

Kemira Group Interim Report 1 January - 31 March 2003

KEMIRA GETS OFF TO A SLOW START DUE TO GROWHOW, FULL-YEAR OUTLOOK STRENGTHENING

- Net sales: EUR 700 million (January-March 2002: 656 million)
- Operating income: EUR 31 million (53 million)
- Net income: EUR 17 million (31 million)
- Earnings per share: EUR 0.14 (0.26)
- All strategic business units are expected to maintain or improve their operating income in 2003

The Kemira Group's net sales in the January-March period of the current year were EUR 700 million, up 7% on the same period a year earlier (656 million). Consolidated operating income was EUR 31 million (53 million), or 4% of net sales (8%). The decline was largely due to the weak result of Kemira GrowHow. Income before taxes and minority interests was EUR 26 million (45 million) and income after taxes was EUR 17 million (31 million). Earnings per share were EUR 0.14 (0.26). Cash flow after capital expenditures was EUR 71 million negative (80 million negative) due to a seasonal increase in net working capital. Per-share cash flow from operations was EUR 0.37 negative (0.00). Equity per share was EUR 8.96 (8.94 at the start of the year).

The average number of the Group's employees in January-March was 10,135 (10,052).

GROUP STRATEGY

Within pulp and paper chemicals as well as water treatment chemicals, Kemira is seeking to be one of the world's top three companies. The objective for the paint business is to grow to become one of the leading European companies, with a focus on the Baltic Rim operating environment.

The industrial chemicals business will be developed by drawing on its present largely organic growth potential. The GrowHow business will be developed as an independent unit that is part of the Group and its cash flow will be partly used to fund the growth of the other units.

For the first time all the strategic business units are now reported on separately.

PULP AND PAPER CHEMICALS

The Pulp & Paper Chemicals unit's net sales grew by 11% to EUR 121 million (109 million), although the production volumes of its main client, the pulp and paper industry, continued to be depressed. The North American acquisition was now included for the full quarter compared with just two months last year. Operating income was 19% better than the year-ago figure at EUR 9.6 million (8.1 million),

which is 8% of net sales. The development in the specialty paper chemicals business and hydrogen peroxide prices has been favourable.

The construction work on the new specialty paper chemicals plant on the west coast of the US as well as the extension to the calcium sulphate pigment plant in Siilinjärvi, Finland, are progressing according to plan. This year the capacities of the different sizing plants in Krems, Austria, will also be expanded.

KEMWATER

Net sales of the water treatment chemicals unit, Kemwater, were EUR 43 million, 4% lower than last year (45 million). The decrease in sales was partly due to the exceptionally dry weather in the Nordic countries, which meant that less drainage than usual passed through water treatment plants. Operating income was EUR 4.3 (4.7 million), a margin of 10%.

Kemira has purchased the shares held by the City of Helsinki (49%) in Kemwater Services Oy and now owns 100% of the company. Kemwater Services Oy offers water supply and sanitation services to municipalities and the industrial sector in Finland and in neighbouring regions.

Kemira has acquired all the shares in Kemwater (Yixing) Co. Ltd of China. The remaining 11% of shares was purchased from FINNFUND, the Finnish Fund for Industrial Cooperation Ltd. Kemwater (Yixing) Co. Ltd mainly produces inorganic coagulants for water treatment in the Yixing industrial park area, in Yixing city, Jiangsu County. The nearest big cities in the area are Shanghai and Nanking.

Kemira has started up water treatment chemical production in St Petersburg. According to the agreement signed between the two companies earlier, the overall transfer to Kemira of the Russian Open Joint Stock Company NPF Pigment's production plant has now taken place.

Kemira plans to develop the plant's current production and will also construct a new production line for water treatment chemicals in St Petersburg. The total value of the deal and the investment will come up to about EUR 10 million.

PAINTS AND COATINGS

The paints and coatings business had net sales of EUR 106 million (101 million). Operating income in the January-March period was up by 37% to EUR 6.3 million (4.6 million), or 6% of net sales. The savings resulting from combining the operations of Tikkurila and Alcro-Beckers as well as other productivity improvement measures continue to increase earnings.

Net sales of the **decorative paints** business were 2% higher than last year. In the decorative paints business in the Nordic countries the first quarter amounts, to a large degree, to predeliveries preparing

for the actual paint season, and the important quarters are the second and third quarter. Strong growth has continued, especially in Russia.

