Kemira
Annual Report
1994

Business areas Kemira is an international chemical group whose main business areas are various chemicals, titanium dioxide pigments, plant nutrients and paints.

Operating principles Kemira supplies its customers with tailor-made and quality products and services. In its operations, Kemira observes good business practices and principles that respect the environment.

Objectives Kemira's prime objective is satisfied customers and good profitability in all the company's business areas. Kemira strives to be a major player worldwide in its main business areas. It achieves this through a motivated, multiskilled personnel and superior technology, and by means of innovative solutions for assuring sustainable development.

KEMIRA CHEMICALS

Kemira Chemicals is a major producer of chemicals for the pulp and paper industry and a manufacturer of other industrial chemicals. It is also one of Europe's leading manufacturers of water treatment chemicals. The company has production facilities in 14 countries.

KEMIRA PIGMENTS

Kemira Pigments is the third largest manufacturer of titanium dioxide pigments in its main market areas, Europe and the United States. Its plants are located in Finland, the Netherlands and the United States. The main users of its products are the paint, paper and plastics industries.

KEMIRA AGRO

Kemira Agro is Europe's second largest producer of plant nutrients. It has production facilities in eight countries. The main products are crop and horticultural nutrients, agricultural chemicals and technical products.

TIKKURILA

Tikkurila is among Europe's leading paint manufacturers. Its main products are decorative paints as well as woodfinishes and coatings for the metal industry. The company has production facilities in six countries. Tinting systems and colourants are a fast growing area in which Tikkurila is at the forefront of technological development worldwide.

OTHERS

Kemira Fibres Oy manufactures viscose staple fibres, Vihtavuori Oy produces blasting explosives and ammunition, Kemira Metalkat Oy manufactures catalytic converters and Kemira Safety Oy makes respiratory protective equipment. The companies' production facilities are in Finland.

Kemira events in 1994

In 1994 the Kemira Group improved its result significantly, overhauled its organizational structure and was listed on the Helsinki Stock Exchange.

Consolidated net sales were FIM 11,698 million, or at the level of the previous year despite the strengthening of the Finnish markka. Operating income grew by 26% and was FIM 988 million. Net indebtedness declined by 28% and totalled FIM 6,347 million. The equity ratio rose to 26%.

The improved result was due to the cost-cutting that has been carried out at Kemira over the past years, to the concentration on our core business areas and to the positive price trend in our markets.

The markets improved appreciably in nearly all of Kemira's main business areas. The change was strongest in Kemira Agro's field. The positive trend continued in the Kemira Chemicals and Kemira Pigments sectors. All three improved their result substantially. Tikkurila again posted a good result in spite of the recession in the construction field.

During the current year earnings are expected to continue their upward trend.

At the beginning of 1994 the divisions of the parent company were turned into wholly-owned subsidiaries, which took over all the business functions. In the autumn, Kemira Oy successfully organized an international share issue and was listed on the Helsinki Stock Exchange.

INFORMATION ON KEMIRA'S SHARES

SHARES AND VOTING RIGHTS

The nominal of Kemira Oy shares was changed to FIM 10 from FIM 200 in August 1994, whereby the number of shares grew by a corresponding amount. Taking into account the change in nominal value the number of shares at the beginning of 1994 was 87,300,000 (taking into account the change in nominal value) and at the end of the year 120,800,000. The average number of shares during 1994 was 91,876,712. Each share confers one vote at meetings of shareholders. According to the Articles of Association, the company's share capital can be from FIM 850 million to FIM 3,400 million. The share capital can be changed without amending the Articles of Association provided that it remains within these limits. At present the share capital of Kemira Oy is FIM 1,208 million.

THE GOVERNMENT'S HOLDING

According to a decision of parliament, the government had a possibility to reduce its share ownership to 66.7% of the company's voting rights. Following the share issue in November, the government's holding in the company and its share of the voting rights fell to 72.3%. After the share issue, parliament decided, in December, that in future the holding can be reduced to 50.1% of the company's voting rights. It is not known when the government will exercise its prerogative. In connection with the share issue, the government gave its commitment not to sell its shares for a period of 180 days from 3 November 1994.

SHARES IN THE BOOK-ENTRY SYSTEM

All Kemira Oy's shares have been registered under the book-entry system. The transfer took place on 27 August 1994.

DIVIDEND POLICY

Kemira aims to distribute a dividend which in the long term stands comparison with that of both major Finnish companies and foreign chemicals groups, nevertheless taking into account the company's result and capital requirement at any given time. The company's Board of Directors proposes to the Annual General Meeting that a dividend of FIM 0.40 per share or FIM 48.3 million be paid for the 1994 financial year.

KEY FIGURES

31 December *)	1994	1993	1992	1991	1990
Share capital, FIM	1,208	873	788	788	638
Number of shares at year-end (1 000)	120,800	87,300	78,800	78,800	68,800
Average number of shares during the year	91,877	85,175	78,800	75,240	64,000
Earnings per share, FIM **)	3.1	4.4	–2.7	–2.6	3.0
Cash flow from operations per share, FIM	14.9	11.1	8.7	7.8	10.2
Equity per share, FIM	30.8	26.1	25.1	28.8	36.8
Dividend per share, FIM	0.4	–	–	–	1.0
Dividend paid, FIM million	48.3	–	–	–	63.8

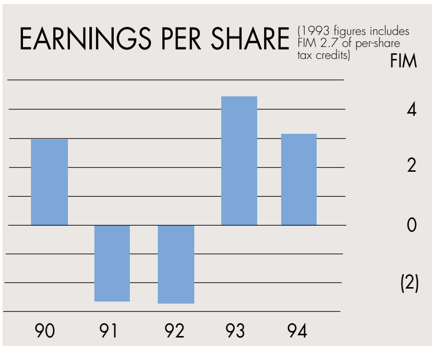
*) Taking into account the change in nominal value.
**) 1993 earnings per share include FIM + 2.7 of per-share tax credits.

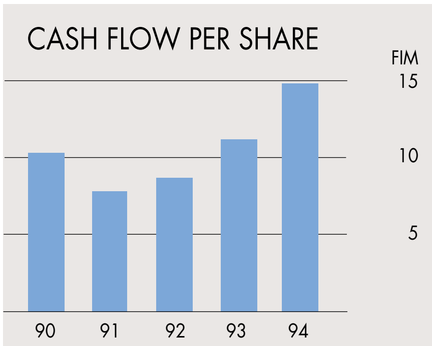
INCREASE IN SHARE CAPITAL

At the Annual General Meeting held on 14 April 1994, the Supervisory Board of Kemira Oy authorized the company's Board of Directors to increase the company's share capital by a maximum of FIM 400 million in one or several instalments. This authorization was in effect for one year from the date of the Annual General Meeting. On the basis of the authorization, the Board of Directors decided to carry out a share issue whereby the share capital was increased by FIM 335 million. In the share issue in November, at first 30 million new shares were issued and in December an additional 3.5 million shares were issued through a so-called green shoe option. The price paid per share was FIM 38 and the company's shareholders' equity was increased by FIM 1,221.5 million. The Group's personnel in Finland were entitled to subscribe shares at a 10% reduction. The increase in share capital was registered with the Trade Register on 9 November 1994. The green shoe portion of the share issue was entered in the register on 9 December 1994.

LISTING AND SHARE TRADING

Kemira Oy's shares have been listed on the Helsinki Stock Exchange since 10 November 1994. In addition to Helsinki, trading in the shares is done through the SEAQ trading system operated by the London Stock Exchange as well as through the PORTAL system in the United States. In the United States, Kemira's shares were issued under Regulation 144A, whereby only qualified institutional buyers permitted under this regulation are allowed to buy and sell the shares. In the United States, Kemira's shares can also be traded in the form of so-called ADS shares. One ADS share corresponds to two Kemira shares.





DISTRIBUTION OF SHAREHOLDERS 28 February 1995

Number of shares	Number of shareholders	% of shareholders	Shares, total	% of share capital
1 – 100	1,335	37.6	91,078	0.1
101 – 500	1,473	41.5	449,107	0.4
501 – 1000	423	11.9	368,900	0.3
1001 – 10,000	278	7.8	675,020	0.5
over 10,000	40	1.1	93,864,126	77.7
Total	3,549	100 %	95,448,231	79.0
Nominee registration			25,351,769	21.0
Grand total			120,800,000	100 %

PRICE TREND AND TRADING VOLUME

The issue price of the Kemira public offering was FIM 38 per share. At the end of the year the share price was FIM 34. Total share turnover was 11,432,221 shares and the turnover in Finnish markka was FIM 431 million by the end of the year. The market capitalization at 28 February 1995 was FIM 4,500 million.

INVESTOR RELATIONS

Kemira Oy

Reino Airikkala, Group Treasury Director(tel. +358-0-132 1700)

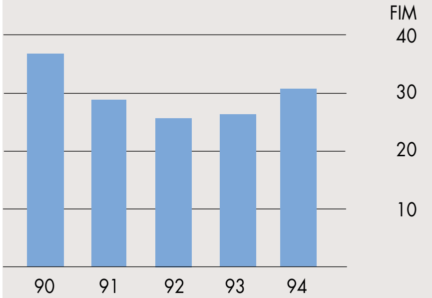
Kaj Friman, Vice President, Financial Management
(tel. +358-0-132 1704)

Botho Simolin, Vice President, Communications
(tel. +358-0-132 1760)

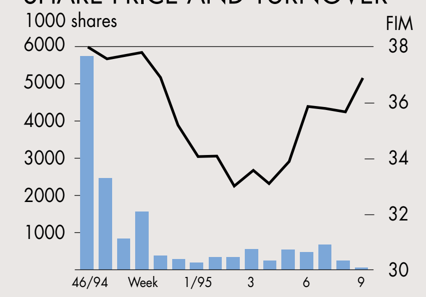
LARGEST SHAREHOLDERS ON 28 FEBRUARY 1995

Shareholder	Shares	% of votes
Suomen Valtio	87,297,760	72.3
Ilmarinen Eläkevakuutus	1,282,000	1.1
Keskinäinen vakuutusyhtiö Eläke-Varma	763,500	0.6
Kuntien Eläkevakuutus	500,000	0.4
Vakuutusosakeyhtiö Pohjola	500,000	0.4
Teollisuusvakuutus Oy	449,500	0.4
Eläkesäätio Neliapila s.r.	400,000	0.3
Keskinäinen vakuutusyhtiö Suomi	330,000	0.3
Partita Oy	240,000	0.2
Nova Henkivakuutusosakeyhtiö	189,000	0.1
Nominee-registered shares	25,351,769	21.0
Total	117,303,529	97.1

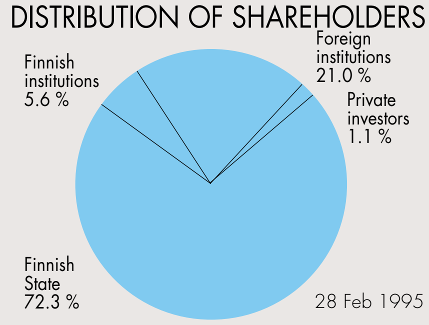
SHAREHOLDERS' EQUITY PER SHARE



SHARE PRICE AND TURNOVER



DISTRIBUTION OF SHAREHOLDERS



CHAIRMAN'S REPORT

The bottoming out of the recession was reflected clearly within the European chemical industry during 1994. As late as June, the forecasts of the European Chemical Industry Council (CEFIC) had pointed to annual growth of the order of 1.5%. The end of the year raised the actual figure to around 4-5%.

The positive change is evident in the higher profitability of the industry. Kemira's earnings, too, were better than had been anticipated. The Group's upward earnings trend is largely a consequence of the cost-cutting measures carried out in recent years as well as our concentration on four core businesses. The volume growth of the markets and the rise in prices will not affect earnings to the full extent until after the beginning of the current year.

Kemira Chemicals was again a strong performer in 1994. All the business units exceeded their targets and the future looks promising.

The titanium dioxide industry has passed its low point and prices are rebounding. Kemira will capitalize on this growth in volume through capital spending projects to remove production bottlenecks in Finland and the Netherlands. At the same time, the effluents from the plants in Pori, Finland, will be rendered harmless in accordance with previously presented plans.

The rise of the west European agribusiness is a particularly positive development. Production capacity has been geared to meet the market demand. The European Union's set-aside acreage objective has been reduced from 15% to 12%. Eastern imports have remained moderate and producers' stocks have diminished. The combined impact of all these factors was a significant improvement in profitability that was felt throughout the industry starting in 1994.

The paint business has compensated for the fall in domestic consumption by stepping up exports. Tikkurila has strengthened its position in the Baltic area both in terms of production and commercially.

The efficiency-boosting of the past years and the change in our corporate structure at the beginning of 1994 laid the foundation for Kemira's listing on the Helsinki Stock Exchange, which took place towards the end of the year. The Annual General Meeting authorized the company to issue 40 million new shares. At the request of the principal shareholder, the amount of the issue was reduced in September and 33.5 million shares were ultimately sold. The share issue improved Kemira's equity ratio, which due to the combined effect of the share issue and the upward earnings trend, rose to 26%. The company's objective in the years ahead is to raise its equity ratio over the 40% mark. Thanks to improved profitability, this is possible within a reasonable time.

The Group's rate of capital spending over the next few years will remain at the normal European level for our industry, or 6-8% of net sales. This amount suffices to maintain production and to achieve a reasonable rate of growth. When the equity ratio has been boosted to the 40% level, we can contemplate a faster growth rate.

1994 marked a turning point after the hard years in the early part of the decade. Maintaining our positive development is the main objective in the years ahead. The swing to growth could not have been realized without the active contribution of our personnel. The entire Kemira team deserves a vote of thanks for this achievement.

I also wish to thank the people and institutions who have invested capital in the company's public offering. In future it is the task of our management to secure a favourable return on the investment in our shares by ensuring the company's profitability and dividend-paying ability.

Heimo Karinen
CEO
Chairman of the Board

BOARD OF DIRECTORS' REVIEW

The Board of Directors of Kemira Oy in 1994. From the left, Sten-Olof Hansén, Heimo Karinen (Chairman), Timo Mattila (Vice Chairman), Juhani Kari, Esa Tirkkonen and Leif Ekström.

The year under review was a year of fundamental changes within the Kemira Group. In the beginning of the year the parent company's divisions were formed into wholly owned Group companies. All business operations were transferred to the new subsidiaries. Kemira Oy now contains the Group management and administration and focuses on the strategic management of the Group by setting groupwide policies and targets to subsidiaries and facilitating the use of Group synergies, e.g. common business interests between different subsidiaries as well as the Group financing and financial risk management. Group management also holds the majority of seats on the Boards of Directors of the subsidiaries.

The second change took place later on in the year as Kemira was introduced successfully to the stock market with a major initial public offering. Kemira now has worldwide ownership with a strong Nordic base. Kemira Oy's shares have been listed in the Helsinki Stock Exchange since 10 November 1994. They are also traded through SEAQ International in London and PORTAL in New York.

The profitability continued to improve in all core businesses as a result of the restructuring actions taken by the Group as well as the favourable development of the markets in which Kemira operates. Net income before taxes was up by FIM 422 million from the previous year.

The consolidated income statement and balance sheet have been prepared in all material respects in accordance with the International Accounting Standards. All comparative information in this annual report has been restated correspondingly.

NET SALES

Group net sales totalled FIM 11,698 million, down by 1% from the previous year. The decline was caused by the strengthening of the Finnish markka. Using 1993 exchange rates net sales grew by 7% compared to the previous year. Some 76% of the Group's net sales came from outside Finland.

The table on page 7 shows the distribution of the Group's net sales by business area.

KEMIRA CHEMICALS

Net sales of Kemira Chemicals grew by 19%, to FIM 2,336 million. All strategic business units – Pulp & Paper Chemicals, Kemwater and Industrial Chemicals – enjoyed strengthening demand. Towards the end of the year most production units were operating at or near to full capacity. The increase in Pulp & Paper Chemicals' sales was partly offset by the sale of the industrial gases business and kaolin business, as well as by the deconsolidation of the Japanese hydrogen peroxide joint venture. The strongest growth took place in the Industrial Chemicals unit, as it received the phosphoric acid and formic acid businesses transferred from Kemira Agro.

Operating income of Kemira Chemicals was FIM 341 million, 59% higher than the previous year. Operating margin was 15%.

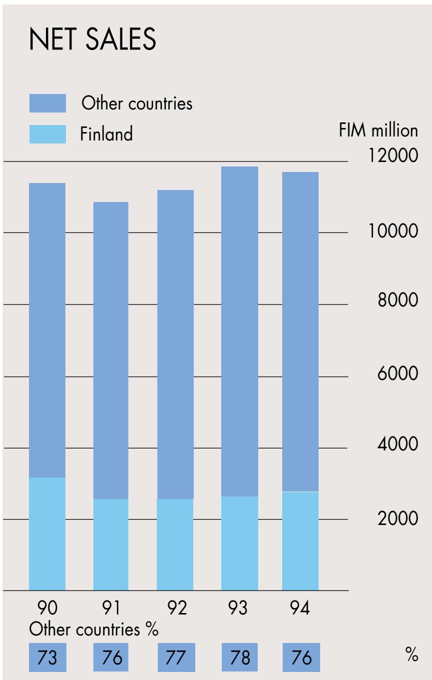
In Pulp & Paper Chemicals the hydrogen peroxide plant in Oulu, Finland, started commercial operation in the first half of the year. An AKD emulgation plant started operating in Lauterbourg, France. The expansion of the gypsum pigment plant in Siilinjärvi, Finland, was completed by the end of the year.

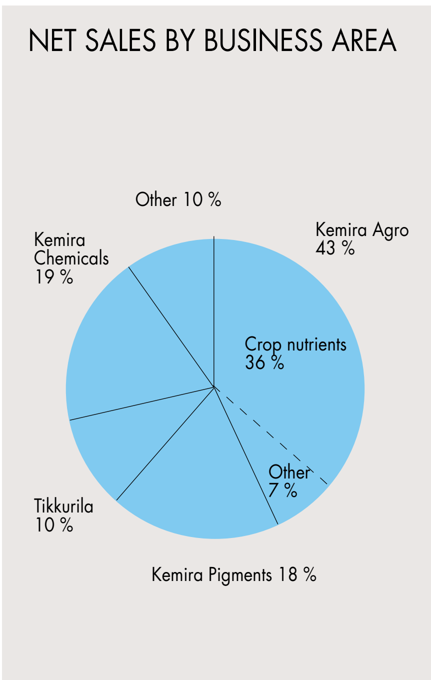
The operations of Kemwater were expanded to the Czech Republic as Kemira Chemicals acquired a 51% share in a plant producing ferric chemicals for the purification of both drinking and waste water, now operating under the name Kemifloc. The joint venture A/S Kemivesi started production of water treatment chemicals in Tallinn, Estonia. The granular ferric sulphate plant built jointly with Kemira Pigments in Pori, Finland, started production just after the year end. A new sales company, Kemira Chemidet GmbH was established in Germany.

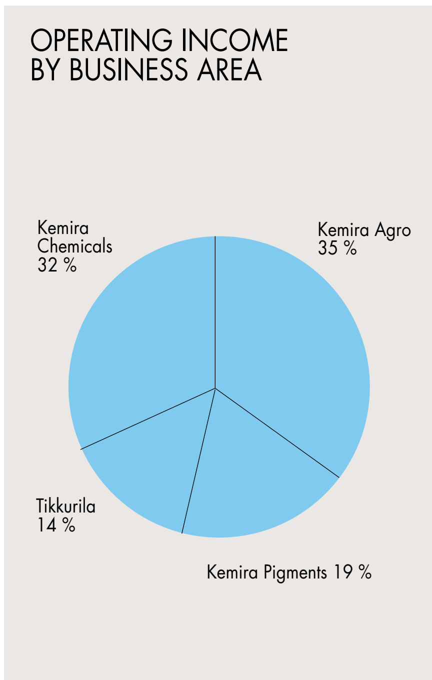
The Industrial Chemicals unit has been enjoying favourable market conditions, especially for calcium chloride and feed phosphates. The new feed phosphate unit in Kokkola, Finland, started production in January and the phosphoric acid pretreatment facility in Siilinjärvi in July. Also the new calcium chloride units in Kokkola and in Helsingborg, Sweden, as well as the joint venture in Delfzijl, The Netherlands, and the new oleum plant in Helsingborg started production. The manufacture of formic acid is being expanded in Oulu.

KEMIRA PIGMENTS

Net sales of Kemira Pigments increased by 6% and totalled FIM







2,243 million. Kemira Pigments B.V. in Rotterdam, The Netherlands, the operations of which were acquired on 1 July 1993, is now included for the full year.

The titanium dioxide markets developed favourably both with respect to volumes and prices, especially in the second half of the year. Despite the strong volume growth, the increase in consolidated net sales was adversely affected by the strengthening of the Finnish markka, especially against the US dollar. The operating income was 20% higher than in the previous year, totalling FIM 199 million. Operating margin was 9%. Additional price increases have also been announced, which will become effective during the first quarter of 1995.

During the next three years Kemira Pigments will be spending FIM 500 million to increase the combined annual production capacity of titanium dioxide pigments by 41,000 tonnes to a total of 321,000 tonnes. This will enhance the quality of pigments produced and further improve its environmental protection standard. The capacity increases will be achieved by eliminating bottlenecks in the production processes both in Pori, Finland and in Rotterdam. A new sales company, Kemira Pigmente GmbH, was established in Germany.

