Kemira Group Interim Report 1 January – 31 March 2001

KEMIRA’S YEAR GETS OFF TO A STRONG START

- Net sales EUR 651 million (1-3/2000: EUR 707 million)
- Operating income EUR 57 million (EUR 36 million)
- Net income before taxes EUR 49 million (EUR 24 million)
- Net income EUR 34 million (EUR 16 million)
- Earnings per share EUR 0.28 (EUR 0.13).

Product sales in Kemira’s main business areas have been good in the first part of the year. Net sales from ongoing operations rose by 13% during the first quarter of the current year. Income before taxes and minority interests in the January – March period was EUR 49 million (24 million a year earlier). Full-year operating income is expected to be better than in 2000.

Kemira’s core growth areas are paper and pulp chemicals, water treatment chemicals, and paints and coatings. Other core business areas are specialty fertilizers and industrial chemicals.

The Kemira Group’s net sales in January – March of the current year were EUR 651 million, a decrease of 8% on the figure a year earlier (707 million). Growth in ongoing operations was nevertheless 13%. Consolidated operating income in the first quarter was EUR 57 million (36 million), or 9% of net sales (5%). Interests in the results of associated companies amounted to a total of EUR 2.6 million. Income before taxes and minority interests was EUR 49 million (24 million) and income after taxes was EUR 34 million (16 million). Earnings per share more than doubled and were EUR 0.28 (0.13). Cash flow after capital expenditures was EUR 126 million negative (80 million negative). Cash flow per share from operations was EUR 0.07 (0.47 negative). Equity per share was EUR 9.41 (9.08 at the start of the year). The Group’s effective tax rate was 28% for the first three months of the year. It is believed that the full-year tax rate will be slightly higher.

The average number of the Group’s employees in January – March was 9 961 (9 644 in 2000).

The comparison figures for the business areas have been restated to be in line with the current business structure.

CHEMICALS

Net sales of the Chemicals business area grew by 13% on the previous year and were EUR 225 million. Operating income was EUR 24.5 million (28 million), or 11% of net sales.

The Pulp & Paper Chemicals unit reported net sales growth of 17%, although production volumes in the pulp and paper industry were lower than last year. The higher price of raw materials weakened profitability, and operating income was lower than it was a year ago. The expansion of specialty chemicals production in Vaasa has been completed and a new unit is under construction in Brazil. Production of calcium sulphate pigment, which is used in manufacturing magazine paper, will be increased at Siilinjärvi by investing EUR 3.5 million in a new production line. This will lift the plant’s capacity to 80 000 tonnes a year. The investment will also make possible the manufacture of a new high-brightness pigment grade.

Net sales of the Kemwater unit, which produces water treatment chemicals, rose by 8%. Operating income improved markedly on the figure a year earlier.

The Industrial Chemicals unit reported an increase in net sales of 9%. The unit’s largest and most profitable part is the titanium dioxide business, which maintained good profitability despite signs of a weakening in demand due to the economic slowdown.

Sales volumes of the Pori plant, which manufactures titanium dioxide pigment, were up 13% and prices were on average 10% higher than they were a year ago.

The production capacity for titanium dioxide pigments will be raised through debottlenecking. The increase will be 10 000 tonnes, bringing an aggregate capacity of 130 000 tonnes a year. The total cost of the capital expenditure is EUR 21 million and the new capacity will come on stream in its entirety during 2003. The objective is also to focus increasingly on specialty products in the years ahead.

The market situation for calcium chloride has improved and there is good demand for formic acid. The market for sodium percarbonate, which is used as an environmentally sound bleaching agent in the detergent industry, has developed in line with expectations and the expansion project that is under way in Sweden will be completed in the autumn. Fine chemicals operations were at last year’s level. EUR 1.9 million is being invested in the Fine Chemicals plants. The aim is to enable a change in the production orientation partially from agrichemicals to pharmaceutical chemicals, which enjoy faster growth in demand.

The formic acid business is being expanded by investing EUR 17.9 million in Oulu. The capital expenditure project will raise the plant’s capacity by about 20 000 tonnes annually and operations will be directed to an increasing extent towards value-added formic acid products. The project will be completed in 2003.

