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POWERFLUTE OYJ

(**"Powerflute"** or the **"Company"**)

20 October 2010

TRADING UPDATE AND 3 FOR 4 RIGHTS ISSUE AND PLACING TO RAISE APPROXIMATELY EUR 19.9 MILLION

Powerflute today announces a share issue to raise proceeds of approximately EUR 19.9 million by way of a Rights Issue and Placing, together with an update on trading.

Highlights

- 3 for 4 Rights Issue of 108,613,630 New Shares (representing in aggregate 75.0 per cent. of the existing issued share capital and 37.5 per cent. of the Enlarged Share Capital immediately following completion of the Rights Issue and the Placing) at a price of 12 pence per Share (or EUR 0.1372 based on the exchange rate as at 18 October 2010)
- Placing of 36,386,370 Placing Shares (representing in aggregate 25.1 per cent. of the existing issued share capital and 12.6 per cent. of the Enlarged Share Capital immediately following completion of the Rights Issue and the Placing) at a price of 12 pence per Share
- The Subscription Price represents:
 - a 22.6 per cent. discount to the closing middle-market price on 19 October 2010 (being the last Dealing Day before this Announcement) a 14.3 per cent. discount to the theoretical ex-rights price of a Share based upon the closing price of the Shares on AIM on 19 October 2010 (being the last Dealing Day before this Announcement)
- Net proceeds of approximately EUR 18.2 million
- Net proceeds will be used primarily to invest in development projects, for general working capital needs and to reduce leverage
- Strong support from existing and new investors
- All the Directors who are Shareholders at the Record Date as well as certain founder shareholders have given commitments to participate in the Rights Issue and in aggregate intend to subscribe for a total of 42,198,651 Rights Issue Shares
- The Placing Shares will not carry any right to participate in the Rights Issue. It is expected that the Placing will complete at the same time as the Rights Issue

Introduction

The Company announces today a share issue to raise approximately EUR 19.9 million through a Rights Issue and Placing, of which approximately EUR 5 million will be raised by the Placing. As stated in the Company's interim report for the six months ended 30 June 2010 announced on 31 August 2010 and in its announcement of the notice of the EGM on 1 October 2010, the Company has identified a number of projects and development

opportunities which offer the potential for attractive returns. The Company has evaluated its funding alternatives and decided that it is appropriate to raise approximately EUR 19.9 million through the Rights Issue and the Placing. Proceeds from the Rights Issue and the Placing will be used to fund the Company's organic development opportunities, as well as partially paying down the Company's debt in order to increase its financial flexibility.

Qualifying Shareholders and Qualifying DI Holders will be offered Rights Issue Shares under the Rights Issue on the basis of:

one (1) Subscription Right for every one (1) Existing Share or Depositary Interest held by Qualifying Shareholders or Qualifying DI Holders on the Record Date of 27 October 2010, with every four (4) Subscription Rights entitling a holder to subscribe for three (3) Rights Issue Shares at the Subscription Price of 12 pence (EUR 0.1372) per Rights Issue Share.

Therefore 144,818,174 Subscription Rights will be issued corresponding to the number of Shares in issue and outstanding on the Record Date allowing Shareholders to subscribe for 108,613,630 Rights Issue Shares. Fractions of Rights Issue Shares cannot be subscribed for.

New Shares will be issued at a price of 12 pence (EUR 0.1372) under both the Rights Issue and the Placing. This represents a 22.6 per cent. discount to the closing middle-market price of 15.5 pence per Share on 19 October 2010 (being the last business day before this Announcement) and a 14.3 per cent. discount to the theoretical ex-rights price of a Share based upon the closing price of the Shares on AIM. Respectively this represents a 42.8 per cent. discount to the closing middle-market price of EUR 0.24 per Share on 19 October 2010 and a 30.0 per cent. discount to the theoretical ex-rights price of a Share based upon the closing price of the Shares on First North.

The Rights Issue and the Placing are conditional upon the Extraordinary General Meeting of Shareholders on 22 October 2010 (the "EGM") granting an authorisation to the Board of Directors to issue new Shares. The Company announced that it was convening the EGM on 1 October 2010. The Company has received subscription and underwriting commitments for the Rights Issue to be subscribed for in full. The Board of Directors will resolve on the final terms and conditions of the Rights Issue following the EGM on 22 October 2010. The terms and conditions of the Rights Issue and the Placing will be set out in full in the Prospectus to be published by the Company in connection with the Rights Issue and the Placing. Placing Shares will not carry any right to participate in the Rights Issue.

Background to and reasons for the Rights Issue and the Placing

Following the challenging market conditions in 2009, the Company has experienced some recovery in its underlying markets. During the six months ended 30 June 2010, robust demand and upward pricing trends were experienced in both the Group's divisions. However, whilst this led to strong profit recovery in the Packaging Papers division, the Graphic Papers division was impacted by higher raw material prices, in particular in relation to the cost of wood pulp. Wood pulp prices have partly increased due to increased demand, however exceptional interruptions in the availability of supply, including an earthquake in Chile reducing availability from South American suppliers, and industrial action interrupting the supply chain in Finland and Sweden, have driven significant price increases during the 12 months ended 30 June 2010. Given the exceptional nature of this increase and the fact that market prices for graphic paper products have not adequately compensated for this, a substantial reduction in profitability for the Graphic Papers division resulted during the six months ended 30 June 2010.

The Directors believe that the Group's business model is resilient, as it has remained profitable in both divisions at the EBITDA level despite the extremely challenging markets it has experienced and the recent adverse economic conditions. In addition, the Group has been able to reduce its net debt levels, which had increased following the acquisition of its Graphic Paper division at the beginning of 2009.

The Directors further believe that the outlook for Packaging Papers remains positive as price recovery continues and demand remains robust. Whilst the outlook for Graphic Papers is less certain, should selling prices continue

to increase, as announced by most competitors, and wood pulp costs remain stable or reduce, the trading of the division should improve.

