

**Kemira**



**Interim Report | Q2**  
**January-June 2008**

## Kemira Group Interim Report for April-June 2008

- Revenue in April-June 2008: EUR 741.5 million (Q2/2007: EUR 753.0 million)
- Operating profit excluding non-recurring items: EUR 37.2 million (EUR 56.6 million)
- Operating profit: EUR 39.3 million (EUR 72.3 million)
- Earnings per share: EUR 0.15 (EUR 0.27)
- New strategy approved, Tikkurila will be spun-off

## New Strategy Implementation and Structural Changes Under Way

Kemira's President and CEO Harri Kerminen:

"The development of raw material prices and energy-related costs continued to be very unfavorable for Kemira. The achieved sales price increases did not fully compensate for the significantly higher costs. We were able to increase sales prices by more than 3% during the first half of the year versus 1-6/2007, but variable costs, including raw material prices, energy and transportation costs etc., increased by almost 5% of sales. Also the continued weakening of the US dollar eroded our profitability versus Q2 2007. We will take decisive action to improve the profitability through price increases and we have initiated a cost savings program with annual cost savings target of more than EUR 50 million. These savings will be achieved by streamlining the global functions, e.g. consolidation of production sites, R&D facilities and logistics network, and will lead to a headcount reduction."

In June, Kemira's Board of Directors made a strategic decision to concentrate on water and fiber related businesses in the future. Tikkurila, Kemira's Coatings business area, will be spun-off into a public company. The listing of Tikkurila will increase transparency of Kemira's businesses and will turn Kemira into a more focused company. Kemira will organize its businesses into three customer based segments with P/L responsibilities. Water is the common denominator for all these segments. The Paper segment will focus on serving customer segments in the pulp and paper industry, while the Water segment will concentrate on serving customer segments in municipal and industrial water treatment. A new segment Oil and Mining will further develop businesses in the growing application areas of the oil, gas and mining industries where water treatment chemicals are of great importance.

"I am confident that the new sharp strategy and large structural changes will contribute to continuous growth of the long term shareholder value. Kemira has attained an extensive product portfolio and broad competence base in water treatment for different customer segments. I believe that Kemira has good growth opportunities and the prerequisites to succeed in the globally growing water treatment business, despite the current challenges in raw material prices and profitability in the Water business. The first priority of the new management will be on reinforcing the balance sheet, generating positive cash flow and improving profitability", concludes Kerminen.

## Key Figures and Ratios

EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Revenue	741.5	753.0	1,425.1	1,426.3	2,810.2
EBITDA	71.7	89.9	139.3	172.5	316.9
EBITDA, %	9.7	11.9	9.8	12.1	11.3
Operating profit, excluding non-recurring items	37.2	56.6	64.4	104.7	174.6
Operating profit	39.3	57.6	72.3	106.5	143.1
Operating profit, excluding non-recurring items, %	5.0	7.5	4.5	7.3	6.2
Operating profit, %	5.3	7.6	5.1	7.5	5.1
Financial income and expenses	-13.9	-12.6	-25.1	-24.8	-51.9
Profit before tax	25.6	45.7	47.5	83.0	93.3
Profit before tax, %	3.5	6.1	3.3	5.8	3.3
Net profit	18.9	33.3	34.9	60.6	67.5
EPS, EUR	0.15	0.27	0.27	0.48	0.53
Capital employed*	2,041.3	1,975.5	2,041.3	1,975.5	2,035.8
ROCE, %*	5.4	10.3	5.4	10.3	7.1
Cash flow after investments, excluding acquisitions	-52.8	-6.4	-61.8	-124.0	-82.5
Personnel at period-end	10,673	10,588	10,673	10,588	10,007

\* 12-month rolling average

## Financial Performance for April-June

Kemira Group's revenue for April-June 2008 totaled EUR 741.5 million (Q2/2007: EUR 753.0 million). Demand was healthy in most areas and organic growth in local currencies was 2%. Acquisitions contributed around EUR 7 million to revenue growth, while divestments depressed revenue by EUR 2 million. The currency effect had a 4%, or EUR 29 million negative impact on revenue.

Revenue, EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Kemira Pulp&Paper	253.6	267.0	517.5	529.7	1,043.0
Kemira Water	187.6	173.2	367.1	331.1	686.4
Kemira Specialty	108.8	110.6	215.8	214.1	425.9
Kemira Coatings	205.7	188.7	350.9	324.5	625.2
Other, including eliminations	-14.2	13.5	-26.2	26.9	29.7
<b>Total</b>	<b>741.5</b>	<b>753.0</b>	<b>1,425.1</b>	<b>1,426.3</b>	<b>2,810.2</b>

The second quarter was challenging due to continued increases in raw material and energy prices and transportation costs. Kemira Group's operating profit, excluding non-recurring items, for the second quarter decreased by 34% to EUR 37.2 million (EUR 56.6 million). As a result, operating profit as a percentage of revenue, excluding non-recurring items, fell from 7.5% to 5.0%. High raw material and energy prices and transportation costs eroded profitability in all business areas, but water treatment chemicals and paper chemicals were most severely affected. Furthermore, Kemira Specialty's performance was hampered by low sales prices of titanium dioxide. Variable cost increase in April-June 2008 was EUR 34 million, excluding effect of acquisitions, divestments and change in volumes, compared to same period in 2007. Sales price increases and higher volumes increased operating profit by EUR 26 million and EUR 2 million respectively. The currency effect decreased operating profit by EUR 4 million.