PAINTS AND COATINGS

Following the acquisition of Alcro-Beckers, the paint business registered growth of 92% compared with the figure a year earlier, to EUR 104 million. Operating income in January – March was EUR 3.5 million (5.9 million), or 3% of net sales. Operating income was lowered by the write-downs on inventories which were carried out in Russia and represented a carry-over from previous years. In addition, the amortization of goodwill on the Alcro-Beckers purchase burdens the result from the beginning of the year, whereas synergy benefits will materialize later on in 2001 and 2002. Last year’s operating income included EUR 1.1 million of non-recurring income from the arrangements connected with functions in Great Britain.

From the beginning of the year the operations of Alcro-Beckers AB, Sweden’s largest manufacturer of decorative paints, became a part of Tikkurila. Thereafter Tikkurila is the largest paint manufacturer in the Nordic countries. Tikkurila’s decorative paints unit, Tikkurila Paints, and Alcro-Beckers were formed into Tikkurila Deco, which together with the industrial coatings arm Tikkurila Coatings forms Kemira’s Paints and Coatings business.

Tikkurila Deco’s net sales grew by 148% as a consequence of the Alcro-Beckers acquisition. Net of the acquisition, Tikkurila Paints’ net sales increased by 7%. Growth was particularly strong in Russia.

Tikkurila Coatings, which manufactures industrial coatings, reported net sales growth of 6%. The fastest growth was in the Finnish market.

At the beginning of April Tikkurila concluded the purchase of a resin plant which is located right next to Tikkurila’s plants in Vantaa. The acquisition will ensure that Tikkurila has a reasonably priced and flexible supply of resins for its production units.

AGRO

Kemira’s plant nutrient company, Agro, had net sales of EUR 328 million, down 2% on the previous year. Because of floods in Great Britain last autumn and this spring and heavy rainfall in Europe as well as epidemics of animal diseases, fertilizer sales volumes were all in all down by about a quarter on last year’s figures. Operating income was EUR 31 million (3.4 million).

The Kemira Agro Specialties (KAS) unit that focuses on specialty fertilizers reported substantial growth in net sales. Fertilizer sales volumes were up 15% and prices of NPK compound fertilizers rose on average by 10% compared with the first quarter of last year. On the raw materials side, the price of ammonia rose to a high level and did not head downward again until the very end of the first quarter. The KAS unit’s operating income improved on last year’s figure.

Urea phosphate production at the joint venture in Dubai started up in March. The plant has a production capacity of 30 000 tonnes a year.

Demand for animal feed phosphates has grown by about 25% in Europe after the use of meat and bone meal was prohibited owing to the BSE crisis. This will improve operational profitability since production capacity is now in full use and prices are rising.

The project for expanding operations in accordance with Agro’s specialization strategy is moving ahead in Jordan, where a unit that will manufacture potassium nitrate and feed phosphates is being built for an associate company. The unit will start up in summer 2002.

The Kemira Agro Nitrogen unit (KAN), which specializes in the nitrogen fetilizers business, saw its net sales come in 29% below last year’s figure. The difficulties resulting from the above-mentioned rainfall and animal diseases for the most part impacted KAN’s markets, and fertilizer delivery volumes were down a good third on last year depending on the market. A part of this shortfall is expected to shift to the end of the year. The price level was on average 25-30% higher than in the first quarter of last year. Profitability is nevertheless burdened by the high price of natural gas, which is used in manufacturing ammonia. Although the price of oil has fallen a good deal from its peak level and in the first quarter was on average at the same level as a year ago, the lag in natural gas price contracts still makes this raw material significantly more expensive than it was in the first quarter of last year. Operating income was markedly better than last year’s figure.

The competitiveness and profitability of the nitrogen business, which is earmarked for divestment, is being improved and KAN’s operations in continental Europe are being developed with the aim of securing an increase in value.

The company is developing its Kemistar concept by strengthening cooperation with customers and adjusting its support functions to the new situation by simplifying the logistics chain.