In order to further improve the efficiency and resilience of the Group's operations, the Directors have identified a number of 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. In addition, the Directors believe that it is appropriate to reduce the degree of leverage in the business and strengthen the Group's balance sheet in order to improve the Group's financial flexibility going forward.

The Board has evaluated the alternatives available to the Group for obtaining the funds necessary to enable the Company to proceed in a timely manner with these projects. The Rights Issue and Placing allow for existing Shareholders to participate on a pre-emptive basis through the Rights Issue while procuring an appropriate level of support from major shareholders and new investors in raising the desired amount of equity capital. The structure and pricing were determined following discussions with both existing and potential Shareholders. Having also consulted with the largest Shareholders who have indicated their support, the Board considers that the Rights Issue and the Placing are in the best interest of the Company and the Shareholders as a whole.

Use of proceeds

Assuming that all of the Rights Issue Shares and the Placing Shares are subscribed for in the Rights Issue and Placing, the net proceeds of the Rights Issue and Placing will amount to approximately EUR 18.2 million after deducting fees, and commissions and other estimated expenses payable by the Company in connection with the Rights Issue and the Placing. The total costs related to the Rights Issue and the Placing payable by the Company are estimated by the Directors to be a maximum of approximately EUR 1.7 million.

The Company intends to use the proceeds obtained from the Rights Issue and Placing primarily to invest in development projects, for general working capital needs and to reduce leverage as follows:

Capital investment and general working capital needs

As described in the Company's interim results for the six months ended 30 June 2010, the Board has identified a number of investment projects and development opportunities which offer the potential for attractive returns. The Board has identified projects which will require expenditure of between approximately EUR 5 to EUR 7 million and believes that external financing is required in order to implement these opportunities in a timely fashion. Specifically, cost reduction and performance improvement projects have been identified in both the Group's divisions. In addition, the Directors believe that additional funding of between approximately EUR 3 to EUR 6 million is needed for general working capital purposes and to support the growth and development of Harvestia, the Group's procurement venture and the Graphic Papers division, where the Group has identified specific seasonal working capital requirements.

Debt reduction

The Board believes it will be advantageous to reduce its debt position in order to achieve greater financial flexibility and reduce the Group's overall leverage. Approximately EUR 5 million of the net proceeds will be used to reduce the Group's principal debt facilities for its Packaging Papers division with Sampo Bank plc, which expire in December 2011. In addition, the Group has, conditional on the repayment of the EUR 5 million of the outstanding principal amount under the Sampo Facility, entered into an amendment agreement in relation to the Sampo Facility, whereby the Group will, upon repayment of EUR 5 million of the Sampo Facility, benefit from a reduction in the lending margins going forward as well as improved covenant levels and other terms to increase financial flexibility.

The Directors believe that the successful completion of the Rights Issue and the Placing and the revised debt facilities will enable the Group to support organic growth initiatives in its existing businesses, to take advantage of positive cyclical trends in the markets in which the Group operates and to create a stronger position from which to pursue the Group's strategic objectives.

Principal terms and conditions of the Rights Issue

It is important to note that the action to be taken by Qualifying Shareholders in respect of Rights Issue Shares and Qualifying DI Holders in respect of New Depository Interests differs. Qualifying Shareholders and Qualifying DI Holders should acquaint themselves with the instructions provided.

Qualifying Shareholders and Qualifying DI Holders will be offered Rights Issue Shares under the Rights Issue on the basis of:

one (1) Subscription Right for every one (1) Existing Share or Depository Interest held by Qualifying Shareholders or Qualifying DI Holders on the Record Date of 27 October 2010, with every four (4) Subscription Rights entitling a holder to subscribe for three (3) Rights Issue Shares at the Subscription Price of 12 pence (EUR 0.1372) per Rights Issue Share.

Therefore 144,818,174 Subscription Rights will be issued corresponding to the number of Shares in issue and outstanding on the Record Date allowing Shareholders to subscribe for 108,613,630 Rights Issue Shares. Fractions of Rights Issue Shares cannot be subscribed for.

The Company has obtained a subscription commitment from Bacchantes and an underwriting commitment from Collins Stewart covering in aggregate all the New Shares to be offered in the Rights Issue not covered by Subscription Undertakings. Collins Stewart has agreed pursuant to the terms of the Placing and Underwriting Agreement to procure subscribers for up to 8,538,629 Rights Issue Shares in the Rights Issue to the extent that they are not taken up by Shareholders in the Rights Issue, failing which Collins Stewart will subscribe for such shares itself. The Executive Directors have undertaken to subscribe for the Rights Issue Shares underwritten by Collins Stewart pursuant to the Executive Management Subscription Letters. The Company's largest Shareholder, Bacchantes, is fully supportive of the Company's proposed strategy and has agreed pursuant to the terms of the Bacchantes Agreement to take up its (and has agreed to procure that its nominee take up its) pro rata entitlement to Subscription Rights and to subscribe (and procure that its nominee subscribes) for up to 58,309,037 additional Rights Issue Shares at the Subscription Price to the extent that they are not taken up by Shareholders in the Rights Issue.

The participation of all of the Directors who are Shareholders and of the Executive Directors in the Rights Issue demonstrates the confidence that the Directors have in the future of the Company, as well as allowing the Executive Directors, Marco Casiraghi and David Walton, respectively CEO and CFO of the Company, who do not currently own any Shares, the opportunity to acquire an interest in Shares and therefore align their interests with those of Shareholders generally.