Operating profit (excl. non-recurring items), EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Kemira Pulp&Paper	10.1	23.3	25.7	44.9	79.8
Kemira Water	5.5	13.1	12.3	25.1	46.7
Kemira Specialty	1.6	7.1	5.4	17.4	24.1
Kemira Coatings	29.7	27.3	41.4	40.1	64.3
Other, including eliminations	-9.7	-14.2	-20.4	-22.8	-40.3
<b>Total</b>	<b>37.2</b>	<b>56.6</b>	<b>64.4</b>	<b>104.7</b>	<b>174.6</b>

Operating profit, EUR million Bridge 4-6/2007 to 4-6/2008	Kemira Group	Kemira Pulp&Paper	Kemira Water	Kemira Specialty	Kemira Coatings
<b>Operating profit, 4-6/2007</b>	<b>58</b>	<b>23</b>	<b>13</b>	<b>7</b>	<b>27</b>
Price	26	8	7	2	9
Volume	2	-3	4	-1	3
Currency	-4	0	-1	-3	0
Variable Costs	-34	-11	-14	-4	-5
Other	-9	-7	-3	1	-4
<b>Operating profit, 4-6/2008</b>	<b>39</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>30</b>

**Operating profit** for April-June came to EUR 39.3 million (57.6) and includes non-recurring items with a positive net impact of EUR 2.1 million (EUR 1.0 million).

Profit before tax for the second quarter amounted to EUR 25.6 million (45.7) and net profit totaled EUR 18.9 million (33.3). Earnings per share were EUR 0.15 (EUR 0.27).

## Financial Performance for January-June

Kemira Group's revenue for January-June 2008 totaled EUR 1,425.1 million (January-June 2007: EUR 1,426.3 million). Organic growth in local currencies was 2% for the first half of the year. Acquisitions contributed around EUR 23 million to revenue growth, while divestments depressed revenue by EUR 8 million. The currency effect had a -3%, or around EUR -48 million impact on revenue.

Operating profit, excluding non-recurring items, for January-June 2008 decreased by 38% to EUR 64.4 million (EUR 104.7 million). The decrease in operating profit was due to the significant increases in raw material and energy-related costs that have continued during the first half of the year.

**Operating profit** for January-June came to EUR 72.3 million (106.5) and includes non-recurring items with a positive net impact of EUR 7.9 million (EUR 1.8 million).

Profit before tax for the first half of the year amounted to EUR 47.5 million (83.0) and net profit totaled EUR 34.9 million (60.6). Earnings per share were EUR 0.27 (EUR 0.48).

## Financial Position and Cash Flows

In January–June, the Group reported cash flows of EUR 14.6 million (23.1) from operating activities. Net cash flow from investing activities was EUR -80.3 million (-191.7) of which acquisitions accounted for an outflow of EUR 3.9 million (44.6). Kemira improved its free cash flow to EUR -65.7 million (-168.6). Cash flow effect from expansion and improvement investments was EUR -67.8 million (-86.6).

At the end of June, the Group's net debt stood at EUR 1,113.5 million (December 31, 2007: EUR 1,003.4 million). Kemira Oyj paid EUR 60.6 million in dividends in April.

At the period-end, interest-bearing liabilities stood at EUR 1,167.7 million. Fixed-rate loans accounted for 27.7% of total interest-bearing net loans. The average interest rate on the Group's interest-bearing liabilities was 5.2%. The duration of the Group's interest-bearing loan portfolio on June 30 was 13 months (December 31, 2007: 13 months).

The unused amount of the EUR 750 million revolving credit facility, that falls due in 2012, was EUR 542.4 million on June 30.

On June 30, the equity ratio stood at 37 % (December 31, 2007: 39%), while gearing was 99% (December 31, 2007: 92%). Available-for-sale financial assets include also shares entitling to electricity from a nuclear power plant currently under construction in Finland. In previous financial statements these shares have been accounted at acquisition value. In May 2008, the market price of these nuclear power plant shares was determined by an external third party share trading transaction. Due to this, the Group has booked a revaluation of the shares, EUR 80 million, with an equity effect of EUR 59.2 million.

The Group's net financial expenses for January-June totaled EUR 25.1 million (24.8).

## Capital Expenditure

Gross capital expenditure, excluding acquisitions, amounted to EUR 87.5 million (121.1) in January-June. Expansion investments represented around 45% of capital expenditure, excluding acquisitions, improvement investments around 32% and maintenance investments around 23%.

Group depreciation came to EUR 67.0 million (66.0 million).

Cash flow from the sale of assets was EUR 11.1 million (-26.0). Cash flow from acquisitions was EUR -3.9 million (-44.6). The Group's net capital expenditure totaled EUR 80.3 million (191.7).

## Research and Development

In January-June, reported research and development expenditure totaled EUR 30.9 million (EUR 33.1 million), accounting for 2% of revenue (2%).

In June Kemira Oyj and the European Investment Bank (EIB) signed a EUR 100 million 12-year research and development loan agreement. Loan can be raised within 18 months of signing. The European Investment Bank has evaluated and granted the loan to support the research, development and innovation activities of the Kemira Group during the years 2008-2011. This facility is intended for financing research and development expenditure in the group's core business areas and promoting development projects in the group's competence centers.

## Human Resources

The number of Group employees totaled 10,673 on June 30 (10,588).

## Business Areas

### Kemira Pulp&Paper

*Kemira Pulp&Paper is the world's leading expert in pulp and paper chemicals, its energy and cost-efficient solutions spanning the pulp and paper industry's value chain from pulp to paper coating.*

EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Revenue	253.6	267.0	517.5	529.7	1 043.0
EBITDA	21.0	34.9	48.5	70.4	133.7
EBITDA, %	8.3	13.1	9.4	13.3	12.8
Operating profit, excluding non-recurring items	10.1	23.3	25.7	44.9	79.8
Operating profit	10.1	23.3	25.7	46.2	68.2
Operating profit, excluding non-recurring items, %	4.0	8.7	5.0	8.5	7.6
Operating profit, %	4.0	8.7	5.0	8.7	6.5
Capital employed*	824.2	839.8	824.2	839.8	833.6
ROCE, %	5.8	10.7	5.8	10.7	8.2
Capital expenditure, excluding acquisitions	13.6	21.0	24.9	43.3	78.4
Cash flow after investments, excluding acquisitions	2.2	-11.2	31.3	-18.9	-24.3
Personnel at period-end	2,446	2,485	2,446	2,485	2,351

\* 12-month rolling average

Kemira Pulp&Paper's revenue in April-June 2008 decreased by 5% to EUR 253.6 million (267.0). The currency effect had a 5% negative effect on revenue. While pulp chemicals showed high demand, the competitive environment for paper chemicals was challenging, due to customer paper mill closures, in Europe and North America. Organic growth in local currencies was 1%.

