

**31 August 2010**

**POWERFLUTE OYJ**  
**INTERIM REPORT**  
**for the six months ended 30 June 2010**

Powerflute Oyj (the "Company" or "Powerflute"), the packaging group with positions in Nordic semi-chemical fluting and coated woodfree papers, today announced results for the six months ended 30 June, 2010. Powerflute is quoted on the AIM market of the London Stock Exchange (Ticker: POWER) and on the First North list, the alternative market of the OMX Nordic Exchange Stockholm AB (Ticker POW1V)

**Financial Highlights**

- Revenue increased 23% to €148.1m (2009: €120.4m)
- EBITDA reduced to €3.3m (2009: €5.6m)
- Operating loss of €2.2m (2009: underlying operating loss of €1.0m)
- Loss before tax of €5.0m (2009: €29.6m profit, but included €33.0m gain on acquisition)
- Basic loss per share of 2.4 cents (2009: 21.0 cents profit per share)
- Underlying loss per share of 2.4 cents (2009: 1.8 cents loss per share)
- Net cash inflow from operating activities of €9.8m (2009: €1.7m)
- Net debt reduced to €47.4m (€52.0m at 31 December 2009)
- Net asset value per share of €0.37 (2009: €0.39)

**Operating Highlights**

- Both business areas experienced robust demand and upward trends in pricing throughout the period and momentum is expected to continue into the second half.
- Packaging Papers performed strongly as sales increased by 42% and EBITDA improved by €4.8m to a profit of €4.3m (2009: €0.5m loss).
- In contrast, Graphic Papers encountered challenging conditions. Volume increases largely offset lower average prices, but higher pulp costs severely impacted EBITDA which was €6.9m lower at €1.1m (2009: €8.0m).
- Marco Casiraghi joined the Group as Chief Executive with effect from 1 January 2010.
- The Board has identified a number of projects and development opportunities which offer the potential for attractive returns and is currently evaluating funding alternatives.

**Powerflute Chairman, Dermot Smurfit commented:**

"Trading conditions during the first half were mixed. We experienced robust demand and upward pricing trends in both of our businesses and were particularly pleased with the strong recovery in Packaging Papers where profits improved considerably. Unfortunately, the benefits of this were more than offset by the impact of higher pulp costs on the performance of Graphic Papers.

The outlook for Packaging Papers remains positive as price recovery continues and demand remains strong. The outlook for Graphic Papers is more uncertain. Further price increases have been announced for our products, while pulp costs appear to have stabilised and are reducing in some markets. Together, these factors should lead to improved performance during the second half of the year.

Subject to the positive trends outlined above continuing, we expect performance for the full year to represent an improvement on the prior year.”

## **Contacts**

### **For additional information please contact:**

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## **About Powerflute**

Powerflute Oyj (“the Company” or “Powerflute”) is a packaging group with established positions in Nordic semi-chemical fluting and coated woodfree papers.

Through its subsidiary Savon Sellu, the Group operates a paper mill in Kuopio, Finland which produces a specialised form of semi-chemical fluting made from birchwood sourced principally in Finland and Russia. Corrugated boxes manufactured using Nordic semi-chemical fluting demonstrate exceptional strength and moisture resistance and are extensively used for transportation of fruit and vegetables, high-value industrial goods such as electrical appliances and automotive components. The Kuopio mill has the capacity to produce up to 300,000 tonnes per annum and is one of three suppliers of Nordic semi-chemical fluting in Europe.

Through its subsidiary Papierfabrik Scheufelen, the Group operates a paper mill in Lenningen, Germany which produces a range of coated woodfree papers from mixed hardwood and softwood pulps. Coated woodfree papers are used in the production of printed promotional material such as brochures, leaflets and other point of sale materials for producers and distributors of premium branded goods. The Lenningen mill has the capacity to produce up to 300,000 tonnes per annum and supplies the majority of its products into the European market where total demand has historically been in excess of 7.7 million tonnes per annum.

## CHAIRMAN'S STATEMENT

### GROUP RESULTS

Trading conditions during the first half were mixed with the benefits of strong demand and upward pricing trends in both of our businesses offset by significant cost inflation in Graphic Papers. The improvement in demand experienced towards the end of 2009 continued and both of our paper mills were able to operate at close to current maximum capacity throughout the period. Price recovery also occurred in both business areas and was particularly strong in Packaging Papers where profits improved considerably compared with the prior year despite industrial action by transport and port workers in Finland during the first quarter. Performance in Graphic Papers deteriorated as average prices were well below prior year levels and as the impact of higher volumes was insufficient to offset the very significant increase in pulp costs.

The Group's revenues for the six months ended 30 June 2010 increased by 23% to €148.1m (2009: €120.4m) reflecting the impact of higher volumes in both activities. Underlying EBITDA for the period reduced to €3.3m (2009: €5.6m) as deterioration in Graphic Papers due to higher pulp costs was only partly offset by a greatly improved performance in Packaging Papers. The operating loss for the period was €2.2m (2009: €32.0m profit). The loss before tax was €5.0m. The results for the prior year included a non-cash gain arising on the acquisition of Scheufelen of €33.0m and on an underlying basis the prior year operating loss was €1.0m, while the loss before tax was €3.4m.