In anticipation of the capital raising, the Company is seeking Shareholder approval to amend its Articles to allow the Directors the discretion to waive, on a case by case basis, any obligations on any Shareholder respectively, which may arise as a consequence of such Shareholder and his Connected Persons acquiring over 30 or 50 per cent. of the Shares under the takeover provisions (which are based on Finnish takeover regulation) contained in Article 14 of the Company's Articles. If no Shareholders other than the ones that have provided the Company with an irrevocable undertaking to subscribe for their pro rata entitlements to Rights Issue Shares in the Rights Issue (which also includes Bestinver, Bacchantes and the Directors) take up their Subscription Rights in the Rights Issue, the shareholding of Bacchantes in the Company will increase from 18.7 per cent. of the Shares as at the date of this Announcement to 31.3 per cent. following completion of the Rights Issue and the Placing. In this event, Directors will waive any obligations arising under the takeover provisions within the Articles.

The Rights Issue is conditional upon, amongst other things, fulfilment of the following conditions:

- (i) Shareholder approvals at the EGM; and
- (ii) There being no significant change in the market or trading conditions which would materially affect the Company's position or the feasibility of the planned rights issue.

The Rights Issue is, in particular, subject to Shareholders authorising the Directors in accordance with the Finnish Companies Act to issue and allot the Rights Issue Shares. The notice of the EGM was announced on 1 October 2010 and Shareholder approval will be sought at the EGM to be held on 22 October 2010.

Bacchantes Agreement

Bestinver, Bacchantes and all of the Directors who hold Shares have each separately undertaken to subscribe for their pro rata entitlements to Rights Issue Shares in the Rights Issue amounting to aggregate 56,874,357 Rights Issue Shares.

In relation to the 27,080,863 Shares held directly or indirectly by it, Bacchantes, a company controlled by Sir Michael Smurfit, has given an irrevocable undertaking to subscribe for its (and to procure the subscription by its nominee of its) pro rata entitlement of Rights Issue Shares in the Rights Issue. In addition, Bacchantes has undertaken to subscribe for (or procure the subscription by its nominee for) up to 58,309,037 Rights Issue Shares not taken up by Shareholders pursuant to the Rights Issue or subscribed for pursuant to the Placing and Underwriting Agreement with an aggregate subscription value of EUR 8.0 million. Based on the Subscription Price and the irrevocable undertakings received from the existing Shareholders to take up their Subscription Rights in full, Bacchantes (or its nominee) could subscribe for a maximum of 63,511,291 Rights Issue Shares (including Rights Issue Shares subscribed for based on its pro rata holdings). As a result, Bacchantes could, immediately following the completion of the Rights Issue and the Placing, hold (directly or indirectly) an aggregate of 90,592,154 Shares in the Company representing 31.3 per cent. of the Shares and votes in the Company, provided the maximum number of Rights Issue Shares are required to be subscribed for by Bacchantes (or its nominee) pursuant to the Bacchantes Agreement. Such holdings would represent 31.3 per cent. of the Company's Shares and votes, which under the Articles (Article 14) in force on the day of this Announcement would result in Bacchantes being required to make an offer for all remaining Shares in the Company. Sir Michael Smurfit has undertaken to procure the performance by Bacchantes of its obligations under the Bacchantes Agreement.

A part of the undertakings of Bacchantes at the outset to provide Subscription Undertakings in relation to the Rights Issue was the intention that Bacchantes should not be diluted as a result of the Rights Issue and the Placing. In the event of a significant take up by Shareholders in the Rights Issue, Bacchantes would be diluted as a result of the Placing. If insufficient Shares are allotted to Bacchantes pursuant to the Bacchantes Agreement to retain its 18.7 per cent. shareholding in the Company (in addition to its pro rata entitlement in the Rights Issue), the Company intends to issue up to 8.4 million new Shares to Bacchantes at the Subscription Price to ensure that Bacchantes maintains its current 18.7 per cent. shareholding following the implementation of the Rights Issue and Placing. A further announcement will be made by the Company if any additional Shares are issued and allotted to Bacchantes following the Placing and Rights Issue.

The Bacchantes Agreement is conditional upon a waiver being obtained from any obligation to launch mandatory bid as a result of the Rights Issue. The undertakings in the Bacchantes Agreement are conditional upon the Articles being amended to allow the Company's Board of Directors to grant a waiver from the duty to make a mandatory offer for Shares issued by the Company pursuant to Article 14 of the Articles, and that such a waiver is granted for Bacchantes in respect of the Rights Issue and the potential Additional Placing. The Company's Board of Directors has made a proposal to the Company's Extraordinary General Meeting that the Articles be amended to allow for such an exemption to be granted.

In addition to the Bacchantes Agreement, the Company has entered into the Placing and Underwriting Agreement with Collins Stewart. The Executive Directors have, pursuant to the Executive Management Subscription Letters, undertaken to subscribe for the Rights Issue Shares underwritten by Collins Stewart. The Company's Board of Directors expects to allocate up to 8,538,629 of the Rights Issue Shares not taken up by Shareholders to the Executive Directors, or to Collins Stewart, or investors procured by Collins Stewart in accordance with the Placing and Underwriting Agreement, and the remainder to Bacchantes pursuant to the Bacchantes Agreement.

The Company has planned to raise funds, as described in more detail elsewhere in this Announcement, and has welcomed the support of its major Shareholders in the form of the Bacchantes Agreement in this regard. The Board of Directors have therefore proposed to the Shareholders at the Extraordinary General Meeting to be held on 22 October 2010 that the Articles be amended to allow the Board of Directors to grant exemptions from the obligation to make an offer pursuant to Article 14. If the Shareholders at the Extraordinary General Meeting decide to approve the proposed amendment to the Articles, the Board of Directors would expect to grant an exemption for Bacchantes in respect of Rights Issue Shares subscribed in the Rights Issue and in respect of

Shares subscribed for through the potential Additional Placing, but which exemption would not allow Bacchantes to acquire any additional Shares in the Company without the obligation to make an offer pursuant to Article 14 being triggered. As a matter of policy the Board of Directors would only expect to exercise its discretion to waive the obligation to make an offer in exceptional circumstances and in the best interests of the Company's Shareholders.