As a result of higher raw material and energy-related prices and lower volumes operating profit for the second quarter was down by 57% from the previous year to EUR 10.1 million (23.3). These raw material price hikes impacted particularly strongly on the profitability of the paper chemicals business. Variable cost increase in April-June 2008 was EUR 11 million compared to same period in 2007. Sales price increases had a EUR 8 million effect on operating profit. Lower volumes decreased operating profit by EUR 3 million.

In January-June 2008, Kemira Pulp&Paper's revenue decreased by 2% to EUR 517.5 million (529.7). Organic growth in local currencies was 3%. The currency effect had a 4% negative effect on revenue.

Operating profit, excluding non-recurring items, in January-June 2008 was EUR 25.7 million (44.9). The decrease in profitability was mainly due to continuously increasing raw material and energy-related costs. Achieved sales price increases did not fully compensate the effect of high raw material prices and energy-related costs.

In June, the European Commission imposed a fine of EUR 10.15 million on Finnish Chemicals Oy for antitrust activity in the company's sodium chlorate business during 1994-2000. Kemira Oyj acquired Finnish Chemicals in 2005. The company will look into the Commission's decision and then decide on any further action. The fine imposed by the Commission will not have any significant effect on Kemira's cash flow or result.

## Kemira Water

*Kemira Water is the world's leading expert in municipal and industrial waste water as well as process and drinking water treatment. Kemira Water offers services, products and equipment for municipal and industrial water treatment.*

EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Revenue	187.6	173.2	367.1	331.1	686.4
EBITDA	12.9	20.0	29.7	38.8	78.8
EBITDA, %	6.9	11.5	8.1	11.7	11.5
Operating profit, excluding non-recurring items	5.5	13.1	12.3	25.1	46.7
Operating profit	5.5	13.1	14.7	25.1	43.6
Operating profit, excluding non-recurring items, %	2.9	7.6	3.4	7.6	6.8
Operating profit, %	2.9	7.6	4.0	7.6	6.4
Capital employed*	417.2	341.2	417.2	341.2	409.4
ROCE, %	8.1	13.4	8.1	13.4	10.9
Capital expenditure, excluding acquisitions	8.2	11.0	17.3	18.7	51.0
Cash flow after investments, excluding acquisitions	-6.8	16.3	-3.8	5.8	-11.6
Personnel at period-end	2,324	2,150	2,324	2,150	2,319

\* 12-month rolling average

Kemira Water's revenue in April-June 2008 increased by 8% to EUR 187.6 million (173.2). Sales were high in all areas and organic growth in local currencies was 10%. The currency effect had a 6% negative impact on revenue. Acquisitions contributed around EUR 7 million to revenue growth.

Raw material prices and transportation costs continued to increase dramatically during the second quarter and had an impact on profitability, despite realized sales price increases. Operating profit was EUR 5.5 million (13.1). Variable cost increase in April-June 2008 was EUR 14 million compared to same period in 2007. Sales price increases and higher volumes increased operating profit by EUR 7 million and EUR 4 million respectively. The currency effect decreased operating profit by EUR 1 million. The increase in raw material and transportation costs had an impact on the profitability of both water treatment polymers and coagulants.

In January-June 2008 Kemira Water's revenue increased 11% to EUR 367.1 million (331.1). Organic growth in local currencies was 11% in the first half of the year. The currency effect had a 5% negative impact on revenue. Acquisitions contributed around EUR 16 million to revenue growth.

Due to unfavorable developments in raw material prices, operating profit excluding non-recurring items decreased by 51% in January-June 2008 compared to the same period last year. Operating profit excluding non-recurring items was EUR 12.3 million (25.1).

## Kemira Specialty

*Kemira Specialty is the leading expert in specialty chemicals in selected customer segments, serving customers in a wide array of industries, such as the paint, cosmetics, printing ink, food and feed industries, through its customer-driven solutions.*

EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Revenue	108.8	110.6	215.8	214.1	425.9
EBITDA	9.4	14.9	21.3	33.0	45.1
EBITDA, %	8.6	13.5	9.9	15.4	10.6
Operating profit, excluding non-recurring items	1.6	7.1	5.4	17.4	24.1
Operating profit	1.6	7.1	5.4	17.4	13.5
Operating profit, excluding non-recurring items, %	1.5	6.4	2.5	8.1	5.7
Operating profit, %	1.5	6.4	2.5	8.1	3.2
Capital employed*	426.9	443.8	426.9	443.8	435.3
ROCE, %	0.4	9.1	0.4	9.1	3.1
Capital expenditure, excluding acquisitions	12.0	15.1	18.7	24.6	55.0
Cash flow after investments, excluding acquisitions	-13.0	-16.8	-10.2	-24.4	-19.7
Personnel at period-end	1,080	1,182	1,080	1,182	1,028

\* 12-month rolling average

Kemira Specialty's revenue in the second quarter decreased by 2% to EUR 108.8 million (110.6). Sales were depressed by the ongoing weakening of the US dollar and by the market environment for titanium dioxide, which continues to be very challenging. Titanium dioxide sales prices remained low. The currency effect had a 4% negative impact on revenue. Organic growth in local currencies was 2%.

Operating profit in the second quarter amounted to EUR 1.6 million (7.1). The decline from the previous year could be attributed to the weaker US dollar and increases in raw material and energy prices. The weakening of the US dollar has continued to improve the competitive position of US titanium dioxide producers in Europe, which is making it increasingly difficult to raise sales prices in Europe. Demand for, and the price level of, formic acid remained at a good level. Variable cost increase in April-June 2008 was EUR 4 million compared to same period in 2007. Sales price increases had a EUR 2 million effect on operating profit. Lower volumes and the currency effect decreased operating profit by EUR 1 million and EUR 3 million respectively.