The nitric acid plant that was closed in Rozenburg, the Netherlands, at the turn of the year will be relocated to the company’s site in Tertre, Belgium. The relocation will be started immediately and is scheduled for completion in summer 2002. When the new nitric acid production is up and running at Tertre, Kemira will close down the older capacity, which is less efficient in terms of costs and environmental impacts. The fertilizer granulation capacity at Tertre will not, however, be affected by the investment.

Agro has sold the entire shares outstanding in Kemira Pernis B.V., which is located in Rotterdam, the Netherlands, to the Dutch company Van Bentum. The deal comprises the entire Pernis site, its land area, harbour and equipment. Van Bentum intends to start a processing business for recycled materials at the site.

The above-mentioned measures are estimated to have a net positive effect on Agro’s earnings in the current year of about EUR 4 million. The required capital expenditures will be about EUR 12.5 million and the estimated annual savings will come to about EUR 16 million. The savings will kick in to the full extent starting in the latter half of 2002.

OTHER OPERATIONS

Net sales reported by Kemira Metalkat, which manufactures catalytic converters, were EUR 12 million, an increase of 3% on the previous year. Operating income was EUR 0.5 million (1.1 million).

CAPITAL EXPENDITURES

The Group's gross capital expenditures in the cash flow statement amounted to EUR 138 million (27 million). Full-year gross capital expenditures are estimated to be about EUR 400 million (218 million).

FINANCING

Net financing expenses in the January – March period were EUR 8.2 million (12 million). Foreign exchange losses amounted to EUR 1.7 million (gains in Jan.-Mar./2000 of EUR 1.5 million). Fixed-interest loans accounted for about 58% of the total amount of interest-bearing loans (excluding pension loans, which are not considered to be fully fixed-interest liabilities).

Interest-bearing net debt was EUR 640 million, or EUR 215 million higher than at the end of last year, primarily as a consequence of the Alcro-Beckers acquisition.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting confirmed the payment of a dividend of EUR 0.30 per share (0.23) for the 2000 financial year, or a total payout of EUR 36.7 million (29.6 million). The Annual General Meeting passed a resolution to cancel the 5% of the company's shares which are in the company's possession (treasury shares), a total of 6 440 000 shares. The meeting resolved to authorize the Board of Directors to purchase on the open market a maximum of 6 118 000 of the company's shares, i.e. 5% of the total shares outstanding. Purchasing started in the beginning of May. It furthermore authorized the Board of Directors to transfer a maximum of 6 118 000 shares which will be in the company's possession following the purchase so that they can be used as part of the bonuses which are to be paid to the Group's personnel funds and for the payment of bonuses connected with management's incentive systems (in the event that a decision is taken to introduce them) or to be used as consideration in acquisitions. The authorization will be in force for one year from the passing of the resolution by the Annual General Meeting.

The Annual General Meeting resolved to grant stock options to members of management who are employed by Kemira Oyj or its subsidiaries. The stock options confer the right to subscribe for a maximum of 2 850 000 Kemira Oyj shares during the period from 2 May 2004 to 31 May 2007 providing that the target values set for the company's profitability and share price trend are achieved.

FULL-YEAR OUTLOOK

The market outlook of the Chemicals business area is affected by the general economic trend, particularly in the Pulp & Paper unit and in the Industrial Chemicals unit's titanium dioxide pigment business. Demand for paper products and the resultant capacity utilization rate in the pulp and paper industry are expected to fall short of last year's figures. For the Kemwater unit, there do not appear to be any major changes on the horizon. The Industrial Chemicals unit’s outlook is good for formic acid, calcium chloride and detergent chemicals. The result for the fine chemicals business, however, is looking weaker than it was last year. The comparable operating income of the Chemicals business area is expected to be at last year’s level. The company will seek in future to accelerate the growth of Pulp & Paper Chemicals and Kemwater also by means of acquisitions.

Paint sales in the home market are expected to develop well. Net sales of the Paints and Coatings business area are expected to top EUR 450 million, with operating income improving on last year’s figure. In particular, it is believed that operations in Russia, the Baltic countries and Poland will grow and deliver improved profitability. Paints and Coatings too are a growth area in which acquisitions are a possibility.