Details of the Placing

Pursuant to the Placing and Underwriting Agreement, the Company has appointed Collins Stewart and Collins Stewart has agreed to use reasonable endeavours to procure Placees for the Placing Shares at the Subscription Price. Collins Stewart has not agreed itself to take up any Placing Shares not taken up by the Placees and accordingly the Placing has not been underwritten. Placees will subscribe for the Placing Shares at a Subscription Price of 12 pence per Placing Share. The Placing comprises in aggregate 36,386,370 Placing Shares (representing 25.1 per cent. of Powerflute's existing ordinary share capital) and will therefore raise gross proceeds of approximately EUR 5 million. The Placing Shares will represent approximately 12.6 per cent. of the Enlarged Share Capital immediately following completion of the Rights Issue and the Placing.

The Placing Price represents a 22.6 per cent. discount to the middle-market closing price of 15.5 pence per Ordinary Share on 19 October 2010 (being the last Dealing Day before the Announcement)). The pricing was determined following discussions with both existing and potential new shareholders.

The Placing is conditional upon, amongst other things, fulfilment of the following conditions:

- (i) the Placing and Underwriting Agreement becoming unconditional in all respects and not being terminated by Collins Stewart in accordance with its terms;
- (ii) Shareholder approvals at the EGM; and
- (iii) the Rights Issue not being terminated.

Applications will be made for the Placing Shares to be admitted to trading on AIM. It is expected that the Admission of the Placing Shares will become effective and dealings in the Placing Shares will commence at 8.00 a.m. on 24 November 2010.

The Placing Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends made, paid or declared after the registration of the Placing Shares with the Trade Register, which is expected to occur on or about 23 November 2010.

The Placing Shares will not carry any right to participate in the Rights Issue. The effect of the Placing will be to reduce the proportionate ownership and voting interests in the Ordinary Shares of holders of Existing Shares by 12.6 per cent. The Placing is not underwritten by Collins Stewart. The terms and conditions of the Placing will be detailed in full in the Prospectus and in Placing Letters with the Placees.

Authorisation by the General Meetings and resolutions by the board of Directors

An Extraordinary General Meeting has been convened to be held on 22 October 2010 to resolve whether to authorise the Company's Board of Directors to issue up to an aggregate maximum of 145,000,000 new Shares in the Company. Further, the Annual General Meeting held on 28 April 2010 has authorised the Company's Board of Directors to issue up to an aggregate maximum of 40,000,000 new Shares in the Company.

The Company's Board of Directors propose to resolve based on the above authorisations to issue in aggregate up to 145,000,000 New Shares to existing Shareholders through the Rights Issue and to Placees through the Placing. Should the Directors resolve to implement the Additional Placing, it would, based on the above authorisations, issue and allocate up to 8,369,261 new Shares to Bacchantes.

Related Party Transactions

The Executive Management Subscription Letters entered into by Marco Casiraghi and David Walton to subscribe at the Subscription Price for up to 7,288,629 and 1,250,000 Rights Issue Shares not taken up by Shareholders in the Rights Issue respectively, constitute related party transactions under AIM Rule 13. The

Directors, other than Marco Casiraghi and David Walton, having consulted with the Company's Nominated Adviser, Collins Stewart, consider that the terms of the Executive Management Subscription Letters are fair and reasonable insofar as Shareholders are concerned.

In addition, the subscription undertakings provided by Bacchantes pursuant to the Bacchantes Agreement in the Rights Issue constitute a related party transaction under AIM Rule 13. The Directors, having consulted with the Company's Nominated Adviser, Collins Stewart, consider that the terms of the Bacchantes Agreement are fair and reasonable insofar as Shareholders are concerned. The Additional Placing would be subject to the Directors considering at the relevant time, having consulted with Collins Stewart, that it was fair and reasonable as far as Shareholders are concerned.

Further, it is proposed that Bestinver (and/or its nominees) participates as a Placee in the Placing. Such proposed participation constitutes a related party transaction under AIM Rule 13. The Directors, having consulted with the Company's Nominated Adviser, Collins Stewart, consider that the terms of the participation by Bestinver (and/or its nominees) and its agreement to subscribe for 4,916,470 Placing Shares at the Subscription Price are fair and reasonable insofar as Shareholders are concerned.

Irrevocable undertakings

The Company has received irrevocable undertakings from Bestinver, Bacchantes and all of the Directors who hold Shares, to each separately vote in favour of the Resolutions in respect of approximately 52.4 per cent. of the Existing Shares. Such Shareholders have also each separately undertaken to subscribe for their pro rata entitlements to Rights Issue Shares in the Rights Issue, which in total corresponds to 52.4 per cent. of all Rights Issue Shares.

Current trading and prospects

The challenging economic environment, turbulent market conditions and the uncertainties outlined in the interim results statement for the six months ended 30 June 2010 as announced on 31 August 2010 continue to have an impact on the Company's activities.

Demand for the Company's products remained robust throughout the period, although output from its Nordic semi-chemical fluting facility was affected by the planned annual maintenance shutdown in August and by a fire in the wood handling area in mid-September which caused an interruption of production.

Average selling prices for both coated woodfree papers and Nordic semi-chemical fluting continued to recover during the third quarter. Prices for Nordic semi-chemical fluting are expected to increase further during the remainder of the year as previously announced price increases take effect. However, prices for coated woodfree papers may come under some pressure due to a recent softening of demand.

While pulp prices have fallen in other world markets, there has been strong resistance to price decreases from suppliers in Europe. Pulp prices remained stable throughout the period from August to October and the anticipated reductions have yet to materialise. The Company is benefiting from the recent strengthening of the Euro against the US dollar.