Revenue in January-June 2008 was EUR 215.8 million (214.1). Organic growth for the period in local currencies was 2%. The currency effect had a 3% negative impact on revenue.

Operating profit in January-June amounted to EUR 5.4 million (17.4).

In May, Kemira announced that Kemira Oyj and Rockwood Holdings Inc. have agreed to form a joint venture that includes both parties' titanium dioxide businesses and the functional additives business owned by Rockwood. The new joint venture will include Rockwood's titanium dioxide pigments and functional additives businesses, including its production facilities in Duisburg, Germany and Kemira's titanium dioxide business, including Kemira's titanium dioxide plant in Pori and Kemira's technical research center specializing in TiO<sub>2</sub> products in Oberhausen, Germany and its US subsidiary, Kemira Specialty, Inc. The new specialty titanium dioxide company will be headquartered in Germany and had a pro forma turnover of approximately EUR 560 million in 2007. With a yearly production capacity of around 240 000 tons of titanium dioxide, the company will have around 1 700 employees. Rockwood will own 61% and Kemira 39% of the new joint venture. An excellent way of developing the value of Kemira's titanium dioxide business, the venture will provide a good platform for synergy creation e.g. through better capacity utilization. The new company will be a highly specialized titanium dioxide producer with strong market positions in global niche market segments. It will be the leading provider of titanium dioxide pigments for textile, packaging ink and cosmetics industries worldwide. The deal is subject to approval by the competition authorities and is expected to close during Q3 in 2008.

The expansion of Kemira's formic acid plant in Oulu, Finland, was completed and taken in use in July. The expansion enables Kemira's total production capacity to be increased by 30 percent to over 100,000 t/a. Kemira is the second largest producer of formic acid. This investment will further strengthen Kemira's position on the market and meet the market needs

## Kemira Coatings

*Kemira Coatings is the leading expert in painting and coating solutions in Northern and Eastern Europe, providing services and branded products to consumers, professionals and the industry.*

EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	1-12/2007
Revenue	205.7	188.7	350.9	324.5	625.2
EBITDA	34.5	31.4	50.9	48.5	91.2
EBITDA, %	16.8	16.6	14.5	14.9	14.6
Operating profit, excluding non-recurring items	29.7	27.3	41.4	40.1	64.3
Operating profit	29.7	27.3	41.4	40.1	73.1
Operating profit, excluding non-recurring items, %	14.4	14.5	11.8	12.4	10.3
Operating profit, %	14.4	14.5	11.8	12.4	11.7
Capital employed*	320.3	306.1	320.3	306.1	311.0
ROCE, %	23.3	25.9	23.3	25.9	23.9
Capital expenditure, excluding acquisitions	7.9	12.4	14.0	22.2	43.5
Cash flow after investments, excluding acquisitions	-1.5	15.8	-17.7	-23.9	26.0
Personnel at period-end	4,303	4,218	4,303	4,218	3,789

\* 12-month rolling average

Kemira Coating's revenue in the second quarter rose by 9% to EUR 205.7 million (188.7), this growth being organic. Sales development was high in most markets both in decorative paints and industrial coatings. The slowdown in new construction and the decrease in sales of construction material in the Baltic affected the growth of Kemira Coatings in that region.

Operating profit in the second quarter amounted to EUR 29.7 million (27.3), an increase of 9%. Variable cost increase in April-June 2008 was EUR 5 million compared to same period in 2007. Sales price increases and product mix had a EUR 9 million effect on operating profit. Higher volumes increased operating profit by EUR 3 million.

In January-June 2008 revenue rose by 8% to EUR 350.9 million (324.5). Organic growth in local currencies for the first half of the year was 8%.

Operating profit in January-June 2008 was EUR 41.4 million (40.1). Increases in the costs of some raw materials and packaging materials had an effect on profitability.

Following its strategy of growth, Kemira Coatings (Tikkurila), will strengthen its position in the Southeast European paint market and has agreed to establish a trading company by the name of Tikkurila JUB Romania with the paint company JUB of Slovenia. This new company will be responsible for the marketing, sales and distribution of Tikkurila's and JUB's decorative paints in Romania.

Kemira Coatings (Tikkurila) has also decided on a relocation and major expansion in production of decorative paints in St Petersburg, Russia. The expansion will significantly increase Tikkurila's production volumes of waterborne paints and improve the cost efficiency of production in Russia. The demand for waterborne products is steadily increasing in Russia.

## Kemira Oyj Shares and Shareholders

During January-June, Kemira Oyj shares registered a high of EUR 14.77 and a low of EUR 7.88, the share price averaging EUR 9.47. On June 30, the company's market capitalization, excluding treasury shares, totaled EUR 971.9 million.

On June 30, 2008, the company's share capital totaled EUR 221.8 million and the number of registered shares was 125,045,000. Kemira holds 3,854,465 treasury shares, accounting for 3.1% of outstanding company shares and voting rights.

## Strategy Update

In June Kemira announced its new strategy. Kemira's Board of Directors made a strategic decision to concentrate on water and fiber related businesses in the future. Kemira will initiate a spin-off process to turn Tikkurila, its Coatings business area, into a public company owned by Kemira's current shareholders and potential new shareholders on the Helsinki Stock Exchange. This will take place during the first half of 2009. Kemira will remain a shareholder in the Coatings company, widely known as Tikkurila, in order to retain the value upside in Tikkurila's shares. Kemira has engaged a financial advisor in the listing process. In addition Kemira has decided to reorganize its Kemira Specialty business area by forming a joint venture together with Rockwood Holdings Inc. in the titanium dioxide and continue to develop the ChemSolutions business as a separate entity. Chemidet, which is part of hydrogen peroxide chain, will be part of pulp customer segment.