EARNING BY SUBSIDIARY

FIM million	Net sales	Operating income	Net income before extraordinary items
Kemira Chemicals	2,336	341	185
Kemira Pigments	2,243	199	104
Kemira Agro	5,257	368	140
Tikkurila	1,261	143	108
Other*)	1,167	(63)	(135)
Intra-Group sales	(566)	–	–
	11,698	988	402

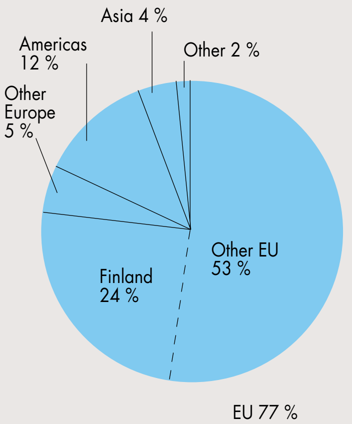
*) Includes other businesses, Group administration and eliminations from operating income and net income before extraordinary items.

KEMIRA AGRO

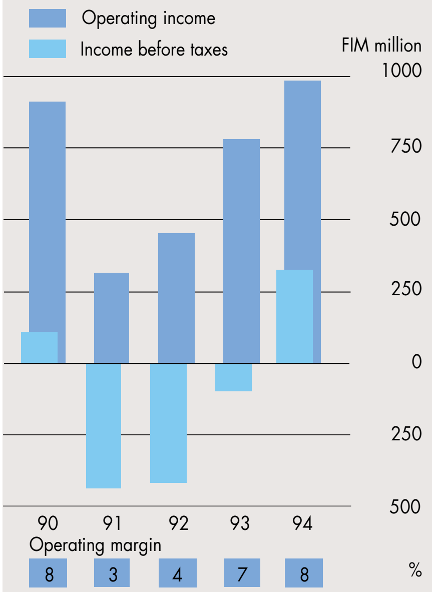
Kemira Agro's net sales were FIM 5,257 million, down by 8% from the previous year. The decline was caused by the strengthening Finnish markka, the transfer of phosphoric acid and formic acid businesses to Kemira Chemicals, as well as lower sales of agrochemicals.

The sales volumes of plant nutrients have grown as imports from east European countries have been stabilizing. After the drastic restructuring and cost cutting efforts, the capacity utilization rates and the cost efficiency have improved markedly. Prices have been increasing in all markets, in Europe

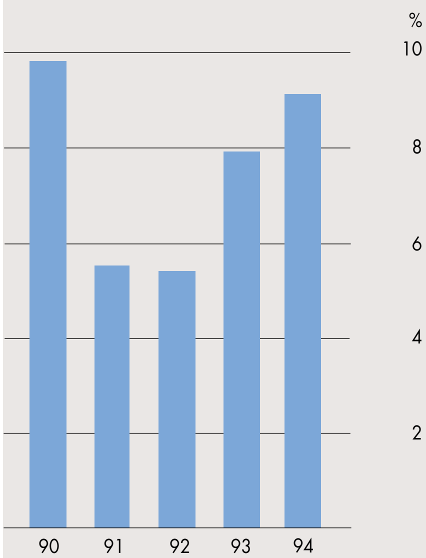
NET SALES BY REGION



OPERATING INCOME AND RESULT



RETURN ON CAPITAL INVESTED



particularly in the United Kingdom with the continental markets following. Operating income was 68% higher than in the previous year, totalling FIM 368 million. Operating margin was 7%, reflecting the improvements in both production efficiency and the market environment.

Kemira Agro expanded its horticulture operations by establishing a joint venture in India, Jain Kemira Fertilisers Pvt. Ltd., to manufacture soluble nutrients in Jalgaon, Maharashtra. A new sales company, SiA Kemira Agro Latvija, has been established in Latvia. Kemira Agro is building a gas turbine combined with a steam boiler in Fredericia, Denmark, to lower the cost and secure the plant's supply of thermal energy and electricity. Just after the end of the year Kemira Agro made a four-year agreement with Dow Chemicals covering the supply of specialty monomers in lieu of the reduced agrochemicals sales from the fine chemicals plant at Kokkola, Finland.

TIKKURILA (formerly Kemira Paints)

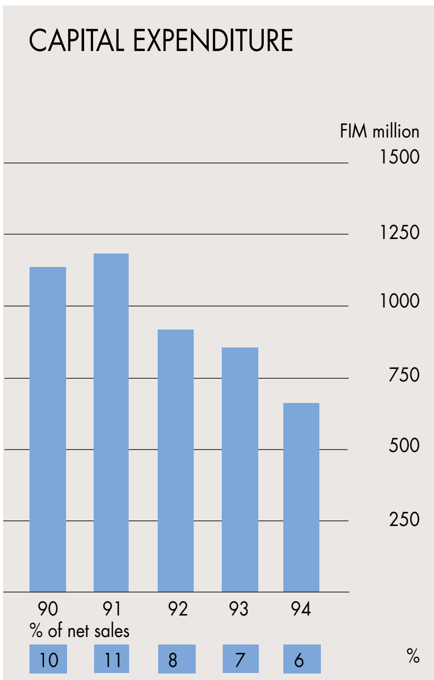
Tikkurila group's net sales grew by 4% on the previous year to FIM 1,261 million. The negative effects of the strengthening Finnish markka were offset by strong export volume growth, both in traditional paints as well as in colourants and equipment used for tinting systems. Profitability was impacted by increases in raw material prices, among others the most important raw material, titanium dioxide pigments. Operating income was FIM 143 million, up by 1% on the previous year. Operating margin was 11%, higher than in the paint industry generally.

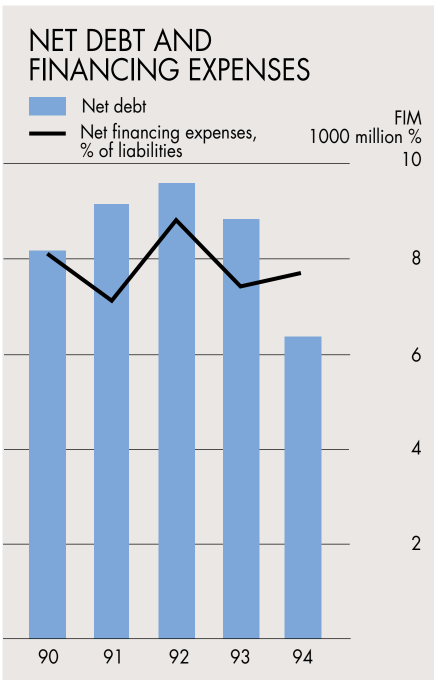
The new colourant plant in the Netherlands started its operation in January 1995. At the end of 1994 Tikkurila and the Swedish Alcro-Beckers AB formed Baltic Color, a unit to take care of the two companies' common businesses within the Baltic area. At the same time Tikkurila sold 25% of the shares in the Estonian company AS Eesti Värv to Alcro-Beckers AB.

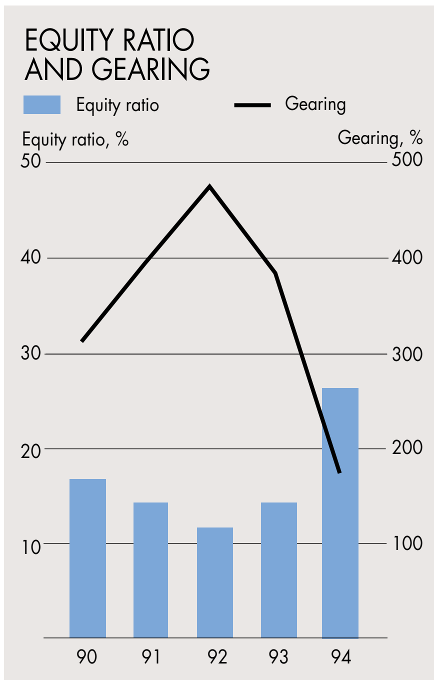
Tikkurila entered into a co-operation agreement with Japan's largest paint manufacturer Kansai Paint Co. Ltd. concerning marine paints.

OTHERS

Net sales of Kemira Fibres Oy declined by 1% from the previous year to FIM 620 million. The decline was a result of the stronger Finnish markka. The demand for viscose fibres has been improving and sales volumes were quite good. The increases in raw material prices, particularly dissolving pulp and caustic soda, started to weaken profitability during the second half of the year. The demand for texturized yarns was good and the production capacity was sold out during the year. Operating income was FIM 38 million compared with FIM 48 million the year before. The spinning stage in the production of viscose fibres is being improved by installing degasification and filtration equipment to remove impurities from the process thus improving the quality of the product.







Net sales of Vihtavuori Oy, which produces explosives and ammunition, were FIM 154 million (FIM 174 million in 1993). The decline in sales was caused by decreased orders from the Finnish Armed Forces and the delay of a certain export permit. Operating income was FIM 28 million compared with FIM 36 million in the previous year.

Kemira Metalkat's net sales were FIM 114 million, down 7% from the previous year. The decline in sales was a result of the stronger Finnish markka combined with lower prices of precious metals. The previous year also included certain one time project sales. Kemira Metalkat is still penetrating the markets and has to bear the cost of its strong R & D and marketing activities, which is high in relation to its net sales. Operating income was a loss of FIM 5 million (FIM 4 million profit in 1993).

Kemira Safety's growth in net sales was strong, to FIM 66 million, up by 19% on the previous year. The growth in volume improved the cost structure, which together with improved markets in western Europe as well as increased market shares of certain products, improved profitability. Operating income tripled from last year to FIM 10 million.

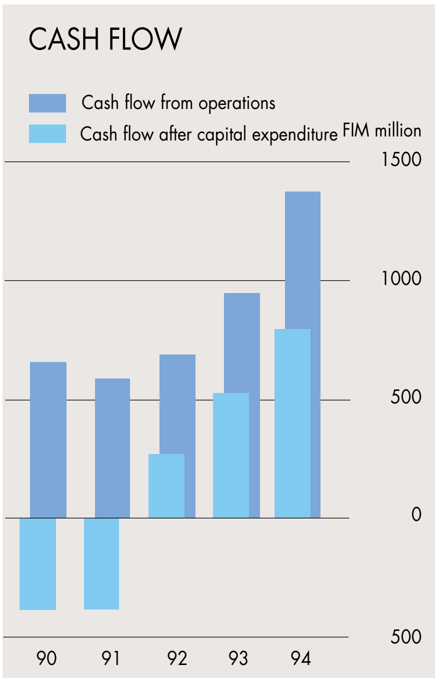
GROUP FINANCIAL PERFORMANCE

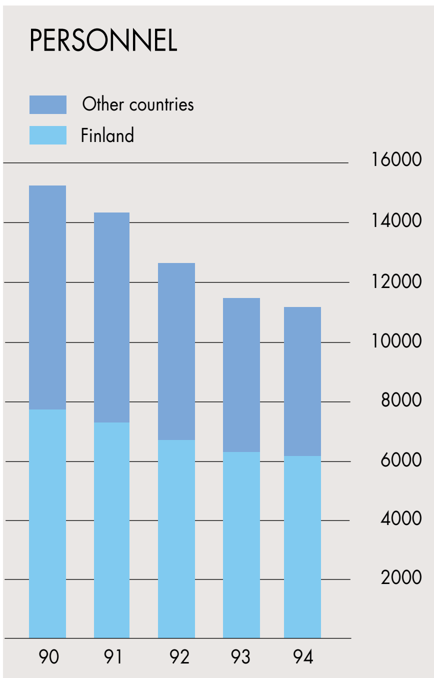
The Group's financial result continued to improve. Operating income increased by 26% to FIM 988 million (FIM 782 million in 1993), reflecting a 8.4% margin. Net income before taxes and minority interests was up by FIM 422 million to FIM 327 million (a loss of FIM 95 million in 1993). The improvement was due to cost benefits achieved with the restructuring and cost cutting during the last few years as well as improved demand in the main markets of the Group's core businesses. Due to a change in the Group's tax position the net income after tax improved only from FIM 149 in 1993 to FIM 228 in 1994. The large tax credit in 1993 was caused by the reduction of the deferred tax liability, which in turn was a result of the tax deductible write-down of subsidiary share values eliminated on Group consolidation. Consequently, the 1993 and 1994 net income after taxes are not comparable.

The table on page 7 shows the share of subsidiaries in the Group's operating income and net income before extraordinary items. The equity ratio which the Group sets for subsidiaries has an essential impact on the last-mentioned figure.

PARENT COMPANY'S FINANCIAL PERFORMANCE

As a result of the incorporation of the parent company's business operations as subsidiaries in the beginning of 1994, the parent company's net sales only include sales of energy in Finland, mostly within the Group. Therefore the net sales of the parent company declined to FIM 166 million (FIM 4,306 million in 1993). Operating income, which was a loss of FIM 240 million (a profit of FIM 646 million in 1993), includes losses from sales





of assets in connection with the transfer of businesses to the new subsidiaries. In addition, the parent company bears the cost of the Group management and administration.

Financing income and expenses declined to FIM 53 million (FIM 255 million in 1993). Net income before taxes and appropriations was a loss of FIM 22 million (a loss of FIM 758 million in 1993). In connection with the restructuring of Kemira Oy in the beginning of January 1994, the cumulative depreciation difference on fixed assets was transferred from untaxed reserves to appropriations and recognized as income. Thus the appropriation items, in addition to a FIM 21 million decrease in transitional reserve, show a credit of FIM 1,010 million bringing the net income after taxes and appropriations to FIM 991 million. The tax losses available for carry-forward in Finland have been fully utilized during the year.

CAPITAL EXPENDITURE

Due to the increased focus on cash flow generation the Group's capital expenditure has been reduced to FIM 657 million (FIM 850 million in 1993). This represents 5.6% of net sales in 1994. The Group's policy is to use in the future an average 6-8% of net sales for capital expenditure, which is sufficient to fund both the maintenance of current production facilities and to generate further growth. Group capital spending on environmental protection amounted to FIM 43 million. The parent company's capital expenditure was down to FIM 3 million. All major capital expenditure projects have been referred to above under the review of the business areas.

The Group's spending into research and development was approximately FIM 230 million or about 2% of net sales. The research and development activities are business oriented and are typically carried out at the operating subsidiary level.

FINANCING

The financial position of the Group strengthened considerably. The interest-bearing net debt declined by FIM 2,463 million to FIM 6 347 million at the end of 1994 (FIM 8,810 million at the end of 1993). Half of the decline resulted from the initial public offering in November bringing the Group net proceeds of FIM 1,222 million, which along with the FIM 787 million cash flow after capital expenditures was used to pay down debt. At the same time the stronger Finnish markka reduced the translated balance sheet value of debts in other currencies. No new long term loans were raised during the year. The Group's solvency rose by 12 percentage points and was 26% at the end of the year. Liquidity remained at a good level, even though the Group intentionally reduced the amount of liquid funds. This also meant lower interest income. At the end of the year liquid funds amounted to FIM 1,235 million.

Net financing costs were FIM 587 million, 14% lower than the year before despite a rising interest rate environment. The decline was due to the decrease in net debt as well as the strengthening of the Finnish markka. Since the reduction in net debt took place principally towards the end of the year, the impact was not reflected in financial costs to its full extent.

The Group's financing and treasury functions are managed on a centralized basis through the parent company and financing companies in Belgium and the Netherlands. As of the beginning of 1995 a greater share of the operative activities of the financing companies is being concentrated into the head office in Finland.

The Group's policy is to manage its foreign exchange transaction risks by seeking to match currency inflow with outflow in the same currency and by selectively hedging any remaining net exposure through forward exchange contracts or other foreign exchange instruments. Further, the Group's policy is to hedge translation risk by matching assets and liabilities in the same currency. Currency exchange loss on financing was FIM 30 million in 1994.

PERSONNEL

The Group employed an average of 11,156 people, or 290 less than in the previous year. From the total, an average of 5,015 people were employed in Group companies outside Finland.

The parent company's payroll totalled 149 employees, 4,604 less than a year ago reflecting the restructuring of the Group.

Total wages and salaries paid to Group employees were FIM 1,827 million (FIM 1,900 million in 1993), and to parent company employees FIM 28 million (FIM 685 million). Salaries and emoluments paid to members of the Supervisory Board, the members of the Boards of Directors and the managing directors totalled FIM 28 million for the Group (FIM 28 million) and FIM 4 million for the parent company (FIM 5 million).

During the year the following persons served on the Board of Directors of Kemira Oy: Heimo Karinen (Chairman), Timo Mattila (Vice Chairman), Juhani Kari and Esa Tirkkonen. At its meeting on 22 September 1994 the Supervisory Board appointed Leif Ekström and Sten-Olof Hansén to the Board of Directors as non-executive directors. At its meeting on 24 November 1994 the Supervisory Board elected the same six members to the Board for the period of office beginning on 1 January 1995.

OWNERSHIP

The initial public offering in November gained a wide and internationally balanced shareholder base. Prior to the offering the existing shareholders gave up their rights to subscribe to the new shares, and thus the ownership of the Finnish Government came down to 72.3% from the earlier 99.99%. Institutional investors outside of Finland own 21.7%, Finnish institutional investors and mutual funds 4.7% and private investors 1.3% of the shares. Due to complications in securities regulations in some countries the Group was only able to arrange an employee offering to its employees in Finland. Of the total number of eligible employees, 1,160 or 20% subscribed to the offering.

The Finnish Government has expressed its intention to continue the privatization process of state owned companies over the coming years. The Parliament has authorized the Government to reduce the State's holding in Kemira Oy to 50.1%. However, no specific plans are in place to date.

CHANGES IN THE GROUP STRUCTURE

In the beginning of the year the divisions within the parent company were formed into legal entities and all related business activities were transferred to the new subsidiaries: Kemira Chemicals Oy, Kemira Pigments Oy, Kemira Agro Oy, Kemira Fibres Oy, Kemira Metalkat Oy and Kemira Safety Oy. Also Kemira Engineering Oy was set up as a subsidiary and is owned in equal shares by Kemira Chemicals Oy, Kemira Pigments Oy and Kemira Agro Oy. At the same time the ownership of all subsidiaries within the Group with business in the field of the new companies, was transferred to these new subsidiaries, respectively. The majority ownership of Kemira Coatings Ltd was transferred from the parent company to Tikkurila Oy without any change in business operations.

The business operations of Finn-Filter Oy were sold on 1 April 1994 and consequently the company's name was changed to Kaanaan Ruskorae Oy, which produces ferric sulphates. Various sales companies have been established during the year as mentioned under the review of business areas above. The changes in the Group structure are presented in more detail on page 35.

OUTLOOK FOR THE FUTURE

The high operating rates of the pulp and paper industry combined with the continuing growth of totally chlorine free bleaching is expected to increase the demand for pulp and paper chemicals. Geographical expansion into eastern European markets is expected to allow for the growth of the water treatment chemicals business. Industrial Chemicals will continue to exploit mature products in changing markets with increased capacity of both calcium chloride and feed phosphates. The profitability of Kemira Chemicals is expected to remain at a good level.

The price increases announced before year end by the titanium dioxide manufacturers are expected to be implemented during the first quarter of 1995. Demand is expected to continue to grow during 1995 and prices should strengthen further. Although raw material prices are also expected to rise the profitability of Kemira Pigments is expected to improve.

Stabilized imports of fertilizers from eastern European countries to western Europe, combined with the benefits of the closing of excess production capacity of West European fertilizer industry and the cost cutting efforts of Kemira Agro, is expected to improve the result of Kemira Agro. The effect of rising raw material costs is limited as the Group is self sufficient in ammonia and phosphoric acid. The decline in the consumption of fertilizers in western Europe is expected to slow down following the European Commission's decision to cut the set-aside requirement for cultivated land within the European Union from 15% to 12%.

The strong growth in the sales of colour processing systems including colourants is expected to continue. However, the depression of the Nordic construction industry is expected to continue during 1995 allowing only for small growth in the traditional paint business. Emerging markets in the Baltic countries and Russia will be potential growth areas. Profitability is expected to remain at a good level.

Overall the prospects for all of Kemira Group's core businesses are promising for 1995. The Group expects that 1995 will be a year with healthy growth both in sales and in profitability. Investment activity in 1995 is expected to be on a higher level than in 1994 to allow for further growth. The Group will continue to focus on efficiency improvement and cash flow generation to strengthen the balance sheet.

KEY FIGURES

		1994	1993	1992	1991	1990
Net sales	FIM million	**11,698**	11,838	11,195	10,848	11,382
Sales in Finland	%	**24**	22	23	24	27
Exports from Finland	%	**21**	19	17	16	17
Sales generated outside Finland	%	**55**	59	60	60	56
Operating income	FIM million	**988**	782	457	317	912
% of net sales	%	**8**	7	4	3	8
Net income before extraordinary items	FIM million	**402**	101	(366)	(293)	260
% of net sales	%	**3**	1	(3)	(3)	2
Net income before taxes and minority interests	FIM million	**327**	(95)	(412)	(433)	113
% of net sales	%	**3**	(1)	(4)	(4)	1
Return on capital invested	%	**9**	8	5	6	10
Return on equity *)	%	**10**	17	(10)	(8)	7
Capital expenditure	FIM million	**657**	850	915	1,180	1,136
% of net sales	%	**6**	7	8	11	10
Equity ratio	%	**26**	14	12	14	17
Gearing	%	**170**	386	478	397	320
Per share data **)						
Average number of shares (1,000)		**91,877**	85,175	78,800	75,240	64,000
Number of shares at end of year (1,000)		**120,800**	87,300	78,800	78,800	68,800
Earnings per share ***)	FIM	**3.1**	4.4	(2.7)	(2.6)	3.0
Operating cash flow per share	FIM	**14.9**	11.1	8.7	7.8	10.2
Dividend per share	FIM	**0.4**	–	–	–	1.0
Dividend per net income	%	**13**	–	–	–	33
Equity per share	FIM	**30.8**	26.1	25.1	28.8	36.8

*) In 1993 the tax credit increased the return on equity by 11 percentage points.
**) Adjusted for the 20-for-1 share split which took effect on 17 August 1994.
***) 1993 earnings / share includes FIM 2.7 of per-share tax credits.