Following a good performance in the first half, the outlook for Packaging Papers remains positive as price recovery continues and demand remains robust. The outlook for Graphic Papers is more uncertain. Further price increases for later in the year have been announced by most competitors, while pulp costs appear to have stabilised over the summer months and there is evidence of reductions in some markets. Together, these factors should lead to improved performance during the second half of the year and, subject to the positive trends outlined above continuing, we expect performance for the full year to represent an improvement on the prior year.

### PACKAGING PAPERS

The performance of our Nordic semi-chemical fluting business, Savon Sellu, improved considerably compared with the prior year due principally to a significant increase in deliveries. Sales increased by 42% to €50.9m (2009: €35.7m) and EBITDA from operating activities improved by €4.8m to a profit of €4.3m (2009: €0.5m loss).

Delivered volumes were more than 50% higher than the level achieved during the same period of the prior year due to a combination of market recovery, the impact of restocking, improvement in our market position and maintenance related curtailments by a competitor. Average selling prices recovered strongly during the period from the unprecedented low levels seen at the end of 2009 and are now back to the levels prevailing in 2008 prior to the commencement of the global economic slowdown.

Raw material and other production expenses were well controlled and were similar to or below prior year levels. In particular, wood costs reduced by 5% as a result of softer market conditions and more effective purchasing by Harvestia, the Group's wood procurement joint venture.

## **GRAPHIC PAPERS**

The Group's coated woodfree paper business, Papierfabrik Scheufelen, encountered very challenging trading conditions and achieved EBITDA of only €1.1m on sales of €97.2m for the six months ended 30 June 2010 (2009: profit €8.0m on sales of €84.7m) as the benefit derived from higher volumes was more than offset by lower average selling prices and considerably higher raw material costs.

The recovery in demand which began in the second half of 2009 continued and deliveries were more than 25% higher than the same period of the prior year. However, the fall in market prices which occurred in the final quarter of 2009 was only partially recovered through price increases announced during the first half and consequently average selling prices were considerably lower than the same period of the prior year.

The most significant factor affecting the result for the period was the increase in the cost of pulp. Prices began to rise towards the end of the second quarter of 2009 in response to recovery of demand in most international markets. The Chilean earthquake reduced availability of pulp from key South American suppliers throughout much of the first half of 2010 and the market situation was made worse by industrial action at various times in the first half which disrupted supply from Finland and Sweden. Together, these factors contributed to cost increases of 50-70% (depending upon the specific grade of pulp) during the 12 month period to June 2010. The impact of raw material cost inflation on the result for the first half when compared with the same period of the prior year is estimated to have been in excess of €9.0m.

Other raw material and production expenses were well managed and were broadly in line with or below the prior year on a cost per tonne basis. In particular, more effective purchasing and production efficiency gains due to higher volumes resulted in a 20% reduction in energy costs per tonne.

## **ACQUISITIONS**

The Group completed the acquisition of the business and assets of Scheufelen on 1 January 2009. The results of Scheufelen have been consolidated into those of the Group for the periods ended 30 June 2009 and 2010. The comparative results for period ended 30 June 2009 have been restated to take account of the finalisation of the purchase price allocation exercise. There were no acquisitions during the six month period to 30 June 2010.

## **TAXATION**

The tax gain of €1.5m (2009: tax gain €0.8m) is based upon an estimate of the weighted average annual tax rate expected for the full financial year. The underlying annual tax rates on profits before taxation are 26% in Finland and 30% in Germany.

## **EARNINGS PER SHARE AND DIVIDENDS**

The Group reported a basic loss per share for the six months ended 30 June 2010 of 2.4 cents per share (2009: 21.0 cents profit per share). Earnings per share in the prior year included the impact of the gain arising on acquisition of Scheufelen. On an underlying basis, the loss per share for same period of the prior year was 1.8 cents. The Board does not intend to make any payment on account or propose any interim dividend for the year ending 31 December 2010.

## CASH FLOW

The Group started the year with net debt of €52.0m, comprising bank and other borrowings of €54.1m offset by cash and short term deposits of €2.1m.

During the first half of 2010, the Group generated a net cash inflow from operating activities of €9.8m (2009: €1.7m inflow) after a reduction in net working capital of €7.1m (2009: €4.2m increase). The Group also realised net proceeds from new borrowings of €4.6m (2009: €5.0m).

The principal uses of funds were repayment of existing borrowings of €3.9m (2009: €3.4m), capital expenditure and investment in associated companies of €3.4m (2009: €2.7m) and interest and other financing costs of €2.1m (2009: €2.5m).

Net debt at 30 June 2010 was €47.4m, comprising bank and other borrowings of €54.7m offset by cash and short term deposits of €7.3m.