According to the strategy Kemira will first concentrate on reinforcing the balance sheet, generating positive cash flow and improving profitability. During the second phase Kemira will seek strong organic growth.

Kemira will organize its businesses in accordance with the new strategy into three customer based segments with P/L responsibilities. Water is the common denominator for all of these segments. The Paper segment will focus on serving customer segments in the pulp and paper industry, while the Water segment will concentrate on serving customer segments in municipal and industrial water treatment. A new segment Oil and Mining will further develop businesses in the growing application areas of the oil, gas and mining industries where water treatment chemicals are of great importance.

The new integrated and lean organization will be effective from the beginning of October 2008.

Together with the announcement of the new strategy Kemira announced a cost savings program with annual savings target of over EUR 50 million, excluding Kemira Coatings. The planned savings program may also lead to a reduction of approximately 1000 persons worldwide from Kemira's payroll, including potential sale of businesses. Streamlining of the global functions may lead to for example to the consolidation of production sites, the R&D facilities and the warehouse network. A cost savings program will be prepared taking into account of all local requirements before any decisions are made. Further briefings on these decisions will be given during Q3.

## Outlook

Kemira Group's growth is expected to be moderate and primarily fueled by organic growth in 2008. Continued actions taken on price increases and ongoing improvements in operational efficiency, including cost savings, are the key to improving profitability. Due to the unfavorable development of raw material prices and energy-related costs together with a weak US dollar, Kemira's operating profit and earnings per share, excluding non-recurring items, are expected to remain below last year's level.

The operational rearrangements carried out in **Kemira Pulp&Paper's** customer industries in North America and Europe may have an adverse impact on Kemira's pulp and paper chemicals business. **Kemira Water** is expected to show good organic growth, but otherwise the forecast for Kemira Water's business is overshadowed by the significant increase in raw material prices. In the **Kemira Specialty** business area, demand for titanium dioxide, organic acids and sodium percarbonate is expected to be reasonable. **Kemira Coatings** expects sustained healthy demand in most market areas, with the strongest growth anticipated in Russia and CIS.

Helsinki, July 30, 2008

*Board of Directors*

*All forward-looking statements in this review are based on the management's current expectations and beliefs about future events, and actual results may differ materially from the expectations and beliefs such statements contain.*

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Kemira will hold a press conference on its January-June 2008 results for the media and analysts at its head office (Porkkalankatu 3) today, starting at 10:30 a.m. Presentation material will be available on Kemira's website at <http://www.kemira.com/en/investors/financialinformation/interimreports/>

## KEMIRA GROUP

The figures are unaudited.

All figures in this financial report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

This Interim Consolidated Financial Statements has been prepared in compliance with IAS 34.

Changes to the accounting policies as of January 1, 2008:

- IFRIC 11 interpretation of IFRS 2 Group and Treasury Share Transactions

- IFRIC 12 (Service Concession Arrangements) interpretation related to service arrangements between public and private sectors

- IFRIC 14 (IAS 19 – The Limit on a defined Benefit Asset, Minimum Funding Requirement and their Interaction) interpretation related to minimum funding requirements of defined benefit arrangements

The Group assesses that the adoption of the revised standards will not have any material effect on its future financial statements.

INCOME STATEMENT EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	2007
<b>Revenue</b>	<b>741.5</b>	753.0	<b>1,425.1</b>	1,426.3	2,810.2
Other operating income	7.6	5.9	21.3	12.7	45.9
Expenses	-677.4	-669.1	-1,307.1	-1,266.5	-2,539.2
Depreciation and impairments	-32.4	-32.3	-67.0	-66.0	-173.8
<b>Operating profit</b>	<b>39.3</b>	57.6	<b>72.3</b>	106.5	143.1
Financial income and expenses, net	-13.9	-12.6	-25.1	-24.8	-51.9
Share of profit or loss of associates	0.2	0.7	0.3	1.3	2.1
<b>Profit before tax</b>	<b>25.6</b>	45.7	<b>47.5</b>	83.0	93.3
Income tax	-6.7	-12.4	-12.6	-22.4	-25.8
<b>Net profit for the period</b>	<b>18.9</b>	33.3	<b>34.9</b>	60.6	67.5
<b>Attributable to:</b>					
Equity holders of the parent	17.6	32.3	32.4	58.7	63.7
Minority interest	1.3	1.0	2.5	1.9	3.8
<b>Net profit for the period</b>	<b>18.9</b>	33.3	<b>34.9</b>	60.6	67.5

## BALANCE SHEET EUR million

ASSETS	30.6.2008	31.12.2007
<b>Non-current assets</b>		
Goodwill	624.7	626.6
Other intangible assets	116.8	112.3
Property, plant and equipment	985.9	984.3
Holdings in associates	5.6	5.5
Available-for-sale investments	182.3	102.2
Deferred tax assets	9.2	5.2
Defined benefit pension receivables	34.7	34.6
Other investments	8.3	6.4
<b>Total non-current assets</b>	<b>1,967.5</b>	1,877.1
<b>Current assets</b>		
Inventories	324.7	311.2
Receivables		
Interest-bearing receivables	4.8	3.2
Interest-free receivables	637.2	548.1
<b>Total receivables</b>	<b>642.0</b>	551.3
Money market investments - cash equivalents	18.8	21.4
Cash and cash equivalents	35.4	31.2
<b>Total current assets</b>	<b>1,020.9</b>	915.1
Non-current assets held for sale	2.6	35.7
<b>Total assets</b>	<b>2,991.0</b>	2,827.9
<b>EQUITY AND LIABILITIES</b>	<b>30.6.2008</b>	31.12.2007
<b>Equity attributable to equity holders of the parent</b>	<b>1,105.6</b>	1,072.0
<b>Minority interest</b>	<b>14.9</b>	15.3
<b>Total equity</b>	<b>1,120.5</b>	1,087.3
<b>Non-current liabilities</b>		
Interest-bearing non-current liabilities	715.3	431.1
Deferred tax liabilities	125.4	105.5
Pension liabilities	74.3	74.2
Provisions	16.6	18.8
<b>Total non-current liabilities</b>	<b>931.6</b>	629.6
<b>Current liabilities</b>		
Interest-bearing current liabilities	452.4	625.0
Interest-free current liabilities	485.1	473.6
Provisions	1.4	6.2
<b>Total current liabilities</b>	<b>938.9</b>	1,104.8
Liabilities directly associated with non-current assets classified as held for sale	-	6.2
<b>Total liabilities</b>	<b>1,870.5</b>	1,740.6
<b>Total equity and liabilities</b>	<b>2,991.0</b>	2,827.9