DEFINITIONS OF KEY RATIOS

Return on capital invested % (ROI) = $\dfrac{\text{Income before extraordinary items + interest expenses + other financing expenses}}{\text{Total assets less interest-free liabilities (average)}} \times 100$

Return on equity % (ROE) = $\dfrac{\text{Income before extraordinary items less taxes +/– tax effect of extraordinary items}}{\text{Shareholders' equity + minority interests (average)}} \times 100$

Equity ratio (%) = $\dfrac{\text{Shareholders' equity + minority interests}}{\text{Total assets less advance payments received}} \times 100$

Gearing (%) = $\dfrac{\text{Net liabilities (interest-bearing liabilities less cash, bank deposits and short-term investments)}}{\text{Shareholders' equity + minority interests}} \times 100$

Earnings per share (EPS) = $\dfrac{\text{Income before extraordinary items +/– minority interests less taxes}}{\text{Average number of shares}}$

Operating cash flow per share = $\dfrac{\text{Cash flow from operations}}{\text{Average number of shares}}$

Equity per share = $\dfrac{\text{Equity}}{\text{Number of shares at end of year}}$

CONSOLIDATED INCOME STATEMENT

(FIM million, except for per-share data)	Note	Year ended 31 December 1994	1993
Net sales	1	**11,697.7**	11,837.8
Other income from operations	2	**109.3**	90.3
Cost of sales	3, 4	**(9,844.0)**	(10,031.4)
Depreciation	5	**(974.6)**	(1,114.9)
Operating income		**988.4**	781.8
Financing income and expenses	6	**(586.7)**	(680.7)
Income before extraordinary items, taxes and minority interests		**401.7**	101.1
Extraordinary income and expenses	7	**(74.3)**	(196.5)
Income/(loss) before taxes and minority interests		**327.4**	(95.4)
Direct taxes	8	**(97.9)**	233.3
Net income before minority interests		**229.5**	137.9
Minority interests in the net income for the year		**(1.1)**	11.6
Net income		**228.4**	149.5
Earnings per share, FIM	9	**3.1**	4.4

CONSOLIDATED BALANCE SHEET

FIM million	Note	31 December 1994	1993
ASSETS			
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS	10		
Intangible assets			
Intangible rights		**11.6**	14.3
Goodwill		**16.7**	22.7
Goodwill on consolidation		**61.3**	70.1
Other long-term expenditures		**55.2**	59.7
Advances paid		**–**	0.4
		144.8	167.2
Tangible assets			
Land and water areas		**584.7**	622.4
Buildings and constructions		**1,940.8**	2,051.9
Machinery and equipment		**4,844.1**	5,536.7
Other tangible assets		**201.3**	216.6
Advances paid and fixed assets under construction		**191.1**	270.8
		7,762.0	8,698.4
Securities and other long-term investments			
Shares and holdings in associated companies	19	**208.0**	125.4
Other shares and holdings	19	**53.5**	66.5
Loan receivables		**43.8**	56.7
		305.3	248.6
INVENTORIES AND FINANCIAL ASSETS			
Inventories			
Materials and supplies		**945.5**	969.9
Work in process		**114.5**	112.8
Finished goods		**979.7**	1,127.6
Advances paid		**10.4**	4.3
		2,050.1	2,214.6
Receivables	12		
Accounts receivable		**2,142.6**	2,019.7
Loan receivables		**70.3**	70.2
Prepaid expenses and accrued income		**234.6**	254.2
Other receivables		**349.4**	401.4
		2,796.9	2,745.5
Securities and other short-term investments		**1,073.8**	1,658.6
Cash and bank		**161.4**	272.0
Total assets		**14,294.3**	16,004.9

FIM million	Note	31 December 1994	1993
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY	13, 14		
Restricted			
Share capital		**1,208.0**	873.0
Share premium account		**1,225.1**	338.3
Revaluation reserve		**72.6**	72.0
Total restricted equity		**2,505.7**	1,283.3
Non-restricted			
Retained earnings		**988.0**	841.5
Net income for the financial year		**228.4**	149.5
Total non-restricted equity		**1,216.4**	991.0
Total shareholders' equity		**3,722.1**	2,274.3
MINORITY INTERESTS		**12.2**	6.3
LIABILITIES	14, 15		
Long-term			
Debentures and other bond loans		**447.3**	1,208.3
Loans from financial institutions		**1,956.5**	3,553.8
Loans from pension institutions		**2,905.8**	3,177.4
Other interest-bearing liabilities		**984.0**	1,163.9
Pension liabilities		**126.2**	112.5
Provision for liabilities and charges		**533.9**	501.8
		6,953.7	9,717.7
Current			
Bills of exchange		**46.3**	95.4
Current portion of loans from financial institutions		**628.6**	385.6
Current portion of other long-term loans		**164.7**	64.5
Current portion of loans from pension institutions		**15.4**	16.7
Other interest-bearing liabilities		**434.1**	1,075.0
Advances received		**103.8**	76.9
Accounts payable		**1,208.2**	1,049.6
Accrued expenses and prepaid income		**801.1**	1,033.7
Other current liabilities		**204.1**	209.2
		3,606.3	4,006.6
Total liabilities		**10,560.0**	13,724.3
Total liabilities and shareholders' equity		**14,294.3**	16,004.9

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FIM million	Year ended 31 December **1994**	1993
BUSINESS OPERATIONS		
Funds from operations		
Operating income	**988.4**	781.8
Adjustments to operating income *)	**(43.6)**	104.3
Depreciation	**974.6**	1,114.9
Financing income and expenses	**(525.1)**	(736.3)
Extraordinary items	**(67.4)**	(89.3)
Taxes	**(30.5)**	1.5
Total funds from operations	**1,296.4**	1,176.9
Change in net working capital		
Inventories	**164.6**	45.7
Short-term receivables	**(38.1)**	54.9
Non-interest-bearing short-term liabilities	**(52.2)**	(333.8)
Change in net working capital, total	**74.3**	(233.2)
CASH FLOW FROM OPERATIONS	**1,370.7**	943.7
CAPITAL INVESTMENTS		
Investments in fixed assets	**(656.9)**	(850.2)
Sales of fixed assets	**73.4**	432.1
Capital investments, total	**(583.5)**	(418.1)
CASH FLOW BEFORE FINANCING	**787.2**	525.6
FINANCING		
Change in long-term loan receivables	**13.0**	67.2
Change in long-term loans	**(1,579.3)**	(339.9)
Short-term financing, net	**(1,095.7)**	(229.0)
Increase in share capital	**1,221.5**	170.0
Other	**(42.0)**	24.0
Financing, total	**(1,482.5)**	(307.7)
Increase / decrease in liquid funds	**(695.3)**	217.9
Liquid funds at end of year	**1,235.3**	1,930.6
Liquid funds at beginning of year	**1,930.6**	1,712.7
Increase / decrease in liquid funds	**(695.3)**	217.9

*) Non-cash flow items included in operating income (e.g. results of associated companies) and gains and losses on the sale of fixed assets.

The above figures cannot be directly derived from the balance sheets owing to changes, e.g., in the Group structure and foreign exchange rates.

KEMIRA OY INCOME STATEMENT

FIM million	Note	Year ended 31 December **1994**	1993
Net sales	1	**166.5**	4,305.5
Other income from operations	2	**41.7**	11.4
Cost of sales	3, 4	**(433.7)**	(3,276.8)
Depreciation	5	**(14.0)**	(394.4)
Operating income		**(239.5)**	645.7
Financing income and expenses	6	**(53.0)**	(254.5)
Income before extraordinary items, untaxed reserves and taxes		**(292.5)**	391.2
Extraordinary income and expenses	7	**271.0**	(1,148.9)
Income before untaxed reserves and taxes		**(21.5)**	(757.7)
Decrease in the cumulative depreciation difference	5	**1,010.0**	254.0
Change in other untaxed reserves		**21.0**	–
Direct taxes	8	**(12.7)**	(1.0)
Net income		**996.8**	(504.7)

KEMIRA OY BALANCE SHEET

FIM million	Note	31 December 1994	1993
ASSETS			
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS	10		
Intangible assets			
Intangible rights		**1.3**	8.7
Other long-term expenditures		**1.5**	16.8
		2.8	25.5
Tangible assets			
Land and water areas		**16.2**	218.6
Buildings and constructions		**123.2**	809.0
Machinery and equipment		**18.5**	1,716.7
Other tangible assets		**0.9**	130.0
Advances paid and fixed assets under construction		**–**	148.7
		158.8	3,023.0
Securities and other long-term investments			
Shares and holdings in subsidiaries	18	**2,243.8**	1,403.3
Other shares and holdings	18	**18.0**	117.0
Loan receivables		**999.0**	814.3
		3,260.8	2,334.6
VALUATION ITEMS	11	**23.8**	91.4
INVENTORIES AND FINANCIAL ASSETS			
Inventories			
Materials and supplies		**–**	282.7
Work in process		**–**	27.7
Finished goods		**–**	349.3
Advances paid		**–**	2.7
		–	662.4
Receivables	12		
Accounts receivable		**22.8**	682.7
Advances paid		**0.9**	14.4
Loan receivables		**534.3**	–
Prepaid expenses and accrued income		**308.8**	191.4
Other receivables		**3.2**	36.7
		870.0	925.2
Securities and other short-term investments and other securities		**1,209.6**	1 628.6
Cash and bank		**0.2**	21.3
Total assets		**5,526.0**	8,712.0

FIM million	Note	31 December 1994	1993
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY	13		
Restricted			
Share capital		**1,208.0**	873.0
Share premium account		**1,200.0**	313.5
Total restricted equity		**2,408.0**	1,186.5
Non-restricted			
Retained earnings		**(240.4)**	264.3
Net income for the financial year		**996.8**	(504.7)
Total non-restricted equity		**756.4**	(240.4)
Total shareholders' equity		**3,164.4**	946.1
UNTAXED RESERVES			
Cumulative depreciation difference	14	**27.5**	1,037.5
Other untaxed reserves	14	**104.0**	125.0
Total untaxed reserves		**131.5**	1,162.5
LIABILITIES	15		
Long-term			
Debenture and other bond loans		**67.3**	138.6
Loans from financial institutions		**417.3**	1,151.3
Pension loans		**613.5**	2,905.4
Pension liabilities		**23.8**	91.4
Other long-term liabilities		**59.6**	719.6
		1,181.5	5,006.3
Current liabilities			
Loans from financial institutions		**591.2**	150.7
Current portion of other long-term loans		**39.6**	34.9
Other interest-bearing liabilities		**301.6**	763.4
Advances received		**–**	18.2
Accounts payable		**17.3**	319.6
Accrued expenses and prepaid income		**95.8**	241.4
Other current liabilities		**3.1**	68.9
		1,048.6	1,597.1
Total liabilities		**2,230.1**	6,603.4
Total liabilities and shareholders' equity		**5,526.0**	8,712.0

KEMIRA OY STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FIM million	Year ended 31 December 1994	1993
BUSINESS OPERATIONS		
Funds from operations		
Operating income	**(239.6)**	645.7
Depreciation	**14.0**	394.4
Financing income and expenses	**(36.4)**	(258.3)
Extraordinary items	**412.5**	48.4
Taxes	**(10.7)**	(1.0)
Total funds from operations	**139.8**	829.2
Change in net working capital		
Inventories	**662.4**	44.8
Short-term receivables	**589.5**	32.3
Non-interest-bearing short-term liabilities	**(532.2)**	(126.3)
Change in net working capital, total	**719.7**	(49.2)
CASH FLOW FROM OPERATIONS	**859.5**	780.0
CAPITAL INVESTMENTS		
Investments in fixed assets	**(2.6)**	(1,305.4)
Sales of fixed assets	**1,992.5**	319.1
Capital investments, total	**1,989.9**	(986.3)
CASH FLOW BEFORE FINANCING	**2,849.4**	(206.3)
FINANCING		
Change in long-term loan receivables	**(846.1)**	(335.6)
Change in long-term loans	**(3,197.0)**	297.3
Short-term financing, net	**(467.9)**	190.0
Increase in share capital	**1,221.5**	170.0
Other	**–**	(2.5)
Financing, total	**(3,289.5)**	319.2
Increase / decrease in liquid funds	**(440.1)**	112.9
Liquid funds at end of year	**1,209.8**	1,649.9
Liquid funds at beginning of year	**1,649.9**	1,537.0
Increase / decrease in liquid funds	**(440.1)**	112.9

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

In 1993, new Finnish legislation was introduced which allows the financial statements of Finnish companies to be prepared in accordance with a set of accounting principles that is substantially in compliance with International Accounting Standards. Commencing in 1994, Kemira Oy prepares its consolidated financial statements in accordance with accounting principles allowed by the new legislation. The accompanying consolidated financial information for previous years has been restated in accordance with the new accounting principles adopted. Thus, the consolidated financial position and results of operations of Kemira Oy as presented in the accompanying consolidated balance sheets and statements of profit and loss comply, in all material respects, with International Accounting Standards.

On 1 January 1994 the operations of the parent company, Kemira Oy, were incorporated into new wholly-owned operating subsidiaries. Thus, the financial statements of the parent company for the years ended 31 December 1993 and 1994 are not comparable due to the changes in the nature of operations. From the beginning of 1994 the net sales of the parent company consist of the sale of electricity. In addition, the parent company's responsibilities include the Group's treasury and financing operations and other Group supporting activities.

The financial statements are presented in Finnish markka and are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Principles of consolidation

The consolidated financial statements include the accounts of the parent company, Kemira Oy, and companies in which it owns, directly or indirectly through subsidiaries, over 50 percent of the voting rights. Certain real estate and housing companies, and captive insurance companies, as well as companies that had no operations during the financial year, have not been consolidated. However, the effect of these companies on the Group's results and distributable reserves, in cases of any significance, has been consolidated using the equity method. Companies acquired during the accounting period are consolidated from the date the responsibility for their operations was transferred to the Group. Similarly, units or companies sold during the fiscal year are included in the income statement up to the date of disposition.

All intra-Group transactions have been eliminated as part of the consolidation process. Acquisitions of companies are accounted for under the purchase (past-equity) method of accounting. The excess of the acquisition cost over fair value of the net assets acquired is recorded as goodwill and is amortized over a period not exceeding ten years. The interests of minority shareholders in the net assets and profit and loss of consolidated subsidiaries is reflected as a separate item in the Group's consolidated balance sheet and income statement.

Associated companies are those in which the Group has an equity interest of between 20 and 50 percent. Holdings in associated companies are presented in the consolidated financial statements using the equity method. The associated companies' share of the net income for the financial year, calculated on the basis of the Group's proportionate ownership, is included in income and expenses from operations.

Other companies (voting rights owned less than 20 percent) are stated at cost in the balance sheet and dividends received are included in the statements of profit and loss.

Foreign currencies

In day-to-day accounting of each Group company, transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of the accounting period the unsettled balances of foreign currency transactions are valued at the rates of exchange prevailing on the balance sheet date. Foreign exchange gains and losses related to normal business operations are treated as adjustments to sales and purchases, while those gains and losses associated with financing and hedging of the total foreign exchange position are recorded as financing income and expenses.

In the consolidated accounts, all items in the income statements and balance sheets of foreign subsidiaries are translated into Finnish markka at year end exchange rates. Foreign exchange differences arising in elimination of intra-Group ownership are charged against the foreign exchange differences in loans to the extent that the ownership has been originally financed by using loan capital. The remaining exchange differences, if any, are recorded directly to non-restricted shareholders' equity.

Pensions and coverage of pension liabilities

The Group has various pension schemes in accordance with the local conditions and practices in the countries in which it operates. Contributions are based on periodic actuarial calculations and are charged against profits. The schemes are generally funded through payments to separate funds or to insurance companies.

Pension liabilities are provided for by the parent company through separate pension funds. The uncovered pension liabilities of the funds are included in the balance sheet as pension liabilities and as valuation items on the assets side.

Net sales

Net sales represents the total of the invoice values of goods sold and services provided, less sales taxes and certain other sales related expenses including credit losses on sales.

Extraordinary income and expenses

Extraordinary income and expenses consist of items not included in normal business operations, such as exceptionally large one-time expenses arising from the closures of plants and the reorganization of operations and divestments of entire businesses.

Income and expenses of recurring nature and connected with operations, for example, gains and losses on the sales of fixed assets, are included in operating income.

Taxes

The consolidated financial statements include direct taxes, which are based on the taxable results of the Group companies for the accounting period calculated according to local tax rules, and the change in the deferred tax liability arising from the untaxed reserves. Provision for deferred tax liability for timing differences has been made, however, deducting, in each year, the impact of any tax losses available for carry forward using the latest tax rate.

The tax charged in the income statement of the parent company comprises direct taxes calculated on an accrual basis. Provision for deferred tax liability for the untaxed reserves has not been made in the balance sheet of the parent company.

Fixed assets and depreciation

Fixed assets are generally stated at cost, except for certain land and water areas and buildings which are stated at revalued amounts, less accumulated depreciation, as applicable.

Depreciation is calculated on a straight-line basis so as to write off carrying value of fixed assets over their expected useful lives. The depreciation periods adopted are as follows:

Machinery and equipment	3 - 15 years
Buildings and constructions	25 years
Other capitalized expenses	10 years

As a general rule, interest expense is not capitalized, except in the United States. However, interest expenses related to capital borrowed to finance major capital investment projects can, when specifically approved by the Board, be capitalized as part of the total investment costs.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first in first out (FIFO) basis. Net realizable value is the amount which can be realized from the sale of the asset in the normal course of business, after allowing for the costs of realization. The cost of finished goods and work in process include an allocable proportion of production overheads.

Securities and other short-term investments

Securities and other short-term investments are a part of the Company's cash management and are stated at lower of cost or market.

FIM million	Group 1994	Group 1993	Parent company 1994	Parent company 1993
INCOME STATEMENT				

NOTE 1. NET SALES

Net sales by division

Kemira Chemicals	**2,335.8**	1,960.1	**–**	585.3
Kemira Pigments	**2,243.2**	2,109.3	**–**	783.8
Kemira Agro	**5,256.8**	5,726.3	**–**	2,188.5
Tikkurila	**1,261.3**	1,209.9	**–**	–
Other operations	**1,166.8**	1,077.5	**166.5**	815.6
Intra-Group invoicing	**(566.2)**	(245.3)	**–**	(67.7)
Total	**11,697.7**	11,837.8	**166.5**	4,305.5

Distribution of net sales by geographic market areas, as a percentage of total net sales

Finland	**24**	23	**100**	47
Other European Union countries	**53**	51	**–**	26
Other European countries	**5**	5	**–**	9
North and South America	**12**	14	**–**	7
Asia	**4**	5	**–**	7
Other countries	**2**	2	**–**	4
Total	**100**	100	**100**	100

NOTE 2. OTHER INCOME FROM OPERATIONS

Gains on the sale of fixed assets	**23.5**	25.7	**37.3**	1.7
Sales of scrap and waste	**10.9**	1.4	**–**	0.4
Share of associated companies' profits	**27.8**	12.1	**–**	–
Income from royalties and licenses	**2.8**	5.1	**–**	5.6
Real-estate tax from previous years	**–**	13.8	**–**	–
Insurance compensation	**4.4**	6.3	**–**	–
Other income	**39.9**	25.9	**4.4**	3.7
Other income from operations, total	**109.3**	90.3	**41.7**	11.4

NOTE 3. COST OF SALES

Materials and supplies				
Purchases during the financial year	**5,625.2**	5,614.3	**157.1**	1,789.9
Change in inventories of materials and supplies	**(47.1)**	70.7	**–**	10.7
Change in inventories of finished goods	**48.2**	162.8	**–**	36.7
Own work capitalized*)	**(59.8)**	(54.4)	**–**	(26.9)
External services	**765.6**	559.9	**12.7**	204.6
Personnel expenses	**2,348.7**	2,443.5	**69.8**	930.5
Rents	**123.5**	116.4	**17.5**	11.2
Share of associated companies' losses	**26.5**	44.7	**–**	–
Losses on the sales of fixed assets	**2.8**	1.0	**178.8**	0.9
Other expenses	**1,010.4**	1,072.5	**(2.2)**	319.2
Cost of sales, total	**9,844.0**	10,031.4	**433.7**	3,276.8

*) Own work capitalized comprises mainly wages, salaries and other personnel expenses and changes in inventories relating to self-constructed fixed assets for own use.

FIM million	Group		Parent company	
	1994	1993	**1994**	1993

INCOME STATEMENT

NOTE 4. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL

Emoluments of the Supervisory Board, boards of directors and managing directors*)	**28.0**	28.1	**3.6**	4.9
Other wages and salaries	**1,798.6**	1,871.6	**24.4**	679.7
Pension expenses	**216.5**	177.7	**37.4**	145.5
Other personnel expenses	**305.6**	366.1	**4.4**	100.4
Personnel expenses in the income statement, total	**2,348.7**	2,443.5	**69.8**	930.5
Monetary value of fringe benefits	**13.9**	17.7	**0.5**	3.3
Total	**2,362.6**	2,461.2	**70.3**	933.8

*) Total sum of which FIM 1.1 million as profit sharing bonuses in 1994 in the Group.

The parent company's pension expenses include the 1994 Pension Foundation contributions for people already in retirement, for whom Kemira Oy has assumed the pension liability, which accordingly has not been transferred to the subsidiaries.

Management's pension commitments

Whereas pension commitments of the Group companies to their employees vary, the management of each Group company is treated in the same way as the other permanent staff of that particular company. However, for the managing director of Tikkurila Oy, the pension regulations of the parent company apply and the retirement age of the managing director of Viljavuuspalvelu Oy has been lowered from 65 years to 63 years.