While the outlook for the remainder of 2010 remains uncertain, the Board looks to the future with confidence and believes that the Company is well positioned to benefit from an upturn in market conditions.

Recommendation and Directors' intentions

The Board of Directors believe that the Rights Issue, the Placing and the Resolutions are in the best interests of the Company and its Shareholders as a whole.

Accordingly, the Board unanimously recommends that you vote in favour of the Resolutions as those Directors who are Shareholders intend to in respect of their own beneficial holdings which amount in aggregate to 29,184,006 Shares, representing approximately 20.2 per cent. of the Existing Shares.

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The distribution of this Announcement and the Subscription Rights, Interim Shares, Rights Issue Shares, Placing Shares and New Depositary Interests may in certain jurisdictions be restricted by law, and this Announcement may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No action has been or will be taken by the Company or Collins Stewart to register or qualify the Subscription Rights, Interim Shares, Rights Issue Shares, Placing Shares and New Depositary Interests or the Rights Issue or otherwise to permit a public offering of the Subscription Rights, Interim Shares, Rights Issue Shares, Placing Shares and New Depositary Interests in any jurisdiction outside of Finland and the United Kingdom. The Company and Collins Stewart require persons into whose possession this Announcement comes to inform themselves of and to observe all such restrictions. Neither the Company nor Collins Stewart accept any legal responsibility for persons, who have obtained this Announcement in violation of these restrictions, irrespective of whether these persons are prospective subscribers of the Subscription Rights, Interim Shares, Rights Issue Shares, Placing Shares and New Depositary Interests.

This Announcement is intended for distribution and is directed at: (i) in the United Kingdom or Finland: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act (Financial Promotion) Order 2005 (the "Order"); or (b) high net worth entities falling within Article 49(2) of the Order; or (ii) outside the United Kingdom or Finland, any person to whom it may otherwise be lawfully distributed.

As a condition to exercising the Subscription Rights or subscribing for the Interim Shares, Rights Issue Shares or Depositary Interests pursuant to the Rights Issue, each exercising Shareholder or subscriber will be deemed to have made, or, in some cases, be required to make, certain representations and warranties, that will be relied upon by the Company, Collins Stewart and others. The Company reserves the right, in its sole and absolute discretion, to reject any exercise of Subscription Rights or subscription of the Interim Shares, Rights Issue Shares or Depositary Interests that the Company or its representatives believe may give rise to a breach or violation of any law, rule or regulation.

This Announcement is an advertisement and not a prospectus and investors should not subscribe for or purchase any Rights Issue Shares, Placing Shares or Depositary Interests referred to in this Announcement in connection with Placing and the Rights Issue except on the basis of information to be contained in the Prospectus which is expected to be published by on or around 20 October 2010 by the Company in connection with the proposed Placing and the Rights Issue. Copies of the Prospectus will, following publication, be available from the Company's website.

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Collins Stewart Europe Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as nominated adviser, broker and underwriter exclusively for Powerflute Oyj and for no-one else in connection with the Rights Issue and the Placing and will not regard any other person (whether or not a recipient of this announcement or the Prospectus) as a client in relation to the Rights Issue and the Placing and will not be responsible to anyone other than Powerflute Oyj for providing the protections afforded to clients of Collins Stewart Limited, nor for providing advice in connection with the Rights Issue and the Placing or any other matter referred to herein.

This Announcement includes forward-looking statements, which reflect, among other things, the management's current views and expectations with respect to the Company's results of operations, financial condition and business strategy as well as plans and objectives for future operations and goals. These forward-looking statements relate both to the Company and the sectors and industries in which the Company operates, including certain financial targets that the Company has set for itself. Statements which include the words "expect", "intend", "plan", "predict", "believe", "estimate", "will", "target", "aim", "may", "would", "could", "continue", and other comparable statements of future or forward-looking nature identify forward-looking statements.

Any forward-looking statements address matters that involve risks and uncertainties, and are not guarantees of future performance. The Company's actual results of operations and ability to achieve its financial targets may differ materially from those indicated in the forward-looking statements included in this Announcement. The Company's future performance may differ because of various factors. In addition, even if the Company's results of operations, financial condition and liquidity and the development of the paper and packaging industry are consistent with the forward-looking statements contained in this Announcement, those results or developments may not be indicative of results or developments in future periods.

Any forward-looking statements in this Announcement reflect the Company's current views with respect to future events and are subject to these and the other mentioned risks, uncertainties and assumptions relating to the Company's business, results of operations, growth strategy and liquidity. These forward-looking statements concern only the state of the matters at the date of this Announcement. Subject to any obligations under the applicable laws and regulations (including the Finnish Securities Market Act and the AIM Rules), the Company undertakes no obligation to update or review any forward-looking statements, whether as a result of new

information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this section. Prospective investors should specifically consider the factors identified in this Announcement, which could cause actual results to differ from expected results, before making an investment decision.

About Powerflute

Powerflute is a packaging group with established positions in Nordic semi-chemical fluting and coated woodfree papers.

Through its subsidiary Savon Sellu Oy, 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.

Effect of the Rights Issue and the Placing

Upon completion of the Rights Issue and the Placing, the Rights Issue Shares will represent approximately 37.5 per cent. of the Enlarged Share Capital and the Placing Shares approximately 12.6 per cent. of the Enlarged Share Capital. If the Additional Placing is completed in full following the completion of the Rights Issue and the Placing, the Shares to be issued and allocated in the Additional Placing will represent approximately 2.8 per cent. of the issued share capital following the completion of the Rights Issue, the Placing and the Additional Placing.