The **industrial coatings** business showed a 14% increase in net sales based on good development in the Nordic countries and Poland. The increase was to a large degree a result of the acquisition of Akzo Nobel Coatings' general industrial liquid coatings business in the Nordic countries. The market has continued to be particularly weak in Great Britain, where additional improvement measures are under way.

INDUSTRIAL CHEMICALS

The Industrial Chemicals unit is a supplier to the paint, printing ink, detergent and fine chemicals industries. The unit's net sales were 2% lower than last year at EUR 99 million (102 million). Operating income was EUR 8.0 million (11.3 million). Roughly half of the unit's sales are generated by the titanium dioxide pigments business, which had the trough of its business cycle last summer and since then prices have been rising. Average prices in the first quarter were 2% higher than in the same period last year. In February the unit suffered from a fire, the damages causing a cut of about EUR 2 million to earnings. Sales volumes decreased by 6% compared with the first quarter of last year.

The demand for both calcium chloride and formic acid have remained at a good level, although some calcium chloride deliveries were deferred until later in the year. Formic acid production suffered from extremely cold weather conditions at the beginning of the year, but has since been running well and the expanded capacity has been in full use. Sodium percarbonate, which is used as an environmentally sound bleaching agent in the detergent industry, has continued to gain market share from alternative products and improved its performance from previous year. The timing of major deliveries in the fine chemicals unit will be in the second half of the year, whereas last year the majority of the deliveries were in the first half of the year.

GROWHOW

Kemira GrowHow (formerly Agro) had net sales of EUR 343 million, an increase of 10% on the previous year (312 million). Operating income of EUR 4.1 million (27 million) was hurt by lower prices, ammonia production problems and a bad debt provision.

The business unit **Food Chain Partner** supplies compound fertilizers, crop protection chemicals and services to agriculture in Northern and Eastern Europe. The unit's net sales grew by 14% from last year. Sales volumes of compound fertilizers grew by 10% from the same period last year; prices were stable in the Nordic markets and increased by close to 10% in some other European markets. Of raw materials, the price of ammonia was markedly higher than a year ago.

Kemira GrowHow will replace the old nitric acid plant in Uusikaupunki with a relocated modern unit. The new nitric acid unit has been constructed using the most recent technology, with regard to both environmental protection and energy utilization efficiency. The investment will come to EUR 21 million and will be covered using GrowHow's own cash flow. The new nitric acid plant will further improve the Uusikaupunki plants' existing cost effectiveness and competitive advantage. The investment will contribute to reducing the expenses in production costs and improve further the plants' environmental protection level.

Kemira Agro Nitrogen supplies fertilizers to agriculture in the UK and continental Europe. Net sales of the unit were up significantly on last year. Volumes increased showing strong development over the previous year's poor performance both in continental and UK markets. Most of the deliveries in the first quarter were at lower prices than in the first quarter last year. Market prices at the end of the quarter were about 10% higher than a year ago. Production problems at the UK ammonia units decreased operating profit by about EUR 7 million because the unit had to buy ammonia from the markets at peak prices. Ammonia production has been back to normal since the first week of April.

The **Specialty Crop Care** unit markets customized plant nutrients for specialty crop growers globally. The unit's net sales decreased substantially from last year. The decline came mostly from overseas exports, partly due to the weakening of the US dollar against the euro as well as in European markets after the liquid fertilizer production in the Netherlands was shut down last year. The full scale start-up of the new production unit for potassium nitrate in Jordan in the Middle East has been delayed because of the war in Iraq.

The **Animal Nutrition** unit supplies feed phosphates and acids to the animal feed industry globally. The unit's net sales grew clearly from last year due to the acquisition made in South Africa. Profitability has been depressed, with lower feed phosphate prices due to strong competition in the markets. The unit also made a provision of EUR 3 million for a bad debt in its Hungarian operations. The Kemphos unit's sales and profitability were hurt by the weakening of the US dollar against the euro.

The **Process Chemicals** unit mainly sells nitrogen based chemicals to other industries. The unit's net sales were at the same level, but profitability fell somewhat short of last year due to the higher cost of natural gas.

OTHER OPERATIONS

Kemira Metalkat, the Group's catalytic converter unit, reported net sales of EUR 9 million, at the same level as last year. Metalkat made an operating loss of EUR 0.6 million (an operating loss of 0.3 million).

Kemira has its own electricity generation as well as holdings in Finnish power companies which make the Group more than self sufficient in electricity in Finland. The excess is sold on the market, providing a natural hedge for costs outside Finland. Thus, the recent high cost of electricity has not impacted Kemira's energy costs significantly.