Personnel

Personnel, average	**11,156**	11,446	**149**	4,753
Personnel at year end	**10,899**	11,106	**147**	4,580

Personnel in Finland, average	**6,141**	6,294
Personnel outside Finland, average	**5,015**	5,152
Total	**11,156**	11,446

NOTE 5. DEPRECIATION

Scheduled depreciation				
Intangible assets				
Intangible rights	**4.4**	10.5	**0.4**	2.3
Goodwill	**5.1**	8.9	**–**	–
Goodwill on consolidation*)	**13.6**	14.3	**–**	–
Other long-term expenditures	**11.7**	12.5	**1.0**	6.8
Tangible assets				
Buildings and constructions	**124.5**	138.8	**5.5**	53.5
Machinery and equipment	**797.8**	892.0	**7.0**	301.1
Other tangible assets	**17.5**	37.9	**0.1**	30.7
Depreciation, total	**974.6**	1,114.9	**14.0**	394.4

*) The amortization of goodwill on consolidation in 1993 includes FIM 18.6 million of amortization of the goodwill less FIM 4.3 million of income in negative goodwill. In 1994 the amortization of goodwill includes no income in negative goodwill.

Change in difference between scheduled and actual depreciation of the parent company		
Intangible rights	**(0.5)**	–
Other long-term expenditures	**(1.0)**	(0.2)
Buildings and constructions	**(332.1)**	(57.6)
Machinery and equipment	**(655.3)**	(168.4)
Other tangible assets	**(21.1)**	(27.8)
Total change	**(1,010.0)**	(254.0)

FIM million	Group		Parent company	
	1994	1993	**1994**	1993

INCOME STATEMENT

NOTE 6. FINANCING INCOME AND EXPENSES

	Group 1994	Group 1993	Parent 1994	Parent 1993
Financing income and expenses				
Dividend income	**5.0**	8.9	**9.2**	6.7
Interest income from long-term investments	**6.3**	87.4	**90.6**	48.6
Interest income from short-term investments	**116.9**	173.5	**88.9**	187.6
Other financing income	**22.4**	6.5	**–**	2.3
Exchange gains and losses	**(30.3)**	(16.2)	**(10.6)**	(69.8)
Interest expenses	**(680.9)**	(918.3)	**(219.3)**	(413.9)
Other financing expenses	**(26.1)**	(22.5)	**(11.8)**	(16.0)
Financing income and expenses, total	**(586.7)**	(680.7)	**(53.0)**	(254.5)
Net financing expenses as a percentage of net sales	**5.0**	5.8	**31.8**	5.9
Net interests as a percentage of net sales	**4.8**	5.6	**23.9**	4.1
Exchange gains and losses				
Realized	**31.3**	(71.7)	**6.0**	(73.6)
Unrealized	**(61.6)**	55.5	**(16.6)**	3.8
Exchange gains and losses, total	**(30.3)**	(16.2)	**(10.6)**	(69.8)

The total interest cost capitalized during 1994 was FIM 4.3 million (1993: 5.1 million), of which FIM 3.9 million (1993: 2.7 million) related to the Oulu hydrogen peroxide plant and is included in fixed assets.

Translation differences arising in the elimination of cross-ownership have been credited or charged against loan-related foreign exchange differences to the extent that the share purchase has been financed with borrowed capital. In the consolidated financial statements, FIM 168 million of gains on foreign exchange in connection with loans (FIM (64.6) million in 1993) have been booked against translation differences.

Intra-Group financing income and expenses

	Group 1994	Group 1993	Parent 1994	Parent 1993
Intra-Group financing income				
Dividends			**6.6**	4.8
Interest income from long-term investments			**86.5**	40.2
Interest income from short-term investments			**21.4**	14.6
Intra-Group financing expenses				
Interest expenses			**72.3**	10.0

NOTE 7. EXTRAORDINARY INCOME AND EXPENSES

	Group 1994	Group 1993	Parent 1994	Parent 1993
Extraordinary income				
Gains on the sale of fixed assets	**34.5**	125.9	**–**	177.3
Change in inventory valuation method	**–**	–	**–**	82.0
Group contributions received	**–**	–	**312.8**	48.4
Other extraordinary income	**1.2**	20.4	**–**	–
Total	**35.7**	146.3	**312.8**	307.7
Extraordinary expenses				
Cost of closure and reorganization	**89.1**	71.9	**–**	–
Write-downs on shares and other fixed assets	**10.6**	231.2	**–**	1,456.6
Group contributions granted	**–**	–	**41.8**	–
Other extraordinary expenses	**10.3**	39.7	**–**	–
Total	**110.0**	342.8	**41.8**	1,456.6
Extraordinary income and expenses, total	**(74.3)**	(196.5)	**271.0**	(1,148.9)

FIM million	Group		Parent company	
	1994	1993	**1994**	1993

INCOME STATEMENT

NOTE 8. DIRECT TAXES

Direct taxes, current year	**(30.1)**	(14.7)	**(12.6)**	(0.9)
Direct taxes, previous years	**(0.3)**	0.3	**(0.1)**	(0.1)
Change in deferred tax	**(67.5)**	247.7	**–**	–
Total	**(97.9)**	233.3	**(12.7)**	(1.0)

The change in deferred tax in 1994 results from the increased deferred tax liability related to untaxed reserves. The deferred tax benefit reorganized for the year 1993 is primarily the result of a reduction in deferred tax liabilities that had previously been recorded on the Company's untaxed reserves. The Company has reduced its deferred tax liability and recorded a deferred tax benefit to the extent that such reserves could have been reversed based on the impact of existing tax losses available. The calculated tax expense related to extraordinary items was approximately FIM (14.6) million in 1994 and FIM 30.1 million in 1993.

NOTE 9. EARNINGS PER SHARE

Net income	**228.4**	149.5
Extraordinary items	**74.3**	196.5
Tax effect of extraordinary items	**(14.6)**	30.1
Net income before extraordinary items	**288.1**	376.1
Weighted average number of shares outstanding *)	**91,876,712**	85,175,000
Earnings per share **)	**3.1**	4.4

*) Adjusted for the 20-for-1 stock split which took effect on 17 August 1994.
**) 1993 earnings per share include FIM 2.7 per-share tax credits.

BALANCE SHEET

NOTE 10. FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

Intangible rights				
Acquisition cost at beginning of year	**120.7**	121.6	**79.7**	77.7
Increases	**2.8**	2.1	**0.1**	2.0
Decreases	**(0.2)**	(8.9)	**(75.4)**	–
Exchange gains and losses	**(6.6)**	5.9	**–**	–
Accumulated depreciation at end of year	**(105.1)**	(106.4)	**(3.1)**	(71.0)
Net book value at end of year	**11.6**	14.3	**1.3**	8.7

Goodwill		
Acquisition cost at beginning of year	**34.5**	37.3
Increases	**1.2**	4.2
Decreases	**–**	(8.8)
Exchange gains and losses	**(3.2)**	1.8
Accumulated depreciation at end of year	**(15.8)**	(11.8)
Net book value at end of year	**16.7**	22.7

Goodwill on consolidation		
Acquisition cost at beginning of year	**290.6**	297.9
Increases	**13.2**	18.9
Decreases	**(1.2)**	(28.3)
Exchange gains and losses	**(21.2)**	2.1
Accumulated depreciation at end of year	**(220.1)**	(220.5)
Net book value at end of year	**61.3**	70.1

FIM million	Group		Parent company	
	1994	1993	**1994**	1993
BALANCE SHEET				
Other long-term expenditures				
Acquisition cost at beginning of year	**207.9**	223.9	**132.9**	147.2
Increases	**11.0**	32.1	**1.1**	3.0
Decreases	**(1.2)**	(53.4)	**(105.9)**	(17.3)
Exchange gains and losses	**(4.9)**	5.3	**–**	–
Accumulated depreciation at end of year	**(157.6)**	(148.2)	**(26.6)**	(116.1)
Net book value at end of year	**55.2**	59.7	**1.5**	16.8
Land and water areas				
Acquisition cost at beginning of year	**622.4**	634.4	**218.6**	218.3
Increases	**0.7**	12.9	**–**	0.8
Decreases	**(2.6)**	(19.5)	**(202.4)**	(0.5)
Exchange gains and losses	**(35.8)**	(5.4)	**–**	–
Net book value at end of year	**584.7**	622.4	**16.2**	218.6
Buildings and constructions				
Acquisition cost at beginning of year	**3,209.1**	3,287.1	**1,432.2**	1,449.4
Increases	**132.3**	108.1	**–**	9.7
Decreases	**(33.6)**	(231.1)	**(1,264.4)**	(26.9)
Exchange gains and losses	**(142.7)**	45.0	**–**	–
Accumulated depreciation at end of year	**(1,224.3)**	(1,157.2)	**(44.6)**	(623.2)
Net book value at end of year	**1,940.8**	2,051.9	**123.2**	809.0
Machinery and equipment				
Acquisition cost at beginning of year	**12,070.3**	12,483.0	**5,117.3**	5,218.7
Increases	**526.6**	681.9	**1.4**	79.8
Decreases	**(82.5)**	(1,398.1)	**(5,039.4)**	(181.2)
Exchange gains and losses	**(824.8)**	303.5	**–**	–
Accumulated depreciation at end of year	**(6,845.5)**	(6,533.6)	**(60.8)**	(3,400.6)
Net book value at end of year	**4,844.1**	5,536.7	**18.5**	1,716.7

The book value of production machinery of the parent company was FIM 2.2 million as at 31 December 1994.

Other tangible assets				
Acquisition cost at beginning of year	**442.2**	456.4	**261.9**	256.9
Increases	**6.1**	17.1	**–**	8.8
Decreases	**(1.5)**	(35.3)	**(259.1)**	(3.8)
Exchange gains and losses	**(8.0)**	4.0	**–**	–
Accumulated depreciation at end of year	**(237.5)**	(225.6)	**(1.9)**	(131.9)
Net book value at end of year	**201.3**	216.6	**0.9**	130.0
Advances paid and fixed assets under construction				
Acquisition cost at beginning of year	**270.8**	370.8	**148.7**	30.5
Change	**(66.9)**	(94.7)	**(148.7)**	118.2
Exchange gains and losses	**(12.8)**	(5.3)	**–**	–
Net book value at end of year	**191.1**	270.8	**–**	148.7

The total interest cost capitalized during 1994 was FIM 4.3 million (1993: 5.1 million), of which FIM 3.9 million (1993: 2.7 million) related to the Oulu hydrogen peroxide plant and is included in fixed assets.

Shares, holdings and loan receivables included in long-term investments				
Group companies				
Shares			**2,243.8**	1,403.3
Loan receivables			**998.5**	809.7
Total			**3,242.3**	2,213.0
Associated companies				
Shares	**208.0**	125.4	**–**	87.2
Loan receivables	**21.9**	54.6	**–**	–
Total	**229.9**	180.0	**–**	87.2

FIM million	Group		Parent company	
	1994	1993	**1994**	1993
BALANCE SHEET				
Taxable values of real estate and securities included in long-term investments				
Land and water areas			**5.0**	130.1
Buildings and constructions			**86.3**	611.9
Shares in subsidiaries			**2,441.6**	1,493.6
Other shares and holdings			**30.5**	104.8

To the extent that taxation values have not been confirmed for shares and holdings, book values have been used.

Fixed asset revaluations				
Land and water areas			**3.5**	115.5
Buildings			**30.0**	85.8

NOTE 11. VALUATION ITEMS

Pension liabilities at beginning of year			**91.4**	149.8
Decrease during year			**(68.2)**	(58.4)
Increase during year			**0.6**	–
Pension liabilities at end of year			**23.8**	91.4

The growth in the uncovered pension liability of the parent company and most of the Finnish Group companies during 1994 is due to the compulsory increase in the uncovered liability of pension funds. The decrease in the parent company's pension liability is due to transfers of pension liabilities in corporatizing the former divisions. In the consolidated financial statements the increase in pension liabilities has been entered under pension expenses.

NOTE 12. RECEIVABLES

Receivables from Group and associated companies				
Accounts receivable from Group companies	**–**	–	**14.6**	71.7
Accounts receivable from associated companies	**7.6**	15.2	**–**	–
Loan receivables from Group companies	**–**	–	**998.4**	809.7
Loan receivables from associated companies	**30.8**	54.6	**–**	–
Other receivables from Group companies	**–**	–	**1,107.2**	153.9
Other receivables from associated companies	**89.3**	73.4	**–**	0.8
Loans to the management of the parent company and other Group companies	**–**	0.3	**–**	0.2
Receivables due in one year or longer				
Loan receivables	**17.3**	18.1	**–**	–
Prepaid expenses and accrued income	**–**	0.8	**–**	0.8
Other receivables	**5.0**	7.6	**–**	–
Total	**22.3**	26.5	**–**	0.8

NOTE 13. SHAREHOLDERS' EQUITY

Share capital at beginning of year	**873.0**	788.0	**873.0**	788.0
Increase in share capital	**335.0**	85.0	**335.0**	85.0
Share capital at end of year	**1,208.0**	873.0	**1,208.0**	873.0
Share premium account at beginning of year	**338.3**	246.4	**313.5**	228.5
Share premium	**886.5**	85.0	**886.5**	85.0
Transfer from retained earnings	**2.4**	4.6	**–**	–
Transfer to retained earnings	**(0.3)**	(0.5)	**–**	–
Other changes	**(1.8)**	2.8	**–**	–
Share premium account at end of year	**1,225.1**	338.3	**1,200.0**	313.5

FIM million	Group		Parent company	
	1994	1993	**1994**	1993
BALANCE SHEET				
Revaluation reserve at beginning of year	**72.0**	71.9	**–**	–
Transfer from retained earnings	**1.6**	–	**–**	–
Other changes	**(1.0)**	0.1	**–**	–
Revaluation reserve at end of year	**72.6**	72.0	**–**	–
Restricted equity at end of year	**2,505.7**	1,283.3	**2,408.0**	1,186.5
Non-restricted equity at beginning of year	**991.0**	870.3	**(240.4)**	266.8
Net profit for the year	**228.4**	149.5	**996.8**	(504.7)
Exchange differences	**2.6**	(27.1)	**–**	–
Transfer from restricted equity	**0.3**	0.5	**–**	(2.5)
Transfer to restricted equity	**(4.0)**	(4.6)	**–**	–
Other changes	**(1.9)**	2.4	**–**	–
Non-restricted equity at end of year	**1,216.4**	991.0	**756.4**	(240.4)
Total shareholders' equity at end of year	**3,722.1**	2,274.3	**3,164.4**	946.1

The parent company's payment of a dividend is limited by the Group's distributable equity, FIM 561.6 million, which is obtained when the amount of untaxed reserves transferred to the shareholders' equity account is subtracted from the non-restricted shareholders' equity.

NOTE 14. UNTAXED RESERVES

In the consolidated financial statements the untaxed reserves of each individual company have been divided into equity and deferred tax liability which is included in provision for liabilities and charges.

	Group 1994	Group 1993	Parent 1994	Parent 1993
Untaxed reserves in the balance sheets of the Group companies are as follows:				
Cumulative depreciation difference	**665.8**	1,292.6	**27.5**	1,037.5
Investment reserve	**–**	0.2	**–**	–
Transitional reserve	**189.6**	222.2	**104.0**	125.0
Other untaxed reserves	**1.0**	10.8		–
Total	**856.4**	1,525.8	**131.5**	1,162.5
Of which equity	**654.8**	1,439.6		
Of which deferred tax liability	**201.6**	86.2		
Total	**856.4**	1,525.8		
The cumulative depreciation difference of the parent company by fixed asset items				
Buildings and constructions			**11.5**	343.6
Machinery and equipment			**15.3**	670.6
Other tangible assets			**0.7**	21.8
Other long-term expenditure			**–**	1.0
Intangible rights			**–**	0.5
Total			**27.5**	1,037.5
Change in untaxed reserves (increase = +), (decrease = –)				
Cumulative depreciation difference	**(626.8)**	(236.0)	**(1,010.0)**	(254.0)
Inventory reserve	**–**	(167.6)	**–**	(125.0)
Transitional reserve	**(32.7)**	222.2	**(21.0)**	125.0
Other untaxed reserves	**(10.0)**	(50.8)	**–**	–
Total	**(669.5)**	(232.2)	**(1,031.0)**	(254.0)

FIM million	Group		Parent company	
	1994	1993	**1994**	1993

BALANCE SHEET

NOTE 15. LIABILITIES

	Group 1994	Group 1993	Parent company 1994	Parent company 1993
Long-term interest-bearing liabilities maturing in				
1996 (1995)	**1,087.3**	1,071.6	**348.9**	786.7
1997 (1996)	**486.1**	1,081.5	**14.8**	389.3
1998 (1997)	**719.2**	941.2	**76.6**	26.4
1999 (1998)	**249.4**	469.3	**102.9**	516.6
2000 (1999) or later*)	**3,751.6**	5,539.8	**614.5**	3,195.9
Total	**6,293.6**	9,103.4	**1,157.7**	4,914.9
Pension liabilities	**126.2**	112.5	**23.8**	91.4
Provision for liabilities and charges	**533.9**	501.8	**–**	–
Total long-term liabilities	**6,953.7**	9,717.7	**1,181.5**	5.006.3

	Group 1994	Group 1993	Parent company 1994	Parent company 1993
*) **The interest-bearing liabilities maturing in 5 years or longer**				
Debenture and other bonds	**118.6**	694.2	**–**	–
Loans from financial institutions	**52.5**	816.6	**–**	170.0
Loans from pension institutions	**2,890.0**	3,144.7	**612.8**	2,905.3
Other long-term interest-bearing liabilities	**690.5**	884.3	**1.7**	120.6
Total	**3,751.6**	5,539.8	**614.5**	3,195.9

	Group 1994	Group 1993	Parent company 1994	Parent company 1993
Pension liabilities				
Uncovered liabilities of pension funds	**82.8**	68.0	**15.3**	66.8
Other pension liabilities	**43.4**	44.5	**8.5**	24.6
Total	**126.2**	112.5	**23.8**	91.4

	Group 1994	Group 1993	Parent company 1994	Parent company 1993
Provision for liabilities and charges				
Deferred tax liabilities	**256.3**	211.2	**–**	–
Provision for reorganization	**254.1**	224.9	**–**	–
Other provisions	**23.5**	65.7	**–**	–
Total	**533.9**	501.8	**–**	–

Provision for liabilities and charges are expected to fall due in a year at the earliest. Short-term provisions are included in accrued expenses and prepaid income. The deferred tax liabilities related to the untaxed reserves of the Finnish Group companies amounted to 201.6 FIM million in 1994 and to 86.2 FIM million 1993.

Debentures and other bonds

Loan	Loan currency	Group 1994	Group 1993	Parent company 1994	Parent company 1993
1987-1995	FIM	**–**	30.0	**–**	30.0
1988-1997	FIM	**4.3**	8.6	**4.3**	8.6
1993-1998	FIM	**63.0**	100.0	**63.0**	100.0
1987-1994	FIM	**–**	1.8	**–**	–
1993-2001	USD	**118.6**	694.1	**–**	–
1991-1996	LUF	**119.1**	–	**–**	–
1991-1994	LUF	**–**	80.1	**–**	–
1992-1995	LUF	**–**	120.2	**–**	–
1993-1996	USD	**142.3**	173.5	**–**	–
Total		**447.3**	1,208.3	**67.3**	138.6

	Group 1994	Group 1993	Parent company 1994	Parent company 1993
Current liabilities				
Interest-free liabilities	**2,317.2**	2,369.4	**116.2**	648.0
Current portion of long-term loans	**808.7**	466.8	**536.4**	185.7
Other interest-bearing liabilities	**480.4**	1,170.4	**396.0**	763.4
Total	**3,606.3**	4,006.6	**1,048.6**	1,597.1

FIM million	Group		Parent company	
	1994	1993	**1994**	1993
BALANCE SHEET				
Net liabilities				
Interest-bearing long-term liabilities	**6,293.6**	9,103.4	**1,157.7**	4,914.9
Interest-bearing short-term liabilities	**1,289.1**	1,637.2	**932.4**	949.1
Securities and short-term investments	**(1,073.8)**	(1,658.6)	**(1,209.6)**	(1,628.6)
Cash in bank	**(161.4)**	(272.0)	**(0.2)**	(21.3)
Total	**6,347.5**	8,810.0	**880.3**	4,214.1
Liabilities to Group and associated companies				
Long-term liabilities to Group companies	**–**	–	**47.4**	698.7
Long-term liabilities to associated companies	**–**	4.0	**–**	–
Accounts payable to Group companies	**–**	–	**0.4**	21.7
Accounts payable to associated companies	**2.9**	5.5	**–**	–
Other short-term liabilities to Group companies	**–**	–	**321.3**	572.2
Other short-term liabilities to associated companies	**8.4**	77.7	**–**	–

NOTE 16. ASSETS PLEDGED AND CONTINGENT LIABILITIES

Assets pledged	**307.6**	570.9	**–**	510.9
Loans secured by mortgages	**1,040.0**	515.8	**69.0**	256.1
Mortgages given as security			**70.0**	452.2

Assets pledged are collateral, mainly for the pension loans. Such pension loans, as well as loans secured by mortgages, are included as liabilities in the consolidated balance sheets.

Guarantees				
On behalf of Group companies for loans	**–**	–	**2,304.3**	5,750.4
On behalf of Group companies for leasing agreements	**–**	–	**1,034.3**	1,069.3
On behalf of Group companies for other commitments	**–**	–	**594.5**	169.4
On behalf of associated companies	**149.4**	163.2	**149.4**	163.2
On behalf of others	**56.8**	51.3	**32.8**	37.4
Total	**206.2**	214.5	**4,115.3**	7,189.7

Letter of Comfort obligations*)				
On behalf of Group companies for credits	**–**	–	**76.1**	362.9
On behalf of Group companies for leasing agreements	**–**	–	**47.6**	–
On behalf of Group companies for other commitments (swap contracts and forward rate agreements)	**–**	–	**76.3**	107.5
On behalf of Group companies for leasing agreements	**10.6**	–	**–**	–
Total	**10.6**	–	**200.0**	470.4
Other obligations	**50.7**	144.6	**–**	–

*) Letter of Comfort obligations do not constitute a legal guarantee.