Available-for-sale financial assets include also shares entitling to electricity from a nuclear power plant currently under construction in Finland. In previous financial statements these shares have been accounted at acquisition value. In May 2008, the market price of these nuclear power plant shares was determined by an external third party share trading transaction. Due to this, the Group has booked a revaluation of the shares, EUR 80 million, with an equity effect of EUR 59.2 million.

July 30, 2008

Non-current assets held for sale include Russian factory site.

CONSOLIDATED CASH FLOW STATEMENT EUR million	4-6/2008	4-6/2007	1-6/2008	1-6/2007	2007
<b>Cash flows from operating activities</b>					
Adjusted operating profit	61.8	84.5	124.3	166.1	281.1
Interests	-21.6	-9.5	-32.8	-15.1	-36.3
Dividend income	-	0.1	-	0.1	2.0
Income taxes paid	-14.4	-11.7	-18.6	-19.5	-35.6
<b>Total funds from operations</b>	<b>25.8</b>	<b>63.4</b>	<b>72.9</b>	<b>131.6</b>	<b>211.2</b>
Change in net working capital	-31.4	-10.3	-58.3	-108.5	-39.1
<b>Total cash flows from operating activities</b>	<b>-5.6</b>	<b>53.1</b>	<b>14.6</b>	<b>23.1</b>	<b>172.1</b>
<b>Cash flows from investing activities</b>					
Capital expenditure for acquisitions	-3.9	-21.4	-3.9	-44.6	-66.6
Other capital expenditure	-48.9	-66.0	-87.5	-121.1	-254.4
Proceeds from sale of assets	1.7	6.5	11.1	-26.0	-0.2
Net cash used in investing activities	-51.1	-80.9	-80.3	-191.7	-321.2
<b>Cash flow after investing activities</b>	<b>-56.7</b>	<b>-27.8</b>	<b>-65.7</b>	<b>-168.6</b>	<b>-149.1</b>
<b>Cash flows from financing activities</b>					
Change in non-current loans (increase +, decrease -)	144.3	-125.6	135.1	-6.7	53.7
Change in non-current loan receivables (decrease +, increase -)	-2.6	-0.7	-2.1	0.7	2.5
Short-term financing, net (increase +, decrease -)	-38.5	216.5	-9.5	216.5	117.8
Dividends paid	-63.9	-59.9	-63.9	-59.9	-60.8
Other	15.3	3.2	7.7	4.0	12.3
<b>Net cash used in financing activities</b>	<b>54.6</b>	<b>33.5</b>	<b>67.3</b>	<b>154.6</b>	<b>125.5</b>
<b>Net change in cash and cash equivalents</b>	<b>-2.1</b>	<b>5.7</b>	<b>1.6</b>	<b>-14.0</b>	<b>-23.6</b>
Cash and cash equivalents at end of period	54.2	62.2	54.2	62.2	52.6
Cash and cash equivalents at beginning of period	56.3	56.5	52.6	76.2	76.2
<b>Net change in cash and cash equivalents</b>	<b>-2.1</b>	<b>5.7</b>	<b>1.6</b>	<b>-14.0</b>	<b>-23.6</b>

#### STATEMENT OF CHANGES IN EQUITY EUR million

	Equity attributable to equity holders of the parent							
	Share capital	Capital paid-in in excess of par value	Fair value and other reserves	Exchange differences	Treasury shares	Retained earnings	Minority interests	Total
Shareholders' equity at January 1, 2007	221.6	257.9	62.7	-30.8	-26.8	585.3	12.6	1,082.5
Net profit for the period	-	-	-	-	-	58.7	1.9	60.6
Dividends paid	-	-	-	-	-	-58.2	-1.7	-59.9
Treasury shares issued to key employees	-	-	-	-	0.9	-0.9	-	0.0
Share-based compensation	-	-	-	-	-	0.8	-	0.8
Options subscribed for shares	0.2	-	-	-	-	-	-	0.2
Exchange differences	-	-	0.1	-1.6	-	-	0.2	-1.3
Hedge of net investments in foreign entities	-	-	-	2.8	-	-	-	2.8
Cash flow hedging: amount entered in shareholders' equity	-	-	-0.3	-	-	-	-	-0.3
Acquired minority interest	-	-	-	-	-	-	0.2	0.2
Other changes	-	-	0.3	-	-	0.4	-0.1	0.6
<b>Shareholders' equity at June 30, 2007</b>	<b>221.8</b>	<b>257.9</b>	<b>62.8</b>	<b>-29.6</b>	<b>-25.9</b>	<b>586.1</b>	<b>13.1</b>	<b>1,086.2</b>
Shareholders' equity at January 1, 2008	221.8	257.9	68.2	-41.1	-25.9	591.1	15.3	1,087.3
Net profit for the period	-	-	-	-	-	32.4	2.5	34.9
Dividends paid	-	-	-	-	-	-60.6	-3.3	-63.9
Available-for-sale assets - change in fair value	-	-	59.2	-	-	-	-	59.2
Share-based compensation	-	-	-	-	-	0.5	-	0.5
Exchange differences	-	-	-	-7.9	-	-	0.7	-7.2
Hedge of net investments in foreign entities	-	-	-	2.3	-	-	-	2.3
Cash flow hedging: amount entered in shareholders' equity	-	-	7.3	-	-	-	-	7.3
Transfer between restricted and non-restricted equity	-	-	0.4	-	-	-0.4	-	0.0
Other changes	-	-	-0.1	-	-	0.5	-0.3	0.1
<b>Shareholders' equity at June 30, 2008</b>	<b>221.8</b>	<b>257.9</b>	<b>135.0</b>	<b>-46.7</b>	<b>-25.9</b>	<b>563.5</b>	<b>14.9</b>	<b>1,120.5</b>