Should Shareholders choose not to exercise their Subscription Rights under the Rights Issue or to subscribe for fewer Subscription Rights than offered, their ownership will be diluted correspondingly by a maximum of 42.9 per cent. Shareholders who elect to subscribe for their Subscription Rights in full will suffer no dilution as a result of the Rights Issue. However, the Placing will result in a dilution of approximately 12.6 per cent. for Shareholders who take up their Subscription Rights in full. Shareholders who do not take up their Subscription Rights will be diluted by a maximum of 51.4 per cent.

Immediately following the Rights Issue and the Placing, Bacchantes will hold (directly or indirectly) in aggregate between 16.4 and 31.3 per cent. of the Enlarged Share Capital depending on the take up of the Rights Issue. Should the Additional Placing be completed in full, Bacchantes will hold (directly or indirectly) no more than 18.7 per cent. of the issued share capital following the completion of the Rights Issue, the Placing and the Additional Placing.

Statistics

Subscription Price per Rights Issue Share and Placing Share	12 pence (EUR 0.1372)
Basis of Rights Issue	3 for 4 Rights Issue
Number of Shares in issue at the date of this Prospectus	144,818,174
Number of Rights Issue Shares to be issued by the Company	108,613,630
Number of Placing Shares to be issued by the Company	36,386,370
Number of Shares in issue immediately following the Rights Issue and the	289,818,174

Placing ⁽¹⁾	
Rights Issue Shares as a percentage of the Enlarged Share Capital ⁽¹⁾	37.5 %
Placing Shares as a percentage of the Enlarged Share Capital ⁽¹⁾	12.6 %
Estimated gross proceeds of the Rights Issue and the Placing	EUR 19.9 million
Estimated net proceeds receivable by the Company after expenses of the Rights Issue and the Placing	EUR 18.2 million

⁽¹⁾ On the assumption that no further Shares are issued either as a result of the exercise of any options granted under the Share Option Schemes or otherwise between the date of this Prospectus and the date of completion of the Rights Issue, Placing and Additional Placing (if completed).

Expected timetable

The times and dates set out in the timetable of principal events below refer to Helsinki time, unless otherwise stated. The times and dates may be amended by the Company and any amendments will be announced on the London Stock Exchange, First North and on a Regulatory Information Service in the United Kingdom.

Extraordinary General Meeting	22 October 2010
Existing Shares marked "ex rights" (expected to be)	25 October 2010
Record Date for the Rights Issue	27 October 2010
Subscription Period commences	1 November 2010
Subscription Rights credited to the stock accounts of Qualifying Shareholders in Euroclear Finland	1 November 2010
Subscription Rights credited to the stock accounts of Qualifying DI Holders in CREST	1 November 2010
Trading in Subscription Rights on First North commences	10:00 a.m. on 1 November 2010
Trading in Subscription Rights on AIM commences	8:00 a.m. (London time) on 1 November 2010
Trading in the Subscription Rights on AIM ends	4:30 p.m. (London time) on 5 November 2010
Trading in the Subscription Rights on First North ends	7:00 p.m. on 9 November 2010
Latest time and date for acceptance and payment in full for Subscription Rights held in the form of Depositary Interests in CREST	11:00 a.m. (London time) on 10 November 2010
Subscription Period ends on AIM	11:00 a.m. (London time) on 10 November 2010
Latest time and date for acceptance and payment in full for Subscription Rights held in Euroclear Finland	4:00 p.m. on 16 November 2010
Subscription Period ends on First North	4:00 p.m. on 16 November 2010
Trading in Interim Shares on First North commences	17 November 2010
Trading in Depositary Interests corresponding to Interim Shares on AIM expected to commence	17 November 2010
Rights Issue Shares and Placing Shares credited to book-entry accounts in Euroclear Finland	23 November 2010

Rights Issue Shares and Placing Shares issued in the form of
Depository Interests credited to stock accounts in CREST

as soon as possible by 11:00 a.m.
(London time) on 24 November 2010

Rights Issue Shares and Placing Shares admitted to trading on
First North and AIM

24 November 2010

Documentation

The Company expects the Finnish Financial Supervisory Authority to approve today, 20 October 2010, the Prospectus of Powerflute Oyj relating to Powerflute's Rights Issue and Placing. The Rights Issue and Placing will be on the terms and subject to the conditions set out in the Prospectus, which the Company expects to publish in Finland today and which it expects to publish in the United Kingdom by 21 October 2010. The Prospectus will be available on the Company's website: www.powerflute.com and at the registered office of the Company located at address Sorsasalo, 70100 Kuopio, Finland. The Prospectus will give further details of the Subscription Rights, Interim Shares and the New Shares being offered pursuant to the Rights Issue and the Placing and will explain the background to, reasons for and details of the Rights Issue and the Placing. The Prospectus will only be available in the English language, with a summary available in the Finnish language.

Definitions

"Additional Placing"	the additional up to 8.4 million new Shares that may be issued and allocated to Bacchantes if the Directors resolve to do so if i) insufficient Rights Issue Shares in addition to its pro rata entitlement be allocated to Bacchantes (directly or indirectly) in the Rights Issue to avoid Bacchantes being diluted and ii) the Placing is completed
"Admission"	the admission of the Rights Issue Shares and the Placing Shares or, where the context requires, Subscription Rights to trading on AIM and/or, as the case may require, First North
"AIM"	a market operated by the London Stock Exchange
"AIM Rules"	the rules for companies whose shares are admitted to trading on AIM issued by the London Stock Exchange
"AIM Subscription Period"	the subscription period for Rights Issue Shares based on Subscription Rights issued in the form of Depository Interests to Qualifying DI Holders commencing on 1 November 2010 at 8.00 a.m. (London time) and expiring on 10 November 2010 at 11.00 a.m. (London time)
"Account Operator"	the account operators, which consist of credit institutions, investment services companies and other institutions licensed by Euroclear to act as account operators
"Annual General Meeting"	the annual general meeting of Shareholders of the Company
"Announcement"	this announcement
"Articles"	the articles of association of the Company
"Australia"	the Commonwealth of Australia, its territories and possessions and all areas subject to its jurisdiction and any political sub-division thereof
"Bacchantes"	Bacchantes Limited, a private limited company incorporated in Jersey, with address at c/o EquityLimited, attn. Mr John Killip, 15-19 Athol Street, Douglas,