Litigation

The Group has extensive international operations and is a defendant or plaintiff in a number of proceedings incidental to those operations.In particular, in March 1994, a lawsuit for damages of unspecified amount was filed in the State Court of Chatham County in Savannah, Georgia, the United States, against Kemira Pigments Inc. (formerly, Kemira, Inc.). In addition, punitive damages are sought in the amount of U.S.$60 million.

The lawsuit was brought by 14 Savannah residents who claim that the proximity of the titanium dioxide pigments plant has lowered property values and, accordingly, demand compensation for possible declines in real estate values and for medical studies. The latter claim has since been withdrawn. In addition, a petition for class action treatment has been filed on behalf of all other persons who live within a radius of possible airborne emissions from the plant. Although it is not possible to predict the outcome of these proceedings, Kemira Pigments Inc. believes that these claims are unsubstantiated and a class action would be without merit.

The Group does not expect the outcome of any legal proceedings currently pending, either individually or in the aggregate, to have material adverse effect upon the Group's consolidated financial position.

NOTE 17. CHANGE IN ACCOUNTING POLICES

In 1993, new Finnish legislation was introduced which allows the financial statements of Finnish companies to be prepared in accordance with a set of accounting principles that is substantially in compliance with International Accounting Standards. Commencing in 1994, Kemira Oy will prepare its consolidated financial statements in accordance with the new accounting principles adopted. The consolidated financial statements of previous years have been restated in accordance with the new accounting principles.

The financial statements of Group companies have been prepared in accordance with the Kemira Group's accounting principles in all cases where possible in view of each country's local legislation, and if not, adjustments have been made during consolidation to meet the Group's accounting principles. A major adjustment has been made to the Swedish Kemira Kemi AB's leasing agreements. In the Swedish financial statements it has been accounted for as rent and in the consolidated financial statements it has been accounted for as fixed assets and long-term liabilities in the balance sheet, and as interest expenses and depreciation in the income statement.

The change in accounting policies has had the following effect on the published net income and shareholders' equity of 1993:

Net income for 1993, as presented in the financial statements	277.1
Change in untaxed reserves	(232.1)
Adjustment for the Kemira Kemi AB leasing agreement	(22.9)
Change in the uncovered pension liability	57.7
Elimination of the change in the accounting principle of associated companies	(71.3)
Cancellation of the change in the inventory valuation method	(78.3)
Change in the deferred tax liability	231.8
Other changes	(12.5)
Net income for 1993, restated	149.5

Shareholders' equity 31 Dec. 1993, as presented in the financial statements	1,200.5
Untaxed reserves excluding deferred tax liability	1,439.6
Adjustment for the Kemira Kemi AB leasing agreement	(172.6)
Cumulative elimination of fixed asset revaluations	(39.4)
Uncovered pension liability	(92.4)
The effect of associated companies	(51.4)
Other changes	(10.0)
Shareholders' equity 31 Dec. 1993, restated	2,274.3

NOTE 18. SHARES AND HOLDINGS OF KEMIRA OY

		Net income for the year*) FIM million	Number of shares	Holding %	Nominal value million	Book value FIM million
Shares in subsidiaries						
Kemira Agro Oy	Finland	140	7,000,000	100	FIM 700	700.0
Kemira Chemicals Oy	Finland	185	3,811,000	100	FIM 381	381.1
Kemira Fibres Oy	Finland	28	1,540,000	100	FIM 154	154.0
Kemira Finance B.V.	The Netherlands	11	307,232	100	NLG 280	256.5
Kemira Metalkat Oy	Finland	(12)	320,000	100	FIM 32	32.0
Kemira Pigments Oy	Finland	104	4,672,500	100	FIM 467	467.3
Kemira Safety Oy	Finland	10	120,000	100	FIM 12	12.0
Tikkurila Oy	Finland	108	784,998	100	FIM 157	182.2
Keskinäinen Vakuutusyhtiö Tulenvara	Finland	–	298	99	FIM –	3.7
Vihtavuori Oy	Finland	25	50,000	100	FIM 50	50.0
Spruce Insurance Ltd	Ireland	4	50,000	100	FIM 5	5.0
Total						2,243.8
Other shares and holdings						
Ekokem Oy Ab	Finland		250	1	FIM 1	0.5
Forcit Oy	Finland		7,614	15	FIM 1	1.7
Innopoli Oy	Finland		6,667	1	FIM 1	0.7
Liikkeenjohdon Koulutuskeskus	Finland		3	2	FIM –	0.2
Sifida Investment Company	Luxemburg		110	1	USD –	0.2
Tahkoluodon Polttoöljy Oy	Finland		135	7	FIM –	0.1
Teollisuuden Voima Oy	Finland		13,278,464	2	FIM 13	13.4
Shares in housing and real estate companies						0.9
Shares in telephone companies						0.1
Other						0.2
Total						18.0
Total Kemira Oy shares and holdings						2,261.8

*) Net income before extraordinary items, changes to untaxed reserves and taxes. If the direct subsidiary of Kemira Oy forms a subgroup, the net income is the consolidated result.

NOTE 19. SHARES AND HOLDINGS OF GROUP COMPANIES

		Holding %	Book value FIM million
Associated Companies *)			
Aluminium Sulphate Co. of Egypt	Egypt	26	15.6
Alufluor AB	Sweden	50	14.8
Ammonia A/S	Denmark	33	2.3
Cobelaz S.A.	Belgium	84	1.3
Convertitori Catalitici Europa S.r.l.	Italy	40	0.7
Erplip S.A.	Spain	50	0.2
Ferriklor AB	Sweden	50	0.8
Fertigro V.O.F.	The Netherlands	50	0
Finnrock Oy	Finland	20	0.2
Hampton Industries Ltd	United Kingdom	39	3.7
Haumont Meststoffen N.V.	Belgium	100	2.1
Hiljo B.V.	The Netherlands	50	8.7
IFK I/S	Denmark	50	1.0
Jain Kemira Fertilisers Pvt. Ltd	India	45	1.5
Kemax V.O.F	The Netherlands	50	(1.3)
Kemipol Co. Ltd.	Poland	34	3.9
Kemira-Ube, Ltd	Japan	50	11.3
Kemira Trading Oy	Finland	100	2.9
Kemivesi AS	Estonia	40	2.6
Kemrhône S.A.R.L.	France	50	0.4
Keskinäinen Vakuutusyhtiö Tulenvara	Finland	99	5.3
A/S Latvijas Krasas	Latvia	39	1.5
Nord Kaolin Inc.	United States	20	20.5
Oy Polargas Ab	Finland	30	61.1
SECO S.A.	France	50	7.0
Spruce Insurance Ltd.	Ireland	100	16.7
Superchart I/S	Denmark	50	7.9
Superstar Fertilizers Co. Ltd.	Thailand	40	2.3
Real estate and housing companies			12.5
Other			0.5
Total			208.0

		Holding %	Book value FIM million
Other shares and holdings			
Ekokem Oy Ab		2	0.6
Hage Co. Ltd			0.7
Peder P. Hedegaard A/S		5	8.9
Primex Ltd		5	2.4
Thomas Jourdan PLC		19	7.4
Vierumäen Kuntokylä Oy		8	1.8
Other shares of Kemira Oy			18.0
Other			13.7
Total other shares			53.5
Total Kemira Group shares and holdings			261.5

*) including such wholly owned companies that have been consolidated according to the equity method.

20. CHANGES IN THE GROUP STRUCTURE 1994

Corporatization of Kemira Oy

The business functions of Kemira Oy were transferred to the following new companies at the beginning of 1994: Kemira Chemicals Oy, Kemira Agro Oy, Kemira Pigments Oy, Kemira Fibres Oy, Kemira Metalkat Oy, Kemira Safety Oy and Kemira Engineering Oy. With the exception of Kemira Engineering Oy, all the companies are wholly owned by the parent company. Kemira Chemicals Oy, Kemira Pigments Oy and Kemira Agro Oy own Kemira Engineering Oy in equal shares.

Acquisitions and divestments of Group companies as well as new subsidiaries

- The business operations of Finn-Filter Oy and the subsidiary Swedab Finn-Filter Svenska AB were sold.
- Tikkurila Oy sold a quarter of its wholly-owned subsidiary A/S Eesti Värv.
- Kemira Kemi AB established a new subsidiary, Kemira Chemidet GmbH and acquired a 51% holding in the Czech company Kemifloc.
- Kemira Agro Oy established a subsidiary in Latvia, SiA Kemira Agro Latvija.

Ownership changes of subsidiaries within the Group

- Tikkurila Oy has a 100% holding in Kemira Coatings Ltd.
- Ownership of Kemira Kemi AB with its subsidiaries was transferred from Kemira Oy to Kemira Chemicals Oy.
- Ownership of Kemira Chem Holding B.V. with its subsidiaries was transferred from Kemira Holding B.V. to Kemira Chemicals Oy.
- Ownership of Kemira Chemicals Inc. with its subsidiaries was transferred from Kemira Holdings Inc. to Kemira Chemicals Oy.
- Ownership of Kemira Holdings Inc. with its subsidiaries, Kemira Svenska AB, Kemira Kereskedelmi KFT, Kemira Holding B.V. with its subsidiaries and Kemira Pigments S.A. was transferred from Kemira Oy to Kemira Pigments Oy.
- Ownership of Kemira Agro U.K. Ltd with its subsidiaries, Kemira Danmark A/S with its subsidiaries, Kemira S.A./N.V. with its subsidiaries, Viljavuuspalvelu Oy, Mykora Oy as well as A. Jalander Oy was transferred from Kemira Oy to Kemira Agro Oy.
- Ownership of the holdings in Kemira Thai Co. Ltd and Comercial de Fertilizantes Liquidos S.A. was transferred from Kemira Oy to Kemira Agro Oy.
- Ownership of Kemira Bio Holding B.V. with its subsidiaries was transferred from Kemira Holding B.V. to Kemira Agro Oy.
- Ownership of Kemira Agro Holding B.V. with its subsidiaries was transferred from Kemira Holding B.V. to Kemira Oy.
- Ownership of Kemira Katalysatoren GmbH and Metpela Oy was transferred from Kemira Oy to Kemira Metalkat Oy.
- Ownership of Kemira Safety Ltd was transferred from Kemira Oy to Kemira Safety Oy.
- Ownership of Kaanaan Ruskorae Oy was transferred from Kemira Oy to Kemira Chemicals Oy and Kemira Pigments Oy in equal shares.
- Half of the ownership of Kemira Pigments S.A. was transferred to Kemira Pigments B.V.
- Ownership of Kemira Color Europe B.V. with its subsidiaries and Kemira Color N.V. was transferred from Tikkurila Oy to Kemira Coatings Ltd at the beginning of 1995.

Name changes

- The name Kemira Inc. was changed to Kemira Pigments Inc.
- The name Kemira Holding B.V. was changed to Kemira Pigments Holding B.V.
- The name Kemira Bio Holding B.V. was changed to Kemira Agro Holding B.V.
- The name Kemira Agro Holding B.V. was changed to Kemira Finance B.V.
- The name Finn-Filter Oy was changed to Kaanaan Ruskorae Oy.
- The name Macpherson Woodfinishes Ltd was changed to Northern Universal Coatings Ltd.

PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The net profit of Kemira Oy for the 1994 financial year was FIM 996,798,015 and the distributable equity at 31 December 1994 was FIM 756,449,672. The Group's non-restricted equity at 31 December 1994 was FIM 1,216,427,000. The parent company's payment of a dividend is limited by the Group's distributable equity, FIM 561,586,000, which is obtained when the share of voluntary reserves that has been transferred to shareholders' equity is subtracted from the non-restricted equity shown in the Consolidated Balance Sheet.

It is proposed to the Annual General Meeting that a dividend for the financial year of 4%, or FIM 48,320,000, be paid on the registered share capital of FIM 1,208 million at the close of the year. It is proposed that FIM 2,500,000 be reserved for use by the Board of Directors for purposes promoting the common good (among other things, for donations to the Kemira Oy Foundation).

Helsinki, 2 March 1995

Heimo Karinen

Timo Mattila *Juhani Kari*

Esa Tirkkonen *Leif Ekström*

Sten-Olof Hansén

AUDITORS' REPORT

(translation)

To the shareholders of Kemira Oy

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the Managing Director of Kemira Oy for the year ended 31 December 1994. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures 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 has been to examine that the Supervisory Board, the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The 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 made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

We have reviewed the interim reports made public by the company during the year. It is our understanding that the interim reports have been prepared in accordance with the rules and regulations governing the preparation of such reports in Finland.

Helsinki, 17 March 1995

Markku Tapio

Erkki Mäki-Ranta
Approved Accountant, CPFA

Hannu Niilekselä
Authorized Public Accountant
(KPMG)

STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board of Kemira Oy has read the 1994 financial statements of the parent company and the Group and studied the Auditors' report at its meeting today.

The Supervisory Board advises the 1995 Annual General Meeting that the company has been managed well and that it has no comments to make on the 1994 financial statements of the parent company and the Group. The Supervisory Board 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.

Deputy chairman Heikki A. Ollila and members Arja Alho, Esko Seppänen and Timo Järvilahti, whose terms of office expired at the 1994 Annual General Meeting, were re-elected.

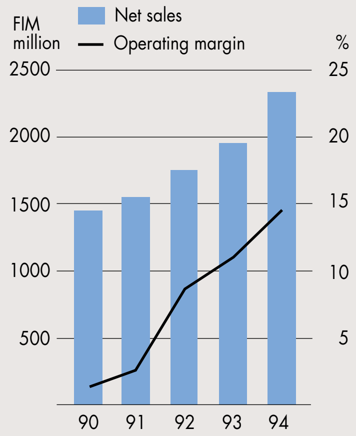
The following terms of office expire at the 1995 Annual General Meeting: chairman Timo Kalli and members Kari Rajamäki, Ulla-Maj Jern and Tarja Halonen.

Helsinki, 21 March 1995

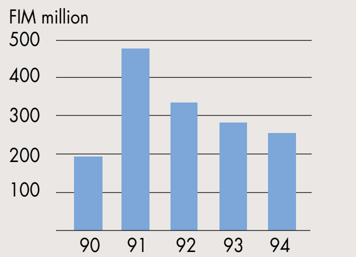
Timo Kalli	*Heikki A. Ollila*
Arja Alho	*Esko Seppänen*
Ulla-Maj Jern	*Tarja Halonen*
Veli Sundbäck	*Maija Perho-Santala*

KEMIRA CHEMICALS

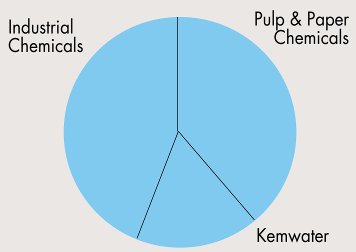
NET SALES



CAPITAL EXPENDITURE



NET SALES BY BUSINESS UNIT



MANAGEMENT

Yrjö Sipilä
President
Carsten Olsson
President's deputy
Juhani Lindholm
Pulp & Paper Chemicals
Kjell Stendahl
Kemwater
Lars Welin
Industrial Chemicals

Yrjö Sipilä

NET SALES AND RESULT

Kemira Chemicals Oy performed well in 1994. Net sales grew by 19% and were FIM 2,336 million. Operating income grew significantly for the second year running and totalled FIM 341 million, or 5% more than in 1993. All the business units, Pulp and Paper Chemicals, Kemwater and Industrial Chemicals, exceeded their profit targets.

When Kemira Oy was turned into separate wholly-owned companies at the beginning of 1994, businesses were transferred from Kemira Agro to Kemira Chemicals Oy: phosphoric acid in Siilinjärvi, formic acid in Oulu and sulphuric acid in Kokkola, all of them in Finland. This increased the net sales figure. The shareholder agreement defining the operations of the Kemira Ube hydrogen peroxide plant was changed so that it is no longer a Group company but is consolidated as an associated company. The divestments of the kaolin and air gas businesses also played a part in reducing net sales. In comparing the net sales figures for 1993 and 1994, the increases and decreases roughly balance out at the Kemira Chemicals level. Of the business units, Pulp & Paper Chemicals lost net sales, and the net sales of Industrial Chemicals increased.

Net sales of the Pulp & Paper Chemicals unit fell by 13% and were FIM 993 million, whereas Industrial Chemicals reported doubled net sales of FIM 1,115 million. The changes were due to the above-mentioned restructuring but also to marked growth in real terms. Kemwater's net sales grew by 4% and were FIM 432 million. In evaluating the growth figures, it must be borne in mind that the strong appreciation of the Finnish markka depressed the net sales and profit figures of international units. Foreign exchange differences had a particularly strong impact on business that was done in Swedish kronor and US dollars. Part of Kemwater's new companies are not Group companies and thus do not appear in the net sales figures.

MARKET SITUATION

A great deal happened on the market during 1994. Most of the events of the year were positive. In Europe and the Nordic countries, especially in Finland and Sweden, the economic expansion strengthened substantially. The upswing got under way already in 1993, but most of the positive effects have not showed up in our profit figures until the year under review.

The business cycle of the pulp and paper industry, the most important customer group for Kemira Chemicals Oy, swung to strong growth.

The world market price of pulp more than doubled from its low point in 1993 (less than USD 400 per tonne). With demand growing rapidly, the pulp mills were operating at nearly maximum capacity. Pulp also exerted upward pressure on the prices of various grades of paper. The capacity utilization rates of paper mills rose sharply. The good times for customers were naturally reflected in increased sales of bleaching and special chemicals too. The competition for markets heated up further and despite the good market situation, the price level of bleaching chemicals fell, particularly in central Europe.

The market for water treatment chemicals tends to be more stable and fluctuations in the business cycle do not impact it in the same way as they do the pulp and paper industry. In the Nordic countries, the development was steady and largely like that of the previous year. In the Netherlands, the treatment of waste water developed by leaps and bounds. The battle for market share was tough but as the first local producer, we succeeded in retaining our market leadership.

In Eastern Europe and Russia, the situation changes rapidly and

KEMIRA CHEMICALS 1994

	FIM million
Net sales	2,336
Cost of sales	(1,762)
Depreciation	(233)
Operating income	341
Net financing expenses	(156)
Income before extraordinary items	185
Capital invested (average)	2,451
Return on investment %	15 %
Capital expenditure	256
Personnel (average)	2,221

A 45,000 thousand tonne hydrogen peroxide plant that will mainly serve the pulp and paper industry in the Nordic countries came on stream in Oulu, Finland. Kemira Chemicals produces 7% of the world's hydrogen peroxide.

awareness of water treatment issues increases. Kemira Chemicals has responded to the new market situation by building a chain of water chemical plants in Eastern Europe. Our Kemwater profit centre has plants that are in production in Poland, the Czech Republic and Estonia. Products were supplied from the present plants to the Russian market.

The Industrial Chemicals profit centre marketed its products to a number of industries. Within feed phosphates, cheap imports from the east tapered off and the market stabilized. The supply and demand situation for phosphoric acid, calcium chloride and formic acid ensures that the plants that manufacture these products will have higher capacity utilization rates than last year.

CAPITAL EXPENDITURES

The most important capital project in 1994 was completed in the spring in Oulu, Finland. The new hydrogen peroxide plant started up ahead of schedule and came in under the cost estimate. An AKD neutral sizing plant was completed in Lauterbourg, France. Gypsum pigment production was doubled in Siilinjärvi, Finland. An oleum and pure sulphuric acid plant was completed in Helsingborg, Sweden.

A/S Kemivesi, an associate company of Kemwater, began operations in Tallinn, Estonia. A majority stake was acquired in the Kemifloc company in the Czech Republic. Both plants produce iron chemicals for water treatment needs. A plant that manufactures granulated ferrisulphate was completed in Pori, Finland, in cooperation with Kemira Pigments Oy. The new plant will begin operations at the turn of the year.

Industrial Chemicals saw to completion its capital projects for calcium chloride production in three localities – Helsingborg, Sweden, Kokkola, Finland and Delfzijl, the Netherlands. The monocalcium phosphate production that came on stream in Kokkola ran smoothly. A phosphoric acid purification plant was completed in Siilinjärvi, Finland. During the year a decision was made to expand formic acid production in Oulu, Finland.

PERSONNEL

Kemira Chemicals Oy employed an average of 2,221 people (1 704 people in 1993). The increase was mainly due to the transfer of the Siilinjärvi plants from Kemira Agro to Kemira Chemicals.

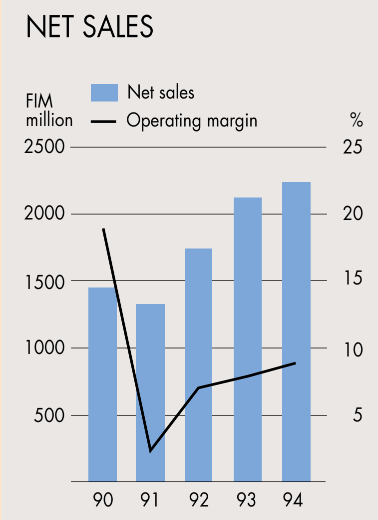
At other sites the personnel strength did not change appreciably, with the exception of Oulu, where the readjustment phase is still continuing following the winding up of fertilizer production. In evaluating the figures for personnel, the changes that have taken place in turning the units into separate companies must be taken into account. For example, Kemira Chemicals and Kemira Agro have production exchange agreements on several sites in Finland.

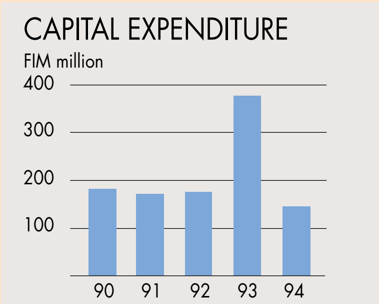
OUTLOOK FOR THE FUTURE

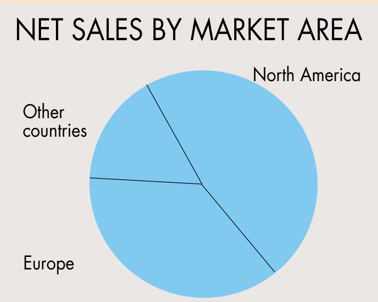
The near-term economic outlook is more favourable for the chemical industry than it has been for years. This is bound to show up in the operations of Kemira Chemicals Oy. Sales growth is mainly limited by production capacity, which was virtually in full use in most of our major product areas in the latter part of 1994. The rise in raw material prices was fast, particularly in the product groups of Industrial Chemicals.