## BORROWING FACILITIES

The maturity profile of the Group's bank and other borrowing facilities at 30 June 2010 and 31 December 2009 was as follows:

	<b>30 June 2010 € 000</b>	<b>31 December 2009 € 000</b>
Amortising term loans:		
Non-current (2011-2016)	25.9	21.7
Current (2010/11)	4.8	7.2
	<hr/> 30.7	<hr/> 28.9
Other interest bearing borrowings	24.0	25.2
	<hr/> 54.7	<hr/> 54.1
Cash and short-term deposits	(7.3)	(2.1)
	<hr/> 47.4	<hr/> 52.0

Other interest bearing borrowings include liabilities under working capital facilities (such as revolving credit and invoice discounting facilities) and leasing arrangements. The expiry dates of these facilities are such that they are expected to remain available to the Group for periods in excess of one year. In addition to the total borrowings summarised above, at 30 June 2010 the Group had factored or discounted trade receivables with a value of €21.5m (31 December 2009: €17.2).

## TREASURY MANAGEMENT AND CURRENCY RISK

The main functional currency of the Group is the Euro. The Group has transactional and balance sheet exposures to the US dollar. The transactional exposure arises as approximately 15% of the Group's sales by volume and value and approximately 25% of its raw material and consumable purchases are denominated in US dollars. The balance sheet exposure arises in connection with the assets and liabilities arising from these transactions.

## BOARD, MANAGEMENT AND EMPLOYEES

As previously announced, the Board was strengthened during the period by the addition of Marco Casiraghi and Dermot S Smurfit, whose appointments were confirmed at the Annual General Meeting of shareholders held in Kuopio on 29 April 2010. Marco Casiraghi was appointed as the Group's Chief Executive Officer on 1 January 2010 and has already made a significant contribution to the Group. Mr Smurfit joined the Board as a Non-Executive Director.

Ian Halliday decided not to offer himself for re-election and retired as a director at the Annual General Meeting on 29 April 2010. He will continue to be available to the Group on a consultancy basis as needed. Mr Halliday originally joined the Board in June 2004 and was the Group's Chief Executive Officer until April 2007. Since then he has been Director of Corporate Development concentrating on acquisitions and strategic investment projects. The Board wishes to express its sincere thanks to Mr Halliday for the significant contribution that he has made to the development of the Group.

The average number of employees during the first half was 786 compared with 792 during the year ended 31 December 2009.

#### **DEVELOPMENT OPPORTUNITIES AND FUNDING**

The Board has identified a number of investment projects and development opportunities which offer the potential for attractive returns. The capital investment and working capital requirements associated with these projects are such that they cannot be entirely funded from the Group's current financial resources or future cash flows. Accordingly, we are evaluating the alternatives available to the Group for obtaining the funds necessary to enable us to proceed in a timely manner with these projects and to reduce leverage and strengthen the Group's balance sheet. The Board has received indications from key shareholders that they are supportive of this process.

#### **CURRENT TRADING OUTLOOK**

Price recovery in Nordic semi-chemical fluting and coated woodfree markets is expected to continue during the second half of the year and demand currently remains strong in both businesses. Pulp costs in Europe appear to have stabilised over the summer months and there is evidence that they have begun to reduce in some markets. Together, these factors should lead to improved performance during the second half of the year and, subject to the positive trends outlined above continuing, we expect performance for the full year to represent an improvement on the prior year.

Dermot Smurfit  
Chairman  
31 August 2010

**INTERIM CONSOLIDATED INCOME STATEMENT**  
for the six months ended 30 June 2010

	Note	Six months ended 30 June		Year ended 31 December
		2010 € 000	2009 € 000	2009 € 000
<b>Revenue</b>	5	148,093	120,407	253,714
Other operating income		638	110	1,717
Changes in inventories of finished goods and work in progress		1,763	(1,360)	915
Raw materials and consumables used		(99,497)	(71,468)	(156,003)
Employee benefits expense		(23,464)	(18,646)	(41,440)
Other expenses		(24,662)	(23,364)	(45,606)
Share of profit (loss) of associates		462	(41)	155
Gain recognised on acquisition	4	-	33,005	33,005
Depreciation and amortisation		(5,581)	(6,626)	(13,332)
<b>Operating profit/(loss)</b>	7	(2,248)	32,017	33,125
Finance income		24	19	49
Finance expenses		(2,750)	(2,450)	(5,156)
<b>Profit/(loss) before taxation</b>		(4,974)	29,586	28,018
Income tax	8	1,492	770	1,212
<b>Profit/(loss) for the period</b>		(3,482)	30,356	29,230
<b>Attributable to</b>				
- equity holders of the company		(3,482)	30,356	29,230

**Earnings per share (cents per share)**

Basic	(2.4)	21.0	20.2
Diluted	(2.4)	21.0	20.2

The notes on pages 12 to 22 form an integral part of this condensed consolidated interim financial information





**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the six months ended 30 June 2010**

	Note	Six months ended 30 June		Year ended 31 December
		2010 € 000	2009 € 000	2009 € 000
<b>Profit/(loss) for the period</b>		(3,482)	30,356	29,230
Net movement on cash flow hedges		727	669	1,384
Income tax effect	8	(189)	(174)	(360)
Other comprehensive income for the period, net of tax	11	538	495	1,024
<b>Total comprehensive income for the period, net of tax</b>		(2,944)	30,851	30,254
<b>Attributable to</b>		(2,944)	30,851	30,254
- equity holders of the company				