	Isle of Man, IM1 1LB, United Kingdom, and controlled by Sir Michael Smurfit
“Bacchantes Agreement”	the subscription undertaking entered into between Bacchantes and the Company as at the date of this announcement pursuant to which Bacchantes has agreed to subscribe (or procure the subscription by its nominee) for up to 58,309,037 Rights Issue Shares not taken up by Shareholders under the Rights Issue
“Bestinver”	Bestinver Gestión, S.A., a collective investment institution incorporated in Spain, with the address at Calle Juan de Mena, número 8, 28014 Madrid, Spain
“Canada”	Canada, its territories and possessions and all areas subject to its jurisdiction and any political sub-division thereof
“Capita”	Capita IRG Trustees Limited
“Capita Registrars”	Capita Registrars (Jersey) Limited
“Central”	corporate and other central services of the Company
“Certified Adviser”	E. Öhman J:or Fondkommission AB
“Collins Stewart” “Nominated Adviser” “Underwriter”	or or Collins Stewart Europe Limited
“Communication”	the Offeror’s communication of the obligation to make an Offer at the Company’s address to the Board of Directors of the Company
“Company” or “Group”	Powerflute Oyj together with its subsidiaries, except where it is clear from the context that the term refers to a particular subsidiary or business unit only
“Connected Person”	means a person defined in Article 14, section “Offer” in the unofficial translation of the company’s Articles of Association as will be set out in the Prospectus
“Control Act”	the Act on the Control of Foreigners’ Acquisition of Finnish Companies of 1992
“Controlled Entities”	the holdings of the entities under control of the shareholder and any third parties if the exercise of voting rights attached to such holdings of any third parties may be decided by the shareholder either alone or together with such third party on the basis of an agreement or another arrangement
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations)
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/13755)
“Custodian”	a nominated custodian of the Depositary
“CWF”	coated woodfree
“Dealing Day”	a day on which dealings in securities may take place on both First North and AIM
“Deed Poll”	the Deed Poll dated 2 May 2007 entered into by the Depositary, details of which will be set out in the Prospectus

“Depository”		Capita IRG Trustees Limited
“DIs” or Interests”	“Depository	the dematerialised depository interests issued or to be issued by the Depository in respect of, and representing on a one-for-one basis, the Shares or, as the case may require, Subscription Rights or Interim Shares
“DI Holders”		the holders of Depository Interests
“Directors”		all or any number of the members acting as the board of directors of the Company in accordance with the Finnish Companies Act and the Articles of Association
“EBITDA”		the breakdown of Company’s revenue and earnings before interest, tax, depreciation and amortisation
“EEA”		the European Economic Area
“Enlarged Share Capital”		the issued share capital of the Company following completion of the Rights Issue and the Placing
“EPPIC”		European Paper & Packaging Investment Corporation S.A.
“Euro” or “EUR”		the monetary unit that is the official currency of Finland and of such other Member States that adopt or have adopted the Euro as their lawful currency
“Euroclear”		Euroclear Finland Ltd or Euroclear UK & Ireland Limited depending on the context
“Euroclear Finland”		Euroclear Finland Ltd
“Excluded Territories”		the United States, Canada, South Africa, New Zealand, Australia and Japan and any other jurisdiction where the extension or the availability of the Rights Issue (and any transaction contemplated thereby) would breach any applicable law or regulation
“Executive Director”		an individual who is part of the Executive Management of the Company, currently being David Walton and Marco Casiraghi
“Executive Management”		the team of Executive Directors at the highest level of organisational management of the Company
“Executive Management Subscription Letter(s)”		the sub-underwriting letters entered into at the date of the publication of this Announcement by the Executive Directors, Marco Casiraghi and David Walton, with Collins Stewart to subscribe for up to 7,288,629 and 1,250,000 Rights Issue Shares respectively not taken up by Shareholders pursuant to the Rights Issue
“Existing Interests”	Depository	the Depository Interests in issue at the date of this Announcement
“Existing Shares”		the Shares in issue at the date of this Announcement
“Extraordinary Meeting”	General	the extraordinary General Meeting of the Company convened for 22 October 2010, including any adjournment thereof
“FFSA”		the Finnish Financial Supervisory Authority

“FIM”	FIM Bank Ltd. acting as issuer agent and subscription place in the Rights Issue and Placing
“Finnish Companies Act”	the Finnish Companies Act (624/2006, as amended)
“Finnish Securities Market Act”	the Finnish Securities Market Act (495/1989, as amended)
“First North”	First North Finland of NASDAQ OMX Stockholm AB
“First North Subscription Period”	the subscription period for Rights Issue Shares based on Subscription Rights issued to Qualifying Shareholders commencing on 28 October 2010 at 10:00 a.m. (Helsinki time) and expiring on 16 November 2010 at 4:00 p.m. (Helsinki time)
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the United Kingdom Financial Services and Markets Act 2000
“General Meeting”	a general meeting of the Shareholders of the Company
“Graphic Papers”	Nordic semi-chemical fluting produced by Scheufelen
“Harvestia”	Harvestia Oy, a wood supply company owned by the Group and Myllykoski Corporation
“IFRS”	International Financial Reporting Standards as adopted in the EU
“Individual”	an individual resident in Finland for tax purposes
“Interim Shares”	interim Shares corresponding to the Rights Issue Shares subscribed for pursuant to the Subscription Rights or, where applicable, DIs in respect of the Interim Shares
“Interim Share Trading Period”	the trading period for Interim Shares commencing on 17 November 2010 and expiring on or about 23 November 2010
“ISIN”	International Securities Identification Number
“Listed Company”	a company listed on a regulated stock exchange or on European Economic Area based Multilateral Trading Facility referred to in Directive 2004/39/EC (e.g. First North) provided that the trading takes place pursuant to an application or consent of the company
“London Stock Exchange”	London Stock Exchange plc
“NASDAQ OMX”	NASDAQ OMX Group Inc
“NASDAQ Stockholm”	OMX NASDAQ OMX Stockholm AB
“New DIs” or “New Depository Interests”	DIs in respect of Rights Issue Shares to be issued by the Depositary following take up of the rights to acquire Depository Interests in connection with the Rights Issue and DIs in respect of Placing Shares
“New Shares”	the Rights Issue Shares and the Placing Shares or, where applicable, DIs in respect of the Rights Issue Shares and the Placing Shares