A factor of uncertainty for Agro’s prospects is the high level of producers’ stocks owing to low deliveries. This has led to production curtailments at KAN’s plants as elsewhere. On the other hand, the nutrient concentrations of the soil are exceptionally low for the same reasons and this means that demand is expected to improve in future. Nonetheless, this will not necessarily come in time to affect earnings in the current year.

Provided that product prices remain at their present levels and that the price of natural gas falls in tandem with the price of oil, this will create a good basis for the development of profitability in coming quarters. Demand from the animal feed market will also have a positive effect. The solutions connected with the structural arrangement for the nitrogen products business and their timing may have an impact on the result. Agro’s full-year operating income is estimated to improve substantially.

The Kemira Group’s operating income this year is set to improve on last year’s. As a consequence of acquisitions that will be carried out, net debt and net financing costs are expected to rise compared with last year. It is believed that the operative net income will improve.

Helsinki, 8 May 2001

Board of Directors

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

KEMIRA GROUP

The figures are unaudited.

The business figures for the comparison year have been adjusted to correspond to the present corporate structure.

INCOME STATEMENT EUR million	1-3/2001	1-3/2000	2000
Net sales	651,4	707,2	2486,0
Shares of associates' profits	2,6	1,0	-0,5
Other income from operations	4,1	5,1	30,9
Cost of sales	-561,2	-630,6	-2170,3
Depreciation	-40,2	-46,7	-171,3
Operating income	56,7	36,0	174,8
Financing income and expenses	-8,2	-12,5	-30,5
Net income before non-recurring items, taxes and minority interests	48,5	23,5	144,3
Non-recurring items from discontinuing operations	-	-	162,2
Income before taxes and minority interests	48,5	23,5	306,5
Direct taxes *)	-13,6	-7,5	-96,3
Income before minority interests	34,9	16,0	210,2
Minority interest	-0,6	-	-2,4
Net income	34,3	16,0	207,8

*) Taxes are stated as the tax corresponding to the result for the report period.

KEY FIGURES	1-3/2001	1-3/2000	2000
Earnings per share, EUR	0,28	0,13	0,73
Cash flow from operations per share, EUR	0,07	-0,47	1,69
Capital expenditure, EUR million	138	27	218
Average number of shares (1000) *)	122 702	127 800	126 623
Equity per share, EUR	9,41	7,79	9,08
Equity ratio, %	45,8	37,6	47,7
Gearing, %	54,7	101,0	37,2
Net liabilities, EUR million	640	1 021	425
Personnel (average)	9 961	10 299	9 644

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

EARNINGS BY BUSINESS AREA	Net sales		
EUR million	1-3/2001	1-3/2000	2000
Chemicals	225,5	199,0	867,1
Paints and Coatings	104,3	54,2	227,6
Agro	328,1	334,3	1226,7
Other and Intra-Group sales	-6,5	119,7	164,6
Total group	651,4	707,2	2 486,0

	Operating income		
	1-3/2001	1-3/2000	2000
Chemicals	24,5	28,0	115,2
Paints and Coatings	3,5	5,9	13,4
Agro	30,9	3,4	33,1
Other and Intra-Group sales	-2,2	-1,3	13,1
Total group	56,7	36,0	174,8

BALANCE SHEET	EUR Million	
ASSETS	31.3.2001	31.12.2000
Non-current assets		
Intangible assets	173,9	88,7
Tangible assets	1 101,5	1 049,5
Investments	149,0	138,3
Total non-current assets	1 424,4	1 276,5
Current assets		
Inventories	400,0	348,7
Receivables		
Interest-bearing receivables	12,2	11,2
Other interest-free receivables	598,5	515,9
Total receivables	610,7	527,1
Securities	77,9	199,0
Cash and bank	50,3	47,7
Total current assets	1 138,9	1 122,5
Total assets	2 563,3	2 399,0

LIABILITIES AND SHAREHOLDERS´ EQUITY	31.3.2001	31.12.2000
Shareholders' equity		
Share capital	217,0	217,0
Own shares	-36,4	-28,8
Other shareholders' equity	971,4	934,1