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**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**At 30 June 2010**

		30 June 2010	30 June 2009	As at 31 December 2009
	Note	€ 000	€ 000	€ 000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	87,119	91,485	89,030
Investment properties		530	-	553
Intangible assets		10,470	13,691	11,660
Other non-current financial assets		60	-	64
Investment in an associate		2,618	1,079	1,494
Derivative financial instruments	11	672	-	494
Deferred tax asset		2,646	1,730	2,694
<b>Total non-current assets</b>		<b>104,115</b>	<b>107,985</b>	<b>105,989</b>
<b>Current assets</b>				
Inventories		33,350	23,033	26,661
Trade and other receivables		29,148	26,903	35,140
Derivative financial instruments	11	233	-	31
Current income tax asset		-	126	-
Cash and short-term deposits		7,337	2,945	2,058
<b>Total current assets</b>		<b>70,068</b>	<b>53,007</b>	<b>63,890</b>
Assets classified as held for sale		-	-	62
<b>TOTAL ASSETS</b>		<b>174,183</b>	<b>160,992</b>	<b>169,941</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued share capital		88	88	88
Hedging reserve		452	(615)	(86)
Reserve for invested non-restricted equity		9,602	9,602	9,602
Retained earnings		43,411	47,439	46,565
<b>Total equity</b>		<b>53,553</b>	<b>56,514</b>	<b>56,169</b>
<b>Non-current liabilities</b>				
Interest-bearing loans and borrowings	13	37,531	42,724	33,984
Provisions		1,847	3,804	1,800
Employee benefit liability		1,970	-	1,911
Derivative financial instruments	11	-	186	-
Other liabilities		-	235	-
Deferred tax liabilities		16,318	16,616	17,592
<b>Total non-current liabilities</b>		<b>57,666</b>	<b>63,565</b>	<b>55,287</b>
<b>Current liabilities</b>				
Trade and other payables		41,388	26,595	33,241
Interest-bearing loans and borrowings	13	17,190	10,302	20,169
Employee benefit liability		370	121	335
Derivative financial instruments	11	186	714	630
Provisions		1,060	-	1,339
Current income tax liabilities		2,770	3,181	2,771
<b>Total current liabilities</b>		<b>62,964</b>	<b>40,913</b>	<b>58,485</b>
<b>Total liabilities</b>		<b>120,630</b>	<b>104,478</b>	<b>113,772</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>174,183</b>	<b>160,992</b>	<b>169,941</b>

The notes on pages 12 to 22 form an integral part of this condensed consolidated interim financial information

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the six months ended 30 June 2010

	Attributable to equity holders of the company				
	Share capital € 000	Hedging reserve € 000	Reserve for invested non- restricted equity € 000	Retained earnings € 000	Total equity € 000
<b>As at 1 January 2010</b>	88	(86)	9,602	46,565	56,169
Profit/(loss) for the period	-	-	-	(3,482)	(3,482)
Other comprehensive income	-	538	-	-	538
<b>Total comprehensive income</b>	-	538	-	(3,482)	(2,944)
Share based payments	-	-	-	328	328
<b>At 30 June 2010</b>	88	452	9,602	43,411	53,553
<b>As at 1 January 2009</b>	88	(1,110)	9,602	17,223	25,803
Profit for the period	-	-	-	30,356	30,356
Other comprehensive income	-	495	-	-	495
<b>Total comprehensive income</b>	-	495	-	30,356	30,851
Share based payments	-	-	-	(140)	(140)
<b>At 30 June 2009</b>	88	(615)	9,602	47,439	56,514

The notes on pages 12 to 22 form an integral part of this condensed consolidated interim financial information

**INTERIM CONSOLIDATED CASH FLOW STATEMENT**  
for the six months ended 30 June 2010

	Note	Six months ended 30 June		Year ended 31 December
		2010 € 000	2009 € 000	2009 € 000
<b>Operating activities</b>				
Profit (loss) before tax from continuing operations		(4,974)	29,586	28,018
Non-cash:				
Depreciation of property, plant and equipment		4,384	5,408	8,793
Amortisation of intangible assets		1,197	1,218	4,539
Gain recognized on acquisition	4	-	(33,005)	(33,005)
Share-based payment expense/(gain)		328	(140)	112
Change in financial instruments		(286)	237	139
Gain (loss) on disposal of property, plant and equipment		7	-	(2)
Finance income		(24)	(19)	(49)
Finance expense		2,750	2,450	5,156
Share of (profit)/loss in an associate		(462)	41	(155)
Movements in provisions, pensions and government grants		(138)	-	1,141
Working capital adjustments:				
Change in trade and other receivables and prepayments		5,996	(8,128)	(16,532)
Change in inventories		(6,689)	3,051	(577)
Change in trade and other payables		7,758	903	12,824
Income tax received/(paid)		0	105	96
<b>Net cash flows from operating activities</b>		<b>9,847</b>	<b>1,707</b>	<b>10,498</b>
<b>Investing activities</b>				
Proceeds from sale of property and equipment		301	-	409
Purchase of property, plant and equipment	10	(2,703)	(2,276)	(5,139)
Investment in an associate		(662)	(397)	(616)
Acquisition of a subsidiary	4	-	(5,061)	(10,978)
Interest received		24	19	49
<b>Net cash flows from investing activities</b>		<b>(3,040)</b>	<b>(7,715)</b>	<b>(16,275)</b>
<b>Financing activities</b>				
Proceeds from borrowings		4,632	5,033	8,267
Repayment of borrowings	13	(3,893)	(3,375)	(5,500)
Payment of finance lease liabilities		(171)	(151)	(368)
Interest and similar costs paid		(2,096)	(2,450)	(4,460)
<b>Net cash flows from financing activities</b>		<b>(1,528)</b>	<b>(943)</b>	<b>(2,061)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,279</b>	<b>(6,951)</b>	<b>(7,838)</b>
Cash and cash equivalents at start of period		2,058	9,896	9,896
<b>Cash and cash equivalents at period end</b>		<b>7,337</b>	<b>2,945</b>	<b>2,058</b>