Additional investments in research were made during the year under review and they are continuing. The most important projects for Kemwater are the removal of heavy metals and the recycling of wastewater sludge. Pulp and Paper Chemicals is concentrating on highly refined products from hydrogen peroxide, on bleaching and on special chemicals for the paper industry. Industrial Chemicals is focusing on the further refinement of phosphoric acid, formic acid, calcium chloride and feed phosphates as well as on applications from this development work.

In line with the strategy it has outlined, Kemira Chemicals Oy is concentrating on its growth areas: chemicals for the pulp and paper industry, water treatment chemicals and selected industrial chemicals.







MANAGEMENT

Kari Autio
Managing Director
Risto Ojala
Savannah Plant
Matti Lumme
Pori Plant
Seppo Matikainen
Rotterdam Plant


Kari Autio

KEMIRA PIGMENTS

NET SALES AND RESULT

Net sales of Kemira Pigments in 1994 grew by 6% and were FIM 2,243 million (FIM 2,109 million in 1993). The increase was due in part to the inclusion of the operations of the Rotterdam plant, which was purchased in July 1993, in the net sales figure for the entire year. The growth in net sales in Finnish markka amounts was curbed by the strengthening of the markka, especially against the US dollar. Operating income was FIM 199 million (FIM 166 million in 1993), up by 20% on the previous year.

MARKET SITUATION

In 1994 the demand for titanium dioxide grew markedly, causing prices to edge upwards. In Kemira Pigment's most important market areas, Europe and the United States, price increases were announced and they were implemented for the most part. Towards the end of the year, additional price increases were announced and their effect will be seen in the first half of 1995.

The price trend was positive elsewhere in the world, too, and Kemira Pigments has raised the prices of its products in all its market areas.

Towards the end of the year, the delivery situation became tight owing to the greater-than-anticipated demand. Growth in demand is expected to continue and towards the end of the year a number of producers made public their plans for reducing production bottlenecks. Kemira Pigments, too, announced in December its intention to increase capacity at its plants in Europe. The projected increases in capacity will not essentially change the competitive positions among the largest producers. Kemira Pigments is the third largest producer of titanium dioxide in both Europe and the United States. Significant changes did not take place in the company's market shares during the report year.

Sales of ultrafine pigment, pearl lustre pigment and titanium chemicals also developed favourably. The main product, titanium dioxide, nevertheless accounted for more than 95 per cent of total invoicing, which means that the sales of other products had only a minor effect on earnings.

CAPITAL EXPENDITURES

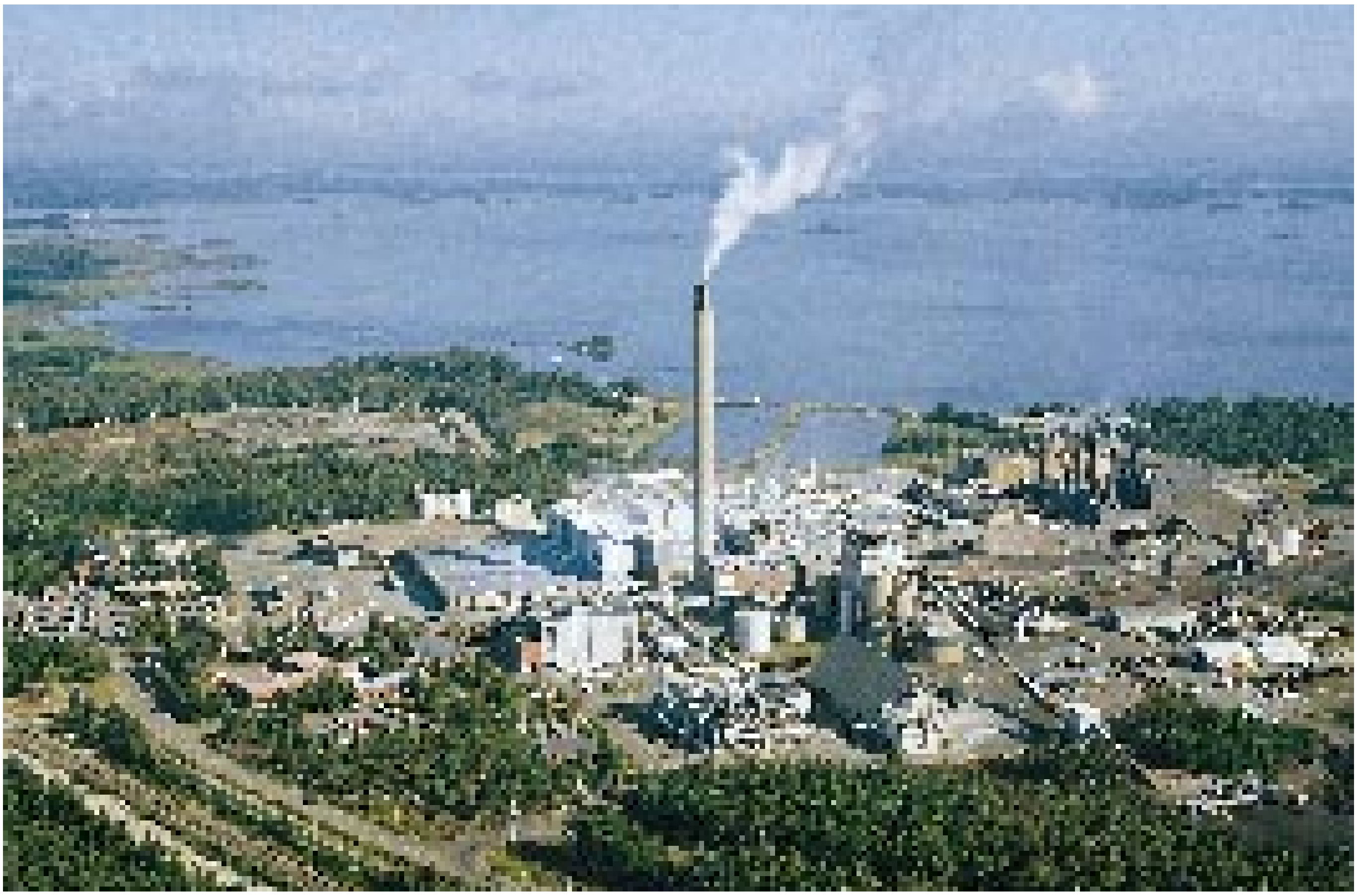
The most important capital spending decision in 1994 was the development programme for the Kemira Pigments' plants in Europe. The objective of the programme is to eliminate production bottlenecks at the plants in Pori, Finland, and Rotterdam, the Netherlands. The FIM 500 million of investments to be made over three years will boost the total capacity of Kemira Pigments to 321,000 tonnes, from 280,000 tonnes. The capital project will improve the company's profitability.

The plants in Pori will account for about FIM 400 million of the above capital spending. A major part of the development programme is a new wastewater treatment plant that will neutralize all acid wastes before they are discharged. The bulk of the FIM 100 million to be invested in the Rotterdam operation will be used to modernize the plant's finishing section. This action will enable the Rotterdam unit to raise the quality of its products and will also make it possible to produce completely new titanium dioxide pigment grades.

In addition to Pori, environmental protection investments were also made at the plants in Rotterdam and Savannah, USA. Building of a nickel removal plant costing FIM 10 million was started at the Rotterdam plant in October. When completed in mid-1995, the plant will effectively prevent nickel contained in the raw materials from being discharged to the environment. A decision was made to build a chloride emis-

KEMIRA PIGMENTS 1994

	FIM million
Net sales	2,243
Cost of sales	(1,845)
Depreciation	(199)
Operating income	199
Net financing expenses	(95)
Income before extraordinary items	104
Capital invested (average)	2,453
Return on investment %	10 %
Capital expenditure	146
Personnel (average)	1,971



A 400 million mark three-year capital expenditure programme was approved for the Kemira Pigments plant in Pori, Finland. It will improve the quality level of the product, increase capacity by eliminating bottlenecks and end the discharge of harmful effluents from the plant into the sea.

sion recovery system, to be completed by the end of 1995, at the chloride-based plant in Savannah.

Capital projects improving production technology were also carried out at all the Kemira Pigments' sites. Capital expenditures in 1994 totalled FIM 146 million.

Kaanaan Ruskorae Oy, a joint venture of Kemira Pigments Oy and Kemira Chemicals Oy, started up production towards the end of the year. The plant is part of the Kemira Pigments facility in Pori and it produces granular ferric sulphate. The product is used for water treatment and it is marketed by Kemira Chemicals Oy.

RAW MATERIALS

Kemira Pigments purchases its raw material, titanium ore, from a number of different suppliers. Increased demand also led to an increase in the price of titanium ore, but its cost impact will not be felt until 1995.

R&D

Within R&D the emphasis was on product development as well as further advances in production technology and environmental protection. Research cooperation between the different sites is an effective way of supporting development work on titanium dioxide pigments and has led to new products.

Development projects for chloride technology were applied in practice and significant strides were made in development work on sulphate technology in 1994. A method by means of which acid wastes can be neutralized to a completely harmless state was developed for the treatment of wastewater at the titanium dioxide plant in Pori. The byproducts arising in the treatment process are used to manufacture a product for geotechnical and environmental protection applications that is marketed under the Finnstabi product name.

PERSONNEL

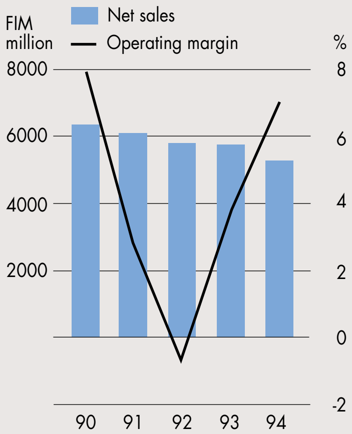
Kemira Pigments employed an average of 1,971 (1,833 in 1993) employees. The growth is due to the fact that the payroll figures for 1994 include the personnel at the Rotterdam plant for the entire year. The programme for rationalizing the Rotterdam organization will be seen to completion during the current year.

OUTLOOK FOR THE FUTURE

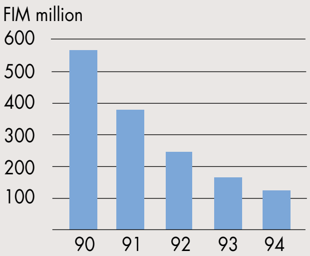
Price increases have been announced for 1995 in all the market areas. Raw materials and other cost factors have begun to rise, but the earnings of Kemira Pigments are expected to improve provided that economic development in the main market areas remains stable.

KEMIRA AGRO

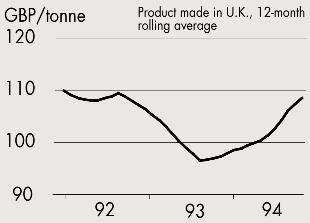
NET SALES



CAPITAL EXPENDITURE



PRICE OF AMMONIUM NITRATE IN U.K.



MANAGEMENT

Tauno Pihlava
President
Rauno Valkonen
Executive Vice President
Timo Lainto
Agriculture
Timo Törmälä
Horticulture
Risto Keränen
Fine Chemicals

Tauno Pihlava

Kemira Agro improved its result substantially in 1994. Demand for plant nutrients grew towards the end of the year and a number of plants set production records.

NET SALES AND RESULT

Net sales of Kemira Agro Oy were FIM 5,257 million (FIM 5 726 million in 1993). The drop was due to the transfer of certain business functions in connection with the restructuring of Kemira Oy as well as to the strengthening of the Finnish markka.

Despite the drop in net sales, the result improved markedly compared with the previous year. Operating income amounted to FIM 368 million (FIM 219 million). Kemira Agro Oy's cash flow after capital expenditures was decidedly positive.

MARKET SITUATION

The worldwide recovery in agriculture was also felt in Europe. The sharp downward trend in the demand for plant nutrients, which has continued for years, tapered off. The consumption of nitrogen products even increased by about one per cent.

Another factor that had a positive effect on the general market situation was the levelling off of the amount of imports from Eastern Europe. Producers in Southern Europe also made strides in restructuring their production and cut back their capacity.

The raw material prices of all main nutrients rose. The top prices of ammonia nearly doubled compared with the previous year. The price

KEMIRA AGRO 1994

	FIM million
Net sales	5,257
Cost of sales	(4,501)
Depreciation	(388)
Operating income	368
Net financing expenses	(228)
Income before extraordinary items	140
Capital invested (average)	4,672
Return on investment %	9 %
Capital expenditure	123
Personnel (average)	3,648

of phosphoric acid continued its steady rise throughout the year and the EU set a minimum price on eastern imports of potassium salt, raising the price level of the product in the entire European area.

Improved demand and a stabilized supply together with an increase in raw material prices caused the prolonged decline in product prices to rebound. The most significant rise in prices took place in Great Britain, where the annual rise was of the order of 20%. In continental Europe the turning point came later in the summer and the rise reached about 10%.

Major changes did not occur in Kemira Agro's market position despite the fact that production plants in all our market areas were operating at nearly full capacity.

OPERATIONS BY UNITS

At the start of the year when Kemira Agro Oy was turned into a separate company, operations were divided on a customer-oriented basis into three different business units. The Agriculture unit serves agricultural customers, Horticulture caters for horticultural and forest customers and Technical Products focuses on industrial customers, but also serves farmers' pesticide needs. Towards the end of the year, it was decided to combine sales of pesticides and the fine chemical production at the plants in Kokkola, Finland, into a separate Fine Chemicals business.

The business units are responsible for defining long-term strategies, setting sales and marketing policy guidelines as well as development work. Operational results are nevertheless reported for the profit centres in different regions.

To serve external and internal information needs, an information unit was formed which will report to the executive vice president.

Kemira Agro's operating income in Finland was well in the black, which was due largely to the fact that customers were preparing themselves for the new EU era. Agricultural yields were calculated for the last time according to the old system and taxes on fertilizers were lifted on 16 June 1994. Thanks to a brisk market towards the end of the year, the amounts of plant nutrients delivered rose by 13% on the previous year.

Factors that had a negative impact on operations in Finland were a stronger markka, which hurt exports, and the collapse of the eastern market for agrichemicals.

Total net sales of the functions in Finland were FIM 1,876 million, down by 14.5%, mainly owing to the transfer of the phosphoric acid and formic acid businesses to Kemira Chemicals.

The obstacles to improved results for Kemira Danmark were higher raw material costs, a weak level of production as well as the slide in the value of the dollar, which reduced export income. In Denmark a follow-up development project was launched in the autumn with the object of achieving structural cost savings and implementing other actions that will improve earnings. Keld Berg Poulsen was named the new managing director as from the beginning of 1995.

Operating income of the units in Denmark was slightly in the red although net sales rose by 2% to DKK 1,433 million.

On the market of Kemira Agro UK, the positive trend in both demand and prices helped the unit to improve its result significantly. Contributing to the same positive trend was our own ammonia production, which helped to eliminate cost pressures in the raw material pipeline, and the structural savings in both fixed and distribution costs.

Operating income of Kemira Agro UK was well in the black and net sales rose by 21% to GBP 167 million.

Operating income of Kemira Agro Benelux also showed a clearly improved trend, although it was still slightly in the red. Our own ammonia and phosphoric acid production helped the situation as price rises of end products shifted to the latter half of the year. Of particular significance for the operations of Kemira Agro Benelux, were the structural cost savings that have been realized, which will lay the foundation for turning a profit. Capacity at the Tertre plant was put into more effective use during the autumn by utilizing the nitric acid produced at Willebroek as a raw material.

The Kemira Agro Benelux profit centre was divided into two new units: Kemira Agro Holland and Kemira Agro Belgium. Hans ten Berge was appointed managing director of the functions in the Netherlands and Vincent Reuter became managing director of operations in Belgium. The arrangements came into force on 1 January 1995.

Net sales of Kemira Agro Benelux rose by 6% to NLG 705 million.

DEVELOPMENT AND CAPITAL EXPENDITURE

Development actions were geared towards achieving a closer customer focus. Owing to the economic situation, more emphasis was given to near-term objectives, yet without forgetting the most important long-term objectives.

The organization of R&D operations observed the division into business units that came into force at the beginning of the year and inputs were directed at supporting the targets set by the business functions.

The volume of R&D was somewhat more than 1% of net sales, taking into account all the business functions. All in all, investments in R&D fell compared with the previous year. The major factor contributing to this development was the transfer of the phosphorus and formic acid businesses to Kemira Chemicals Oy.

The economic situation of previous years and the transfer of entire businesses depressed capital expenditures, which totalled FIM 123 million. The capital expenditures made strengthened the competitiveness of our main business, whilst bolstering the continuity of production operations and the efficiency of our logistics functions.

A significant environmental investment at the Pernis phosphoric acid plant in the Netherlands ensured that production will be able to continue for a number of years ahead in compliance with stringent emission standards. A comparison carried out within the EU has determined the environmental efficiency of our other production plants to be satisfactory, and no special capital expenditure needs are foreseeable in this area.

PERSONNEL

Three years ago we launched a programme to boost the efficiency of our business functions and to adjust our production structure in line with market trends. The decision-making involved in this process is now on the home stretch. The efficiency-boosting project has achieved and even exceeded its targets.

Quality management projects continued at all our sites, with the objective of further improving customer satisfaction. Implementation of the development objectives for our own personnel is continuing as part of the customer service project. In line with a new development project, management systems will be created in accordance with the principle of achieving the broad involvement of our personnel.

The average personnel strength was 3,648 people (4,575 people in 1993).

OUTLOOK FOR THE FUTURE

The European agricultural market appears to have stabilized for the time being. Increased demand on the world market means easier conditions for the export of European surplus grain too. In the EU area the obligatory set-aside acreage quota was lowered to 12%, from 15%. Eastern European producers have run up against the realities of production and transport costs. This has clearly limited the capacity that is in operation. For its part, the structural change that is taking place within the European fertilizer industry will bring a further equalization of demand and production.

These facts mean an improved capacity utilization for the production of Kemira Agro and in the short term also a more stable price level. Further ahead, the fertilizer industry in Europe must continue developing the competitiveness of its cost and production structure.

Kemira Agro's strategy is to concentrate on serving the needs of plant nutrient customers, but the business will also seek to obtain value added from synergistic industrial markets. Within product development we shall take into account the needs of sustainable development, environmental production and Good Farming Practices.

The competitiveness of our production will be maintained at the level of Europe's top companies and consequently capital expenditures will be aimed at projects that improve the efficiency and capacity utilization of production as well as occupational and environmental safety.

One of the most prominent sites where Tikkurila's exterior paints are being used is located at the side of Helsinki's Market Square: the President's Palace, which was thoroughly renovated last year.

NET SALES AND RESULT

The Tikkurila group posted a good result in 1994. Net sales were FIM 1,261 million (FIM 1,210 million in 1993 with the consolidation of Kemira Coatings Ltd). The growth in Finnish markka amounts was slowed by the strengthening in the external value of the markka. Kemira Coatings became a wholly-owned subsidiary of Tikkurila Oy in the beginning of 1994.

Net sales of the parent company, Tikkurila Oy, were FIM 790 million (FIM 724 million in 1993). Net sales of Kemira Coatings Ltd were GBP 45 million (GBP 42 million in 1993). The growth in net sales was according to expectations also at Winter-Bouts BV, Dickursby Färg AB, AS Eesti Värv and AO Finncolor. Kemira Color BV and Kemira Color NV did not reach their net sales targets.

Aggregate operating income of Tikkurila Oy and its subsidiaries was FIM 143 million (FIM 141 million in 1993, with the consolidation of Kemira Coatings).

MARKET SITUATION

With its market share of about 3%, the Tikkurila group is among Europe's largest paint manufacturers. The largest is Akzo Nobel, with a market share of about 12%. Other large manufacturers are ICI of the UK and the German companies BASF and Hoechst, among others.

Tikkurila's strong suit is tinting systems. Their clientele is made up of different paint manufacturers from large to small. Tikkurila is the market leader in Europe as a supplier of tinting systems.

Tikkurila has a tripartite market strategy: decorative paints are marketed primarily in the Nordic countries, the

TIKKURILA 1994

	FIM million
Net sales	1,261
Cost of sales	(1,060)
Depreciation	(58)
Operating income	143
Net financing expenses	(35)
Income before extraordinary items	108
Capital invested (average)	1,089
Return on investment %	13 %
Capital expenditure	85
Personnel (average)	1,590

Baltic area, the former CMEA countries and central Europe. The market area of industrial coatings is all of Europe, Southeast Asia and the Middle East, and tinting systems are sold on every continent. In 1994 the bulk of sales was directed at Western Europe.

Tikkurila manufactures decorative paints in Finland, Estonia and Latvia. In Russia production will start up during 1995. Tikkurila manufactures industrial coatings in Finland, the UK, the Netherlands and Belgium. The company's strong areas are heavy-duty coatings, woodfinishing, coil coating and the painting of industrial products. The production of colourants is concentrated in Finland and the Netherlands.

Finland's decorative paint market continued to contract somewhat in 1994 due to the recession and the weakening of purchasing power. Exports and other international operations developed very favourably. The growth was particularly strong in the Baltic countries and in Russia. In these countries sales more than trebled compared with the previous year.

Sales of industrial coatings grew in all of Tikkurila's market areas. Sales of coatings for the metal industry showed the strongest upward trend, but growth also took place in all other product groups.

Sales of tinting systems continued to grow strongly. New markets opened up notably in South America, the Middle East and Asia.

