  | 390,000            | 0.31                  |
| 17 Kemira GrowHow Pension Fund               | 386,760            | 0.31                  |
| 18 Equity Fund Nordea Fennia                 | 366,700            | 0.29                  |
| 19 Nordea Life Assurance Finland             | 353,992            | 0.28                  |
| 20 FIM Fenno Mutual Fund                     | 344,080            | 0.28                  |
| Kemira Oyj                                   | 3,979,670          | 3.18                  |
| Nominee-registered shares                    | 25,979,559         | 20.79                 |
| Others, total                                | 19,505,952         | 15.61                 |
| <b>Total</b>                                 | <b>124,967,611</b> | <b>100.00</b>         |

## Shareholding by number of shares held December 31, 2006

| Number of Shares                    | Number of shareholders | % of shareholders | Shares total       | % of shares and votes |
|-------------------------------------|------------------------|-------------------|--------------------|-----------------------|
| 1-100                               | 3,160                  | 19.41             | 219,066            | 0.17                  |
| 101-500                             | 7,322                  | 44.97             | 2,085,638          | 1.67                  |
| 501-1,000                           | 3,099                  | 19.04             | 2,448,487          | 1.96                  |
| 1,001-5,000                         | 2,254                  | 13.84             | 4,598,711          | 3.68                  |
| 5,001-10,000                        | 206                    | 1.27              | 1,532,560          | 1.22                  |
| 10,001-50,000                       | 165                    | 1.01              | 3,298,012          | 2.64                  |
| 50,001-100,000                      | 31                     | 0.19              | 2,345,505          | 1.88                  |
| 100,001-500,000                     | 26                     | 0.16              | 5,745,477          | 4.60                  |
| 500,001-1,000,000                   | 9                      | 0.06              | 6,409,016          | 5.13                  |
| 1,000,001-                          | 8                      | 0.05              | 96,285,139         | 77.05                 |
| <b>Total</b>                        | <b>16,280</b>          | <b>100.00</b>     | <b>124,967,611</b> | <b>100.00</b>         |
| Including nominee-registered shares |                        |                   | 25,979,559         | 20.79                 |

## Board proposal for profit distribution

On December 31, 2006 Kemira Oyj's distributable funds totaled EUR 261,897,494, of which net loss for the period accounted for EUR 4,923,926.

No material changes have taken place in the company's financial position after the balance sheet date.

The Board proposes to the Annual General meeting that distributable funds be allocated as follows:

- Distributing a per-share dividend of EUR 0.48 for the financial year, or a total of EUR 58,074,212.
- Retaining EUR 203,823,282 under unrestricted equity

Helsinki, February 5, 2007

Anssi Soila

Eija Malmivirta

Elizabeth Armstrong

Ove Mattsson

Heikki Bergholm

Markku Tapio

Kajja Pehu-Lehtonen

Lasse Kurkilahti  
CEO

## Auditors' report

### To the shareholders of Kemira Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Kemira Oyj for the period January 1 – December 31, 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Supervisory Board, the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

### Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

### Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of the distributable funds is in compliance with the Companies Act.

Helsinki February 6, 2007  
KPMG OY AB  
Pekka Pajamo  
Authorized Public Accountant

## Statement of the Supervisory Board

The Supervisory Board of the Kemira Oyj has read the financial statements of the parent company and the Group for 2006 and studied the Auditors' report at its meeting today.

The Supervisory Board advises the 2007 Annual General Meeting that the company has been managed well and that it has no comments to make on the financial statements of the parent company and the Group for 2006.

The Supervisory Board recommends/proposes that the financial statements of the parent company and the Group be adopted and that the Board of Directors, the Managing Director and his deputy be discharged from liability.

The Supervisory Board concurs with the proposal of the Board of Directors for the distribution of profit funds.

Helsinki, February 12, 2007

Aulis Ranta-Muotio

Pekka Kainulainen

Mikko Långström

Risto Ranki

Susanna Rahkonen