The notes on pages 12 to 22 form an integral part of this condensed consolidated interim financial information

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1 Corporate Information**

Powerflute Oyj is a public limited company incorporated and domiciled in Finland. The address of the registered office is Sorsasalo/Box 57, FI-70101 Kuopio, Finland. The Company has a primary listing on AIM, a market of the London Stock Exchange and a secondary listing on First North, the alternative market of the OMX Nordic Exchange Stockholm AB.

This condensed consolidated interim financial information was approved for issue by resolution of the Company's Board of Directors on 31 August 2010.

This condensed consolidated interim financial information has been reviewed, not audited.

The principal activities of the company and its subsidiaries ("the Group") are described in Note 5.

### **2 Basis of preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with *IAS 34 Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

#### ***Principal risks and uncertainties***

The principal risks and uncertainties faced by the Group arise as a result of macroeconomic and environmental factors and changes in the global business environment which could impact on demand for the Group's products and services, the value of its revenues, the cost of its raw materials or its financial or liquidity situation.

The Group is currently experiencing strong demand for its products in most markets resulting in full utilisation of capacity and price recovery. Although this trend is expected to continue into the second half of the year, there can be no assurance that this will be the case.

The Group experienced a significant increase in its raw materials costs during the first half of 2010 as a result of the dramatic rise in pulp costs. While the cost of pulp is currently predicted to fall during the second half of the year and remain at lower levels in 2011, there can be no assurance that will be the case.

Approximately 10-15% of the Group's revenues and 20-25% of its expenditure on raw materials, consumables and other expenses are denominated in US dollars. Although the Group seeks to minimise risk through hedging activities, changes in exchange rates can have a material impact on its performance and competitive position.

Further details of the principal risks and uncertainties faced by the Group, together with possible mitigating actions, are available in the Group's Annual Report for the year ended 31 December 2009.

### **Going concern**

The Board of Directors has undertaken a recent and thorough review of the Group's budget, forecasts and associated sensitivities and has received assurances of continuing financial support where these are considered appropriate or required. Furthermore, the Board believes there is scope to mitigate the effects of uncertainties or unfavorable changes in the operating environment on the financial or liquidity position of the Group. Accordingly, the Board has concluded that the Group has adequate resources to enable it to continue its activities for the foreseeable future, being a period of 12 months from the date of approval of the financial statements, and has adopted the going concern basis in preparing these financial statements.

### **3 Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new Standards and Interpretations as of 1 January 2010, noted below:

IFRS 2 Share-based Payment - Group- cash-settled share-based payment transactions  
IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)  
IAS 32 Financial Instruments: Presentation - Classification of rights issue  
IAS 39 Financial Instruments Recognition and Measurement – Eligible Hedged Items  
IFRIC 15 Agreements for the Construction of Real Estate  
IFRIC 16 Hedges of a Net Investment in a Foreign Operation  
IFRIC 17 Distributions of Non-cash Assets to Owners  
IFRIC 18 Transfers of Assets from Customers  
Improvements to IFRSs (April 2009)

The adoption of the new standards and interpretations mentioned above did not have any impact on the accounting policies, financial position or performance of the Group.

### **4 Business Combinations**

There were no business combinations during the period.

### **Prior year information**

On 1 January 2009, the Group acquired the business and assets of Papierfabrik Scheufelen, a manufacturer of coated woodfree papers based in Lenningen, Germany. The acquisition was accounted for using the purchase method of accounting. The consolidated financial statements for the year ended 31 December 2009 include the results of Papierfabrik Scheufelen from the acquisition date.