Kemira had in its possession 3,854,465 of its treasury shares at June 30, 2008. The number of treasury shares was the same as at the end of the year 2007. Their average acquisition share price was EUR 6.73 and the treasury shares represented 3.1% of the share capital and of the aggregate number of votes conferred by all the shares. The equivalent book value of the treasury shares is EUR 6.8 million.

<b>KEY FIGURES</b>	<b>4-6/2008</b>	<b>4-6/2007</b>	<b>1-6/2008</b>	<b>1-6/2007</b>	<b>2007</b>
Earnings per share, basic and diluted, EUR	<b>0.15</b>	0.27	<b>0.27</b>	0.48	0.53
Earnings per share excluding write-downs, basic and diluted, EUR	<b>0.15</b>	0.27	<b>0.27</b>	0.48	0.87
Cash flow from operations per share, EUR	<b>-0.05</b>	0.44	<b>0.12</b>	0.19	1.42
Capital expenditure, EUR million	<b>52.8</b>	87.4	<b>91.4</b>	165.7	321.0
Capital expenditure / revenue, %	<b>7.1</b>	11.6	<b>6.4</b>	11.6	11.4
Average number of shares (1000), basic *	<b>121,191</b>	121,180	<b>121,191</b>	121,136	121,164
Average number of shares (1000), diluted *	<b>121,191</b>	121,195	<b>121,191</b>	121,195	121,194
Number of shares at the end of the period (1000), basic *	<b>121,191</b>	121,194	<b>121,191</b>	121,194	121,191
Number of shares at the end of the period (1000), diluted *	<b>121,191</b>	121,194	<b>121,191</b>	121,194	121,191
Equity per share, attributable to equity holders of the parent, EUR			<b>9.12</b>	8.86	8.85
Equity ratio, %			<b>37.5</b>	37.1	38.6
Gearing, %			<b>99.4</b>	98.3	92.3
Interest-bearing net liabilities, EUR million			<b>1,113.5</b>	1,067.4	1,003.4
Personnel (average)			<b>10,272</b>	9,826	10,008

\* Number of shares outstanding, excluding the number of shares bought back.

<b>REVENUE BY BUSINESS AREA</b>	<b>4-6/2008</b>	<b>4-6/2007</b>	<b>1-6/2008</b>	<b>1-6/2007</b>	<b>2007</b>
<b>EUR million</b>					
Kemira Pulp&Paper	<b>253.6</b>	267.0	<b>517.5</b>	529.7	1,043.0
Kemira Water	<b>187.6</b>	173.2	<b>367.1</b>	331.1	686.4
Kemira Specialty	<b>108.8</b>	110.6	<b>215.8</b>	214.1	425.9
Kemira Coatings	<b>205.7</b>	188.7	<b>350.9</b>	324.5	625.2
Other and Intra-Group sales	<b>-14.2</b>	13.5	<b>-26.2</b>	26.9	29.7
<b>Total</b>	<b>741.5</b>	753.0	<b>1,425.1</b>	1,426.3	2,810.2

<b>OPERATING PROFIT BY BUSINESS AREA</b>	<b>4-6/2008</b>	<b>4-6/2007</b>	<b>1-6/2008</b>	<b>1-6/2007</b>	<b>2007</b>
<b>EUR million</b>					
Kemira Pulp&Paper	<b>10.1</b>	23.3	<b>25.7</b>	46.2	68.2
Kemira Water	<b>5.5</b>	13.1	<b>14.7</b>	25.1	43.6
Kemira Specialty	<b>1.6</b>	7.1	<b>5.4</b>	17.4	13.5
Kemira Coatings	<b>29.7</b>	27.3	<b>41.4</b>	40.1	73.1
Other including eliminations	<b>-7.6</b>	-13.2	<b>-14.9</b>	-22.3	-55.3
<b>Total</b>	<b>39.3</b>	57.6	<b>72.3</b>	106.5	143.1

<b>CHANGES IN PROPERTY, PLANT AND EQUIPMENT</b>			<b>1-6/2008</b>	<b>1-6/2007</b>	<b>2007</b>
<b>EUR million</b>					
Carrying amount at beginning of year			<b>984.3</b>	987.1	987.1
Acquisitions of subsidiaries			-	-14.4	14.3
Increases			<b>73.6</b>	105.3	215.7
Decreases			<b>-3.9</b>	-3.1	-2.5
Disposal of subsidiaries			<b>-0.5</b>	-	-7.8
Depreciation and impairments			<b>-56.7</b>	-55.7	-133.2
Exchange rate differences and other changes			<b>-10.9</b>	-11.1	-89.3
<b>Net carrying amount at end of period</b>			<b>985.9</b>	1,008.1	984.3

<b>CHANGES IN INTANGIBLE ASSETS</b>			<b>1-6/2008</b>	<b>1-6/2007</b>	<b>2007</b>
<b>EUR million</b>					
Carrying amount at beginning of year			<b>738.9</b>	689.9	689.9
Acquisitions of subsidiaries			<b>3.1</b>	42.2	32.2
Increases			<b>14.1</b>	14.7	30.4
Decreases			<b>-0.1</b>	-0.3	-0.3
Disposal of subsidiaries			-	-	-0.1
Depreciation and impairments			<b>-10.3</b>	-10.3	-40.6
Exchange rate differences and other changes			<b>-4.2</b>	10.8	27.4
<b>Net carrying amount at end of period</b>			<b>741.5</b>	747.0	738.9