“Non-Executive Directors”	the non-executive Directors of the Company, currently being Juha Niemelä, Ulrich Scheufelen, William (Tony) Smith and Dermot S Smurfit
“Notification”	the notification that a person must make to the Company of any holdings that he may have in the voting rights attaching to issued shares in the Company
“NSCF”	Nordic Semi-chemical Fluting
“Offer”	make an offer to purchase all the other shares in the Company, or options which entitle the holder to new shares in the Company
“Offeror”	a person whose holdings, either alone or together with other persons in a way defined hereinafter, in the voting rights attached to all the shares in the Company registered at the Finnish Trade Register (including, for the avoidance of doubt, any holdings of depositary interests in respect of shares in the Company) exceed, after the shares in the Company have been admitted to public trading on AIM or another stock market, three tenths (3/10) or one half (1/2)
“Offerees”	the other shareholders or holders of such options from which the Offeror is obliged to offer to purchase the Shares
“Option holders”	holders of options under the Share Option Schemes
“Packaging Papers”	coated woodfree papers produced by Savon Sellu
“Placee”	institutional investors within the European Union for Placing Shares procured by Collins Stewart
“Placing”	the placing of Placing Shares by Collins Stewart or directly by the Company
“Placing and Underwriting Agreement”	the conditional placing and underwriting agreement dated 20 October 2010 between the Company and Collins Stewart described further in the Prospectus
“Placing Shares”	the 36,386,370 new Shares to be issued pursuant to the Placing
“Powerflute”	the Company
“Price”	the purchase price payable by the Offeror
“Prospectus”	the entire contents of the prospectus to be published by the Company in connection with the Rights Issue and the Placing
“Prospectus Directive”	EU Prospectus Directive (2003/71/EC)
“PSOP”	the Powerflute Share Option Plan 2007
“PSOS”	the Powerflute Share Option Scheme 2009
“Qualifying DI Holders”	holders of Existing Depositary Interests on the register of such holders maintained in the United Kingdom on behalf of the Depositary by Capita on the Record Date
“Qualifying Shareholders”	holders of Existing Shares on the register of members of the Company maintained by Euroclear Finland Ltd on the Record Date
“Receiving Agent”	Capita Registrars

“Record Date”	27 October 2010
“registered address”	the address of a holder of Shares as set out in the register of members of the Company, or the address of a DI Holder as set out in the register of such holders maintained in the United Kingdom on behalf of the Depositary by Capita IRG plc
“Regulatory Information Service”	one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information from listed and quoted companies
“Resolutions”	the proposals of the Board of Directors at the EGM as set out in the notice of EGM published on 1 October 2010
“Restricted Shareholders”	Qualifying Shareholders and Qualifying DI Holders who are resident in, or who are citizens of, or who have a registered address in countries other than Finland or the United Kingdom
“Rights Issue”	the issue by way of subscription rights of New Shares to Qualifying Shareholders on the basis described in this Announcement
“Rights Issue Shares”	the 108,613,630 Shares to be issued by the Company pursuant to the Rights Issue or, where applicable, New Depositary Interests in respect of such Shares
“Sampo Facility”	the facility agreement in respect of loan and working capital facilities entered into by Powerflute and Savon Sellu (as borrowers) and Sampo Bank plc (as facility agent and original lender) on 26 July 2006 and as amended
“Savon Sellu”	Savon Sellu Ltd
“Scheufelen” “Papierfabrik Scheufelen”	or Papierfabrik Scheufelen GmbH + Co. KG
“SCF”	semi-chemical fluting
“Securities Act”	the United States Securities Act of 1933, as amended
“Share Option Schemes”	the PSOP and the PSOS
“Shares”	means the shares in the capital of the Company or, where applicable, DIs in respect of the Shares
“Shareholders”	means the holders of Shares in the capital of the Company and/or, as the context requires, DI Holders
“Subscription Period”	the subscription period pursuant to the Subscription Rights commencing on 1 November 2010 at 10:00 a.m. (Helsinki time) and expiring on 16 November 2010 at 4:00 p.m. (Helsinki time)
“Subscription Price”	12 pence or EUR 0.1372 per Rights Issue Share or per Placing Shares, as the context may require
“Subscription Right(s)”	depending on the context, (a) the rights to subscribe for Rights Issue Shares provisionally allotted to Qualifying Shareholders pursuant to the Rights Issue, and/or (b) the rights to subscribe for DIs credited to the CREST accounts of Qualifying DI Holders in connection with the Rights Issue
“Subscription	undertakings given by Bestinver, Bacchantes and all of the Directors who hold

Undertakings”	Shares to the Company to subscribe for their pro rata entitlement in the Rights Issue
“Trade Register”	the trade register of the national Board of Patents and Registration of Finland
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“United Kingdom Listing Authority”	the FSA acting in its capacity as the competent authority for the purpose of Part VI of FSMA
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
“USE Instruction”	an Unmatched Stock Event (USE) instruction (as defined in the CREST Reference Manual)