The fair value of the identifiable assets and liabilities of Papierfabrik Scheufelen as at the date of acquisition were:

	<b>Fair value recognized on acquisition € 000</b>
Property plant and equipment	59,754
Intangible assets	13,651
Inventories	13,183
Other receivables	214
	<hr/> 86,802
Provisions and liabilities	(5,173)
	<hr/> 81,629
Deferred taxes	(14,368)
<b>Net assets acquired</b>	<b>67,261</b>
	<hr/>
Consideration paid	31,950
Costs directly attributable to the acquisition	2,773
<b>Net acquisition cost</b>	<b>34,723</b>
	<hr/>
Gain on acquisition	32,538
Deferred taxes recognised in prior period	467
<b>Gain recognised on acquisition</b>	<b>33,005</b>

Papierfabrik Scheufelen filed for insolvency protection in July 2008 and was actively marketed for sale by an Administrator appointed by the creditors of Scheufelen. In October 2008, the Group was selected as the preferred acquirer and reached agreement to acquire the business and assets of Scheufelen, but not the liabilities for total cash consideration of €31,950,000. The principal alternative to acceptance of the Group's offer was cessation of the business and sale of the assets.

The excess of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over their cost amounted to € 33,005,000 which has been reported within operating profit as a gain recognised on acquisition.

The principal changes to the preliminary fair values and purchase price allocation reported in the Group's interim report for the six months ended 30 June 2009 relate to the creation of provisions for post employment liabilities under the Altersteilzeit early retirement program and an increase in provisions for environmental liabilities.

The final purchase price allocation did not require restatement of opening balances as of January 1, 2009 and therefore they are not presented in this interim report.

## 5 Segmental information

For management purposes, the Group is organized into business units based upon the products and services which it supplies. There are currently three reportable operating segments:

- *Graphic Papers*, which is involved in the production and sale of coated woodfree papers for use in premium-quality printing applications.
- *Packaging Papers*, which is involved in the production and sale of Nordic semi-chemical fluting for use in premium-grade corrugated-box applications.
- *Central*, which includes the costs of corporate and other central services.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. The principal measure used to monitor and evaluate segmental performance is earnings before interest, tax, depreciation and amortisation ("EBITDA").

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.



<b>Six months ended 30 June 2010</b>	<b>Graphic Papers € 000</b>	<b>Packaging Papers € 000</b>	<b>Central € 000</b>	<b>Total € 000</b>
<b>Revenue</b>				
Third party	97,196	50,897	-	148,093
Inter-segment	-	-	-	-
<b>Total revenue</b>	<b>97,196</b>	<b>50,897</b>	<b>-</b>	<b>148,093</b>
<b>Results</b>				
Segment EBITDA profit/(loss)	1,128	4,289	(2,084)	3,333
Gain on acquisition	-	-	-	-
Depreciation and amortisation				(5,581)
<b>Operating profit/(loss)</b>				<b>(2,248)</b>
<b>Finance income</b>				<b>24</b>
<b>Finance expenses</b>				<b>(2,750)</b>
<b>Profit/(loss) before taxation</b>				<b>(4,974)</b>

<b>Six months ended 30 June 2009</b>	<b>Graphic Papers € 000</b>	<b>Packaging Papers € 000</b>	<b>Central € 000</b>	<b>Total € 000</b>
<b>Revenue</b>				
Third party	84,719	35,688	-	120,407
Inter-segment	-	-	-	-
<b>Total revenue</b>	<b>84,719</b>	<b>35,688</b>	<b>-</b>	<b>120,407</b>
<b>Results</b>				
Segment EBITDA profit/(loss)	8,046	(505)	(1,903)	5,638
Gain on acquisition				33,005
Depreciation and amortisation				(6,626)
<b>Operating profit/(loss)</b>				<b>32,017</b>
<b>Finance income</b>				<b>19</b>
<b>Finance expenses</b>				<b>(2,450)</b>
<b>Profit/(loss) before taxation</b>				<b>29,586</b>

<b>Segment assets</b>	<b>Graphic Papers € 000</b>	<b>Packaging Papers € 000</b>	<b>Central € 000</b>	<b>Total € 000</b>
At 30 June 2010	102,624	71,559	-	174,183
At 30 June 2009	79,745	81,247	-	160,992
At 31 December 2009	101,935	67,944	-	169,879

Inter-segment revenues are eliminated on consolidation and are not shown as adjustments or eliminations. The Group's share of the profit or loss of Harvestia is reported within the Packaging Papers segment. Segment operating profit does not include finance income and finance costs.

## **6 Impairment testing of goodwill and intangibles with indefinite lives**

Goodwill and intangible assets with indefinite lives acquired through business combinations have been allocated to one cash-generating unit, Graphic Papers (which is also a reportable operating segment), for impairment testing as follows:

	<b>30 June</b>	<b>31 Dec</b>
	<b>2010</b>	<b>2009</b>
	<b>€ 000</b>	<b>€ 000</b>
Goodwill	214	214
Trademarks with indefinite useful lives	3,130	3,130

The Group performed its annual impairment test as at 30 June 2010. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2010, the market capitalisation of the Group was below the book value of its equity, indicating a possible impairment of goodwill and impairment of the assets of the operating segments.

The recoverable amounts of both the Graphic Papers and Packaging Papers business units have been determined based on value-in-use calculations using cash flow projections from the financial budgets and forecasts approved by senior management. The projected cash flows reflect current demand for products and services. The pre-tax discount rate applied to cash flow projections is 10.5% and cash flows beyond the forecast period are extrapolated using a 0.5% growth rate. As a result of this analysis, management did not identify any requirement for impairment of the assets of either cash generating unit.