<b>CONTINGENT LIABILITIES</b>		
EUR million	30.6.2008	31.12.2007
Mortgages		
Assets pledged	24.4	62.1
On behalf of own commitments		
Guarantees	6.0	6.0
On behalf of own commitments		
On behalf of associates	7.5	8.3
On behalf of others	1.3	1.4
Operating leasing liabilities	0.7	2.8
Maturity within one year		
Maturity after one year	23.1	22.4
Other obligations	125.6	129.0
On behalf of own commitments		
On behalf of associates	0.7	0.4
	2.1	2.3

#### Major off-balance sheet investment commitments

Major amounts of contractual commitments for the acquisition of property, plant and equipment on June 30, 2008 were EUR 16 million for the investment of Kemira Coatings in Russia and EUR 0,8 million for the environmental investment in Pori.

#### Litigation

The Group has extensive international operations and is involved in a number of legal proceedings incidental to these operations.

Kemira Oyj, Kemira Chemicals, Inc. and Kemira Chemicals Canada, Inc. have received claims or were named in class action lawsuits filed by direct and indirect purchasers of hydrogen peroxide and persalts in US state courts and in Canada. In these civil actions it is alleged that the US plaintiffs suffered damages resulting from a cartel among hydrogen peroxide suppliers. To avoid further litigation costs Kemira Oyj and Kemira Chemicals Canada Inc. have made a settlement agreement in the US direct purchaser class action in an US federal court and settled with some others. As regards the other claims and suits, the proceedings continue.

The European Union Commission ordered in June 2008 Finnish Chemicals Oy to pay eur 10.15 million fine for competition law infringements by sodium chlorate producers during 1994-2000.

#### RELATED PARTY

Related party transactions have not changed materially after annual closing 2007.

#### DERIVATIVE INSTRUMENTS

EUR million	30.6.2008		31.12.2007	
	Nominal value	Fair value	Nominal value	Fair value
<b>Currency instruments</b>				
Forward contracts	367.6	-3.1	942.9	-1.4
of which hedges of net investment in a foreign operation	-	-	-	-
Currency options				
Bought	72.9	-0.2	65.5	0.1
Sold	58.7	0.3	57.8	0.2
Currency swaps	143.4	10.1	147.2	6.5
<b>Interest rate instruments</b>				
Interest rate swaps	249.7	4.8	174.0	2.3
of which cash flow hedge	239.7	4.4	164.0	2.0
Interest rate options				
Bought	10.0	0.2	10.0	-
Sold	-	-	-	-
Bond futures	10.0	0.2	10.0	0.2
of which open	10.0	0.2	10.0	0.2
<b>Other instruments</b>		<b>Fair value</b>		<b>Fair value</b>
Electricity forward contracts, GWh	626.4	17.2	833.6	10.0
of which cash flow hedge, GWh	626.4	17.2	833.6	10.0

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

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

**QUARTERLY INFORMATION**

EUR million	2008 Q2	2008 Q1	2007 Q4	2007 Q3	2007 Q2	2007 Q1
<b>Revenue</b>						
Kemira Pulp&Paper	253.6	263.9	253.6	259.7	267.0	262.7
Kemira Water	187.6	179.5	180.3	175.0	173.2	157.9
Kemira Specialty	108.8	107.0	102.0	109.8	110.6	103.5
Kemira Coatings	205.7	145.2	118.4	182.3	188.7	135.8
Other and intra-Group sales	-14.2	-12.0	0.1	2.7	13.5	13.4
<b>Total</b>	<b>741.5</b>	<b>683.6</b>	654.4	729.5	753.0	673.3
<b>Operating profit</b>						
Kemira Pulp&Paper	10.1	15.6	-1.8	23.8	23.3	22.9
Kemira Water	5.5	9.2	3.8	14.7	13.1	12.0
Kemira Specialty	1.6	3.8	-13.9	10.0	7.1	10.3
Kemira Coatings	29.7	11.7	-5.9	38.9	27.3	12.8
Other including eliminations	-7.6	-7.3	-25.1	-7.9	-13.2	-9.1
<b>Total</b>	<b>39.3</b>	<b>33.0</b>	-42.9	79.5	57.6	48.9
<b>Operating profit, excluding non-recurring items</b>						
Kemira Pulp&Paper	10.1	15.6	12.3	22.6	23.3	21.6
Kemira Water	5.5	6.8	6.9	14.7	13.1	12.0
Kemira Specialty	1.6	3.8	-2.0	8.7	7.1	10.3
Kemira Coatings	29.7	11.7	-3.5	27.7	27.3	12.8
Other including eliminations	-9.7	-10.7	-9.6	-7.9	-14.2	-8.6
<b>Total</b>	<b>37.2</b>	<b>27.2</b>	4.1	65.8	56.6	48.1

**DEFINITIONS OF KEY FIGURES**
**Earnings per share (EPS)**

$$\frac{\text{Net profit attributable to equity holders of the parent}}{\text{Average number of shares}}$$
**Cash flow from operations**

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

**Cash flow from operations per share**

$$\frac{\text{Cash flow from operations}}{\text{Average number of shares}}$$
**Equity per share**

$$\frac{\text{Equity attributable to equity holders of the parent at end of quarter}}{\text{Number of shares at end of quarter}}$$
**Equity ratio, %**

$$\frac{\text{Total equity} \times 100}{\text{Total assets} - \text{prepayments received}}$$
**Gearing, %**

$$\frac{\text{Interest-bearing net liabilities} \times 100}{\text{Total equity}}$$
**Interest-bearing net liabilities**

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

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

$$\frac{\text{Operating profit} + \text{share of profit or loss of associates} \times 100}{(\text{Net working capital} + \text{property, plant and equipment available for use} + \text{intangible assets} + \text{investments in associates}) *}$$

\* Average