Kemira sold its 15% holding in Oy Forcit Ab, a Finnish producer of explosives and dispersions, to its other shareholders.

PROFITABILITY IMPROVEMENT

During the last 12 months Kemira has launched several projects with the aim of improving profitability. These include establishing the Corporate Centre and the shared services unit called Kemira Service as well as improving logistics, procurement and efficiency at the production sites. Together these projects are estimated to have significant savings potential over the next 2-3 years.

CAPITAL EXPENDITURES

The Kemira Group's gross capital expenditures in the cash flow statement amounted to EUR 29 million (85 million). Full-year gross capital expenditures are estimated to be about EUR 200 million (243 million).

FINANCING

The Group's financial position remained stable. Interest-bearing net debt at the end of the quarter was EUR 831 million, or EUR 63 million higher than at the end of last year, primarily as a consequence of the seasonal increase in net working capital.

The Group's equity ratio was 42% at the end of the quarter (43% at the end of the year). The gearing ratio (net debt as a ratio of shareholders' equity) was 77% (72% at the end of the year). At the end of the quarter liquid funds amounted to EUR 49 million and unused agreed credit facilities totalled about EUR 297 million.

Net financing expenses in the January-March period were EUR 4.9 million (7.5 million). Gains on foreign exchange were EUR 2.2 million (0.2 million). The proportion which fixed-interest loans represented within the total amount of the Group's interest-bearing loans was about 38% at the end of the quarter. Pension loans are considered to be floating rate loans.

FINNISH PENSION FUNDS

The current estimate for company contributions paid into Finnish pension funds is about EUR 36 million, which is based on investment returns up to March 31. The first quarter charge is one fourth of the full-year estimate, or about EUR 9 million.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting of Kemira Oyj resolved that a dividend of EUR 0.30 per share be paid for the 2002 financial year. The dividend was paid on 23 April 2003.

The Company has 4,190,000 of its own shares in its possession. The Annual General Meeting also resolved that the Board of Directors be authorized to decide on the transfer of the Company's own shares as well as to sell them through Helsinki Exchanges; the shares can be used for the payment of employee bonuses and possible bonuses to the personnel funds provided the Board of Directors decides to introduce such a compensation system, and as consideration in making acquisitions. The authorization will be in force for one year from the passing of the resolution by the Annual General Meeting. There is no authorization for the Board to increase the Company's share capital or to buy back shares after the AGM.

The Annual General Meeting elected the Company's Board of Directors to a new term of office of one year. As Chairman of the Board the Annual General Meeting elected Anssi Soila, and as Vice Chairman Eija Malmivirta. Matti Packalén will remain a member of the Board of Directors. The following new members were elected: Markku Tapio of the Ministry of Trade and Industry, Elizabeth Armstrong and Ove Mattsson, both of whom have strong experience in the international chemical industry.

FULL-YEAR OUTLOOK

The depressed phase in the cycle of the **pulp and paper** industry is estimated to continue. The Group's geographical presence has strengthened and its product range and scope of services has expanded, particularly following the acquisition of Vinings, Inc. of the USA. The operating income of pulp and paper chemicals for the full year is expected to improve from the previous year.

Demand is expected to continue developing favourably in **water treatment chemicals**, and operating income should remain at a good level.

The demand for **paints and coatings** seems to be reasonably good at the beginning of the summer painting season. The general slowdown in economy should not affect demand to any significant degree. Growth is expected to be strongest in Russia. Synergy benefits arising from combining Alcro-Beckers of Sweden with the Kemira Paints and Coatings business together with other productivity improvement measures initiated last year will further improve operating income for the financial year.

The outlook for **industrial chemicals** remains positive. New capacity has been brought on stream, e.g. in sodium percarbonate in Helsingborg, formic acid in Oulu, and titanium dioxide pigments in Pori. The global economic development is a factor of uncertainty that may affect the upward trend in titanium dioxide prices. In 2003

operating income of the industrial chemicals business is expected to improve from the previous year.

GrowHow's product prices have improved fast as the season has progressed, and will start to improve the operating result after the first quarter. Over the year, it is estimated that the restructuring in the European fertilizer industry will have a stabilizing effect on the business prospects of Kemira GrowHow as well. Grain stocks are at an exceptionally low level globally, supporting the price of grain and also having a positive effect on fertilizer prices. GrowHow's operating income for the full year is expected to be close to last year's level.