#### **Key assumptions used in value-in-use calculations**

The calculation of value-in-use for both cash-generating segments is sensitive to the following assumptions:

- Sales volumes and market share
- Gross margins
- Discount rates
- Growth rates used to extrapolate the cash flows beyond the forecast period

*Sales volumes and market share* – Both the Graphic and Packaging Paper segments experienced a reduction in demand for their products during 2009 as a result of the challenging economic environment. The forecasts assume a recovery to close to normal levels over a three to five year period. Management expects the Group's share of the Graphic Papers and Packaging Papers markets to be stable over the forecast period.

*Gross margins* – Gross margins are affected by fluctuations in selling prices and raw materials costs. The forecasts assume some recovery in gross margin over the forecast period, but not to the levels achieved in prior years.

*Discount rates* – Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rate was estimated based upon estimates of the weighted average cost of capital for the industry, adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted.

*Growth rates* – Rates are based on published industry research for the sectors in which each cash-generating unit operates, adjusted to reflect management’s estimates of any factors which are specific to the cash-generating unit.

### Sensitivity to changes in assumptions

Management believes that no reasonably possible and foreseeable change in any of the key assumptions outlined above would cause the carrying value of either of the cash-generating units to materially exceed their recoverable amounts.

## 7 Operating profit/(loss)

The following items of unusual nature, size or incidence have been recognized in the operating result during the period:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>€ 000</b>	<b>€ 000</b>
Gain on acquisition	-	33,005

## 8 Income tax

Income tax is recognized based upon management’s best estimate of the weighted average annual income tax rate expected for the full financial year.

Major components of income tax in the interim consolidated income statement are:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>€ 000</b>	<b>€ 000</b>
Current income tax	(77)	3,181
Deferred income tax	(1,415)	(3,951)
<b>Income tax expense (gain)</b>	<b>(1,492)</b>	<b>(770)</b>
Income tax recognised in other comprehensive income	189	174
<b>Total income taxes</b>	<b>(1,303)</b>	<b>(596)</b>

## 9 Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated in accordance with the requirements of IAS 33 – *Earnings per share*, by dividing the net profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive ordinary shares into ordinary shares.

	Six months ended	
	30 June	
	2010	2009
	€ 000	€ 000
Net profit (loss) attributable to ordinary equity holders of the parent	(3,482)	30,356
	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of shares for Basic Earnings per Share	144,818	144,818
Effect of dilution:		
Share options	2,000	-
Weighted average number of shares adjusted for dilution	146,818	144,818

Marco Casiraghi, who joined the Company as its Chief Executive Officer on 1 January 2010, has been provided with a special share-based incentive comprising a nil-cost option over 2,000,000 shares whose vesting is subject only to him continuing to be employed by the Company on 31 December 2012. The shares have been included in the effect of dilution in the calculation of weighted average number of shares adjusted for dilution.

On 28 April 2010, the Annual General Meeting granted authority to the Board of Directors to decide on the repurchase of up to a maximum of 14,000,000 of the Company's own shares pursuant to Chapter 15, Section 5(2) of the Finnish Companies Act by using funds in the unrestricted shareholders' equity. The amount of shares corresponds to approximately 9.7% of all shares and votes of the Company. The authority is effective until 30 June 2011.

The Annual General Meeting also granted authority to the Board of Directors to resolve on the issue of up to 40,000,000 new ordinary shares through a share issue or granting of options or other special rights of entitlement to shares pursuant to Chapter 10, Section 1 of the Finnish Companies Act. The amount of shares corresponds to approximately 27.6% of all shares and votes of the Company. The authority is effective until 30 June 2011.

## 10 Property, plant and equipment

The Group acquired assets with a cost of € 2,703,000 during the six months ended 30 June 2010 (2009: € 2,276,000).

## 11 Derivative Financial Instruments

### Cash flow hedges in other comprehensive income

	30 June 2010 € 000	30 June 2009 € 000
Net of tax:		
Gains/(losses) arising during the year	322	547
Reclassification adjustments for gains/(losses) included in the income statement	216	(52)
	538	495

	As at 30 June 2010		As at 30 June 2009	
	Assets € 000	Liabilities € 000	Assets € 000	Liabilities € 000
Commodity forward contracts	905	186	-	900
<b>Total</b>	905	186	-	900
<b>Less: non-current portion</b>				
Commodity forward contracts	672	-	-	186
	672	-	-	186
<b>Current Portion</b>	233	186	-	714

Derivative financial instruments are recorded on the balance sheet at fair value.

Hedge accounting has been applied to commodity derivatives. Gains and losses arising on commodity derivatives are recognized in other comprehensive income in equity and are recognized in the income statement during the period or periods in which the hedged forecast transaction affects the income statement. This is generally within 12 to 24 months of the balance sheet date.