CAPITAL EXPENDITURE AND RAW MATERIALS

The largest construction investment was the building of a new colourant plant in Sittard, the Netherlands. The remaining shares in Kemira Coatings Ltd (50.1%) were transferred from Kemira Oy to Tikkurila Oy.

Prices of raw materials rose sharply during 1994. For certain key raw materials availability problems were encountered.

PERSONNEL

The Tikkurila group employed an average of 1,590 people in 1994 (1,518 in 1993).

R&D

Attention to environmental considerations by means of, among other things, life-cycle analyses of products, occupied a central position in Tikkurila's product development. New products that exert less of a strain on the environment were developed for use by both consumers and industry. In existing products, raw materials were replaced with less harmful substitutes and the share of recycled raw materials was increased.

As far as is known, Tikkurila Oy was the first paint factory in the world to be granted an environmental certificate according to the BS 7750 standard. Similarly, AS Eesti Värv was the first paint manufacturer in the Baltic area to receive a quality certificate according to the ISO 9002 standard.

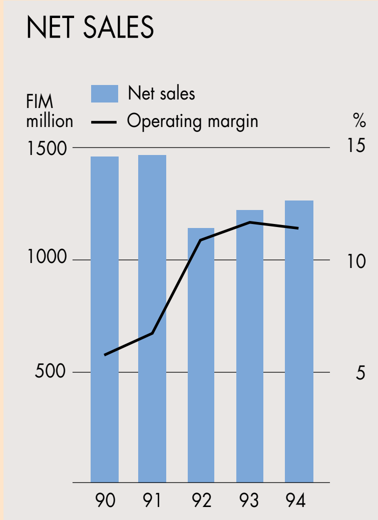
BUSINESS DEVELOPMENT

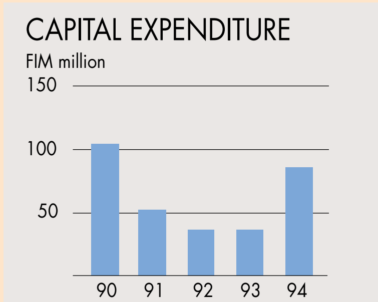
To support Tikkurila's operations in the Baltic, the Baltic Color business unit was established in the autumn of 1993 in cooperation with the Swedish company Alcro-Beckers AB. As part of the deal, Tikkurila sold Alcro-Beckers 25% of the shares of Tallinn-based AS Eesti Värv. Baltic Color will coordinate the production of AS Eesti Värv and A/S Latvijas Krasas, which operates in Riga, and it will handle the partners' joint marketing in the Baltic area.

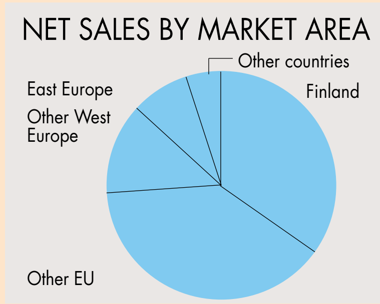
In 1994 Tikkurila Oy concluded an agreement on marine paint cooperation with Japan's largest paint manufacturer, Kansai Paint Co. Ltd. The agreement will make possible worldwide service for marine paint customers in both new buildings and in maintenance painting operations.

OUTLOOK FOR THE FUTURE

The recession in the construction industry is continuing in Finland. Tikkurila's paint business in the Baltic countries, Russia and Central Europe is continuing to develop promisingly. Sales of tinting systems, too, are continuing to grow at the present level. In future an increasingly large share of the Tikkurila group's net sales will come from outside Finland.







MANAGEMENT

Raimo Piironen
President
Visa Pekkarinen
Decorative Paints
Tapio Käär
Industrial Coatings
Vesa Aulanko
Colour Processing Systems
Brian Parks
Kemira Coatings Ltd

Raimo Piironen

KEMIRA FIBRES OY

The result for 1994 was according to expectations. Net sales were FIM 620 million (FIM 624 in 1993). The fall of about 1% was attributable to the strengthening of the Finnish markka. Operating income was FIM 38 million (FIM 48 million in 1993). The cash flow from operations was also decidedly positive.

Demand for viscose staple fibre was better than in the previous year in most markets. Outside Europe demand improved further towards the end of the year. This was due above all to the tight market situation for cotton. The largest client countries for viscose staple fibre are Germany, France and Turkey.

Demand for textured yarns was good and exceeded the available capacity. Apart from Scandinavia, the main client countries were Belgium and Spain. The result of the texturing unit was good. The texturing business will be sold to the unit's management. An agreement on this was reached in the beginning of 1995.

The chemicals unit markets the sodium sulphate that is generated as a byproduct and also sells certain other chemicals. The unit's result was good.

The prices of the main raw materials – dissolving pulp and caustic soda – rose very sharply. Price increases could not be passed along into product prices to the same extent.

The viscose staple fibre business applied for and obtained a certificate according to the ISO 9001 system. The total quality system was further developed.

A fairly large capital project that was completed and put into use was the first stage of the development investment for non-woven fibres.

A final decision by the authorities concerning the company's biological treatment plant was postponed due to complaints.

Personnel strength averaged 669 people (658 in 1993).

The textile industry uses about two thirds of Kemira Fibres' viscose staple fibre production. Photo: Pola.

VIHTAVUORI OY

Net sales were FIM 154 million (FIM 174 million in 1993). The drop was due to a cutback in orders from the Finnish Defence Forces, to the low level of construction in Finland as well as to the deferral to 1995 of an export deal because of delays in obtaining an export permit.

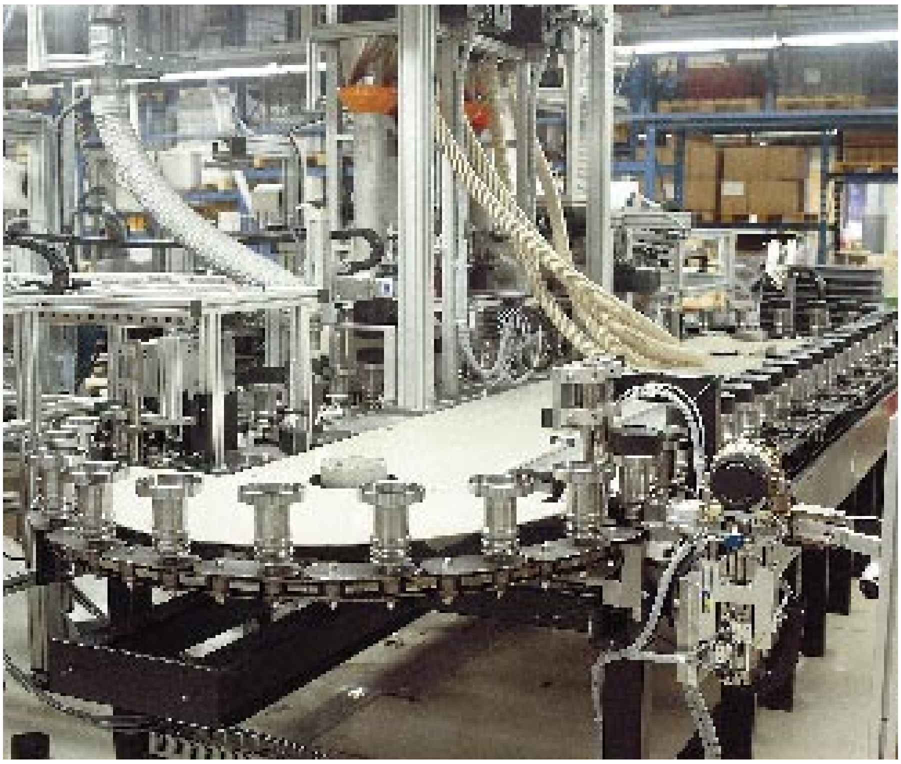
The result for 1994 was good, though it fell short of last year's result. Operating income was FIM 28 million and the cash flow from operations after investments was decidedly positive.

At the beginning of the year, a new plant that will produce cartridged emulsion explosives was put into use. The new environmentally acceptable product will serve as a replacement for conventional blasting explosives. The product was well received and during 1995 part of the manufacture of conventional explosives will be wound up at Vihtavuori Oy.

In the autumn of 1994 a wastewater treatment project was started at the plant in cooperation with the municipality. All the wastewater will be channelled on a centralized basis to the Jyvässeutu treatment plant.

Procurements by the Defence Forces continue to decline. This has been off-

Cartridged Kemix emulsion explosive is an easy-to-load, efficient and safe mining explosive.



Kemira Safety energetically developed new products and production technology.

set by the growth in exports, which during the current year are expected to exceed exports in 1994. Within blasting explosives the lower demand is expected to grow slowly in the years ahead. The industry had to face intense price competition in 1994.

KEMIRA METALKAT OY

Kemira Metalkat had net sales of FIM 114 million, down 7% on the previous year. The net sales figure for 1993 included one-time income from project sales. Product sales grew significantly. Operating income was FIM 5 million negative.

Kemira Metalkat is still involved in an intense market penetration effort that calls for high outlays for development and marketing and thus cut into profits.

The most important export countries were Germany, Spain, the UK and Italy. Exports accounted for 90% of net sales.

More large competitors have entered the market and decentralized their manufacturing, thereby leading to tougher competition. Demand for catalytic converters has picked up in applications outside the automotive industry.

The development of catalytic converters for vehicles and small combustion engines has been continued together with system suppliers and customers. A new product that was brought out on the market is a catalytic converter that is suitable for burning solvent fumes.

Kemira Metalkat Oy was granted a quality certificate according to the ISO 9001 standard.

Volume growth is anticipated within catalytic converters for small combustion engines. Demand for catalytic converters for vehicles will become stronger in new areas as legislation develops. Kemira Metalkat has several development projects that are expected to reach the commercial stage in the near future.

KEMIRA SAFETY

The result for 1994 was better than expected. Net sales were FIM 66 million (FIM 56 million in 1993). The increase of about 19% was attributable to brisker markets in Western Europe and to gains in market share for certain products. Operating income was FIM 10 million (FIM 4 million in 1993). Capital expenditures amounted to about FIM 4 million and the cash flow after investments was decidedly positive.

The prices of plastic and rubber raw materials rose significantly towards the end of the year, but price competition nevertheless remained good. The right to use the CE mark, a Euronorm standard that will become compulsory in July 1995, was obtained for all our most important products. The compulsory status of the CE mark means a salutary market shake-up and has already eliminated poor quality cheap products. Major new products are the Civic smoke hood that is intended for fire-evacuation situations and the Automask protective mask that is intended for use with an Autoflow blower unit.

Capital expenditures were made on product development and new production technology, which will bear fruit in the form of new and increasingly competitive products during 1995. The most significant new products will be a military gas mask and new series of filters.

The trend of operations was positive all across the board. The primary reasons for the positive trend are the previously made strategic decisions on streamlining the product range and on concentrating on our most important area of expertise – respiratory protection equipment.

A good half of Kemira Metalkat's catalytic converters for small combustion engines are supplied to motorcycle manufacturers.

ENVIRONMENT POLICY

A new Group environment policy was approved by the Group Board in September. The corporate principles, first published in 1988, were amplified, and numerous practical procedures described for the Group and Group company levels. These procedures form the main elements of the environmental management system of the Group (see next page).

With the new policy, the Group implements the Industry Charter for Sustainable Development into its business activities. The Group companies are committed to *Responsible Care,* the voluntary environment and safety programme of the international chemical industry, and to implementing this programme independently in different countries. And, most importantly, all practical environmental objectives are set within the Group companies.

PRODUCTION FACILITIES

The Group has over 60 industrial production sites in 20 countries. The following section describes the most important changes during 1994.

Kemira Chemicals. Discharges of phosphorus were cut by 50 % at the Kemira Kemi AB plants in Helsingborg, Sweden, by improvements in the water management of the site. Sulphur emissions into the air remained at a very low level (see Figure 4).

The Kemwater business unit made environmental improvements at many of its twenty water treatment chemical plants, located mainly in Europe. Examples include the closing of water systems to eliminate any discharges, the changing of raw material from bauxite to aluminum hydrate to eliminate solid waste, and new gas scrubbers. In addition, improvements were made in the environmental safety of storage tanks and in the use of chlorine gas.

The three main Finnish sites of the company (Siilinjärvi, Oulu, Vaasa) expanded their production without significant environmental changes, and within the scope of existing environmental permits.

Kemira Pigments. The company started an investment programme of FIM 500 million, which, in addition to titanium dioxide capacity expansions, will include considerable environmental improvements over the next few years.

At the Pori plant, the recycling and concentration of waste acid will be expanded. Furthermore, a neutralization plant will be constructed for dilute waste waters in two years. These investments, totalling FIM 165 million, will allow the company to eliminate harmful releases to the sea totally. This will complete the R&D programme, which proceeded through full-scale pilot experiments to the process design stage in 1994. The reuse of waste and co-products as well as the development of waste-derived products continued succesfully.

At the Kemira Pigments B.V. plant in Rotterdam, a water pollution control investment of FIM 10 million was started. This will specifically improve the reduction of nickel discharges so as to comply with very stringent permit conditions.

Several improvements were made at the Kemira Pigments Inc. plant in Savannah, Georgia, USA. These measures reduced the emissions of titanium tetrachloride from the chloride process by 60 %.

Kemira Agro. A repulping system costing FIM 13 million was put into use at the Kemira Pernis B.V. plant in Rotterdam in October, reducing phosphorus discharges into the Rhine River by 20 %. Kemira B.V. eliminated releases of zinc and sulphuric acid by changing the cooling water systems at the Rozenburg plant. Similarly, the Kemira S.A./N.V. plant in Tertre, Belgium, removed heavy metals from the cooling system of the ammonia plant.

In Denmark, a gas scrubbing system is under construction at the Kemira Danmark A/S Nørresundby plant, which will reduce odorous substances from the flue gases of the superphosphate plant. The main site in Fredericia improved environmental monitoring and control, and started investigations on noise levels and diffuse losses of nutrients. At the Kemira Ince plants in Chester, UK, work on integrated pollution control (IPC) was completed, and an improvement programme to reduce air emissions has begun.

At the Uusikaupunki plant in Finland, efficient emission control was demon-

Figure 5

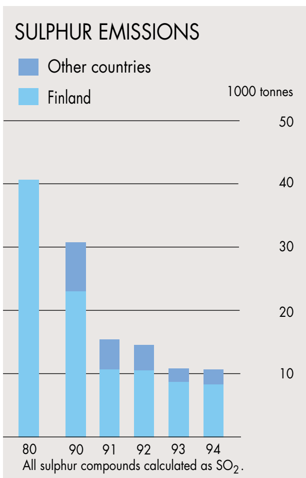


Figure 2

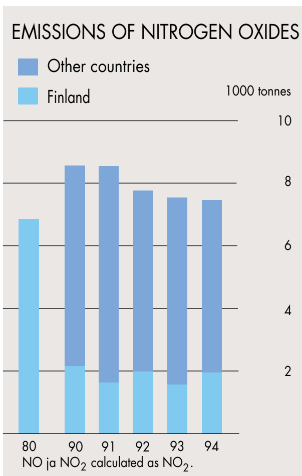


Figure 3

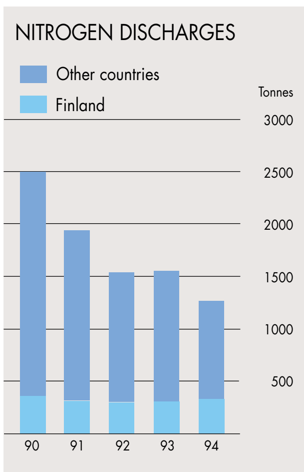
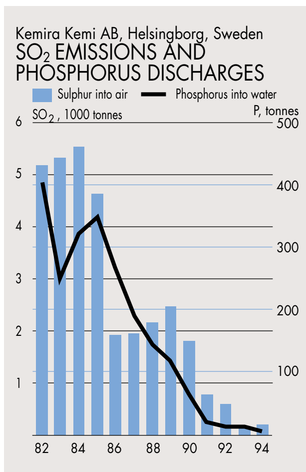


Figure 4



strated by record production without significant increases in releases. External investigations confirmed the efficiency of isolation and water management of the phosphogypsum pile. The Harjavalta plant reduced diffuse nutrient losses that pass into the sewage systems from the site, and started the construction of safety containment for the sulphuric acid storage areas. At the Kokkola plants, new production of several fine chemicals and feed phosphates was started without significant environmental changes.

Tikkurila. At the Tikkurila plants in Finland, the emission of volatile organic compounds (VOC) was 50 % lower than in the previous year due to the fact that the catalytic incinerator had been in operation for the first full year. Improvements were also made in closing of the water systems. In the UK, Kemira Coatings Ltd improved emission monitoring at its five sites and supplied upgrading plans to the authorities as a part of the IPC permit procedures.

Kemira Fibres. At the Valkeakoski plant in Finland, the company achieved record low releases to the air and water by improving the existing processes and treatment units. The planning of a new biological waste water treatment plant continued. Process waste generation decreased at the viscose plant and the incineration of remaining waste expanded.

Vihtavuori Oy. Planning and construction of the waste water neutralization plant started. This unit, together with the new sewage connection to the municipal treatment plant, will stop acidic discharges into the nearby lake.

PRODUCTS

The eco-business, or the sales of environment- and safety-related products of the Group companies, continued to expand promisingly. The total turnover of 20 product groups classified in this category was approximately FIM 930 million, representing about 8% of the Group turnover (see Figure 9).

At Kemira Chemicals, waste water treatment chemicals for municipalities and the pulp and paper industry as well as hydrogen peroxide for chlorine-free bleaching had a year of good growth. New water treatment chemical plants came on stream in Finland, Czech Republic and Estonia.

The capital project that will increase the capacity of gypsum pigment production at the Siilinjärvi plant of Kemira Chemicals was the most important step forward in waste-derived products. Sales of environmental equipment were at a similar level as in the previous year.

Sales of alternative, environment-friendly products increased substantially. The sales development was particularly promising within Kemira Agro's recycled organic nutrients for horticulture and chlorine-free viscose supplied by Kemira Fibres.

Apart from this "green" business, much of the development of conventional products focused on environmental performance or quality. This was most prominent in paints and related products, explosives and fertilizer manufacturing, where the use of recycled raw materials increased. Life cycle analysis, LCA, was increasingly used as a tool in product development.

Much of the Group's research and technology effort was directed into environment driven applications and cleaner technologies. The Group also contributed to the preparation of the cooperative research projects in sustainable technologies (SUSTECH) within the European Union research programmes.

ENVIRONMENTAL MANAGEMENT SYSTEMS

The Group level management system was set out in the revised policy. The internal environmental reporting system, which has been in place since 1990, was expanded. According to the new policy, formal environmental management systems will be implemented independently within the Group companies, based on their business environment. This applies to the EMAS scheme of the European Union as well as to management systems based on national standards or the forthcoming ISO 14000 standards. The Group contributed actively to the standardization work of ISO.

Tikkurila Oy is presumably the first paint manufacturer in Europe to have received a certificate for its environmental management system according to the British standard BS 7750. At the

Figure 5

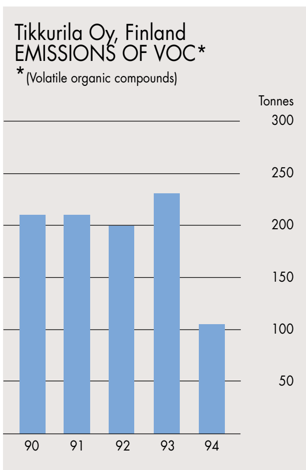


Figure 6

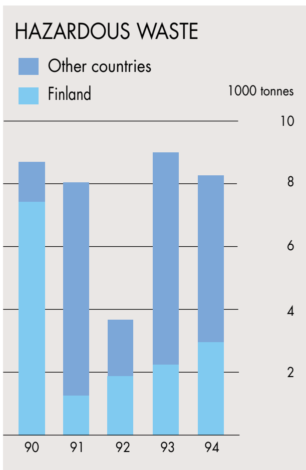


Figure 7

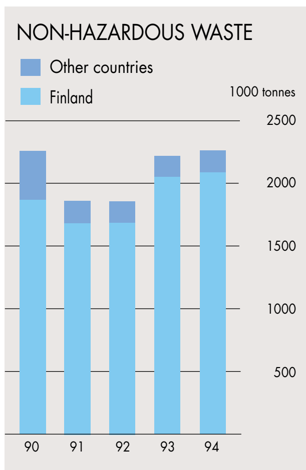
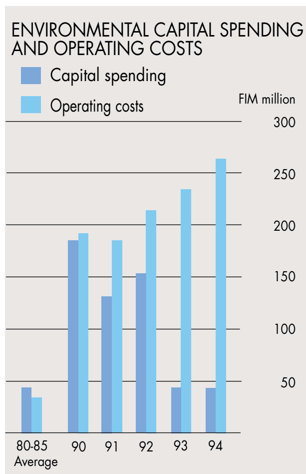


Figure 8



same time, environment and safety were integrated with the plant's existing quality management into a comprehensive operational management system. As another example, Kemira Ibérica S.A. took part in the pilot project of the EMAS scheme at its plant in Tarragona, Spain.

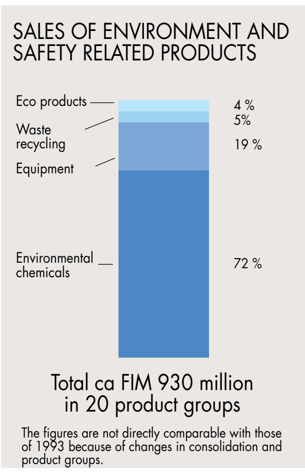
ENVIRONMENTAL RISKS, DAMAGES AND LEGAL CASES

The management of environmental risks was improved by conducting Group-level risk and impact assessments on more than 20 sites in Europe. Liabilities related to environmental permits and properties in Finland were audited internally as a part of the formation of the new Group companies. The environmental risks of the Group were also assessed in the *due diligence* process of the initial public offering of Kemira Oy.