Total shareholders' equity	1 152,0	1 122,3
Minority interests	18,4	18,0
Long-term liabilities		
Interest-bearing long-term liabilities	656,6	573,3
Deferred tax liabilities	54,2	52,6
Provision for liabilities and charges	96,0	74,4
Total long-term liabilities	806,8	700,3
Current liabilities		
Interest-bearing short-term liabilities	111,6	98,2
Interest-free short-term liabilities	474,5	460,2
Total current liabilities	586,1	558,4
Total liabilities	1 392,9	1 258,7
Total liabilities and shareholders' equity	2 563,3	2 399,0

During the report period an EUR 7.6 million purchase of the company's own shares and EUR 8.0 million valuation write-down on currency swap contracts have been booked as a reduction in shareholders' equity. Foreign exchange and translation differences increased shareholders' equity by EUR 4.0 million. Previously in connection with a change in accounting policy for major maintenance works, an amount net of deferred tax was recorded in shareholders' equity as an adjustment to the opening balance. The release of said tax increased shareholders' equity by EUR 5.9 million.

During 1.1. - 31.3.2001 Kemira purchased 1 285 000 of its own shares on the stock market. These shares represent 1.0 % of the share capital and 1.0 % of the aggregate votes conferred by all the shares. The average price of the shares was EUR 5.89. On 31 March 2001 the total number own shares possessed was 6 440 000. Their average price was EUR 5.65, portion of share capital 5.0 % and portion of the aggregate votes 5.0 %. The shares were cancelled on 18 April 2001.

The Kemira Group's financial statements have been prepared in compliance with the acts and regulations in force in Finland and in accordance with the Group's uniform accounting principles. The Group's accounting principles are based on International Accounting Standards (IAS). Accordingly, the financial statements also correspond to IAS, with the exception of accounting for pension expenses, IAS 19.

CONTINGENT LIABILITIES
EUR million

	31.03.2001	31.12.2000
Mortgages	119,8	110,9
Assets pledged		
On behalf of own commitments	61,0	13,5
On behalf of others	1,1	1,1
Guarantees		
On behalf of associates	40,6	36,0
On behalf of others	2,7	2,7
Operating leasing		
Maturity within one year	3,0	4,8
Maturity after one year	6,6	12,6
Other obligations		
On behalf of associates	1,4	1,3
On behalf of others	1,1	1,1

FINANCIAL INSTRUMENTS 31.3.2001
EUR million

	Nominal value	Fair value
Currency instruments		
Forward contracts	463,4	6,1
Of which hedging for future currency flows	46,0	2,9
Currency options		
Bought	83,1	0,1
Sold	132,7	-1,8
Currency swaps	95,0	-8,2
Interest rate instruments		
Interest rate swaps	162,1	0,4
Forward rate agreements	20,0	-
Of which open	-	-
Bond futures	30,0	-
Of which open	2,0	-

FINANCIAL INSTRUMENTS 31.12.2000
EUR million

	Nominal value	Fair value
Currency instruments		
Forward contracts	417,6	10,5
Of which hedging for future currency flows	21,2	1,3
Currency options		
Bought	208,0	1,1
Sold	257,2	0,1
Currency swaps	95,1	-9,8

Interest rate instruments		
Interest rate swaps	220,9	-3,3
Forward rate agreements	10,0	-
Of which open	-	-
Bond futures	6,0	-
Of which open	2,0	-

Financial leases have been booked in the balance sheet in fixed assets and interest-bearing liabilities. The above-mentioned current values of financing instruments have been entered in the income statement and in shareholders' equity in accordance with IAS 39.

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

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

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

CASH FLOW STATEMENT

EUR million	1-3/2001	1-3/2000	2 000
Cash flow from operations	8,4	-59,6	213,9
Investments	-138,4	-27,5	-218,3
Sale of assets	3,9	6,7	527,2
Cash flow before financing	-126,1	-80,4	522,8
Financing	7,6	75,2	-364,5
Increase / decrease in liquid funds	-118,5	-5,2	158,3