## 12 Share-based payments

On 11 January 2010, the Board of Directors approved the grant of options over 3,000,000 of the Company's ordinary shares to Marco Casiraghi, who joined the Company as its Chief Executive Officer on 1 January 2010. The options were granted under the terms of the Powerflute Stock Option Scheme ("PSOS") and have a subscription price of €0.33 (33 eurocents). Details of the PSOS have been disclosed in the Company's Annual Report 2009.

On 11 January 2010, the Board of Directors also approved the grant of options over 500,000 of the Company's ordinary shares to members of the executive management team who are not directors of the Company. The options were granted under the terms of the Powerflute Stock Option Scheme ("PSOS"). The subscription or exercise price is based on the closing price of the Company's share in the AIM market of the London Stock Exchange on 8 January 2010 converted to Euro by using the exchange rate of 8 January 2010.

In addition to the share options granted to Marco Casiraghi under the PSOS, under the terms of his employment Mr Casiraghi has been provided with a special share-based incentive comprising a nil-cost option over a further 2,000,000 shares whose vesting is subject only to him continuing to be employed by the Company on 31 December 2012.

The share based expense amounted to € 328,000.

### Prior year information

On 15 June 2009, Don Coates resigned from his position as Chief Executive Officer and as a Director of Powerflute Oyj. Under the rules of the Powerflute Stock Option Plan (“PSOP”), Mr Coates was obliged to surrender his entitlement to share options. This has been accounted for as a cancellation by forfeiture in accordance with *IFRS 2 Share-based Payments* and the resulting gain of € 449,000 has been recognised in full during the period ended 30 June 2009. The net gain resulting from all share-based payments amounted to € 140,000.

### 13 Borrowings and loans

	<b>30 June</b>	<b>As at</b>	
	<b>2010</b>	<b>30 June</b>	<b>31 December</b>
	<b>€ 000</b>	<b>2009</b>	<b>2009</b>
		<b>€ 000</b>	<b>€ 000</b>
Non-current	37,531	42,724	33,984
Current	17,190	10,302	20,169
	<b>54,721</b>	<b>53,026</b>	<b>54,153</b>

Movements in borrowings are analysed as follows:

	<b>€ 000</b>
<b>Six months ended 30 June 2009</b>	
Opening amount as at 1 January 2009	51,513
Repayment of loans from financial institutions	(3,375)
Change in other interest bearing liabilities	4,888
<b>Closing amount as at 30 June 2009</b>	<b>53,026</b>
<b>Six months ended 30 June 2010</b>	
Opening amount as at 1 January 2010	54,153
Repayment of loans from financial institutions	(3,893)
Change in other interest bearing liabilities	4,461
<b>Closing amount as at 30 June 2010</b>	<b>54,721</b>

### 14 Dividends

There were no dividends paid related to the periods 31 December 2009 and 31 December 2008.

### 15 Related Party Transactions

Certain of the Group’s directors and members of its executive management team have significant beneficial and non-beneficial interests in the ordinary share capital of the Group. Full details of these interests are disclosed in the annual financial statements for the year ended 31 December 2009.

a) *Transactions with related parties*

Savon Sellu Oy, a subsidiary of Group, purchases a proportion of its raw materials from Harvestia Oy. The goods are purchased on normal market terms. Transactions with related parties for the six months ended 30 June 2010 and 30 June 2009 are as follows:

	<b>Sales to related parties</b>	<b>Purchases from related parties</b>	<b>Amounts owed by related parties</b>	<b>Amounts owed to related parties</b>
	<b>€ 000</b>	<b>€ 000</b>	<b>€ 000</b>	<b>€ 000</b>
Joint venture Harvestia Oy				
2010	7	12,707	-	3,485
2009	3	7,504	550	1,370

b) *Key management compensation*

Key management compensation for the six months ended 30 June 2010 amounted to € 1,040,000 (2009 - € 1,335,000) analysed as follows:

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>€ 000</b>	<b>€ 000</b>
Salaries and other short term benefits	422	928
Directors' fees	190	190
Other fees and benefits	100	357
Share-based payments	328	(140)
	<b>1,040</b>	<b>1,335</b>

c) *Directors' interest in employee share incentive plans*

The share options held by executive members of the Board of Directors providing entitlement to purchase ordinary shares have the following expiry dates and exercise prices:

<b>Issue date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Number outstanding</b>	
			<b>30 June 2010</b>	<b>30 June 2009</b>
			<b>Thousands</b>	<b>Thousands</b>
3 May 2007	31 May 2012	£1.10	880	2,640
11 Nov 2009	1 Dec 2017	€0.33	6,750	-
11 Jan 2010	-	nil	2,000	-

**16 Events occurring after the balance sheet date**

There were no material events occurring after the balance sheet date.

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

To the Board of Directors of Powerflute Oyj

### **Introduction**

We have reviewed the accompanying condensed consolidated interim financial information of Powerflute Oyj ("Powerflute" or "the Company") for the six months ended 30 June 2010, consisting of the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement, together with related Notes 1 to 16.

The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Helsinki, 31 August 2010

ERNST & YOUNG OY  
Authorised Public Accountant Firm

Mikko Järventausta  
Authorised Public Accountant

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.