The **Kemira Group's** operating income is expected to improve on last year's operating result. The operational net result is also estimated to improve.

Helsinki, 6 May 2003

Board of Directors

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

KEMIRA GROUP JANUARY-MARCH 2003

The figures are unaudited.

INCOME STATEMENT EUR million	1-3/2003	1-3/2002	2002
Net sales	699.5	656.3	2,612.3
Shares of associates' profits	0.4	0.4	5.5
Other income from operations	5.8	2.5	13.2
Cost of sales	-632.7	-564.8	-2,331.2
Depreciation	-41.6	-41.8	-176.1
One-time impairment in GrowHow	-	-	-78.2
Operating income	31.4	52.6	45.5
Financial income and expenses	-4.9	-7.5	-29.5
Income before taxes and minority interests	26.5	45.1	16.0
Income taxes *)	-8.6	-13.3	-5.3
Minority interest	-0.8	-0.8	-2.5
Net income	17.1	31.0	8.2

*) Interim period tax expense is accrued using the tax rate that is estimated to be applicable to expected annual earnings.

Key figures	1-3/2003	1-3/2002	2002
Earnings per share, EUR **)	0.14	0.26	0.07
Earnings per share before one-time impairment, EUR **)	0.14	0.26	0.61

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(12)

Cash flow from operations per share, EUR	-0.37	0,00	2.45
Capital expenditure, EUR million	29	85	243
Average number of shares (1000) (***)	118,170	118,170	118,170
Equity per share, EUR	8.96	9.65	8.94
Equity ratio, %	42.3	43.0	43.3
Gearing, %	77.4	77.8	71.6
Net liabilities EUR million	831	900	768
Personnel (average)	10,135	10,052	10,377

***) Diluted earnings per share are the same

***) Weighted average number of shares outstanding, adjusted by the number of shares bought back.

BALANCE SHEET

EUR Million

	31.3.2003	31.12.2002
Non-current assets		
Intangible assets	217.2	221.2
Tangible assets	1,053.2	1,072.0
Deferred tax assets	10.5	10.6
Investments	153.7	169.9
Total non-current assets	1,434.6	1,473.7
Current assets		
Inventories	363.6	358.4
Receivables		
Interest-bearing receivables	10.7	7.8
Interest-free receivables	697.3	570.5
Total receivables	708.0	578.3
Securities	12.6	40.1
Cash and bank	36.1	40.7
Total current assets	1,120.3	1,017.5
Total assets	2,554.9	2,491.2
	31.3.2003	31.12.2002
Shareholders' equity		
Share capital	217.0	217.0
Own shares	-28.2	-28.2
Other shareholders' equity	870.3	867.5
Total shareholders' equity	1,059.1	1,056.3
Minority interests	15.3	16.4
Long-term liabilities		
Interest-bearing long-term liabilities	503.8	636.9
Deferred tax liabilities	40.5	41.8
Provision for liabilities and charges	71.8	74.9
Total long-term		

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liabilities	616.1	753.6
Current liabilities		
Interest-bearing short-term liabilities	376.1	211.8
Interest-free short-term liabilities	448.5	406.6
Provision for liabilities and charges	39.8	46.5
Total current liabilities	864.4	664.9
Total liabilities	1,480.5	1,418.5
Total liabilities and shareholders' equity	2,554.9	2,491.2

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium account	Other funds		
Shareholders' equity at 1 January 2002	217.0	252.5	2.8		
Other changes	-	-	0.5		
Shareholders' equity at 31 March. 2002	217.0	252.5	3.3		
Shareholders' equity at 1 January 2003	217.0	252.5	3.2		
Other changes			0.0		
Shareholders' equity at 31 March. 2003	217.0	252.5	3.2		
	Exchange differences	Valuation reserve	Own shares	Retained earnings	Total
Shareholders' equity at 1 January 2002	-7.7	-	-21.2	671.7	1,115.1
Net profit for the financial year	-	-	-	31.0	31.0
Exchange differences	0.2	-	-	-	0.2
Own shares repurchased	-	-	-7.0	-	-7.0
Other changes	-	-	-	1.0	1.5
Shareholders' equity at 31 March. 2002	-7.5	-	-28.2	703.7	1,140.8
Shareholders' equity at 1 January 2003	-33.0	0.6	-28.2	644.2	1,056.3
Net profit for the financial year	-	-	-	17.1	17.1
Exchange differences	-15.0	-	-	-	-15.0
Equity hedging	1.6	-	-	-	1.6
Cash flow hedging amount entered in shareholders'					

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equity	-	-0.6	-	-	-0.6
Other changes	-	-	-	-0.3	-0.3
Shareholders' equity at 31 March. 2003	-46.4	-	-28.2	661.0	1,059.1

Own shares purchased can be used for the personnel funds operating within the Group for the payment of bonuses that may be payable and for the payment of incentive compensation to staff in lieu of cash, provided that the Board of Directors decides to introduce this kind of incentive compensation system for staff, as well as for use as consideration in possible acquisitions, transfer them further or sell them through Helsinki Exchanges.