Investigations continued with the object of assessing potentially contaminated soils on the properties owned by the Group companies. New problems causing significant environmental impacts or requiring immediate action were not encountered. No new soil clean-up projects begun, but remedial work continued at the Kemira Kemi AB plant in Helsingborg.

No significant damages to the environment or public health were reported from the accidents or occasional releases at the sites.The explosion of a distillation unit at the Kemira Agro Oy plant in Kokkola on 1 June, and the record level flood at the Kemira Ibérica S.A. plant in Tarragona, Spain, in October caused damage to plant and equipment. At the Kemira Chemicals A/S plant in Fredrikstad, Norway, a few kilograms of chlorine gas leaked into the air in February.

Figure 9



Less importantly, occasional releases were reported from five plants, and seven plants received public complaints because of odours, noise, or some other nuisance. At the Kemira Pigments plants in Pori and Savannah, payments totalling FIM 1.4 million were made to compensate for damages caused to roofs and cars in 1994, or as penalties. Some additional claims are pending at the Savannah plants.

Fourteen Savannah residents brought a lawsuit for damages against Kemira Pigments Inc. in the USA. In addition, punitive damages are sought in the amount of USD 60 million. The lawsuit is based on possible reduction of property values because of the proximity of the titanium dioxide plant. A petition for class action has also been filed, but no ruling on this filing has yet been issued. The lawsuit contained a requirement for public medical studies, but this part of the claim has been withdrawn, as accepted by the judge. According to Kemira Pigments Inc., all these claims are unsubstantiated and a class action would be without merit.

Seven landowners have sought from Kemira Chemicals Oy compensation for damage, totalling FIM 3.2 million, at Siilinjärvi, Finland. The claim is based on deteriorated scenery and imissions. Kemira Chemicals Oy believes that the claims are unfounded and no substantial compensations are expected.

Several new environmental permits or periodic renewals of the existing permits were issued by the authorities to the Group companies in different countries. In a few cases, the new permit conditions require medium-size environmental investments, but these have been anticipated by the Group companies. Significant non-compliance with permits, leading to prosecution or causing major environmental impacts, was not observed, nor were there any marked difficulties in obtaining permits for new activities.

DATA

The data in the accompanying table and figures have been compiled from the annual reports of 36 plants, compared to 23 main sites in the previous year. One of the new sites is major, the others rather small production units. Releases of the remaining sites do not significantly change the overall picture.

Environmental investments were at a fairly low level of FIM 43 million, but important investment plans were agreed on at the end of the year. Environmental operating costs continued to increase. All in all, these costs were 2.6 % of the Group turnover, compared with 2.3 % in 1993.

Environmental performance continued to improve in all business areas, although the changes were not substantial. Most of the important releases to the environment from the production plants either decreased or remained at the same level as in the previous year, despite the growth in production. Increases in dust releases and phosphorus discharges can be attributed to the comprehensiveness of the measurements and reporting as well as to the growth in production volumes.

ENVIRONMENTAL COMMUNICATIONS

The first Group environment report was published as a part of the Annual Report for 1993. The report was subject to external verification. A number of subsidiaries also issued environment reports or brochures. The Group magazine *Kemira News* reviewed timely environment topics extensively.

GENERAL REMARKS

As in the previous year, the contents of this report have been selected to comply with the CEFIC *Guidelines for Environmental Reporting*. Information on process or transport safety, chemicals control, or occupational health is not included here. Those are managed independently by the Group companies i.a. under the *Responsible Care* programme. Similarly, data on energy efficiency or use of natural resources is not covered.

Release and waste data for the Kemira Group as defined in the CEFIC Guidelines (tonnes).
The figures for 1994 include data from 13 additional sites (1 major, 12 small).

	1990	1993	**1994**	Trend[8]
Releases into water				
Chemical Oxygen Demand (COD)		9,900[9]	**8,907**	+ –
Nitrogen (N)	2,500	1,562	**1,288**	–
Phosphorus (P)	4,952	1,697[10]	**1,796**	– –
Metals[1] (Hg+Cd+Pb+Cr+As)		39	**26**	– –
Releases into air				
Particulates	1,950	1,180	**1,536**	–
Sulphur dioxide (SO_2)[2]	23,138	10,908	**10,719**	– –
Nitrogen oxides (NO_2)[3]	8,546	7,524	**7,481**	–
Volatile organics (VOC)[4]		823	**839**	+
Volatile inorganics (VIC)[5]		6,900	**6,555**	–
Heavy metals[6]		<1	**<1**	+ –
Waste[7]				
Hazardous wastes; total	8,669	8,995	**8,247**	+ –
– Landfilled outside the sites		3,188	**3,892**	
– Other external treatment		3,115	**4 354**	
– Landfilled inside the sites		1,218	**0**	
– Other treatment		1,474	**0**	
Non-hazardous wastes, 1,000 tn.	2,254	2,206	**2,265**	+ –
Reference data				
Group net sales, FIM million	11,382	11,838	**11,698**	
Env. capital expenditure	185	44	**43**	+ –
Environmental operating costs	192	234	**263**	+
Total env. costs, % of turnover	3.3	2.3	**2.6**	+ –

1 Mostly chromium (Cr^{3+})
2 All sulphur compounds calculated as SO_2.
3 Nitric oxide and nitrogen dioxide calculated as NO_2.
4 VOC is a sum of volatile organic compounds.
5 Sum of ammonia, hydrogen chloride and six other simple inorganic compounds, mostly ammonia in this case.
6 Sum of Pb, Hg, Cd, Cr, As, Co, Ni.
7 Waste as defined in EU legislation; does not include mining by-products, waste which is further processed into products at the sites, or sold to external recycling.
8 Long-term trend of this pollutant or item during the past years.
9 Estimate. In this case, mainly caused by iron and other inorganic discharges, and hence not a very relevant parameter for the Group.
10 Originates mostly from phosphogypsum.

VERIFICATION STATEMENT

I have been asked, together with KPMG Environmental Advisers (UK), to review the basis of the "Environment Report of the Kemira Group".

We have conducted our review by carrying out the following procedures:

- Review of the underlying information that supports the various statements made in the report.
- Discussions with persons responsible for environmental management at Group level.
- Review of the environmental data presented in text form or graphs and tables.
- Visits to two major sites in Finland selected by us to review in more detail the systems for gathering and reporting environmental data at operating level.

Other than for the two sites visited, we have not made independent checks on systems for reporting data from site level. Nor have we attempted to verify the data to source by means of testing or re-measurement.
However, based on our review, we have satisfied ourselves that the statements made in the report are supported by underlying information, that the data have been properly collated from information provided by the sites, that for the two sites visited, data have been propertly extracted from information systems at site level and proper records have been maintained, and that the report meets the overall requirements of the CEFIC Guidelines on Environmental Reporting for the European Chemical Industry.

Helsinki, 21 February 1995

Hannu Niilekselä
Authorised Public Accountant
(KPMG)

GROUP COMPANIES

31 January 1995

Company	Group holding %	Country	
Kemira Oy		Finland	
Kemira Chemicals Oy	100	Finland	■
Kemira Kemi AB	100	Sweden	■
Aminkemi AB	100	Sweden	■
Kemira Chimie S.A.	100	France	■
Kemira Chemicals A/S	100	Norway	■
Kemira Kemi (UK) Ltd	100	United Kingdom	▲
Kemira Miljö A/S	100	Denmark	■
Scandinavian Silver Eel AB	100	Sweden	■
Aliada Quimica S.A.	100	Spain	●
Kemira Ibérica S.A.	100	Spain	■
Aliada Quimica de Portugal Lda.	74	Portugal	■
Kemifloc	51	Czech Republic	■
Kemira Chemidet GmbH	100	Germany	▲
Kemira Chem Holding B.V.	100	The Netherlands	●
Kemira Peroxides B.V.	100	The Netherlands	■
Kemwater B.V.	100	The Netherlands	■
Kemira Kemax B.V.	100	The Netherlands	●
Kemira Papierchemikalien GmbH	100	Germany	▲
Kemira Chemicals Inc.	100	United States	●
Kemira Water Treatment Inc.	100	United States	■
Kemira Paper Chemicals Inc.	100	United States	▲
Kemira Paper Chemicals Canada Inc.	100	Canada	▲
Kaanaan Ruskorae Oy [1]	100	Finland	■
Kemira Pigments Oy	100	Finland	■
Kemira Holdings Inc.	100	United States	●
Kemira Pigments Inc.	100	United States	■
Kemira Svenska AB	100	Sweden	▲
Kemira Kereskedelmi KFT	100	Hungary	▲
Kemira Pigments Holding B.V.	100	The Netherlands	●
Kemira Pigments B.V.	100	The Netherlands	■
Kemira Pigmente GmbH	100	Germany	▲
Kemira Services Holland B.V.	100	The Netherlands	□
Kemira International Finance B.V.	100	The Netherlands	□
Kemira Pigments S.A. [2]	100	Belgium	▲
Kemira Agro Oy	100	Finland	■
Kemira Agro U.K. Ltd.	100	United Kingdom	●
Kemira Ince Ltd	100	United Kingdom	■
Kemira Ltd	100	United Kingdom	■
Kemira N.I. Ltd	100	United Kingdom	■
The Pallet Centre Ltd	100	United Kingdom	■
Kemira Ireland Ltd	100	Ireland	▲
Kemira Danmark A/S	100	Denmark	■
Kemira Deutschland GmbH	100	Germany	▲

■ = Production
▲ = Marketing
● = Holding
□ = Service

Kemira Chemicals
Kemira Pigments
Kemira Agro
Tikkurila
Other

Kemira Shipping A/S	100	Denmark	▲
Kemira Thai Co. Ltd	50	Thailand	▲
Kemira S.A./N.V.	100	Belgium	■
Battaille S.A.	100	Belgium	■
Engrais Battaille S.A.	100	Belgium	■
Haumont Meststoffen N.V.	100	Belgium	▲
S.A. Sabfran, Brunelle & Cie	100	Belgium	▲
Comercial de Fertilizantes Liquidos S.A.	50	Spain	▲
Viljavuuspalvelu Oy	80	Finland	□
Mykora Oy	100	Finland	■
A. Jalander Oy	100	Finland	■
SiA Kemira Agro Latvija	100	Latvia	▲
Kemira Agro Holding B.V.	100	The Netherlands	●
Kemira Agro Benelux S.A.	100	Belgium	□
Kemira B.V.	100	The Netherlands	■
Liprokem B.V.	100	The Netherlands	●
Kemira Engrais S.A.	100	France	▲
Kemira Pernis B.V.	100	The Netherlands	■
Kemira Bio Control B.V.	100	The Netherlands	▲
Terra Nigra France S.A.	67	France	●
Tikkurila Oy	100	Finland	■
Dickursby Färg AB	100	Sweden	▲
Winter-Bouts B.V.	100	The Netherlands	■
AS Eesti Värv	75	Estonia	■
A/O Finncolor	100	Russia	▲
Kemira Coatings Ltd	100	United Kingdom	■
Kemira Color Europe B.V.	100	The Netherlands	●
Kemira Color B.V.	100	The Netherlands	■
Kemira Color N.V.	100	Belgium	■
Kemira Coatings (Ireland) Ltd	100	Ireland	▲
Northern Universal Coatings Ltd	100	United Kingdom	▲
Kemira Fibres Oy	100	Finland	■
Kemira Engineering Oy [3]	100	Finland	□
Vihtavuori Oy	100	Finland	■
Kemira Finance B.V.	100	The Netherlands	●
Kemira International Services S.A.	100	Belgium	□
Kemira Metalkat Oy	100	Finland	■
Metpela Oy	100	Finland	■
Kemira Katalysatoren GmbH	100	Germany	▲
Kemira Safety Oy	100	Finland	■
Kemira Safety Ltd	100	United Kingdom	▲

[1] Owned in equal shares by Kemira Chemicals Oy and Kemira Pigments Oy.
[2] Owned in equal shares by Kemira Pigments Oy and Kemira Pigments BV.
[3] Owned in equal shares by Kemira Chemicals Oy, Kemira Pigments Oy and Kemira Agro Oy.

Companies not operative in 1994 are excluded.

ADMINISTRATION

According to the Articles of Association of Kemira Oy, the Supervisory Board, the Board of Directors and the managing director are in charge of the company's management. The Supervisory Board is elected by the Annual General Meeting. The Board of Directors and the managing director are appointed by the Supervisory Board.

The principal task of the Supervisory Board is to oversee that the company's affairs are managed in accordance with healthy business principles and with a view to ensuring profitability. It also decides on matters involving a considerable contraction or expansion of operations, and decides on guidelines to be issued to the Board of Directors in far-reaching matters or important issues of principle.

SUPERVISORY BOARD

Timo Kalli, Chairman
Heikki A. Ollila, Vice Chairman
Arja Alho
Esko Seppänen
Kari Rajamäki
Ulla-Maj Jern
Tarja Halonen
Timo Järvilahti
Veli Sundbäck
Hanna Markkula
Maija Perho-Santala
Mirja Ryynänen

The terms of chairman Timo Kalli and members Kari Rajamäki, Ulla-Maj Jern and Tarja Halonen will expire in 1995.

Staff representatives
Arvo Lehtimäki
Jukka Virta
Jorma Luukkonen
Kirsti Lehtimäki
Pertti Kautto

AUDITORS

Markku Tapio
Erkki Mäki-Ranta
Hannu Niilekselä

Deputy auditor
Eric Haglund

BOARD OF DIRECTORS

Heimo Karinen
born in 1939, M.Sc.(eng.)
With Kemira since 1964
Chief Executive Officer, Chairman of the Board 1991 to the present
Oversees Kemira Chemicals and Kemira Pigments
Owns 2,000 Kemira shares

Timo Mattila
born in 1943, Lic.tech.
With Kemira since 1972
Executive Vice President 1990 to the present, Vice Chairman of the Board 1991 to the present
Oversees Vihtavuori, Kemira Safety, Kemira Metalkat and Group R&D
Owns 1,500 Kemira shares

Juhani Kari
born in 1944, LL.M.
With Kemira since 1969
Member of the Board 1990 to the present
Oversees Tikkurila
Owns 500 Kemira shares

Esa Tirkkonen
born in 1949, M.Sc.(eng.)
With Kemira since 1974
Member of the Board 1991 to the present
Oversees Kemira Agro, Kemira Fibres, energy and Group synergy
Owns 500 Kemira shares

Leif Ekström
born in 1942, M.Sc.(econ.)
Member of the Board 1994 to the present
Does not own Kemira shares

Sten-Olof Hansén
born in 1939, D.Sc.(econ.)
Member of the Board 1994 to the present
Does not own Kemira shares

GROUP ADMINISTRATION

Juhani Kari
Legal Affairs

Kaj Friman
Financial Management
Secretary to the Supervisory Board and Board of Directors

Reino Airikkala
Treasury Management

Eero Sipilä
Personnel

Donald Jonasson
Environmental Protection

Mikko Sivonen
Energy

Botho Simolin
Communications

MANAGEMENT OF THE CORE BUSINESS AREAS

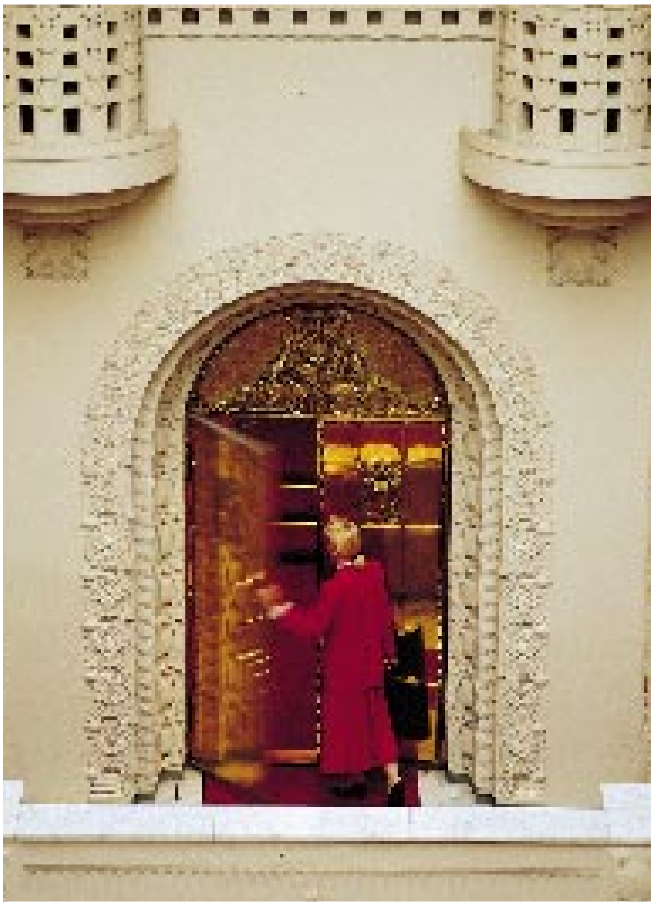
Yrjö Sipilä
born in 1949, M.Sc.(econ.)
With Kemira since 1975
President of Kemira Chemicals Oy 1990 to the present *)

Kari Autio
born in 1945, M.Sc.(eng.)
With Kemira since 1971
President of Kemira Pigments Oy 1987 to the present *)

Tauno Pihlava
born in 1946, M.Sc.(eng.)
With Kemira since 1970
President of Kemira Agro Oy 1994 to the present *)

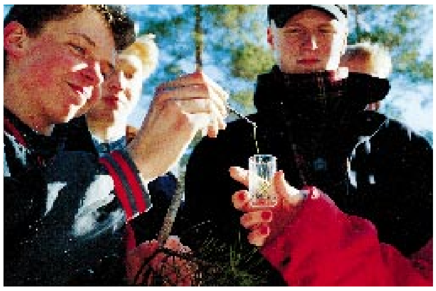
Raimo Piironen
born in 1949, M.Sc.(econ.)
With Kemira since 1982
President of Tikkurila Oy 1988 to the present

*) year of appointment as head of the division according to the previous organizational structure.



A new phase in Kemira's history began in November when the company was listed on the Helsinki Stock Exchange.

Kemira Agro signed an agreement on the construction of a soluble nutrients plant as a joint venture project in India. Jain Kemira Fertilisers Ltd will sell its products in India, where about 60,000 hectares of cultivated land are drip irrigated.



Kemira introduces schoolchildren to the world of chemistry in a number of different ways. Pupils of the Meri-Pori environmental studies highschool collected environmental samples that were analysed at the research laboratory of the Pori plant.

In the autumn Tikkurila Oy began the licensed manufacture of Kansai Paints' marine paints for the European market.

The importance of a customer-oriented approach was stressed in all of Kemira's business functions.

The Kemira Pigments titanium dioxide plant in Rotterdam is increasing its capacity by eliminating bottlenecks. The nickel removal plant that is soon to be built will further purify effluents from the plant.

Tikkurila Oy was granted an environmental certificate according to the BS 7750 standard. Tikkurila's catalytic purification plant for solvent emissions was Finland's first such plant that was designed specifically for the paint industry.

The FennoTriox method which Kemira Chemicals has developed for treating the wastewater of the pulp industry was put into industrial use at the SCA Graphic Sundsvall AB mill in Sweden.

A water treatment chemicals plant whose main shareholders are Kemira Chemicals and the City of Tallinn, Estonia, started up in Tallinn. The ministers of the environment of Finland and Estonia inaugurated the plant.

Kemira Metalkat has also developed efficient catalytic converters for vehicles that run on alternative fuels. This Sisu truck runs on liquid gas.

ADDRESSES

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KEMIRA GROUP 1990-1994

		1994	1993	1992	1991	1990
Net sales	FIM million	**11,698**	11,838	11,195	10,848	11,382
Change on previous year	%	**(1)**	6	3	(5)	3
Exports from Finland and foreign sales	FIM million	**8,910**	9,237	8,635	8,264	8,310
Change on previous year	%	**(4)**	6	4	(1)	4
% of total net sales	%	**76**	78	77	76	73
Scheduled depreciation	FIM million	**975**	1,115	1,075	1,002	837
Operating income	FIM million	**988**	782	457	317	912
% of net sales	%	**8**	7	4	3	8
Financing income and expenses	FIM million	**587**	681	823	610	652
% of net sales	%	**5**	6	7	6	6
Extraordinary income and expenses	FIM million	**(74)**	(196)	(46)	(140)	(147)
Income / (loss) before taxes	FIM million	**327**	(95)	(412)	(433)	113
% of net sales	%	**3**	(1)	(4)	(4)	1
Cash flow from operations	FIM million	**1,371**	944	685	588	652
Capital expenditure and acquisitions	FIM million	**(657)**	(850)	(915)	(1,180)	(1,136)
Sales of fixed assets	FIM million	**73**	432	500	210	99
Cash flow before financing	FIM million	**787**	526	270	(382)	(385)
Fixed assets and other long-term investments	FIM million	**8,212**	9,114	9,912	9,907	9,259
Liabilities	FIM million	**10,560**	13,724	14,837	14,057	12,583
Shareholders' equity	FIM million	**3,722**	2,274	1,977	2,269	2,531
Net liabilities	FIM million	**6,347**	8,810	9,588	9,136	8,170
Balance sheet total	FIM million	**14,294**	16,005	16,845	16,360	15,132
Personnel (average)		**11,156**	11,446	12,648	14,321	15,256
of which in Finland		**6,141**	6,294	6,684	7,281	7,697
Exchange rates (31 Dec.)						
USD		**4.7432**	5.7845	5.2370	4.1250	3.6260
GBP		**7.4090**	8.5540	7.9360	7.7180	6.9540
NLG		**2.7337**	2.9812	2.8883	2.4124	2.1382
SEK		**0.6358**	0.6945	0.7386	0.7429	0.6420
DKK		**0.7794**	0.8549	0.8392	0.6974	0.6245
BEF		**0.1490**	0.1602	0.1578	0.1318	0.1167