Kemira had in its possession, from previous years 4,190,000 of its own shares at the 31st of March 2003. Their average share price was 6.73 and proportion of the share capital 3.4%. They represented 3.4% of the aggregate number of votes conferred by all the shares.

The principles and accounting methods used to prepare this financial statement are consistent with those used in the annual report.

CASH FLOW STATEMENT

EUR million	1-3/2003	1-3/2002	2002
Cash flow from operations	-43.9	-0.1	289.8
Capital expenditure	-28.6	-84.8	-243.5
Sale of assets	1.1	4.5	20.9
Cash flow before financing	-71.4	-80.4	67.2
Financing	39.3	75.7	-56.2
Increase / decrease in liquid funds	-32.1	-4.7	11.0

EARNINGS BY BUSINESS AREA

Net sales, EUR million	1-3/2003	1-3/2002	2002
Pulp & Paper	121.1	109.2	484.7
Kemwater	43.2	45.0	176.4
Paints & Coatings	105.8	101.3	449.6
Industrial Chemicals	99.4	101.5	403.7
GrowHow	343.3	311.5	1,165.2
Other and Intra-Group sales	-13.3	-12.2	-67.3
Total Group	699.5	656.3	2,612.3

Operating income, EUR million

	1-3/2003	1-3/2002	2002
Pulp & Paper	9.6	8.1	29.9
Kemwater	4.3	4.7	18.6
Paints & Coatings	6.3	4.6	25.4
Industrial Chemicals	8.0	11.3	26.7
GrowHow	4.1	27.0	-34.4
Other	-0.9	-3.1	-20.7
Total Group	31.4	52.6	45.5

CONTINGENT LIABILITIES

EUR million	31.3.2003	31.12.2002

Mortgages	110.9	111.1
Assets pledged		
On behalf of own commitments	45.2	46.3
On behalf of others	0.9	1.0
Guarantees		
On behalf of associates	64.1	63.9
On behalf of others	1.6	1.6
Operating leasing		
Maturity within one year	4.5	3.3
Maturity after one year	17.4	21.0
Other obligations		
On behalf of associates	-	-
On behalf of others	0.9	1.0

DERIVATIVE FINANCIAL INSTRUMENTS 31.3.2003
EUR million

	Nominal value	Fair value
Currency instruments		
Forward contracts	341.2	11.3
Currency options		
Bought	365.1	3.6
Sold	699.9	1.2
Currency swaps	129.8	-12.6
Interest rate instruments		
Interest rate swaps	172.7	-6.7
Interest rate options	68.0	-0.8
Bought	29.2	-0.2
Sold	38.8	-0.6
Forward rate agreements	77.5	-0.2
Of which open	27.5	-0.2
Bond futures	10.0	0.2
Of which open	10.0	0.2

DERIVATIVE FINANCIAL INSTRUMENTS 31.12.2002
EUR million

	Nominal value	Fair value
Currency instruments		
Forward contracts	278.7	9.5
Currency options		
Bought	224.9	6.1
Sold	418.6	-0.5
Currency swaps	145.1	-14.1
Interest rate instruments		
Interest rate swaps	145.4	-8.8
Interest rate options	92.8	-1.1
Bought	29.6	-0.2
Sold	63.2	-0.9
Forward rate agreements	448.2	-0.2
Of which open	47.7	-0.2
Bond futures	25.0	-0.1
Of which open	5.0	-0.1

Nominal values of the financial instruments do not necessarily correspond with the actual cash flows between the counterparties

and do not therefore give a fair view of the risk position of the Group.

Fair values are based on market valuation on the date of reporting for the instruments which are publicly traded. Other instruments have been valued based on net present values of future cash flows. Valuation models have been used to estimate the fair values of options.

Derivative instruments are used solely for hedging purposes, not for speculative gain.